Ubuntu Municipality

menswaardigheid • hoop • erfenis
ubuntu • ithemba • izithethe
humanity • hope • heritage

Ubuntu Local Municipality
Audited Annual Financial Statements
for the year ended 30 June 2021

General Information

Legal form of entity	Local municipality as defined by the Municipal Structures Act (Act no.117 of 1998)
Nature of business and principal activities	Ubuntu Municipality is a local municipality performing the functions as set out in the Constitution (Act no. 105 of 1996)
Mayoral committee	
Mayor	KJ Arens (Inaugurated 1 September 2020)
	JZ Lolwana (Deceased 11July 2020)
Councillors	B de Bruyn
	MN Baadjies (Elected 1 April 2021)
	PE Jantjies
	CJ Pieterse
	AJ Robertson (Elected 1 November 2020)
	W Schutz (Resigned 28 February 2021)
	JH Vorster
Grading of local authority	Category B as defined by the Municipal Structures Act (Act number 117 of 1998)
Accounting Officer	Mr SS Ngwevu
Chief Finance Officer (CFO)	Mr RA Jacobs
Registered office	78 Church Street Victoria West 7070
Business address	78 Church Street Victoria West 7070
Bankers	First National Bank
Auditors	The Auditor-General of South Africa
Enabling legislation	Municipal Finance Management Act (Act no. 56 of 2003) Division of Revenue Act The Income Tax Act (Act no. 58 of 1962) The Value-added Tax Act (Act no. 89 of 1991) Municipal Structures Act (Act no. 117 of 1998) Municipal Systems Act (Act no. 32 of 2000) Municipal Planning and Performance Management Regulations Housing Act (Act no. 107 of 1997) Skills Development Levies Act (Act no. 9 of 1999) Employment Equity Act (Act no. 55 of 1998) Unemployment Insurance Act (Act no. 30 of 1966) Basic Conditions of Employment Act (Act no. 75 of 1997) Supply Chain Management Regulations Act, 2005 Disaster Management Act of 2016 Spatial Planning and Land Use Management Act (Act no. 16 of 2013) Property Rates Act 6 of 2004

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

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COID	Compensation for Occupational Injuries and Diseases
DoRA	Division of Revenue Act
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
IDP	Integrated Development Plan
INEP	Integrated National Electrification Programme
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
MSA	Municipal Systems Act
PAYE	Pay As You Earn
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
NERSA	National Energy Regulator of South Africa
SALGA	South African Local Government Association
SARS	South African Revenue Service
COVID-19	Coronavirus disease

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. As per Government Gazette no 43582 dated 5th August 2020, National Treasury has granted municipalities and municipal entities a two-month extension regarding the submission of Annual financial statements. The municipality has taken advantage of this exemption.

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 external auditors are responsible for independently auditing and reporting on the municipality's audited annual financial statements. The audited annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Corporative Governance determination in accordance with this Act.

The audited annual financial statements set out on pages 5 to 97, which have been prepared on the going concern basis, were approved by the accounting officer on August 31,2021 and were signed on its behalf by:

Mr SS Ngwevu
Municpal Manager

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 providing municipal services and maintaining the best interests of the local community within the Ubuntu Municipal area and operates principally in South Africa.

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

Net deficit of the municipality was 5 742 906 (2020: deficit 13 982 684).

2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of 514 788 039 and that the municipality's total assets exceed its total liabilities by 514 788 039.

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.

Furthermore management has reviewed the municipality's cash flow forecast for the year ended 30 June 2021 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequate resources to continue it's operations existing for the foreseeable furture.

The municipality still has the ability to levy services, rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocations as published in terms of the Division of Revenue Act (Act No.9 of 2021).

For details of managements assumptions with respect to the applicability of the going concern assumption refer to note 44.

3. Subsequent events

The national state of disaster has been extended unit 15 September 2021. Other than the COVID-19 pandemic, the Municipality had no other significant events after the reporting date.

4. Accounting Officer's interest in contracts

No matters to report.

5. Accounting policies

The annual financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any directives and interpretations of such Standards issued by the Accounting Standards Board and in accordance with Section 122(3) of the Municipal Finance Management Act (Act No.56 of 2003).

6. Accounting Officer

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

Name	Nationality	Changes
Mr SS Ngwevu	South African	Appointed 20 January 2021

7. Auditors

The Auditor-General of South Africa will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	3	40 797	81 103
Other receivables from exchange transactions	4	900 175	900 175
Statutory receivables from non-exchange transactions	6	30 844 305	27 241 485
Receivables from exchange transactions	7	6 969 255	13 341 450
Receivables from non-exchange transactions	5	1 022 793	60 975
Cash and cash equivalents	8	12 582 817	4 782 023
		52 360 142	**46 407 211**
Non-Current Assets			
Investment property	9	65 021 173	63 365 628
Property, plant and equipment	10	535 568 493	537 953 874
Intangible assets	11	23 524	21 688
		600 613 190	**601 341 190**
Total Assets		**652 973 332**	**647 748 401**
Liabilities			
Current Liabilities			
Finance lease obligation	12	106 565	230 860
Payables from exchange transactions	13	104 462 773	103 475 559
Consumer deposits	14	206 519	199 521
Employee benefit obligation	15	694 000	433 000
Unspent conditional grants and receipts	16	11 383 864	5 320 281
		116 853 721	**109 659 221**
Non-Current Liabilities			
Finance lease obligation	12	-	106 566
Employee benefit obligation	15	4 869 000	4 384 000
Provisions	17	16 462 572	13 067 665
		21 331 572	**17 558 231**
Total Liabilities		**138 185 293**	**127 217 452**
Net Assets		**514 788 039**	**520 530 949**
Accumulated surplus		514 788 039	520 530 949

