

Emakhazeni Local Municipality
(Registration number MP314)
Audited Annual Financial Statements
for the year ended 30 June 2021

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

General Information

Legal form of entity	Municipality
Nature of business and principal activities	<p>Municipality</p> <p>-provide democratic and accountable government for the community</p> <p>-to ensure the provision of services to the community in a sustainable manner;</p> <p>-to promote social and economic development;</p> <p>-to promote a safe and healthy environment; and</p> <p>-to encourage the involvement of the community and community organisations in the matters of the municipality.</p> <p>Legislation governing the operations of the municipality includes but are not limited to the following:-</p> <p>Municipal Structures Act 117 of 1998-Local Government:</p> <p>Municipal Systems Act 32 of 2000-Local Government:</p> <p>Municipal Finance Management Act 56 of 2003</p>
Councillors	
Executive Mayor	Cllr. T.D Ngwenya
Speaker	Cllr. N.A Mashele
Mayoral Committee	Cllr. M. Nkambula MMC Finance & Social Development
	Cllr. S.S Mthimunya MMC: Infrastructure, Planning and LED/IDP
	Cllr. T.E Scheefers MMC: Corporate Services
Councillors	Cllr. M.P Ntuli MPAC Chairperson
	Cllr. T.N. Masha Chairperson: Infrastructure, Planning & LED/IDP
	Section 79 Committee
	Cllr. T.C Ngomane Chairperson: Corporate Services Section 79
	Committee
	Cllr. J.T Duma Chairperson: Finance & Social Development
	Section 79 Committee
	Cllr. ES Radebe - Member
	Cllr. R. Ndlovu - Member
	Cllr. AA Botha - Member
	Cllr. S.I Skhosana - Member
	Cllr SS Tshabalala - Member
	Cllr N Maidi - Member
Grading of local authority	Grade 2
Acting Chief Financial Officer (ACFO)	Mr S Leshage
Accounting Officer	Mr GC Mthimunya
Business address	25 Scheepers Street
	Belfast
	1100
Postal address	P.O Box 17
	Belfast
	1100
Bankers	First National Bank
Auditors	Auditor General of South Africa
Attorneys	Nomaswazi Shabangu Attorneys
	Ntuli Noble Inc.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

General Information

Municipal Website
Contact details

www.emakhazeni.gov.za
Tel : (013) 253 7600

Audit Committee Members

F Mudau (Chairperson)
MG Mathabathe (Member)
T Gafane (Member)
M Moloi (Member)
P Ntuli (Member)
L Langalibalele (Member)



Emakhazeni Local Municipality

(Registration number MP314)

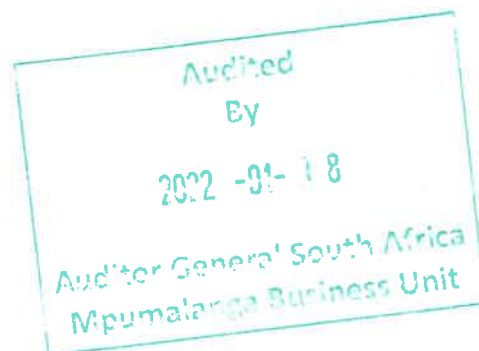
Audited Annual Financial Statements for the year ended 30 June 2021

Index

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

	Page
Accounting Officer's Responsibilities and Approval	4
Accounting Officer's Report	5
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10
Accounting Policies	11 - 43
Notes to the Audited Annual Financial Statements	44 - 80

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)



Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Responsibilities and Approval

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

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

The audited 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 audited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

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

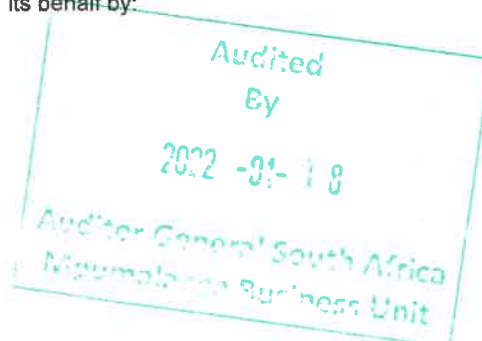
The municipality is wholly dependent on the municipality for continued funding of operations. The audited annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially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

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

The external auditors are responsible for independently reviewing and reporting on the municipality's audited annual financial statements. The audited annual financial statements have been examined by the municipality's external auditors .

The audited annual financial statements have been prepared on the going concern basis, were approved by the Municipal Manager on 31 August 2021 and were signed on its behalf by:

Mr GC Mthimunya
Municipal Manager



Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2021.

1. Review of activities

Main business and operations

The municipality is engaged in :

- provide democratic and accountable government for the community
 - to ensure the provision of services to the community in a sustainable manner;
 - to promote social and economic development;
 - to promote a safe and healthy environment; and
 - to encourage the involvement of the community and community organisations in the matters of the municipality.
- legislation governing the operations of the municipality includes but are not limited to the following:-
municipal structures act 117 of 1998-local government:
municipal systems act 32 of 2000-local government:
municipal finance management act 56 of 2003 and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached audited annual financial statements and do not in our opinion require any further comment.

2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of 1 758 155 218 and that the municipality's total assets exceed its liabilities by 1 758 155 218.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

3. Subsequent events

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

4. Accounting policies

The audited annual financial statements prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

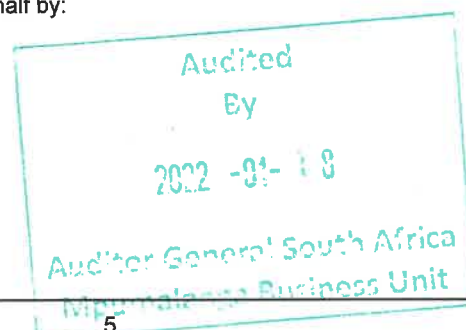
5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr GC Mthimunye	South African

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

Mr GC Mthimunye
Municipal Manager



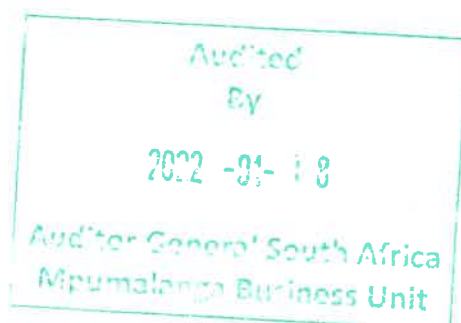
Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	8	7 978 878	5 121 018
Receivables from exchange transactions	9&11	31 810 699	34 983 961
Receivables from non-exchange transactions	10&11	133 952 093	135 471 477
Cash and cash equivalents	12	35 690 470	29 418 606
		209 432 140	204 995 062
Non-Current Assets			
Investment property	3	252 840 035	256 601 000
Property, plant and equipment	4	1 559 217 336	1 501 768 127
Intangible assets	5	36 065	329 715
Heritage assets	6	114 325	114 325
		1 812 207 761	1 758 813 167
Total Assets		2 021 639 901	1 963 808 229
Liabilities			
Current Liabilities			
Payables from exchange transactions	16	107 668 550	93 608 510
Consumer deposits	17	1 964 650	1 855 017
Employee benefit obligation	7	1 140 620	920 000
Unspent conditional grants and receipts	13	5 855 989	611 361
Provisions	14	12 348 667	13 226 937
VAT Payable	15	7 367 552	2 060 053
		136 346 028	112 281 878
Non-Current Liabilities			
Employee benefit obligation	7	17 723 792	13 338 000
Provisions	14	109 414 863	89 516 285
		127 138 655	102 854 285
Total Liabilities		263 484 683	215 136 163
Net Assets		1 758 155 218	1 748 672 066
Accumulated surplus		1 758 155 218	1 748 672 066



* See Note 42

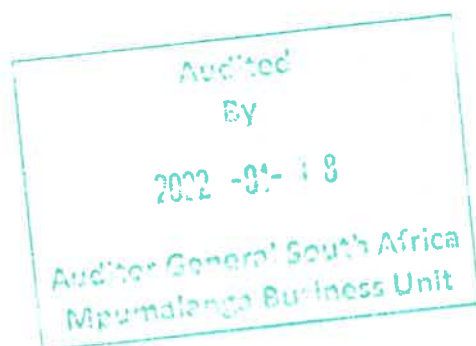
Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	133 381 032	99 650 387
Rental of facilities and equipment	20	10 763 358	1 730 180
Operational revenue	23	8 852 068	2 838 910
Interest received	24	11 791 284	7 566 723
Fair value adjustments	3	1 690 000	-
Total revenue from exchange transactions		166 477 742	111 786 200
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	62 308 662	62 132 060
Transfer revenue			
Government grants & subsidies	26	137 667 836	165 984 104
Donations	27	22 392 870	34 891 510
Fines, Penalties and Forfeits	21	1 711 055	45 626 897
Total revenue from non-exchange transactions		224 080 423	308 634 571
Total revenue	18	390 558 165	420 420 771
Expenditure			
Employee related costs	28	(110 720 901)	(103 344 445)
Remuneration of councillors	29	(7 154 192)	(7 171 336)
Depreciation and amortisation	30	(54 519 462)	(49 150 571)
Impairments	31	(57 375 706)	(60 245 343)
Finance costs	32	(7 026 193)	(11 210 917)
Bulk purchases	33	(60 777 132)	(57 937 332)
Contracted services	34	(38 030 726)	(23 153 561)
Loss on disposal of assets and liabilities		(5 214 000)	(16 938 993)
Fair value adjustments	3	-	(1 690 000)
Actuarial losses		(3 123 044)	(1 775 000)
Inventory consumed	22	(16 998 755)	(7 493 303)
Operational cost	35	(18 760 348)	(23 960 452)
Total expenditure		(379 700 459)	(364 071 253)
Surplus for the year		10 857 706	56 349 518



* See Note 42

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2019	1 692 322 548	1 692 322 548
Changes in net assets		
Surplus for the year	56 349 518	56 349 518
Total changes	56 349 518	56 349 518
Opening balance as previously reported	1 633 022 438	1 633 022 438
Adjustments		
Prior year adjustments	113 046 169	113 046 169
Restated* Balance at 01 July 2020 as restated*	1 747 297 512	1 747 297 512
Changes in net assets		
Surplus for the year	10 857 706	10 857 706
Total changes	10 857 706	10 857 706
Balance at 30 June 2021	1 758 155 218	1 758 155 218



* See Note 42

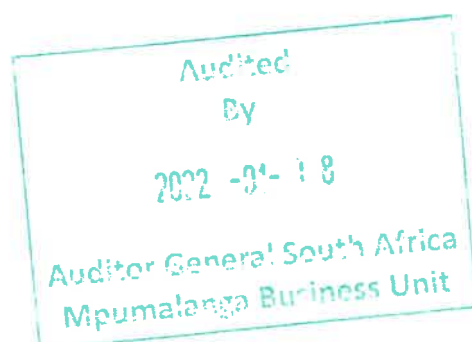
Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Service Charges		189 308 416	214 287 912
Grants		137 667 836	192 657 156
Interest income		11 791 284	7 566 723
Other revenue		-	2 618 583
Fines, Penalties and Forfeits		-	2 838 000
		<u>338 767 536</u>	<u>419 968 374</u>
Payments			
Employee costs		(108 830 488)	(102 022 398)
Suppliers		(106 598 230)	(164 354 182)
Finance costs		(7 026 193)	(11 210 917)
		<u>(222 454 911)</u>	<u>(277 587 497)</u>
Net cash flows from operating activities	38	<u>116 312 625</u>	<u>142 380 877</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(100 438 688)	(108 230 503)
Proceeds from sale of property, plant and equipment	4	-	(15 427 169)
Purchase of investment property	3	-	(29 985 000)
Proceeds from sale of investment property	3	5 450 965	-
Net cash flows from investing activities		<u>(94 987 723)</u>	<u>(153 642 672)</u>
Net increase/(decrease) in cash and cash equivalents		<u>21 324 902</u>	<u>(11 261 795)</u>
Cash and cash equivalents at the beginning of the year		29 418 606	40 680 401
Cash and cash equivalents at the end of the year	12	<u>50 743 508</u>	<u>29 418 606</u>