* See Note 50

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	25 796 317	29 512 841
Rental of facilities and equipment	19	406 797	300 095
Interest received (trading)		7 783 824	6 537 189
Licences and permits		581 043	378 969
Other income		688 440	221 556
Total revenue from exchange transactions		**35 256 421**	**36 950 650**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	22 140 169	21 210 970
Interest received - Property rates	21	3 045 456	1 926 277
Transfer revenue			
Government grants & subsidies	22	66 798 728	56 619 477
Public contributions and donations	23	9 692 959	1 845 365
Fines, Penalties and Forfeits	24	1 190	9 835 786
Interest received - investment	25	360 477	450 179
Total revenue from non-exchange transactions		**102 038 979**	**91 888 054**
Total revenue	26	**137 295 400**	**128 838 704**
Expenditure			
Employee related costs	27	(38 058 182)	(37 179 769)
Remuneration of councillors	28	(2 800 889)	(2 961 351)
Depreciation and amortisation	29	(28 420 717)	(23 383 913)
Finance costs	31	(5 577 046)	(10 535 154)
Provision for debt impairment		(27 805 308)	(26 133 390)
Bulk purchases	32	(20 939 778)	(19 664 849)
General Expenses	33	(19 429 378)	(22 763 949)
Total expenditure		**(143 031 298)**	**(142 622 375)**
Operating deficit		**(5 735 898)**	**(13 783 671)**
Gain / (loss) on disposal of assets and liabilities		(1 062 182)	(252 197)
Fair value adjustments		1 678 792	462 219
Actuarial gains / (loss)	15	(530 259)	870 213
Impairment loss	30	(93 359)	(1 279 248)
		(7 008)	**(199 013)**
Deficit for the year		**(5 742 906)**	**(13 982 684)**

* See Note 50

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	515 217 352	515 217 352
Adjustments		
Prior year adjustments	19 296 281	19 296 281
Balance at 01 July 2019 as restated*	**534 513 633**	**534 513 633**
Changes in net assets		
Surplus / (deficit) for the year	(13 982 684)	(13 982 684)
Total changes	(13 982 684)	(13 982 684)
Restated* Balance at 01 July 2020	**520 530 945**	**520 530 945**
Changes in net assets		
Surplus / (deficit) for the year	(5 742 906)	(5 742 906)
Total changes	(5 742 906)	(5 742 906)
Balance at 30 June 2021	**514 788 039**	**514 788 039**
Note(s)		

* See Note 50

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		26 267 618	24 453 853
Grants		72 862 311	58 938 000
Interest income		11 189 757	8 913 646
		110 319 686	92 305 499
Payments			
Employee costs		(40 557 330)	(39 852 908)
Suppliers		(36 982 906)	(14 040 921)
Finance costs		(5 663 046)	(10 535 154)
		(83 203 282)	(64 428 983)
Net cash flows from operating activities	34	**27 116 404**	**27 876 516**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(19 061 541)	(16 003 470)
Purchase of other intangible assets	11	(23 208)	(3 300)
Net cash flows from investing activities		**(19 084 749)**	**(16 006 770)**
Cash flows from financing activities			
Movement in other liability		-	(8 776 500)
Finance lease payments		(230 861)	(199 578)
Net cash flows from financing activities		**(230 861)**	**(8 976 078)**
Net increase/(decrease) in cash and cash equivalents		**7 800 794**	**2 893 668**
Cash and cash equivalents at the beginning of the year		4 782 023	1 888 355
Cash and cash equivalents at the end of the year	8	**12 582 817**	**4 782 023**