* See Note 42

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	144 239 301	(9 165 604)	135 073 697	133 381 032	(1 692 665)	Note 50
Rental of facilities and equipment	7 362 204	-	7 362 204	10 763 358	3 401 154	Note 50
Other income	5 717 990	131 928	5 849 918	8 852 068	3 002 150	Note 50
Interest revenue	5 743 440	-	5 743 440	11 791 284	6 047 844	Note 50
Total revenue from exchange transactions	163 062 935	(9 033 676)	154 029 259	164 787 742	10 758 483	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	63 433 824	-	63 433 824	62 308 662	(1 125 162)	Note 50
Transfer revenue						
Government grants & subsidies	73 995 060	84 346 252	158 341 312	137 667 836	(20 673 476)	Note 50
Public contributions and donations	-	-	-	22 392 870	22 392 870	Note 50
Fines, Penalties and Forfeits	21 569 808	(4 215 184)	17 354 624	1 711 055	(15 643 569)	Note 50
Total revenue from non-exchange transactions	158 998 692	80 131 068	239 129 760	224 080 423	(15 049 337)	
Total revenue	322 061 627	71 097 392	393 159 019	388 868 165	(4 290 854)	
Expenditure						
Employee costs	(99 537 468)	59 744	(99 477 724)	(110 720 901)	(11 243 177)	Note 50
Remuneration of councillors	(6 906 024)	-	(6 906 024)	(7 154 192)	(248 168)	Note 50
Depreciation and amortisation	(49 683 096)	-	(49 683 096)	(54 519 462)	(4 836 366)	Note 50
Impairment loss	(65 844 996)	-	(65 844 996)	(57 375 706)	8 469 290	Note 50
Finance costs	(4 080 000)	1 080 000	(3 000 000)	(7 026 193)	(4 026 193)	Note 50
Inventory consumed	(12 748 536)	(9 007 572)	(21 756 108)	(19 068 720)	2 687 388	Note 50
Bulk purchases	(59 434 428)	-	(59 434 428)	(60 777 132)	(1 342 704)	Note 50
Contracted Services	(33 897 624)	(8 972 936)	(42 870 560)	(38 030 726)	4 839 834	Note 50
Operational Expenses	(21 592 384)	(7 864 032)	(29 456 416)	(18 760 348)	10 696 068	Note 50
Total expenditure	(353 724 556)	(24 704 796)	(378 429 352)	(373 433 380)	4 995 972	
Operating surplus	(31 662 929)	46 392 596	14 729 667	15 434 785	705 118	
Loss on disposal of assets and liabilities	-	-	-	(5 214 000)	(5 214 000)	Note 50
Fair value adjustments	-	-	-	1 690 000	1 690 000	Note 50
Actuarial gains/losses	(619 272)	-	(619 272)	(3 123 044)	(2 503 772)	Note 50
	(619 272)	-	(619 272)	(6 647 044)	(6 027 772)	
Surplus for the year	(32 282 201)	46 392 596	14 110 395	8 787 741	(5 322 654)	

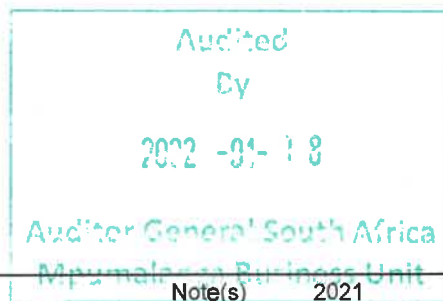
Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

Figures in Rand



Note(s)

2021

2020

1. Presentation of Audited Annual Financial Statements

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

In the application of the municipality's accounting policies, which are described above, management is required to make judgement, estimates and assumption that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The estimates and associated assumptions are based on historical experiences and other factors that are considered to reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

1.4 Investment property

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

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

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

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

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

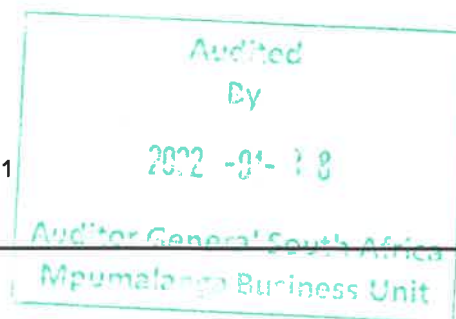
Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition. Where an investment property is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition and any other costs attributable to bring the asset to a condition necessary for it to be capable of operating in the manner intended by the Municipality. The cost of self-constructed investment property is the cost at date of completion. Transfers made to or from investment property only when there is a change in use.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.4 Investment property (continued)

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

The cost of Investment property is the purchase price and other costs attributable to bring the asset to a condition necessary for it to be capable of operating in the manner intended by the Municipality.

Where the classification of an investment property is based on management's Judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale:

All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties.

Land held for a currently undetermined future use;

A building owned (or held by under a finance lease) and leased out under one or more operating leases;

Leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as investment properties. The rental revenue generated is incidental to the purposes for which the property is held;

A building that is vacant but is held to be leased out under one or more operating leases;

Property that is being constructed or developed for future use as investment property.

Where the classification of an investment property is based on management's Judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale:

All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties.

Land held for a currently undetermined future use;

A building owned (or held by under a finance lease) and leased out under one or more operating leases;

Leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as investment properties. The rental revenue generated is incidental to the purposes for which the property is held;

A building that is vacant but is held to be leased out under one or more operating leases;

Property that is being constructed or developed for future use as investment property.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

Audited

By

2022-01-18

Auditor General South Africa

Mpumalanga Business Unit

1.4 Investment property (continued)

Fair value

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

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

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

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

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

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

De-recognition

An 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 determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the Statement of Financial Performance in the period of the retirement or disposal.

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

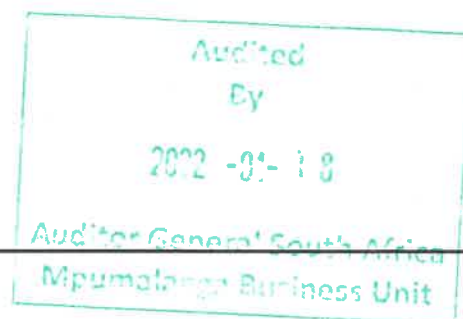
When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

Depreciation recognition

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Depreciation of an asset ceases at the date that the asset is derecognised.

Impairment

Property, plant and equipment is reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

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

Item	Depreciation method	Average useful life
Plant and machinery	Straight-line	5 - 10 years
Furniture and fixtures	Straight-line	5 - 10 years
Motor vehicles	Straight-line	5 - 10 years
Infrastructure	Straight-line	70 years

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

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

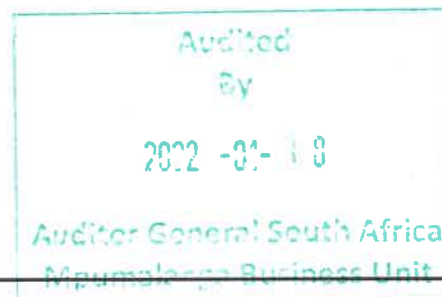
The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in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

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.5 Property, plant and equipment (continued)

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 34).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 4).

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

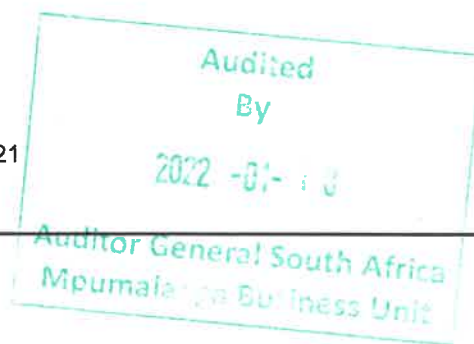
- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

Intangible assets are initially recognised at cost on its acquisition date. The cost of an intangible asset 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 the Municipality. Trade discounts and rebates are deducted in arriving at the cost.

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

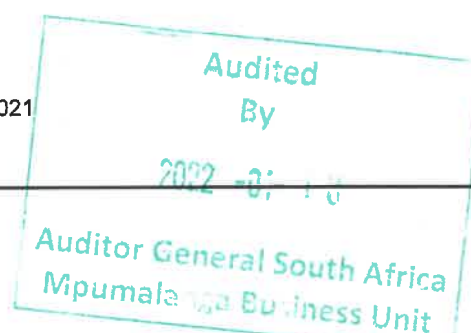
Item	Depreciation method	Average useful life
Computer software, internally generated	Straight-line	8 years

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.7 Intangible assets (continued)

Amortisation

The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is still subject to an annual impairment test.

Amortisation of an intangible asset with a finite life asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Amortisation ceases at the date that the asset is derecognised.

Amortisation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the intangible assets. The amortisation charge for each period is recognised in Statement of Financial Performance, unless it is included in the carrying amount of another asset.

Impairment

Intangible assets are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

De-recognition

The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

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

Intangible assets are derecognised:

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

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the audited annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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.

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.

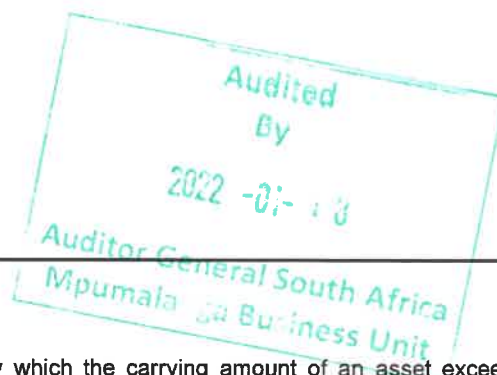
An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.8 Heritage assets (continued)

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

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.

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).

1.9 Financial instruments

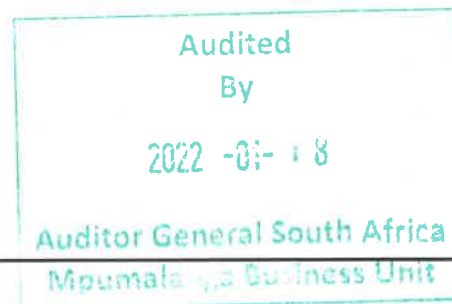
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.9 Financial instruments (continued)

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.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

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 entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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

A financial asset is:

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

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

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

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

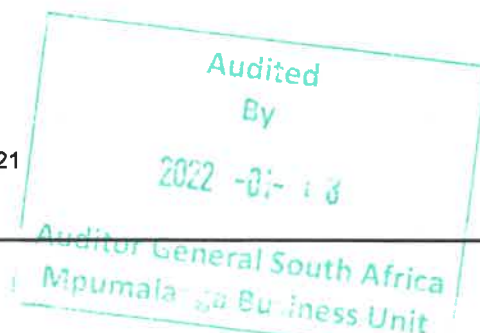
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.9 Financial instruments (continued)

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

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

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

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.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- 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.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

Audited

By

2022 -01- 18

Auditor General South Africa
Mpumalanga Business Unit

1.9 Financial instruments (continued)

Classification

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

Class	Category
Short term investments	Financial asset measured at amortised cost
Bank Balance -Primary Bank Account	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Other receivables	Financial asset measured at amortised cost
Investment in Fixed Deposit	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Class	Category
-------	----------

Initial recognition

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

The 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].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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 amortised cost.

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

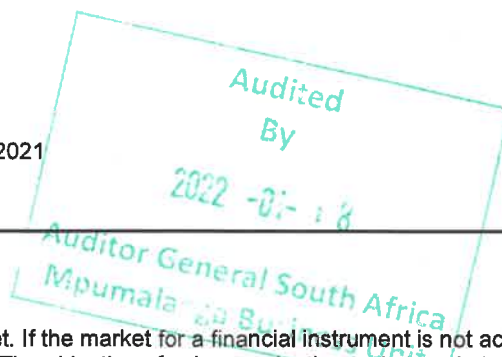
Fair value measurement considerations

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.9 Financial instruments (continued)

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

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

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

Gain and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.9 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial Assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.9 Financial instruments (continued)

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

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

Presentation

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

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

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

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets.

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

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

1.10 Statutory receivables

Identification

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

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

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

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

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

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Audited
By

2022 -07- 18

Auditor General South Africa
Mpumalanga Business Unit

Accounting Policies

1.10 Statutory receivables (continued)

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.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

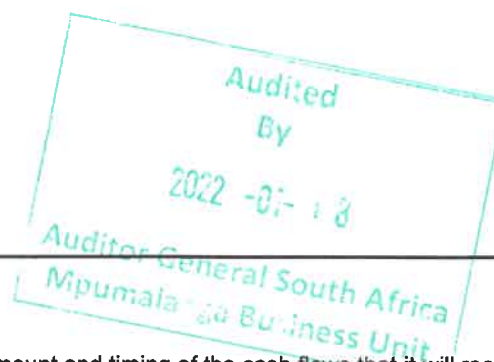
If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash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

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.10 Statutory receivables (continued)

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

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

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

Derecognition

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

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

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

1.11 Inventories

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

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

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

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

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

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

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

Audited

By

2022 -01- 18

Auditor General South Africa

Mpumalanga Business Unit

1.11 Inventories (continued)

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

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

Designation

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

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

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

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

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.12 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

Discount rate

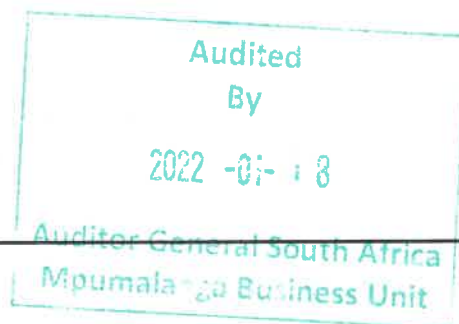
The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.12 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 entity does not reduce the carrying amount of an asset below the highest of:

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

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

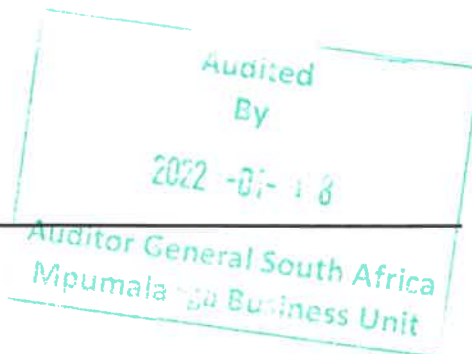
Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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.

1.13 Employee benefits

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

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

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

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

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

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

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

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

Audited

By

2022 -01-18

Auditor General South Africa
Mpumalanga Business Unit

1.13 Employee benefits (continued)

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

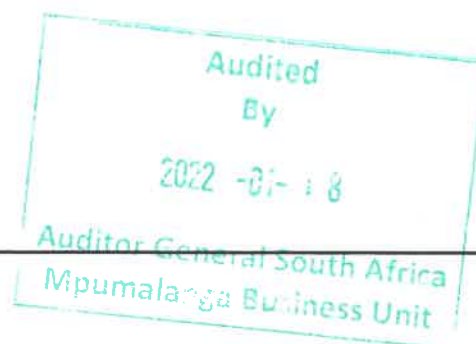
Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees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

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

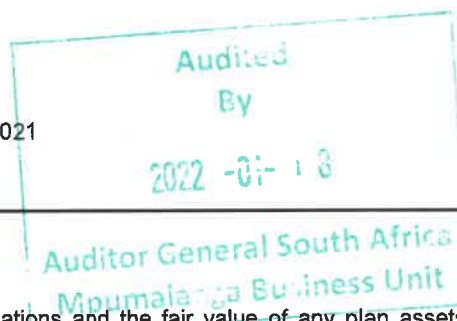
Any adjustments arising from the limit above is recognised in surplus or deficit.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.13 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

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

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

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

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

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.13 Employee benefits (continued)

Termination benefits

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

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

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

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

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

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

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

1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

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

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

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

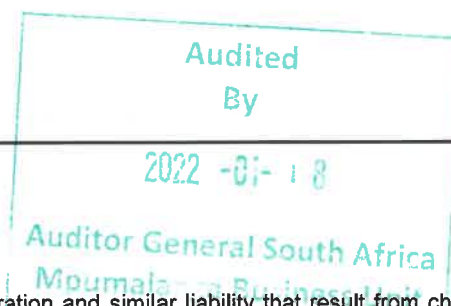
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately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

If the related asset is measured using the revaluation model:

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

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

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



Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.14 Provisions and contingencies (continued)

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

1.15 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

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

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.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.16 Revenue from exchange transactions (continued)

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Interest, royalties and dividends

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

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

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

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

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

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

1.17 Revenue from non-exchange transactions

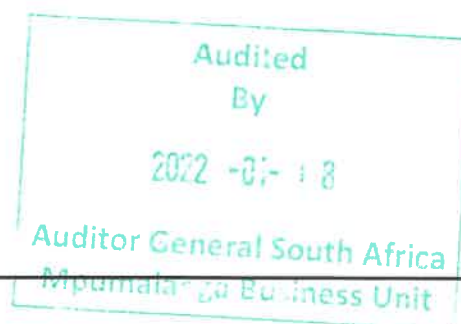
Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.17 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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.

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.

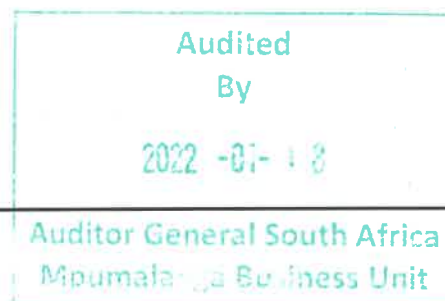
Transferred assets are measured at their fair value as at the date of acquisition.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.17 Revenue from non-exchange transactions (continued)

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.

Services in-kind

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

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

1.18 Investment income

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

1.19 Borrowing costs

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

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

1.20 Comparative figures

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

1.21 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.

1.22 Fruitless and wasteful expenditure

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

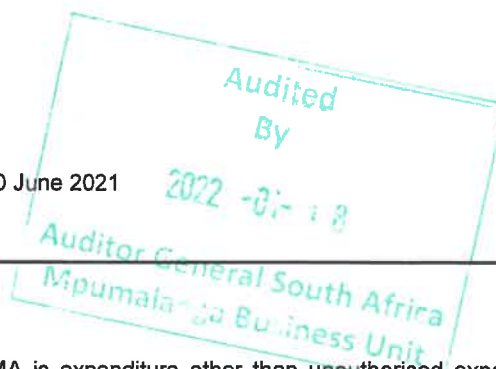
All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted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

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies



1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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 entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Budget information

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

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

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

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

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

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

1.25 Related parties

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

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

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.25 Related parties (continued)

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

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

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

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

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

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

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

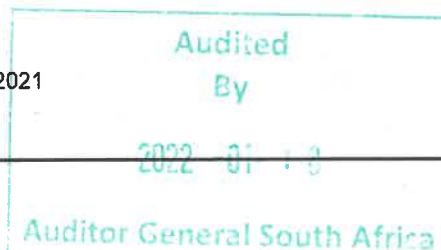
1.26 Events after reporting date

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.



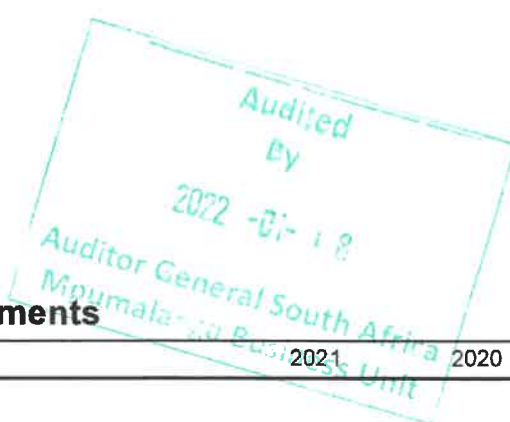
Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand



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:
<ul style="list-style-type: none">GRAP 18 (as amended 2016): Segment Reporting	01 April 2020	

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards	01 April 2021	Unlikely there will be a material impact

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2021 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">GRAP 104 (amended): Financial Instruments	01 April 1999	Unlikely there will be a material impact
<ul style="list-style-type: none">Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 1999	Unlikely there will be a material impact
<ul style="list-style-type: none">IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	Unlikely there will be a material impact

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

2. New standards and interpretations (continued)

- | | | |
|---|---------------|--|
| • Directive 7 (revised): The Application of Deemed Cost | 01 April 2020 | Unlikely there will be a material impact |
| • IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land | 01 April 2019 | Unlikely there will be a material impact |



Emakhazeni Local Municipality

(Registration number MP314)
Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

3. Investment property

	2021		2020			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	252 840 035	-	252 840 035	256 601 000	-	256 601 000

Reconciliation of investment property - 2021

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	256 601 000	(5 450 965)	1 690 000	252 840 035

Reconciliation of investment property - 2020

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	256 601 000	(5 450 965)	1 690 000	252 840 035

Pledged as security

Investment property is not 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.



Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2021		2020	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation
Land	82 771 463	-	82 771 463	82 771 463
Infrastructure	1 562 711 676	(406 797 373)	1 155 914 303	1 519 586 332
Community	228 172 649	(51 054 867)	177 117 782	213 806 956
Other property, plant and equipment	75 337 101	(28 600 833)	46 736 268	59 350 814
Work In Progress	96 677 520	-	96 677 520	55 901 595
Total	2 045 670 409	(486 453 073)	1 559 217 336	1 931 417 160

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Fair value adjustment	Depreciation	Impairment	Total
Land	82 771 463	-	-	-	-	82 771 463
Infrastructure	1 158 280 339	29 525 688	13 899 318	(44 020 525)	(1 770 517)	1 155 914 303
Community	167 871 485	14 365 692	-	(4 988 731)	(130 664)	177 117 782
Other property, plant and equipment	36 943 244	15 771 383	-	(5 749 146)	(229 213)	46 736 268
Work in progress	55 901 595	40 775 925	-	-	-	96 677 520
Total	1 501 768 126	100 438 688	13 899 318	(54 758 402)	(2 130 394)	1 559 217 336

Emakhazeni Local Municipality

(Registration number MP314)
Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers	Correction of prior year	Fair Value adjustments	Depreciation	Impairment	Total
Land	6 755 009	-	-	-	76 016 454	-	-	-	82 771 463
Infrastructure	1 103 830 135	51 031 777	-	18 610 050	40 389 263	(2 403 612)	(51 395 034)	(1 782 239)	1 158 280 340
Community	163 336 536	9 565 216	-	-	785 189	-	(4 719 930)	(1 095 527)	167 871 484
Other property, plant and equipment	39 101 007	6 838 475	(1 511 824)	-	1 159 034	(106 980)	(8 528 289)	(8 178)	36 943 245
Work in progress	23 430 866	44 573 590	-	(12 102 861)	-	-	-	-	55 901 595
	1 336 453 553	112 009 058	(1 511 824)	6 507 189	118 349 940	(2 510 592)	(64 643 253)	(2 885 944)	1 501 768 127

Pledged as security

Property, plant and equipment is not pledged as security:

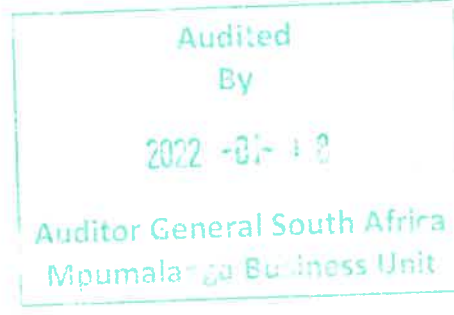
Expenditure incurred to repair and maintain property, plant and equipment

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

Contracted Services: Maintenance of Buildings and Facilities
Contracted Services: Maintenance of Equipment

727 342	122 655
300 647	1 511 083
1 027 989	1 633 738

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.