* See Note 50

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	31 972 091	1 256 481	**33 228 572**	25 796 317	**(7 432 255)**	48, X1
Rental of facilities and equipment	215 914	52 688	**268 602**	406 797	**138 195**	48, X2
Interest received (trading)	3 360 706	7 140 684	**10 501 390**	7 783 824	**(2 717 566)**	48, X3
Licences and permits	371 051	134 389	**505 440**	581 043	**75 603**	48, X4
Other income	775 587	136 240	**911 827**	688 440	**(223 387)**	48, X5
Interest received - investment	385 534	5 354	**390 888**	-	**(390 888)**	48, X6
Total revenue from exchange transactions	**37 080 883**	**8 725 836**	**45 806 719**	**35 256 421**	**(10 550 298)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	23 130 609	-	**23 130 609**	22 140 169	**(990 440)**	48, X7
Interest received (trading)	-	-	**-**	3 045 456	**3 045 456**	48, X8
Transfer revenue						
Government grants & subsidies	70 433 004	2 290 084	**72 723 088**	66 798 728	**(5 924 360)**	48, X9
Public contributions and donations	-	-	**-**	9 692 959	**9 692 959**	48, X10
Fines, Penalties and Forfeits	35 406 236	-	**35 406 236**	1 190	**(35 405 046)**	48, X11
Total revenue from non-exchange transactions	**128 969 849**	**2 290 084**	**131 259 933**	**101 678 502**	**(29 581 431)**	
Total revenue	**166 050 732**	**11 015 920**	**177 066 652**	**136 934 923**	**(40 131 729)**	
Expenditure						
Personnel	(38 487 204)	-	**(38 487 204)**	(38 058 182)	**429 022**	48, X12
Remuneration of councillors	(2 976 889)	-	**(2 976 889)**	(2 800 889)	**176 000**	48, X13
Depreciation and amortisation	(24 620 256)	-	**(24 620 256)**	(28 420 717)	**(3 800 461)**	48, X14
Impairment loss/ Reversal of impairments	-	-	**-**	(93 359)	**(93 359)**	48, X15
Finance costs	(6 149 907)	-	**(6 149 907)**	(5 577 046)	**572 861**	48, X16
Debt Impairment	(37 202 659)	-	**(37 202 659)**	(27 805 308)	**9 397 351**	48, X17
Bulk purchases	(19 388 633)	176 342	**(19 212 291)**	(20 939 778)	**(1 727 487)**	48, X18
Contracted Services	(6 188 427)	(743 168)	**(6 931 595)**	-	**6 931 595**	48, X19
General Expenses	(12 864 451)	(2 511 200)	**(15 375 651)**	(19 429 378)	**(4 053 727)**	48, X20
Total expenditure	**(147 878 426)**	**(3 078 026)**	**(150 956 452)**	**(143 124 657)**	**7 831 795**	
Operating deficit	**18 172 306**	**7 937 894**	**26 110 200**	**(6 189 734)**	**(32 299 934)**	
Loss on disposal of assets and liabilities	-	-	**-**	(1 062 182)	**(1 062 182)**	48, X21
Fair value adjustments	-	-	**-**	1 678 792	**1 678 792**	48, X22
Actuarial gains/losses	-	-	**-**	(530 259)	**(530 259)**	48, X23
	-	**-**	**-**	**86 351**	**86 351**	
Deficit before taxation	**18 172 306**	**7 937 894**	**26 110 200**	**(6 103 383)**	**(32 213 583)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**18 172 306**	**7 937 894**	**26 110 200**	**(6 103 383)**	**(32 213 583)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	27	81 103	**81 130**	40 797	**(40 333)**	48, X24
Other receivables from exchange transactions	260	6 766 534	**6 766 794**	900 175	**(5 866 619)**	48, X25
Statutory receivables from non-exchange transactions	-	-	**-**	30 844 305	**30 844 305**	48, X26
Consumer debtors	10 837 608	13 208 303	**24 045 911**	6 969 255	**(17 076 656)**	48, X28
Receivables from non-exchange transactions	-	-	**-**	1 022 793	**1 022 793**	48, X29
Cash and cash equivalents	2 384 644	(1 847 649)	**536 995**	12 583 180	**12 046 185**	48, X30
	13 222 539	**18 208 291**	**31 430 830**	**52 360 505**	**20 929 675**	
Non-Current Assets						
Investment property	29 637 906	17 752 930	**47 390 836**	65 021 173	**17 630 337**	48, X31
Property, plant and equipment	616 613 593	15 141 512	**631 755 105**	535 568 493	**(96 186 612)**	48, X32
Intangible assets	26 947	4 809	**31 756**	23 524	**(8 232)**	48, X33
	646 278 446	**32 899 251**	**679 177 697**	**600 613 190**	**(78 564 507)**	
Total Assets	**659 500 985**	**51 107 542**	**710 608 527**	**652 973 695**	**(57 634 832)**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	433 000	**433 000**	106 565	**(326 435)**	48, X34
Payables from exchange transactions	77 207 273	6 232 618	**83 439 891**	104 462 778	**21 022 887**	48, X35
Consumer deposits	18	199 521	**199 539**	206 519	**6 980**	48, X36
Employee benefit obligation	-	-	**-**	694 000	**694 000**	48, X37
Unspent conditional grants and receipts	-	-	**-**	11 383 864	**11 383 864**	48, X38
Provisions	3 077 362	249 438	**3 326 800**	-	**(3 326 800)**	48, X39
Bank overdraft	-	-	**-**	363	**363**	
	80 284 653	**7 114 577**	**87 399 230**	**116 854 089**	**29 454 859**	
Non-Current Liabilities						
Finance lease obligation	1 618 522	106 566	**1 725 088**	-	**(1 725 088)**	48, X34
Employee benefit obligation	-	-	**-**	4 869 000	**4 869 000**	48, X37
Provisions	10 813 868	31 678 060	**42 491 928**	16 462 572	**(26 029 356)**	48, X39
	12 432 390	**31 784 626**	**44 217 016**	**21 331 572**	**(22 885 444)**	
Total Liabilities	**92 717 043**	**38 899 203**	**131 616 246**	**138 185 661**	**6 569 415**	
Net Assets	**566 783 942**	**12 208 339**	**578 992 281**	**514 788 034**	**(64 204 247)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	566 783 942	12 208 339	**578 992 281**	514 788 034	**(64 204 247)**	

Ubuntu Local Municipality

(Registration number NC071)
Audited Annual Financial Statements for the year ended 30 June 2021

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2021											
Financial Performance											
Property rates	23 130 609	-	23 130 609	-		23 130 609	23 137 247		6 638	100 %	100 %
Service charges	31 972 091	1 256 481	33 228 572	-		33 228 572	36 052 594		2 824 022	108 %	113 %
Investment revenue	385 534	5 354	390 888	-		390 888	450 179		59 291	115 %	117 %
Transfers recognised - operational	47 499 003	-	47 499 003	-		47 499 003	38 751 797		(8 747 206)	82 %	82 %
Other own revenue	40 129 495	7 464 001	47 593 496	-		47 593 496	11 955 060		(35 638 436)	25 %	30 %
Total revenue (excluding capital transfers and contributions)	**143 116 732**	**8 725 836**	**151 842 568**	**-**		**151 842 568**	**110 346 877**		**(41 495 691)**	**73 %**	**77 %**
Employee costs	(38 487 204)	-	(38 487 204)	-	-	(38 487 204)	(37 488 245)	-	998 959	97 %	97 %
Remuneration of councillors	(2 976 889)	-	(2 976 889)	-	-	(2 976 889)	(2 998 066)	495 679	(21 177)	101 %	101 %
Debt impairment	(37 202 659)	-	(37 202 659)			(37 202 659)	(26 133 390)	-	11 069 269	70 %	70 %
Depreciation and asset impairment	(24 620 256)	-	(24 620 256)			(24 620 256)	(24 706 267)	-	(86 011)	100 %	100 %
Finance charges	(6 149 907)	-	(6 149 907)	-	-	(6 149 907)	(10 473 268)	4 671 469	(4 323 361)	170 %	170 %
Materials and bulk purchases	(19 421 802)	176 342	(19 245 460)	-	-	(19 245 460)	(19 664 849)	173 686	(419 389)	102 %	101 %
Other expenditure	(19 019 710)	(3 254 368)	(22 274 078)	-	-	(22 274 078)	(25 110 298)	9 136 244	(2 836 220)	113 %	132 %
Total expenditure	**(147 878 427)**	**(3 078 026)**	**(150 956 453)**	**-**	**-**	**(150 956 453)**	**(146 574 383)**	**14 477 078**	**4 382 070**	**97 %**	**99 %**
Surplus/(Deficit)	**(4 761 695)**	**5 647 810**	**886 115**	**-**		**886 115**	**(36 227 506)**		**(37 113 621)**	**(4 088)%**	**761 %**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	22 934 001	2 290 084	25 224 085	-		25 224 085	17 867 680		(7 356 405)	71 %	78 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	1 845 365		1 845 365	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**18 172 306**	**7 937 894**	**26 110 200**	**-**		**26 110 200**	**(16 514 461)**		**(42 624 661)**	**(63)%**	**(91)%**
Surplus/(Deficit) for the year	**18 172 306**	**7 937 894**	**26 110 200**	**-**		**26 110 200**	**(16 514 461)**		**(42 624 661)**	**(63)%**	**(91)%**

Accounting Policies

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. All figures have been rounded off to the nearest 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.

In assessing whether the going concern assumption is appropriate under the current economic climate resulting from the COVID-19 pandemic, management considered a wide range of factors including the current and expected performance of the municipality, any announced and potential restructuring of organisational units, the likelihood of continued government funding and if necessary potential sources of replacement funding.

1.3 Significant judgements and sources of estimation uncertainty

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

The municipality strives toward ethical reporting thus transparent insights into the applied judgement and financial uncertainties, which the municipality faces as a result of the COVID-19 pandemic have been included in the accounting policies and/or notes to the financial statements.

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

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

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

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

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

The carrying amount of available-for-sale financial assets would be an estimated - lower or - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

Allowance for doubtful debts

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

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives and residual values

The entity's management determines the estimated useful lives, residual values and related depreciation charges for assets as noted in accounting policy 1.5 Property Plant and equipment. These estimates are based on industry norms.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives. Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual values, management also makes these changes prospectively.

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.

Property with a currently undetermined use is also classified as investment property.

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.

Costs is the amount of cash or cash equivalent or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction.

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.

Accounting Policies

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.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the audited annual financial statements (see note 9).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the audited annual financial statements (see note 9).

Derecognition

Items of investment property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of asset.

The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

The gain or loss arising from the derecognition of an item of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

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 (other than Investment Property), 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.

1.5 Property, plant and equipment (continued)

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

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

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

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

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

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property plant and equipment are accounted for as property plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent measurement:

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

Revaluations are made with sufficient regularity, by registered valuators for every class separately, such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

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

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

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

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

Depreciation and impairment:

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

Land, except for landfill and quarry sites, is not depreciated as it has an indefinite useful life.

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 management.

Accounting Policies

1.5 Property, plant and equipment (continued)

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 shall be depreciated separately. Components of asset that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Subsequent to initial recognition, property plant and equipment on the cost model, is carried at cost less accumulated depreciation and any accumulated impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

Item	Depreciation method	Average useful life
Community facilities	Straight line	5 - 100 years
Sport and recreation facilities	Straight line	5 - 100 years
Electricity Network	Straight line	10 - 60 years
Water supply network	Straight line	10 - 100 years
Roads and stormwater network	Straight line	5 - 100 years
Sanitation network	Straight line	5 - 100 years
Community facilities	Straight line	5 - 100 years
Housing	Straight line	7 - 100 years
Operational buildings	Straight line	5 - 100 years
Computer equipment	Straight line	5 years
Electrical equipment	Straight line	5 years
Furniture and fittings	Straight line	7 years
Leased assets - office equipment	Straight line	5 years
Mechanical equipment	Straight line	5 years
Office machines	Straight line	5 years
Vehicles	Straight line	6 - 10 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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

Derecognition:

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.

Property plant and equipment 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.

Commitments:

Where the municipality has a contractual commitment in respect of the acquisition of property, plant and equipment, these are disclosed in note 35. The commitments as disclosed are the contractual amount less aby payment made in respect of the contract.

Accounting Policies

1.6 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 carried at cost less any accumulated amortisation and any impairment losses.

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

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

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

Amortisation begins when intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management and ceases at the earlier of the date that asset is classified as held for sale (or included a disposal group that is classified as held for sale) in accordance with the standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations and the date that the asset is derecognised.

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
Servitudes	Straight line	Infinite
Computer software	Straight line	4 years

Derecognition:

Intangible assets are derecognised:

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

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

Accounting Policies

1.7 Financial instruments

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

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

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

A financial 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.

Accounting Policies

1.7 Financial instruments (continued)

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

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

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

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

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;
- 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.

Accounting Policies

1.7 Financial instruments (continued)

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

Initial recognition

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

Initial measurement of financial assets and financial liabilities

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

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

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

Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Impairment and uncollectibility of financial assets

The entity assesses 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.

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 entity derecognises financial assets using trade date accounting.

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

1.7 Financial instruments (continued)

If the entity 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.

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

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. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

1.7 Financial instruments (continued)

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.

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

These are initially and subsequently recorded at amortised cost. Fair value approximates the carrying amount. However, where the asset is not readily convertible into cash amounts for a period exceeding three months these are treated as investments.