Emakhazeni Local Municipality

(Registration number MP314)
Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

5. Intangible assets

	2021		2020			
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software other	2 494 140	(2 458 075)	36 065	2 494 140	(2 164 425)	329 715

Reconciliation of intangible assets - 2021

Computer software other	Opening balance 329 715	Amortisation (60 722)	Impairment loss (232 928)	Total 36 065
-------------------------	-------------------------------	--------------------------	---------------------------------	-----------------

Reconciliation of intangible assets - 2020

Computer software other	Opening balance 422 994	Amortisation (93 279)	Total 329 715
-------------------------	-------------------------------	--------------------------	------------------

Pledged as security

Intangible assets are not pledged as security:



Emakhazeni Local Municipality

(Registration number MP314)
Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

6. Heritage assets

	2021		2020	
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation
Cultural buildings	114 325	-	114 325	114 325
				-
				114 325

Reconciliation of heritage assets 2021

Cultural buildings

Opening balance	114 325
Total	114 325

Reconciliation of heritage assets 2020

Cultural buildings

Opening balance	114 325
Total	114 325

Pledged as security

No heritage assets are pledged as security:



Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

7. Employee benefit obligations

Defined benefit plan

Post defined benefit plan

In accordance with the requirements of GRAP25, the Projected Unit Credit method has been applied. Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to the retirement date. In determining these liabilities, due allowance has been made for future award increases.

The valuation has been made with reference Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP25.

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

Carrying value

Present value of the defined benefit obligation-Long Service Award liability	(5 840 000)	(5 397 000)
Present value of the defined benefit obligation-Medical aid	(13 024 412)	(8 861 000)
	(18 864 412)	(14 258 000)
Non-current liabilities	(17 723 792)	(13 338 000)
Current liabilities	(1 140 620)	(920 000)
	(18 864 412)	(14 258 000)

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

Opening balance	(14 258 000)	(11 346 000)
Actuarial Loss / (Gain)	(2 721 412)	(1 775 000)
Net expense recognised in the statement of financial performance	(1 483 000)	(1 137 000)
	(18 462 412)	(14 258 000)

Net expense recognised in the statement of financial performance

Current service cost - Long service awards	(577 000)	(386 000)
Current service cost - Medical aid	(495 000)	(328 000)
Interest cost - Long service awards	(374 000)	(413 000)
Interest cost - Medical aid	(957 000)	(650 000)
Expected Contributions (benefits paid) - Medical Aid	211 000	235 000
Expected Benefits Vesting - Long-service awards	709 000	405 000
	(1 483 000)	(1 137 000)

Calculation of actuarial gains and losses

Actuarial (gains) losses – Long service awards	(201 000)	(146 000)
Actuarial (gains) losses – Medical aid	2 922 412	1 921 000
	2 721 412	1 775 000

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

Opening balance	5 397 000	5 149 000
Current service cost	577 000	386 000
Actuarial gains (losses)	201 000	(146 000)
Interest cost	374 000	413 000
Benefits paid	(709 000)	(405 000)
	5 840 000	5 397 000

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

7. Employee benefit obligations (continued)

Sensitivity Analysis:

Movement in present value of defined benefit plan - Long Service awards

Opening balance	5 397 000	5 149 000
Current service cost	577 000	386 000
Interest cost	374 000	413 000
Actuarial losses (gains)	(201 000)	(146 000)
Benefit paid	(709 000)	(405 000)
	5 438 000	5 397 000

Amount recognised in statement of financial performance

Current service cost	577 000	386 000
Interest cost	374 000	413 000
Actuarial losses (Gain)	201 000	146 000
Benefit paid	(709 000)	(405 000)
	443 000	540 000

Key assumptions used

Assumptions used at the reporting date on both obligations:

DEMOGRAPHIC AND MORTALITY ASSUMPTION

	30 June 2020	30 June 2021
Assumptions - LSA		
Normal retirement age (years)	65	65
Assumed retirement age (years)*	63	63
Mortality	SA85-90	SA85-90
Assumptions - Medical Aid		
Normal retirement age	Active Employees	Pensioners
Fully accrued age (to take account for ill-health and early retirement decrements)	65	
Age differences between spouses	62	
	5 years	Actual ages used
Proportion married	60% assumed married at retirement	Actual marital used
Mortality	SA85-90 (Normal)	PA (90) -1 with a 1% mortality improvements p.a from 2010

Eligible employees

	30 June 2020	30 June 2021
Long service awards		
Number of employees	360	373
Average annual salary (R)	176,345	181,287
Average age (years)	43.8	45.56
Average past service (years)	11.0	10.94
Medical aid		
Active employees on Medical Aid - Average age		42.59 years
Active employees on Medical Aid - Average employer Contributions		R2,468
Active employees not on Medical Aid - Average age		45.79 years
Active employees not on Medical Aid - Average employer Contributions		R2,286
Continuation pensioners		74.00 years

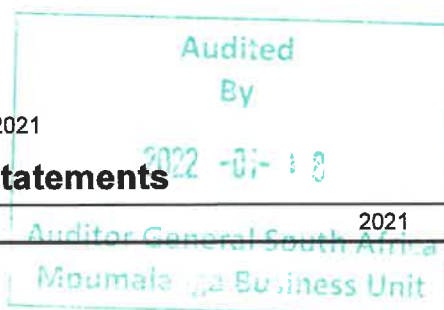
Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand



2021

2020

7. Employee benefit obligations (continued)

Valuations Assumptions - Medical Aid

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2020 the duration of liabilities, based on the combined weighted average of accrued liability of Emakhazeni, was 16.10 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2021 is 12.16% per annum, and the yield on the inflation-linked bonds of a similar term was about 4.41% per annum, implying an underlying expectation of inflation of 6.94% per annum $([1 + 12.16\%] / [1 + 4.41\%] - 1)$.

The healthcare cost inflation rate of 8.44% was assumed. It is 1.50% above the expected inflation over the expected term of the liability. The maximum subsidy cap inflation rate came to 5.96% which is 75% of the salary inflation assumption (expected inflation of 6.95% + 1.00%).

Net Discount rate is calculated as follows:

Assumption	30 June 2020	30 June 2021
Discount rate - LSA	7,41 %	8,33 %
CPI - LSA	3,00 %	4,74 %
Salary increase rate - LSA	4,00 %	5,75 %
Net discount rate - LSA	3,28 %	2,45 %
Discount rate - PEMA	10,93 %	12,16 %
Health care cost Inflation - PEMA	6,91 %	8,44 %
Net Discount rate (Health care cost) - PEMA	3,76 %	3,43 %
Maximum subsidy cap inflation rate	4,81 %	5,96 %
Net discount rate (Subsidy cap)	5,84 %	5,85 %
	- %	- %

Withdrawal from Service

If an eligible employee leaves, the employer's liability in respect of that employee ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below:

Age	Females	Males
Long service award		
20	24 %	16 %
25	18 %	12 %
30	15 %	10 %
35	10 %	8 %
40	6 %	6 %
45	4 %	4 %
50	2 %	2 %
55	1 %	1 %
	- %	- %

Medical Aid	Females	Males
20	9 %	9 %
25	8 %	8 %
30	6 %	6 %
35	5 %	5 %
40	5 %	5 %
45	4 %	4 %
50	3 %	3 %

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

7. Employee benefit obligations (continued)

Other assumptions - Medical inflation and discount rate

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

	One percentage point decrease	One percentage point increase
Effect on the aggregate of the service cost and interest cost	1 990 361	2 860 874
Effect on defined benefit obligation	11 086 600	15 451 708

8. Inventories

Finished goods	4 251 033	4 586 154
Water	3 727 845	534 864
	7 978 878	5 121 018

Inventories recognised as an expense during the year	19 068 720	7 493 303
--	------------	-----------

Inventory pledged as security

Inventory was not pledged as security for overdraft facilities.

Water for distribution

Opening balance	534 864	-
Water purchases	3 192 981	534 864
Closing balance	3 727 845	534 864

9. Receivables from exchange transactions

Service Charges debtors	2 772	1 284
Impairment: Service charges debtors	(1 489)	(454)
Consumer debtors - Electricity	15 789 085	17 211 928
Consumer debtors - Water	6 622 837	8 000 887
Consumer debtors - Sewerage	3 661 764	4 650 510
Consumer debtors - Refuse	3 120 939	3 836 063
Consumer debtors - Merchandising, jobbing and Contracts	150 189	229 631
Consumer debtors - Property Rental Debtors	2 462 798	1 051 847
Consumer debtors - Housing Selling Scheme	1 804	2 265
	31 810 699	34 983 961

Receivables included in receivables from exchange transactions above are as follows:

Consumer debtors - Electricity	15 789 085	17 211 928
Consumer debtors - Water	6 622 837	8 000 887
Consumer debtors - Sewerage	3 661 764	4 650 510
Consumer debtors - Refuse	3 120 939	3 836 063
	29 194 625	33 699 388

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
9. Receivables from exchange transactions (continued)		
Non-services receivables included in receivables from exchange transactions above are as follows:		
Consumer debtors - Merchandising, jobbing and Contracts	150 189	229 631
Consumer debtors - Property Rental Debtors	2 462 798	1 051 847
Consumer debtors - Housing Selling Scheme	1 804	2 265
	2 614 791	1 283 743
Other receivables included in receivables from exchange transactions above	1 283	830
Total receivables from exchange transactions	31 810 699	34 983 961
Trade and other receivables pledged as security		
Trade and other receivables were not pledged as security.		
Trade and other receivables past due but not impaired		
Trade and other receivables which are less than 180 days past due are not considered to be impaired. At 30 June 2021, 42 161 042 (2020: 51 596 985) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
30 days past due	12 670 173	7 907 416
60 days past due	9 131 870	8 614 854
90 days past due	7 965 778	7 750 081
120 days past due	7 408 274	6 934 915
150 days past due	3 917 298	7 785 214
180 days past due	6 715 239	5 155 314
Trade and other receivables impaired		
The amount of the provision was 126 461 991 as of 30 June 2021 (2020: 118 819 439).		
The ageing of these loans is as follows:		
181 Days to 1 Year	28 219 115	165 526 996
Over 12 months	199 729 669	251 558 584
10. Receivables from non-exchange transactions		
Accrued Income	6 729 423	6 767 098
Property Rates	24 322 072	27 438 873
Traffic fines	102 900 598	101 265 506
	133 952 093	135 471 477
Statutory receivables included in receivables from non-exchange transactions above are as follows:		
Consumer debtors - Rates	24 322 072	27 438 873
Consumer debtors - Fines	102 900 598	101 265 506
	127 222 670	128 704 379
Other receivables included in receivables from non-exchange transactions above are as follows:		
Accrued Income	6 729 423	6 767 098
Financial asset receivables included in receivables from non-exchange transactions above	115 712 915	116 139 397

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand



	2021	2020
10. Receivables from non-exchange transactions (continued)		
Total receivables from non-exchange transactions	115 712 915	116 139 397

Receivables from non-exchange transactions impaired

As of 30 June 2021, other receivables from non-exchange transactions of - (2020: -) were impaired and provided for.