1.8 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 purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Every effort is made to ensure compliance with the standard, but due to the risk of omission of some items due to a lack of experience with implementing this standard the municipality is utilising the transitional provisions contained within Directive 4 that grant the municipality a period of three years in order to finalise the classification and measurement for Statutory Receivables.

The transitional period commences from 1 June 2019 and will be utilised until the period ending 30 June 2022.

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);

1.8 Statutory receivables (continued)

- 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 are recognised in surplus or deficit.

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

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

Accounting Policies

1.8 Statutory receivables (continued)

- 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.

1.9 Leases

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

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

Finance leases - lessor

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

Accounting Policies

1.10 Inventories

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

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

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

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

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

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

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

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

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.

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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.

Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

[Specify judgements made]

1.12 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.

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.

Accounting Policies

1.12 Employee benefits (continued)

Short-term employee benefits

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

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.

1.12 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

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 recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting 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 recognise past service cost as an expense in the reporting period in which the plan is amended.

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

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

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

Accounting Policies

1.12 Employee benefits (continued)

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

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

The entity determine 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-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

1.12 Employee benefits (continued)

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

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

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.

Accounting Policies

1.12 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 post employment medical aid 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.

Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end, capped at a maximum of 48 days, and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods, if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they are accrued to employees. The liability at year-end is based on bonus accrued at year-end for each employee.

1.13 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.

Accounting Policies

1.13 Provisions and contingencies (continued)

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.

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

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a 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.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measures with sufficient reliability.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable

Management judgement is required when recognising and measuring contingent liabilities.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

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.

1.13 Provisions and contingencies (continued)

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.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.5.

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

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

1.14 Commitments

Items are classified as commitments when the municipality 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.

1.15 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.

1.15 Revenue from exchange transactions (continued)

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

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

Measurement

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

Sale of goods

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by 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, in surplus or deficit, using the effective interest rate method.

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

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

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

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Pre-paid electricity

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August). The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

1.16 Revenue from non-exchange transactions

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

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

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

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, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

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

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

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

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

Recognition

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

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

1.16 Revenue from non-exchange transactions (continued)

Measurement

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

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

Taxes

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

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

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

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

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

Transfers

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

1.16 Revenue from non-exchange transactions (continued)

Services in-kind

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

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

1.17 Investment income

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

1.18 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.

1.19 Comparative figures

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

1.20 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.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised. This consists currently mostly of interest and penalties on late payments made.

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

1.22 Irregular expenditure

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.

Accounting Policies

1.22 Irregular expenditure (continued)

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.

1.23 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Conditional grants and receipts

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

1.25 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statement. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.26 Budget information

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

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

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

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

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

The 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.

1.27 Related parties

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

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

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

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

1.27 Related parties (continued)

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

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

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

1.28 Events after reporting date

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

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

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

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

Within the municipal space the effects of the COVID-19 outbreak are likely to be a current-period events, which will require ongoing evaluation to determine the extent to which developments, after the reporting date should be recognised in the reporting period.

1.29 Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate 15% from 1 April 2018 (2017:14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The Municipality accounts for VAT on a bi-monthly basis.

1.30 Accumulated surplus

The municipality’s surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments relating to income and expenditure are debited/credited against accumulated surplus when retrospective adjustments are made.

Figures in Rand	2021	2020

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:
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	The impact of the is not material.
• GRAP 34: Separate Financial Statements	01 April 2020	The impact of the is not material.
• GRAP 35: Consolidated Financial Statements	01 April 2020	The impact of the is not material.
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	The impact of the is not material.
• GRAP 37: Joint Arrangements	01 April 2020	The impact of the is not material.
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	The impact of the is not material.
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	The impact of the is not material.
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	The impact of the is not material.

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:
• GRAP 104 (amended): Financial Instruments	01 April 2020	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2020	Unlikely there will be a material impact

As per the background to this Interpretation of the Standards of GRAP, there are a number of legislative and regulatory processes that govern how entities levy, charge or calculate revenue, in the public sector. Adjustments to revenue already recognised in terms of legislation or similar means arise from the completion of an internal review process within the entity, and/or the outcome of an external appeal or objection process undertaken in terms of legislation or similar means. Adjustments to revenue include any refunds that become payable as a result of the completion of a review, appeal or objection process. The adjustments to revenue already recognised following the outcome of a review, appeal or objection process can either result in a change in an accounting estimate, or a correction of an error.

As per the scope, this Interpretation of the Standards of GRAP clarifies the accounting for adjustments to exchange and non-exchange revenue charged in terms of legislation or similar means, and interest and penalties that arise from revenue already recognised as a result of the completion of a review, appeal or objection process. Changes to the measurement of receivables and payables, other than those changes arising from applying this Interpretation, are dealt with in accordance with the applicable Standards of GRAP. The principles in this Interpretation may be applied, by analogy, to the accounting for adjustments to exchange or non-exchange revenue that arises from contractual arrangements where the fact patterns are similar to those in the Interpretation.

The interpretation sets out the issues and relating consensus with accounting for adjustments to revenue.

Notes to the Audited Annual Financial Statements

The effective date of the interpretation is for years beginning on or after 01 April 2020.

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

The impact of the standard is set out in note Changes in Accounting Policy.

3. Inventories

Water	40 797	81 103

Inventory pledged as security

No inventory was pledged as security for any financial liability at year-end.

4. Other receivables from exchange transactions

Medical aid contributions recoverable	300 175	300 175
Eskom connection deposit	600 000	600 000
	900 175	**900 175**

Other receivables from exchange transactions pledged as security

No other receivables from exchange transactions were pledged as security for any financial liability at year-end.

Credit quality of other receivables from exchange transactions

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

Other receivables from exchange transactions past due but not impaired

Other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2021, 938 372 (2020 938 372) were past due but not impaired.

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

3 months past due	938 372	938 372

Other receivables from exchange transactions impaired

As of 30 June 2021, trade and other receivables of 1 252 146 (2020: 1 252 146) were impaired and provided for.

The amount of the provision was 1 252 146 as of 30 June 2021 (2020: 1 252 146).

The ageing of these loans is as follows:

90 days +	1 252 146	1 252 146

Reconciliation of provision for impairment of other receivables from exchange transactions

Opening balance	1 252 146	-
Contributions to debt impairment	-	1 252 146
	1 252 146	**1 252 146**

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

5. Receivables from non-exchange transactions

Deposits paid	22 793	60 975
Provincial Library grant receivable	1 000 000	-
	1 022 793	60 975

Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions were pledged as security for any financial liability at year-end.

Figures in Rand	2021	2020

6. Statutory receivables from non-exchange transactions

VAT receivable from exchange transactions	7 039 766	6 767 447
Rates	42 750 781	31 178 180
Fines	78 307 763	78 762 117
Total Statutory Receivables (before provision)	128 098 310	116 707 744
Less: Provision for Debt impairment	(97 254 005)	(89 466 259)
	30 844 305	**27 241 485**

Statutory Receivables arises from the following legislation:

Taxes	- Value Added Tax Act (No89 of 1991)
Rates	- Municipal Properties Rates Act (No6 of 2004)
Fines	- Criminal Procedures Act

Statutory receivables are initially measured at transaction value, and subsequently at cost..

Statutory receivables from non-exchange transactions pledged as security

None of the statutory receivables from non-exchange transactions were pledged as security for any financial liability at year-end.

Traffic fines: Ageing

91 days +	78 307 762	78 762 116
Less: Debt Impairment	(67 445 079)	(67 445 079)
Subtotal	10 862 683	11 317 037
	10 862 683	**11 317 037**

Property rates: Ageing

Current (0 - 30 days)	1 091 897	1 865 386
31 - 60 days	1 080 091	1 686 862
61 - 90 days	1 050 214	1 644 460
91 days +	39 528 579	25 981 472
Less: Debt Impairment	(29 808 925)	(22 021 179)
	12 941 856	**9 157 001**

Property rates by classification: consumers

Current (0 - 30 days)	382 730	392 572
31 - 60 days	412 541	324 935
61 - 90 days	301 557	314 799
91 days +	14 256 051	11 983 847
Less: Debt Impairment	(14 698 450)	(12 251 956)
	654 429	**764 197**

Property rates by classification: Industrial / commercial

Current (0 - 30 days)	415 609	552 698
31 - 60 days	429 499	475 166
61 - 90 days	513 139	452 731
91 days +	13 324 415	8 821 969
Less: Debt Impairment	(14 030 478)	(9 769 222)
	652 184	**533 342**

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

6. Statutory receivables from non-exchange transactions (continued)

Property rates by classification: National and Provincial

Current (0 - 30 days)	293 558	920 116
31 - 60 days	238 051	886 761
61 - 90 days	235 518	876 930
91 days +	11 948 113	5 175 657
Less: Impairment	(1 079 997)	-
	11 635 243	**7 859 464**

Total

Current (0 - 30 days)	1 091 897	1 865 386
31 - 60 days	1 080 091	1 686 862
61 - 90 days	1 050 214	1 644 460
91 days +	39 528 579	25 981 472
Less: Debt Impairment	(29 808 925)	(22 021 179)
	12 941 856	**9 157 001**

Credit quality of statutory receivables from non-exchange transactions

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

The credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation.
:

Statutory receivables from non-exchange transactions past due but not impaired

Statutory receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2021, 23 804 539 (2020: 20 474 038) were past due but not impaired.

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

Property rates: Current (0 - 30 days)	381 735	1 156 644
Property rates: 31 - 60 days	278 769	982 020
Property rates: 61 - 90 days	296 282	946 246
Property rates: 91 days +	11 985 070	6 072 091
Traffic fines: 91 days +	10 862 683	11 317 037

Statutory receivables from non-exchange transactions impaired

As of 30 June 2021, statutory receivables from non-exchange transactions of 89 466 258 (2020: 89 466 258) were impaired and provided for.

The ageing of these loans is as follows:

Property rates: Current (0 - 30 days)	710 162	708 742
Property rates: 31 - 60 days	801 322	704 841
Property rates: 61 - 90 days	753 931	698 196
Property rates: 91 days +	27 543 510	19 909 400
Traffic fines: 91 days +	67 445 080	67 445 080

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

Opening balance	(89 466 258)	(77 372 246)
Contributions to debt impairment	(7 787 746)	(12 094 012)
	(97 254 004)	**(89 466 258)**