The amount of the provision was (160 074 305) as of 30 June 2021 (2020: (118 819 439)).

The ageing of these loans is as follows:

11. Consumer debtors disclosure

Gross balances

Consumer debtors - Rates	104 661 057	100 475 104
Consumer debtors - Electricity	72 141 873	60 571 638
Consumer debtors - Water	50 623 740	44 416 204
Consumer debtors - Sewerage	26 851 550	24 618 013
Consumer debtors - Refuse	28 037 212	25 946 232
Consumer debtors - Merchandising Jobbing and Contracts	4 329 919	4 725 004
Consumer debtors - Property Rental Debtors	9 789 929	2 801 164
Consumer debtors - Housing Selling Scheme	109 498	104 929
Consumer debtors - Traffic fines	171 923 749	170 288 657
	468 468 527	433 946 945

Less: Allowance for impairment

Consumer debtors - Rates	(80 338 985)	(73 036 231)
Consumer debtors - Electricity	(56 352 788)	(43 359 710)
Consumer debtors - Water	(44 000 903)	(36 415 317)
Consumer debtors - Sewerage	(23 189 786)	(19 967 503)
Consumer debtors - Refuse	(24 916 273)	(22 110 169)
Consumer debtors - Merchandising Jobbing and Contracts	(4 179 730)	(4 495 373)
Consumer debtors - Property Rental Debtors	(7 327 131)	(1 749 317)
Consumer debtors - Housing Selling Scheme	(107 694)	(102 664)
Consumer debtors - Traffic fines	(69 023 151)	(69 023 151)
	(309 436 441)	(270 259 435)

Net balance

Consumer debtors - Rates	24 322 072	27 438 873
Consumer debtors - Electricity	15 789 085	17 211 928
Consumer debtors - Water	6 622 837	8 000 887
Consumer debtors - Sewerage	3 661 764	4 650 510
Consumer debtors - Refuse	3 120 939	3 836 063
Consumer debtors - Merchandising, Jobbing and Contracts	150 189	229 631
Consumer debtors - Property Rental Debtors	2 462 798	1 051 847
Consumer debtors - Housing Selling Scheme	1 804	2 265
Consumer debtors - Traffic fines	102 900 598	101 265 506
	159 032 086	163 687 510

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
11. Consumer debtors disclosure (continued)		
Included in above is receivables from exchange transactions		
Consumer debtors - Electricity	15 789 085	17 211 928
Consumer debtors - Water	6 622 837	8 000 887
Consumer debtors - Sewerage	3 661 764	4 650 510
Consumer debtors - Refuse	3 120 939	3 836 063
Consumer debtors - Merchandising, Jobbing and Contracts	150 189	229 631
Consumer debtors - Property rental debtors	2 462 798	1 051 847
Consumer debtors - Housing Selling Scheme	1 804	2 265
	31 809 416	34 983 131
Included in above is receivables from non-exchange transactions		
Consumer debtors - Rates	24 322 072	27 438 873
Consumer debtors - Traffic fines	102 900 598	101 265 506
	127 222 670	128 704 379
Net balance	159 032 086	163 687 510
Rates		
Current (0 -30 days)	3 222 727	3 392 326
31 - 60 days	2 357 340	2 715 818
61 - 90 days	2 053 532	2 513 486
91 - 120 days	1 893 752	91 853 474
121 - 180 days	3 565 356	-
> 181 days	91 568 350	-
Impairment	(80 338 985)	(73 036 231)
	24 322 072	27 438 873
Electricity		
Current (0 -30 days)	4 514 902	3 511 884
31 - 60 days	2 682 624	2 680 287
61 - 90 days	2 194 284	2 262 269
91 - 120 days	2 218 634	52 117 198
121 - 180 days	3 681 991	-
> 181 days	56 849 438	-
Impairment	(56 352 788)	(43 359 710)
	15 789 085	17 211 928
Water		
Current (0 -30 days)	1 885 877	2 024 578
31 - 60 days	1 678 143	1 525 750
61 - 90 days	1 485 213	1 412 064
91 - 120 days	1 355 721	39 453 812
121 - 180 days	2 748 375	-
> 181 days	41 470 411	-
Impairment	(44 000 903)	(36 415 317)
	6 622 837	8 000 887



Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
11. Consumer debtors disclosure (continued)		
Sewerage		
Current (0 -30 days)	1 235 984	1 181 031
31 - 60 days	826 178	1 001 505
61 - 90 days	735 472	928 806
91 - 120 days	698 183	21 506 671
121 - 180 days	1 311 410	-
> 181 days	22 044 323	-
Impairment	(23 189 786)	(19 967 503)
	3 661 764	4 650 510
Refuse		
Current (0 -30 days)	985 187	951 324
31 - 60 days	819 543	836 515
61 - 90 days	760 309	779 781
91 - 120 days	727 424	23 378 612
121 - 180 days	1 372 334	-
> 181 days	23 372 415	-
Impairment	(24 916 273)	(22 110 169)
	3 120 939	3 836 063
Merchandising Jobbing and Contracts		
Current (0 -30 days)	824 856	766 822
31 - 60 days	768 042	48 707
61 - 90 days	736 969	48 541
91 - 120 days	711 421	-
121 - 180 days	1 288 631	3 860 934
Impairment	(4 179 730)	(4 495 373)
	150 189	229 631
Property Rental Debtors		
> 181 days	9 789 929	2 801 164
Impairment	(7 327 131)	(1 749 317)
	2 462 798	1 051 847
Housing rental		
> 181 days	109 498	104 929
Impairment	(107 694)	(102 664)
	1 804	2 265
Reconciliation of allowance for impairment		
Balance at beginning of the year	49 847 112	111 093 290
Debt impairment written off against allowance	(49 847 112)	(111 093 290)
	-	-
12. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Bank balances	34 856 629	10 160 232
Short-term deposits	833 841	19 258 374
	35 690 470	29 418 606



Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

12. Cash and cash equivalents (continued)

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
FNB Main Account-62028195510	550 279	4 409 965	3 083 755	34 856 629	10 160 232	285 421
FNB Call Account-62178430212	10 000	3 000 000	2 276 285	15 000	3 005 000	2 276 285
FNB Call Account-74720711205	80 706	841 440	-	80 706	841 440	-
FNB Call Account-74720709953	135 568	3 136 215	2 046 075	135 568	3 136 215	2 046 075
FNB Call Account-74720710702	55 106	1 653 457	-	55 106	1 653 457	-
FNB Call Account-74720708666	319 707	382 475	-	319 707	382 475	-
FNB Call Account-74483123713	-	1	-	-	1	-
FNB Call Account-62720717761	-	1	15 578 051	-	1	1 578 051
FNB Call Account-74720719957	10 000	5 000	2 649 854	10 000	5 000	2 649 854
FNB Call Account-74763982095	51 892	10 154 631	11 700 490	51 892	10 154 631	11 700 490
FNB Call Account-62774591385	10 000	5 000	3 442 864	10 000	5 000	3 442 864
FNB Call Account-62774589801	5 070	6 324	2 203 010	11 570	12 824	2 203 010
FNB Call Account-62076419508	22 779	6 981	498 377	22 779	6 981	498 377
FNB Call Account-62855646926	90 701	39 862	-	90 701	39 862	-
FNB Call Account-62783746070	20 747	15 488	-	30 811	15 488	-
FNB Call Account-62862609652	10 064	-	-	-	-	-
Total	1 372 619	23 656 840	43 478 761	35 690 469	29 418 607	26 680 427

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant
Water Services Infrastructure Grant
Integrated National Electrification Programme Grant

19 756	-
1 603 984	610 999
4 232 249	362
5 855 989	611 361

Movement during the year

Balance at the beginning of the year
Additions during the year
Income recognition during the year

611 361	9 978 585
142 912 464	156 616 880
(137 667 836)	(165 984 104)
5 855 989	611 361

See note 26 for reconciliation of grants from National/Provincial Government.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand



14. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Utilised during the year	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Landfill site provision	92 556 924	-	5 999 260	13 899 318	112 455 502
Leave pay provisions	10 186 298	(878 270)	-	-	9 308 028
	102 743 222	(878 270)	5 999 260	13 899 318	121 763 530

Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
Landfill site provision	89 021 618	3 535 306	92 556 924
Leave pay provisions	6 992 489	3 193 809	10 186 298
	96 014 107	6 729 115	102 743 222

Non-current liabilities	109 414 863	89 516 285
Current portion of landfill site rehabilitation	12 348 667	13 226 937
	121 763 530	102 743 222

The nature of the obligation:

Provision of the final rehabilitation and closure costs for the landfills controlled by Emakhazeni Local Municipality.

The liability calculated includes costs associated with:

- Pre-closure planning and approvals
- Final rehabilitation and closure
- 30 years post-closure monitoring

The expected timing of any resulting outflow of the economic benefit or service potential.

30 years post-closure monitoring

The major assumptions made concerning future events were not disclosed.

FINANCIAL ASSUMPTIONS USED

2.1 Unit Costs

Unit costs for each of the cost elements are obtained annually by means of a commercial quotation.

2.2. CPI

The CPI2 is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last quarter amounted to 4.8235%. 2.3

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

14. Provisions (continued)

2.3. Discount Rate

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.

The rate most consistent with the remaining life of the landfills published at the end of the quarter that includes the financial year-end date was used.

For landfills with an expected remaining life of three years or less, the rate associated with a maximum period of 3 years is used.

For landfills with an expected remaining life of four of five years, the rate associated with a maximum period of 5 years is used.

For landfills with an expected remaining life of more than five years, the rate associated with a maximum period of 10 years is used.

15. VAT Payable

Heading
VAT Receivables
VAT Payable

2021	2020
(75 434 971)	(59 323 836)
82 802 523	61 383 889
7 367 552	2 060 053

16. Payables from exchange transactions

Trade payables
Debtors received in advance
Retentions
Unallocated receipts
Bonus Provisions
Employee accruals

62 124 022	57 236 203
24 746 263	11 733 319
12 454 774	16 033 845
4 631 999	5 355 460
3 079 161	2 724 817
632 331	524 866
107 668 550	93 608 510

17. Consumer deposits

Electricity
Water
Housing rental

1 901 723	1 744 993
62 927	72 797
-	37 227
1 964 650	1 855 017



Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

18. Revenue

Service charges	133 381 032	99 650 387
Rental of facilities and equipment	10 763 358	1 730 180
Operational revenue	8 852 068	2 838 910
Interest received - investment	11 791 284	7 566 723
Property rates	62 308 662	62 132 060
Government grants & subsidies	137 667 836	165 984 104
Public contributions and donations	22 392 870	34 891 510
Fines, Penalties and Forfeits	1 711 055	45 626 897
	388 868 165	420 420 771

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

Service charges	133 381 032	99 650 387
Rental of facilities and equipment	10 763 358	1 730 180
Operational revenue	8 852 068	2 838 910
Interest received - investment	11 791 284	7 566 723
	164 787 742	111 786 200

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

Taxation revenue		
Property rates	62 308 662	62 132 060
Transfer revenue		
Government grants & subsidies	137 667 836	165 984 104
Public contributions and donations	22 392 870	34 891 510
Fines, Penalties and Forfeits	1 711 055	45 626 897
	224 080 423	308 634 571

19. Service charges

Sale of electricity	91 521 066	59 900 650
Sale of water	19 134 902	18 121 036
Solid waste	10 099 012	9 633 453
Sewerage and sanitation charges	12 626 052	11 995 248
	133 381 032	99 650 387

20. Rental of facilities and equipment

Facilities and equipment

Rental Revenue - Investment property	10 763 358	1 730 180
--------------------------------------	------------	-----------

21. Fines, Penalties and Forfeits

Illegal Connections Fines	5 113	44 572
Overdue Books Fines	150	860 150
Municipal Traffic Fines	1 705 792	44 722 175
	1 711 055	45 626 897

22. Inventory Consumed

Inventory consumed	19 068 720	7 493 303
--------------------	------------	-----------

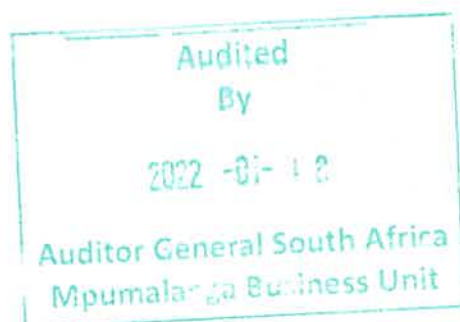
Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
23. Operational revenue		
Administrative Handling Fees	64 630	965 952
Advertisements	20 967	42 375
Application Fees for Land Usage	76 412	78 824
Building Plan Approval	259 963	114 127
Camping Fees	637	2 637
Cemetery and Burial	52 817	33 588
Incidental Cash Surpluses	934 278	1 063 541
Clearance Certificates	55 996	36 221
Drainage Fees	43 561	4 569
Membership	1 138	1 536
Photocopies and Faxes	2 361	1 232
Valuation Services	-	1 097
Sale of Property	925 654	289 855
Merchandising Jobbing and Contracts	118 057	1 004
Sale of stone and gravel	1 069	-
Insurance claims	6 186 064	-
Tender Documents	108 464	202 352
	8 852 068	2 838 910



24. Interest received

Interest revenue

Bank - Investments	868 596	2 434 207
Interest charged on trade and other receivables	10 922 688	5 132 516
	11 791 284	7 566 723

25. Property rates

Rates received

Property rates	62 308 662	62 132 060
----------------	------------	------------

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2019. Interim 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 2019.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
26. Government grants and subsidies		
Operating grants		
Equitable share	72 926 000	63 331 250
Expanded Public Works	1 151 000	1 182 000
Financial Management Grant	2 800 000	2 435 000
LGSETA Grant	119 463	179 320
Municipal Disaster Recovery Grant	-	238 000
	76 996 463	67 365 570
Capital grants		
Integrated National Electrification Programme Grant	5 768 114	9 999 638
Municipal Infrastructure Grant	25 896 244	29 235 000
Water Services Infrastructure Grant	29 007 015	59 383 896
	60 671 373	98 618 534
	137 667 836	165 984 104
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	69 867 000	129 325 906
Unconditional grants received	73 045 463	63 331 250
	142 912 463	192 657 156
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Municipal Infrastructure Grant		
Current-year receipts	25 916 000	29 235 000
Conditions met - transferred to revenue	(25 896 244)	(29 235 000)
	19 756	-
Conditions still to be met - remain liabilities (see note 13).		
Expanded Public Works Programme Integrated Grant		
Current-year receipts	1 151 000	1 182 000
Conditions met - transferred to revenue	(1 151 000)	(1 182 000)
	-	-
Local Government Financial Management Grant		
Current-year receipts	2 800 000	2 435 000
Conditions met - transferred to revenue	(2 800 000)	(2 435 000)
	-	-
Water services infrastructure grant		
Balance unspent at beginning of year	610 999	9 978 585
Current-year receipts	30 000 000	50 000 000
Conditions met - transferred to revenue	(29 007 015)	(59 367 586)

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
26. Government grants and subsidies (continued)		
	1 603 984	610 999
Conditions still to be met - remain liabilities (see note 13).		
Municipal Disaster Grant		
Current-year receipts	-	238 000
Conditions met - transferred to revenue	-	(238 000)
	-	-
Integrated National Electrification Programme Grant		
Balance unspent at beginning of year	362	-
Current-year receipts	10 000 000	10 000 000
Conditions met - transferred to revenue	(5 768 113)	(9 999 638)
	4 232 249	362
Conditions still to be met - remain liabilities (see note 13).		
LGSETA Grant		
Current-year receipts	119 463	179 320
Conditions met - transferred to revenue	(119 463)	(179 320)
	-	-
DC31 Nkangala Infrastructure Grant		
Current-year receipts	-	30 457 266
Conditions met - transferred to revenue	-	(30 457 266)
	-	-
27. Public contributions and donations		
Donations DC31 Nkangala District Municipality	22 392 870	34 891 510

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
28. Employee related costs		
Basic	67 532 452	60 208 989
Bonus	5 490 682	4 810 029
Medical aid - company contributions	4 553 621	4 160 205
Unemployment Income Fund	616 348	582 048
SDL	929 497	759 620
Leave pay provision charge	-	3 679 200
Travel, motor car, accommodation, subsistence and other allowances	8 559 364	8 425 044
Overtime payments	6 396 929	6 988 657
Long-service awards	242 000	(254 000)
Acting allowances	1 139 635	1 270 586
Housing benefits and allowances	607 003	544 554
Pension fund contributions	13 207 347	11 803 000
Defined benefit expense	1 241 000	328 000
Backpay	162 462	-
Bargaining Council	42 561	38 513
	110 720 901	103 344 445

Remuneration of Municipal Manager - G Mthimunye

Annual Remuneration	581 780	158 135
Telephone and Car Allowance	158 121	46 196
Performance Bonuses	-	3 782
Contributions to UIF, Medical and Pension Funds	114 620	36 470
Travel claims	2 278	186
SALGBC	109	28
Leave payout	-	44 356
Skills Development Levy	8 316	2 311
	865 224	291 464

Mrs E.K. Tshabalala serves as Municipal Manager until 01 August 2020.

Mr G Mthimunye was appointed on 03 August 2020 as a Municipal Manager.

Remuneration of Chief Financial Officer

Annual Remuneration	526 543	542 037
Car Allowance	181 500	198 000
Performance Bonuses	-	12 600
Telephone Allowance	11 550	71 269
Contributions to UIF, Medical Aid and Pension Fund	72 868	-
SALGBC	109	111
Travel claims	-	8 213
Acting allowance	-	2 088
Skills development Levy	6 481	6 857
	799 051	841 175

Mr. B.J. Thoka serves as Chief Financial Officer since 03 December 2018 but was suspended in July 2020 and was still paid while he was on suspension until 30 March 2021.

Mr S Leshage was appointed as Acting Chief Financial Officer since 01 August 2020.

Manager Corporate Services - Mrs T.J Shoba

Annual Remuneration	569 905	545 015
Car Allowance	171 923	166 403
Performance Bonuses	-	44 212

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
28. Employee related costs (continued)		
Contributions to UIF, Medical and Pension Funds	104 396	99 887
Telephone allowance	12 600	12 600
Bargaining council	119	111
Skills development levy	6 773	6 941
	865 716	875 169

Mrs. T.J Shoba serves as Corporate Services Manager from 01 December 2018 until 13 July 2021.

Manager Infrastructure, Planning and Social Development-Mr M.L Mamaleka

Annual Remuneration	261 068	601 483
Car Allowance	58 463	125 415
Performance Bonuses	-	5 798
Contributions to UIF, Medical and Pension Funds	33 199	76 095
SALGBC	50	111
Acting allowance	15 371	88 424
Leave pay	73 213	-
Travel claims	1 692	-
Telephone allowance	5 250	12 600
Skills development levy	4 053	8 098
	452 359	918 024

Mr M.L. Mamaleka served as Acting Municipal Manager until 27 November 2020.

29. Remuneration of councillors

Executive Mayor	905 259	905 259
Speaker	733 710	732 988
Councillors	5 121 205	5 533 089
Chief Whip	394 018	-
	7 154 192	7 171 336



Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020			
29. Remuneration of councillors (continued)					
Remuneration of Councillors					
Executive Mayor	Annual Remuneration	Telephone Allowance	Vehicle Allowance	Housing Allowance	Company Contribution
T.D Ngwenya	550 950	44 400	190 626	36 640	82 642
Speaker	Annual Remuneration	Telephone Allowance	Vehicle Allowance	Company Contribution	
N.A Mashele	440 760	44 400	154 086	94 464	
Executive Council	Annual Remuneration	Telephone Allowance	Vehicle Allowance	Company Contribution	
S.S Mthimunya	413 213	44 400	170 451	61 982	
M. Nkambule	413 213	44 400	170 451	61 982	
T. Scheefers	413 213	44 400	149 628	83 272	
Subtotal	1 239 639	133 200	490 530	207 236	
	1 239 639	133 200	490 530	207 236	
Councillors	Annual Remuneration	Telephone Allowance	Vehicle Allowance	Backpay	Company Contribution
M.P Ntuli	230 748	44 400	84 258	-	34 612
N.T Masha	230 748	44 400	84 258	-	34 612
T.C Ngomane	230 748	44 400	84 258	-	34 612
T.J Duma	230 748	44 400	84 258	-	34 612
A.A Botha	179 804	44 400	65 656	-	26 971
S.I Skhosana	179 804	44 400	65 656	-	26 971
R. Ndlovu	152 561	44 400	62 353	-	58 294
S.S Tshabalala	179 804	44 400	65 656	-	26 971
N. Maidi	158 009	40 700	60 184	-	24 723
ES. Radebe	179 804	44 400	65 656	-	26 971
Subtotal	1 952 778	440 300	722 193	-	329 349
	1 952 778	440 300	722 193	-	329 349
30. Depreciation and amortisation					
Property, plant and equipment			54 519 462	49 150 571	
31. Impairment of assets					
Impairments					
Property, plant and equipment			2 381 258	2 867 729	
Trade and other receivables			54 994 448	58 217 757	
			57 375 706	61 085 486	
Reversal of impairments					
Trade and other receivables			-	(840 143)	
Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]					
Total impairment losses (recognised) reversed			57 375 706	60 245 343	