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

7. Receivable from exchange transactions

	2021	2020
Gross balances		
Electricity	10 957 773	9 417 679
Water	40 027 054	34 971 596
Sewerage	18 218 153	14 960 909
Refuse	20 721 775	17 081 024
Housing and other sundry	1 659 941	1 508 122
	91 584 696	**77 939 330**
Less: Provision for debt impairment		
Electricity	(7 059 086)	(5 481 228)
Water	(38 382 256)	(28 618 847)
Sewerage	(17 456 066)	(13 258 306)
Refuse	(20 123 939)	(15 892 750)
Housing and other sundry	(1 594 094)	(1 346 749)
	(84 615 441)	**(64 597 880)**
Net balance		
Electricity	3 898 687	3 936 451
Water	1 644 798	6 352 749
Sewerage	762 087	1 702 603
Refuse	597 836	1 188 274
Housing and other sundry	65 847	161 373
	6 969 255	**13 341 450**
Electricity		
Current (0 -30 days)	1 583 220	1 226 031
31 - 60 days	410 392	321 990
61 - 90 days	328 343	338 592
91 - 120 days	307 701	514 956
121 days +	8 328 117	7 016 110
Less: Provison for debt impairment	(7 059 086)	(5 481 228)
	3 898 687	**3 936 451**
Water		
Current (0 -30 days)	1 268 056	3 412 587
31 - 60 days	948 326	1 124 435
61 - 90 days	921 931	860 894
91 - 120 days	868 688	878 522
121 days +	36 020 053	28 695 158
Less: Provision for debt impairment	(38 382 256)	(28 618 847)
	1 644 798	**6 352 749**
Sewerage		
Current (0 -30 days)	524 409	461 093
31 - 60 days	483 733	411 749
61 - 90 days	420 026	391 955
91 - 120 days	434 797	400 701
121 days +	16 355 187	13 295 410
Less: Provision for debt impairment	(17 456 065)	(13 258 305)
	762 087	**1 702 603**

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
Refuse		
Current (0 -30 days)	575 554	516 731
31 - 60 days	526 691	452 012
61 - 90 days	480 030	439 568
91 - 120 days	469 809	432 733
121 days +	18 669 690	15 239 979
Less: Provision for debt impairment	(20 123 938)	(15 892 749)
	597 836	**1 188 274**

Figures in Rand	2021	2020
Housing rental		
Current (0 -30 days)	31 081	21 685
31 - 60 days	28 626	19 041
61 - 90 days	27 290	11 750
91 - 120 days	17 236	11 517
121 days +	1 555 708	1 444 129
Less: Provision for debt impairment	(1 594 094)	(1 346 749)
	65 847	**161 373**

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	2 547 021	4 700 630
31 - 60 days	1 859 221	1 908 977
61 - 90 days	1 760 524	1 645 219
91 - 120 days	1 710 024	1 625 345
121 days +	71 914 613	57 830 191
	79 791 403	67 710 362
Less: Provision for debt impairment	(60 433 100)	(60 433 100)
	19 358 303	**7 277 262**

Industrial/ commercial		
Current (0 -30 days)	899 914	439 337
31 - 60 days	255 970	273 873
61 - 90 days	233 696	246 708
91 - 120 days	221 587	455 905
121 days +	4 282 734	3 661 734
	5 893 901	5 077 557
Less: Provision for debt impairment	(4 164 779)	(4 164 779)
	1 729 122	**912 778**

National and provincial government		
Current (0 -30 days)	535 388	492 867
31 - 60 days	282 575	146 377
61 - 90 days	183 399	150 832
91 - 120 days	166 619	148 043
121 days +	4 731 389	4 213 291
	5 899 370	**5 151 410**

Total		
Current (0 -30 days)	3 982 323	5 638 128
31 - 60 days	2 397 767	2 329 227
61 - 90 days	2 177 620	2 042 759
91 - 120 days	2 098 252	2 229 292
121 days +	80 928 734	65 699 924
	91 584 696	77 939 330
Less: Provision for debt impairment	(84 615 441)	(64 597 880)
	6 969 255	**13 341 450**

Less: Allowance for impairment		
> 365 days	(84 615 441)	(64 597 880)

Reconciliation of provision for debt impairment		
Balance at beginning of the year	(64 597 880)	(74 916 078)
Contributions to debt impairment	(20 017 561)	10 318 198
	(84 615 441)	**(64 597 880)**

Statutory receivables general information

Consumer debtors pledged as security

None of the receivables from exchange transactions were pledged as security for any financial liability at year-end.

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

Credit quality of consumer debtors

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

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2021, 6 969 255 (2020: 13 341 450) were past due but not impaired.

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

0 - 121 days +	6 969 255	13 341 450

Consumer debtors impaired

As of 30 June 2021, consumer debtors of 84 615 441 (2020: 64 597 880) were impaired and provided for.

The ageing of these loans is as follows:

0 - 121 days +	84 615 441	64 597 880

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	734	38 646
Bank balances	324 707	269 500
Short-term deposits	12 257 376	4 473 877
	12 582 817	**4 782 023**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating		
F3	12 525 105	4 640 581
F1+	56 978	102 796
	12 582 083	**4 743 377**

Cash and cash equivalents pledged as collateral

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2021	30 June 2020	30 June 2019	Cash book balances 30 June 2021	30 June 2020	30 June 2019
First National Bank - Current account (Acc no: 54062338032)	267 729	166 703	190 944	267 729	166 703	190 944
Standard Bank - Current account (Acc no: 187389179)	57 341	100 338	78 546	57 341	100 338	78 546
Standard Bank - Current account (Acc no: 083192662)	(363)	2 459	2 801	(363)	2 459	2 801
First National Bank - Money market (MSIG)(Acc no: 62089843744)	381 027	55 994	217 393	381 027	55 994	217 393
First National Bank - Call account (Acc no: 62247301708)	106	11 203	845	106	11 203	845
First National Bank - Call account (Acc no: 62046110920)	5 715	705	5	5 715	705	5
First National Bank - Call account (MIG) (Acc no: 62824012489)	942	56 804	-	942	56 804	-
First National Bank - Call account (Acc no: 62050017021)	2 334	527	774	2 334	527	774
First National Bank - Fixed deposit account (Acc no: 71267618613)	148 455	141 386	131 496	148 455	141 386	131 496
First National Bank - Call account (MIG) (Acc no: 62209229831)	5 523 836	2 345 455	625 341	5 523 836	2 345 455	625 341
First National Bank - Call account (Acc no: 62242043892)	600 598	32 296	5 505	600 598	32 296	5 505
First National Bank - Call account (62086477760)	682	7 737	63	682	7 737	63
First National Bank - Call account (WSIG)(Acc no: 62735797667)	3 134 495	112 646	4 050	3 134 495	112 646	4 050
First National Bank - Call account (Acc no: 62735798988)	1 948 879	1 680 595	601 175	1 948 879	1 680 595	601 175
First National Bank - Call account (Acc no: 62735796924)	510 307	28 529	308	510 307	28 529	308
Total	**12 582 083**	**4 743 377**	**1 859 246**	**12 582 083**	**4 743 377**	**1 859 246**