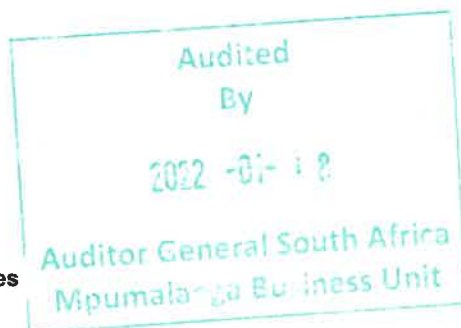
Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
32. Finance costs		
Interest paid	7 026 193	11 210 917
33. Bulk purchases		
Electricity	60 777 132	57 937 332
Electricity losses		
Units purchased	-	49 210 305
Units sold	-	(29 970 541)
Total loss	-	19 239 764
34. Contracted services		
Outsourced Services		
Clearing and Grass Cutting Services	1 957 150	-
Hygiene Services	483 605	71 015
Mini Dumping Sites	-	2 179 468
Security Services	13 759 720	5 863 959
Transport Services	4 835 746	4 899 770
Consultants and Professional Services		
Business and Advisory	5 816 041	3 933 438
Infrastructure and Planning	170 121	123 200
Laboratory Services	222 639	105 840
Legal Cost	1 229 132	1 391 487
Contractors		
Maintenance of Buildings and Facilities	366 744	122 655
Maintenance of Equipment	678 765	1 511 083
	38 030 726	23 153 561



Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
35. Operational cost		
Advertising	267 216	220 375
Auditors remuneration	6 214 397	4 477 912
Bank charges	740 586	423 642
Entertainment	91 441	411 353
Insurance	326 443	1 588 180
Postage and courier	607 814	536 046
Printing and stationery	870 719	732 860
Protective clothing	1 135 394	502 438
Staff welfare	188 855	13 970
Subscriptions and membership fees	1 772 793	1 028 159
Telephone and fax	710 135	836 284
Transport provided as part of departmental activities	1 673 228	764 293
Travel - local	262 811	654 576
Other general expenses	1 563 755	3 870 817
Rental expense	1 493 057	1 259 216
Licence fees	457 954	450 122
Municipal services costs	383 750	1 755 965
Donation in kind	-	4 434 244
	18 760 348	23 960 452
36. Fair value adjustments		
Investment property (Fair value model)	1 690 000	(1 690 000)
37. Auditors' remuneration		
Fees	6 214 397	4 477 912
38. Cash generated from operations		
Surplus	10 857 706	56 349 518
Adjustments for:		
Depreciation and amortisation	54 519 462	49 150 571
Gain on sale of assets and liabilities	5 214 000	16 938 993
Fair value adjustments	(1 690 000)	1 690 000
Impairment loss	57 375 706	60 245 343
Movements in retirement benefit assets and liabilities	4 606 412	2 912 000
Movements in provisions	19 020 308	6 729 115
Changes in working capital:		
Inventories	(2 857 860)	(3 191 345)
Receivables from exchange transactions	(51 821 186)	(54 114 267)
Receivables from non-exchange transactions	1 519 384	(21 559 666)
Payables from exchange transactions	14 214 432	36 571 172
Unspent conditional grants and receipts	5 244 628	(9 367 224)
Consumer deposits	109 633	26 667
	116 312 625	142 380 877

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
39. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	63 063 136	2 473 700
Total capital commitments		
Already contracted for but not provided for	63 063 136	2 473 700
Authorised operational expenditure		
Already contracted for but not provided for		
• Operational commitments	24 702 786	18 043 914
Total operational commitments		
Already contracted for but not provided for	24 702 786	18 043 914
Total commitments		
Total commitments		
Authorised capital expenditure	63 063 136	2 473 700
Authorised operational expenditure	24 702 786	18 043 914
	87 765 922	20 517 614



This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

40. Contingencies

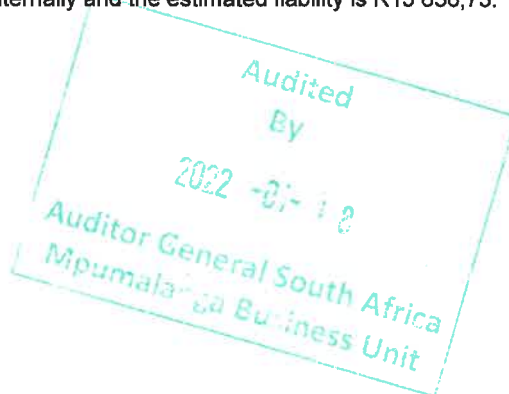
Contingencies - 30 June 2021

CONTINGENT ASSETS

- 1. ELM vs Magoveni Business Trust** - The municipality appointed Magoveni Holdings with a letter dated the 06th of May 2013 and entered into a service level agreement on the 15th May 2013 for a period of three years, wherein Magoveni was to assist the municipality with the provision of credit control and debt collection support. R6 562 622,84.
- 2. ELM Vs B.J Mashifane** - The former employee of the Municipality was charged for financial misconduct which led to lose in an amount of R 139 703,79. Nomaswazi Shabangu Attorneys, the matter is pending, the Defendant is proceeding to make payment as the direction of the Court.
- 3. ELM vs Shatadi Auctioneers** - The municipality entered into a Service Level Agreement with Shatadi Auctioneers on the 04th July 2013, wherein Shatadi was appointed to dispose the redundant assets on behalf of the municipality. In terms of clause four (4) of the agreement Shatadi was supposed to pay the proceeds of the sale to the municipality within seven (7) working days of receiving the money, but to date they have not done so. R 656 296,00.

CONTINGENT LIABILITIES

- 1. Magoveni Business Trust vs ELM** - The municipality appointed Magoveni Holdings with a letter dated the 06th of May 2013 and entered into a service level agreement on the 15th May 2013 for a period of three years, wherein Magoveni was to assist the municipality with the provision of credit control and debt collection support. R3 114 235,48.
- 2. Vivien De klerk vs ELM** - The municipality has been served with a Civil Law Suit Summons, E from Messer Vivien De Klerk and De Klerk & Marais Incorporated. The matter relates to allegations of defamatory by the municipality during the pleadings filed by the municipality in the Road Freight Matter. R4 250 000,00.
- 3. LINDI BOTHA vs ELM** - The municipality has been served with a Civil dispute arising from an alleged pothole damages by the plaintiff Lindi Botha. The matter is dealt with internally and the estimated liability is R15 636,73.



Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

40. Contingencies (continued)

Contingencies - 30 June 2020

CONTINGENT ASSETS

1. ELM vs Magoveni Business Trust - The municipality appointed Magoveni Holdings with a letter dated the 06th of May 2013 and entered into a service level agreement on the 15th May 2013 for a period of three years, wherein Magoveni was to assist the municipality with the provision of credit control and debt collection support. R6 562 622,84.

2. ELM vs SAMWU Provident Fund - SAMWU Provident Fund was paid contributions that were supposed to have been paid over to MEPF of R 3 151 932,46. The matter is written off as per Council Resolution no: 47/05/2020 and the contingent asset is R 0,00

3. ELM vs Shatadi Auctioneers - The municipality entered into a Service Level Agreement with Shatadi Auctioneers on the 04th July 2013, wherein Shatadi was appointed to dispose the redundant assets on behalf of the municipality. In terms of clause four (4) of the agreement Shatadi was supposed to pay the proceeds of the sale to the municipality within seven (7) working days of receiving the money, but to date they have not done so. R 656 296,00

CONTINGENT LIABILITIES

1. Magoveni Business Trust vs ELM - The municipality appointed Magoveni Holdings with a letter dated the 06th of May 2013 and entered into a service level agreement on the 15th May 2013 for a period of three years, wherein Magoveni was to assist the municipality with the provision of credit control and debt collection support. R 3 114 235,48.

2. Vivien De Klerk vs ELM - The municipality has been served with a Civil Law Suit Summons, E from Messer Vivien De Klerk and De Klerk & Marais Incorporated. The matter relates to allegations of defamatory by the municipality during the pleadings filed by the municipality in the Road Freight Matter. R 4 250 000,00.

3. P.A CLARKE vs ELM - Civil dispute arising from an alleged pothole damages by the plaintiff. Legal Department wrote to the attorney of the plaintiff requesting further information on the matter however, the attorneys did not response. Due to service of summons an attorney was appointed to tender notice of intention to defend the matter. R 10 475,47.

4. M. Mabuza vs ELM - The municipality official was deemed following charges of fraud, dismissal was confirmed by Bargaining Council.

5. R. VAN ROOYEN vs ELM - The municipality has been served with a Civil dispute arising from an alleged pothole damages by the plaintiff R. Van Rooyen. The matter is dealt with internally and the estimated liability is R 48 020,00.

6. LINDI BOTHA vs ELM - The municipality has been served with a Civil dispute arising from an alleged pothole damages by the plaintiff Lindi Botha. The matter is dealt with internally and the estimated liability is R 15 636,73.

7. AFRI-INFRA GROUP vs ELM - A contractual dispute arising from the municipality and Afri-Infra Group as a result of a contract entered in 2017 the estimated liability is R 142 106,81.

41. Related parties

Relationships
G Mthimunya
T.D Ngwenya
N.A Mashele
N.T Masha
S. Leshage
T.J Shoba
M. Mamaleka

S.S Mthimunya
T.E Scheefers
N. Nkambula
A.A Botha
M.P Ntuli
T.C Ngomane
T.J Duma
S.I Skhosana
E. Ndlovu
S.S Tshabalala
N. Maudi
ES. Radebe



Municipal Manager
Executive Mayor
Speaker
Chief Whip
Acting Chief Finance Officer
Senior Manager: Corporate Services
Senior Manager: Infrastructure, Planning and Social Development
Member of Mayoral Committee
Member of Mayoral Committee
Member of Mayoral Committee
Councillor
Councillor
Councillor
Councillor
Councillor
Councillor
Councillor
Councillor

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

42. Prior-year adjustments

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

Statement of financial position

2020

	Note	As previously reported	Correction of error	Remapping	Restated
Consumer debtors - Property rates (Gross)		100 481 311	-	(6 207)	100 475 104
Consumer debtors - Traffic fines (Gross)		177 824 814	-	(7 536 157)	170 288 657
Consumer debtors - Electricity		60 584 142	-	(12 504)	60 571 638
Consumer debtors - Water		44 427 738	-	(11 534)	44 416 204
Consumer debtors - Sewerage		24 617 985	-	(28)	24 617 957
Consumer debtors - Refuse		25 946 214	-	(18)	25 946 196
Consumer debtors - Merchandising, jobbing and contracts - Gross		-	-	4 725 004	4 725 004
Service charges debtors - Gross		-	-	1 284	1 284
Consumer debtors - Property rental - Gross		-	-	2 801 164	2 801 164
Consumer debtors - Housing scheme debtors - Gross		-	-	104 929	104 929
VAT		(2 130 798)	-	70 745	(2 060 053)
Accumulated surplus		-	-	(2 069 551)	(2 069 551)
Consumer debtors - Traffic fines (Impairment)		(76 655 532)	-	7 632 381	(69 023 151)
Consumer debtors - Property rates (Impairment)		(92 278 294)	19 242 063	-	(73 036 231)
Consumer debtors - Electricity (impairment)		(33 500 462)	(9 859 249)	-	(43 359 711)
Consumer debtors - Water (impairment)		(40 393 379)	3 978 062	-	(36 415 317)
Consumer debtors - Sewerage (Impairment)		(22 780 586)	2 813 084	-	(19 967 502)
Consumer debtors - Refuse (Impairment)		(22 145 012)	34 842	-	(22 110 170)
Consumer debtors - Merchandising, jobbing and contracts (Impairment)		-	(764 192)	(3 731 635)	(4 495 827)
Consumer debtors - Property rental debtors (Impairment)		-	1 051 847	(1 862 219)	(810 372)
Consumer debtors - Housing scheme debtors (Impairment)		-	2 265	(104 929)	(102 664)
Consumer debtors - Service charges debtors (Impairment)		-	271	(725)	(454)
Trade payables		(57 221 938)	5 203	-	(57 216 735)
Infrastructure assets - cost		1 434 997 571	80 810 206	-	1 515 807 777
Infrastructure assets - accumulated depreciation		(338 889 007)	(22 416 985)	-	(361 305 992)
Community assets - cost		216 600 286	(2 793 330)	-	213 806 956
Community assets - accumulated depreciation		(49 589 742)	3 654 270	-	(45 935 472)
Other property, plant and equipment - cost		53 134 715	6 216 099	-	59 350 814
Other property, plant and equipment - accumulated depreciation		3 897 224	(26 304 793)	-	(22 407 569)
Operating lease asset		1 667 265	(1 667 265)	-	-
Investment property		226 014 538	30 586 462	-	256 601 000
Work in progress		38 179 835	17 721 760	-	55 901 595
Land		6 755 009	76 016 454	-	82 771 463
Leave pay provisions		-	-	(10 186 298)	(10 186 298)
Leave pay accruals		(10 186 298)	-	10 186 298	-
		1 669 357 599	178 327 074	-	1 847 684 673

Statement of financial performance

2020

	Note	As previously reported	Correction of error	Reclassification	Remapping	Restated
--	------	------------------------	---------------------	------------------	-----------	----------

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
42. Prior-year adjustments (continued)		
Service charges revenue	105 380 679	- (5 730 292) - 99 650 387
Rental Revenue - Investment Property	325 068	- 1 405 112 - 1 730 180
Property rates revenue	50 957 020	- 11 175 040 - 62 132 060
Operational revenue	2 832 976	- 5 934 - 2 838 910
Depreciation	(58 127 987)	8 977 416 - (49 150 571)
Impairments	(85 974 629)	25 729 286 - (60 245 343)
Contracted services	(21 043 267)	11 575 - (2 121 869) (23 153 561)
Operational expenditure	(26 082 322)	- - 2 121 869 (23 960 453)
Repairs and maintenance	(7 493 303)	- - 7 493 303 -
Inventory consumed	-	- (7 493 303) (7 493 303)
Surplus for the year	(39 225 765)	34 718 277
	6 855 794	-
		2 348 306

Errors

Consumer debtors impairment corrections was due incorrect calculation of impairment which was based on incorrect debtors balances.

Trade payables was adjusted due to incorrect VAT journal been processed on Trade payables.

Investment Property

- Reclassification of investment property to Land
- Recognition of investment property (Properties were identified on the floor)

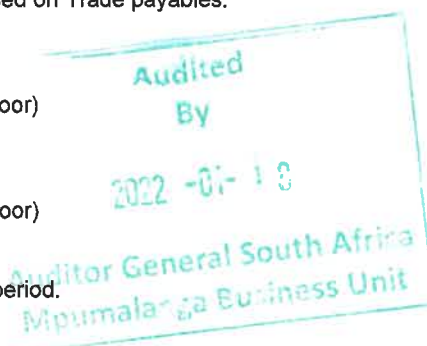
Land

- Reclassification of investment property to Land
- Recognition of investment property (Properties were identified on the floor)

Accumulated Depreciation

- Assets that were not depreciation correctly in the 2019/2020 financial period.

Assets that were identified on the floor during the assets verification.



Remapping of accounts

Traffic fines: Included in prior year amount gross of R177,824,814 is a amount of Merchandising for R4,725,004, Property rental amount of R2,801,164, Housing scheme amount of R104 929 and service charges of R1 284 which was incorrectly mapped to Traffic fines debtors on Annual Financial Statements. This was corrected in the current year.

Reclassifications

The following reclassifications adjustment occurred:

Revenue from exchange and non-exchange transactions

Revenue tariffs in the billing report were incorrectly classified to other segments on the general ledger. The error on revenue is due to tariff codes and scoa codes incorrectly set up on the system which causes the misclassification on the general ledger.

Receivables from exchange and non-exchange transactions are also affected by the incorrect tariff code on the billing report. Receivables disclosures are disclosed on Annual Financial Statements in line with GRAP and as per Age analysis.

Included in Traffic fines of R101,169,282, an R3 635 411 was incorrectly mapped on Annual Financial statements

Leave pay accruals was reclassified as an Accrual from Trade and other Payables to Provisions based on its nature, timing and uncertainty as defined in Provisions.

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

43. Risk management

Financial 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.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

Financial instrument	2021	2020
Cash and Cash Equivalent	35 690 471	29 418 606
Receivables from Exchange Transactions	31 810 699	36 983 961
Receivables from Non-Exchange Transactions	133 952 093	135 471 477

Foreign exchange risk

The municipality does not hedge foreign exchange fluctuations.

44. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of 1 758 155 218 and that the municipality's total assets exceed its liabilities by 1 758 155 218.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement of these audited annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

45. Events after the reporting date

There were no material events that required an adjustment to the annual financial statements after the reporting date.

46. Unauthorised expenditure

Opening balance as previously reported	10 927 913	7 203 480
Opening balance as restated	10 927 913	7 203 480
Add: Expenditure identified - current	294 760	3 724 433
Less: Approved/condoned/authorised by council	(3 727 997)	-
Total awaiting Council approval	7 494 676	10 927 913

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
47. Fruitless and wasteful expenditure		
Opening balance as previously reported	15 447 029	11 023 784
Opening balance as restated	15 447 029	11 023 784
Add: Expenditure identified - current	-	7 943 699
Less: Amount written off by council - current	(2 361 451)	(3 520 454)
Closing balance	13 085 578	15 447 029

The above fruitless and wasteful expenditure relates to interest charged on overdue accounts for accounts from the following service providers, Eskom, SARS, Munsoft, Telkom as well as bookings made from which officials failed to appear for their respective bookings

48. Irregular expenditure		
Opening balance as previously reported	201 355 319	96 517 620
Opening balance as restated	201 355 319	96 517 620
Add: Irregular Expenditure - current	22 344 475	104 837 699
Less: Amount written off by council - current	(58 253 089)	-
Less: Irregular expenditure - prior period	(5 056 183)	-
Closing balance	160 390 522	201 355 319

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 730 000	1 031 240
---------------------------------	-----------	-----------

Material losses

Water losses	391 796	2 685 052
--------------	---------	-----------

Audit fees

Current year subscription / fee	6 214 397	5 268 132
---------------------------------	-----------	-----------

PAYE, SDL and UIF

Current year subscription / fee	14 516 285	12 489 005
---------------------------------	------------	------------

Pension and Medical Aid Deductions

Current year subscription / fee	18 474 659	16 629 849
---------------------------------	------------	------------

VAT

VAT payable	7 367 552	2 060 053
-------------	-----------	-----------

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.



Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

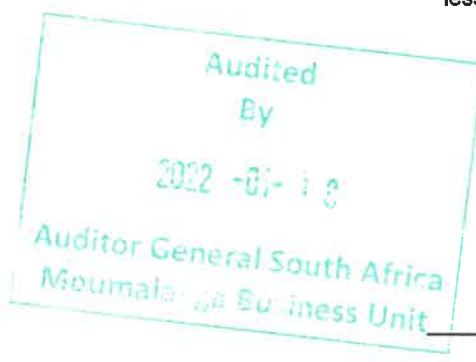
49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

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

30 June 2021

	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor NA Mashele	(890)	(3 401)	(4 291)
Councillor TC Ngomane	(626)	(3 721)	(4 347)
Councillor SS Mthimunye	(224)	(777)	(1 001)
Councillor JT Duma	-	1 032	1 032
Councillor NT Masha	(259)	11 746	11 487
Councillor TE Scheffers	-	(2 219)	(2 219)
Councillor AA Botha	(11 824)	-	(11 824)
Councillor SS Tshabalala	-	27 190	27 190
Councillor SI Skhosana	-	3 741	3 741
Councillor R Ndlovu	(2 126)	(9 296)	(11 422)
	(15 949)	24 295	8 346



30 June 2020

	Outstanding less than 90 days	Outstanding more than 90 days	Total
N.T Masha	-	1 427	1 427
J.T Duma	-	4 789	4 789
T.E Scheffers	-	24 940	24 940
S.S Tshabalala	-	324	324
S.I Skhosana	-	8 309	8 309
R. Ndlovu	-	10 229	10 229
D. Scheffers	-	13 635	13 635
	-	63 653	63 653

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

Deviation from supply chain management regulations

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

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

The deviations disclosed below are in terms of the following regulations - Section 36(1)(a)(i) and Section 36(1)(h)(ii)

Incident

Deviation incurred	4 486 629	4 785 966
--------------------	-----------	-----------

50. Budget differences

Material differences between budget and actual amounts

Differences between budget and actual amounts basis of preparation and presentation

Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

50. Budget differences (continued)

The budget and the accounting bases differ. The audited annual financial statements are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The audited annual financial statements differ from the budget, which is approved on the cash basis and which deals only with the general government sector that excludes government business enterprises and certain other non-market government entities and activities.

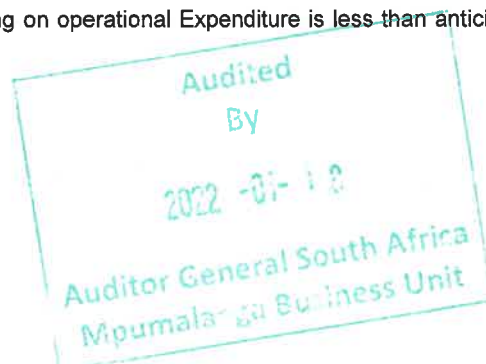
The variances between Budget and Actual amount are due to the following:

Revenue

1. Service charges- Variance is due to data cleansing which resulted in tariff corrections as well as clearing of duplicate properties from the billing system.
2. Rental of facilities and Equipment-Variance is due to rentals of flats of the municipality which were previously managed by private property management companies.
3. Other Income-Variance is due to insurance claim received for municipal building that was burned during community unrest of R 6 186 064.
4. Interest Revenue-Variance is due to interest on outstanding debtors which is due to high arrears on debtors.
5. Government Grants and Subsidies-Variance is due to additional grants allocated by National Treasury during financial year 2020/21.
6. Public contributions and donations- Municipality do not budget for donations as it is based on external institutions.
7. Fines and Penalties - Variance is due to expiry on TMT contract which was not active for current year under audit and lead to less traffic fines revenue as compared to anticipated:

Expenditure

8. Employee cost - Variance is mainly due to employee benefits calculations by experts as well as new appointments made during the year. Also acting allowance on senior managers' positions contributed.
9. Depreciation and Amortization - Depreciation and amortization variance is due to increase in completion of capital projects resulting in high depreciation as compared to anticipated.
10. Finance cost - Finance cost variance is due to discounting calculations on the landfill site valuation as well as employee benefits calculations.
11. Bulk purchases - Variance on bulk purchase is due to high Eskom billing for June resulting from winter tariffs.
12. Contracted services - Spending on contracted services is less than anticipated and this is due to prioritization of spending due to cashflow constraints.
13. Operational Expenditure - Spending on operational Expenditure is less than anticipated and this is due to prioritization of spending due to cashflow constraints.



Emakhazeni Local Municipality

(Registration number MP314)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

51. SCM disclosure of winning bidders with interest

No.	Tender	Interest Party	State institution involved in
1	Professional fees: Electricity management prepayment and vending solution for the period of three years, Conlog (Pty) Ltd, ELM20/07/01	Spouse	Department of Health as a director
2	The Implementation of the Installation and Commissioning of New Paardeplaats 132/11kV 20MVA Electricity Substation Phase 4 Project – Three (3) years, Izinyosi Engineering, ELM 21/01/14	Spouse	Mpumalanga Provincial Government Department- Civil Servant