9. Investment property

	2021			2020		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property (land)	65 021 173	-	65 021 173	63 365 628	-	63 365 628

Reconciliation of investment property - 2021

	Opening balance	Disposals	Fair value adjustments	Total
Investment property (land)	63 365 628	(23 247)	1 678 792	65 021 173

Figures in Rand	2021	2020

Reconciliation of investment property - 2020

	Opening balance	Fair value adjustments	Total
Investment property (land)	62 903 409	462 219	63 365 628

Pledged as security

There are no investment properties pledged as security for any financial liability at year-end.

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.

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

Details of valuation:

Property valuations were performed by an independent valuer, Mr Z Van Der Merwe (registered with the South African Council of Property Valuers as a Professional Valuer, with registration number 4973/1), and representing Infratect (Pty) Ltd. Infratec (Pty) Ltd is not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation is based on a unit rate which has been determined from the trends in the general market growth rate as indicated by the FNB housing price index for June 2021 This rate base rate has been adjusted with various factors such as property use,comparability of sales and market activity to determine a fair value under current market conditions at 30 June 2021 The fair value adjustments rate applied was 0.95% in 2021and 0.55% in 2020.

Deemed cost

Deemed cost was determined using fair value.

10. Property, plant and equipment

	2021			2020		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	115 138 180	-	115 138 180	115 138 180	-	115 138 180
Buildings	53 973 825	(44 575 382)	9 398 443	54 037 388	(42 679 386)	11 358 002
Infrastructure assets	781 643 306	(396 170 111)	385 473 195	759 020 484	(376 486 014)	382 534 470
Community assets	127 053 042	(105 404 064)	21 648 978	127 072 290	(100 919 197)	26 153 093
Other property, plant and equipment	10 146 639	(6 656 339)	3 490 300	8 171 582	(6 086 607)	2 084 975
Finance leased assets	1 293 524	(874 127)	419 397	1 293 524	(608 370)	685 154
Total	**1 089 248 516**	**(553 680 023)**	**535 568 493**	**1 064 733 448**	**(526 779 574)**	**537 953 874**

Reconciliation of property, plant and equipment - 2021

	Opening balance	**Additions**	**Additions donated projects**	**Disposals**	**Transfers from WIP**	**Completed projects**	**Change in estimates**	**Depreciation**	**Impairment loss**	**Total**
Land	115 138 180	-	-	-	-	-	-	-	-	115 138 180
Buildings	11 358 002	103 682	-	-	-	-	-	(2 063 241)	-	9 398 443
Infrastructure assets	382 534 470	16 826 150	7 319 665	(1 011 509)	(4 653 622)	4 653 622	763 855	(20 959 436)	-	385 473 195
Community assets	26 153 093	-	-	(817)	-	-	-	(4 503 298)	-	21 648 978
Other property, plant and equipment	2 084 975	2 131 708	-	(22 341)	-	-	-	(610 683)	(93 359)	3 490 300
Finance leased assets	685 154	-	-	-	-	-	-	(265 757)	-	419 397
	537 953 874	**19 061 540**	**7 319 665**	**(1 034 667)**	**(4 653 622)**	**4 653 622**	**763 855**	**(28 402 415)**	**(93 359)**	**535 568 493**

Notes to the Audited Annual Financial Statements

Figures in Rand

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers from WIP	Completed projects	Change in estimates	Depreciation	Impairment loss	Total
Land	115 138 180	-	-	-	-	-	-	-	115 138 180
Buildings	13 424 387	-	(83 697)	-	-	-	(1 522 693)	(459 995)	11 358 002
Infrastructure assets	387 499 007	15 912 191	(130 592)	(7 058 079)	7 058 079	(2 730 524)	(17 326 820)	(688 792)	382 534 470
Community asssets	29 896 296	-	(18 438)	-	-	-	(3 611 697)	(113 068)	26 153 093
Other property, plant and equipment	2 513 525	91 279	(19 037)	-	-	-	(483 398)	(17 394)	2 084 975
Finance leased assets	1 116 329	-	-	-	-	-	(431 175)	-	685 154
	549 587 724	**16 003 470**	**(251 764)**	**(7 058 079)**	**7 058 079**	**(2 730 524)**	**(23 375 783)**	**(1 279 249)**	**537 953 874**

Pledged as security

There are no items of property, plant and equipment is pledged as secuirty for any financial liability at year-end.:

Assets subject to finance lease (Net carrying amount)

Office equipment	419 397	685 154

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Total
Opening balance	11 435 555	11 435 555
Additions/capital expenditure	15 810 963	15 810 963
Additions donated projects	7 319 665	7 319 665
Transferred to completed items	(4 653 622)	(4 653 622)
	29 912 561	**29 912 561**

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Total
Opening balance	2 956 521	2 956 521
Additions/capital expenditure	15 537 113	15 537 113
Transferred to completed items	(7 058 079)	(7 058 079)
	11 435 555	**11 435 555**

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		
Office equipment	118 236	43 043
Motor vehicles	425 440	377 639
Infrastructure	1 341 791	1 371 581
	1 885 467	**1 792 263**

Deemed cost

Deemed cost was determined using depreciated replacement cost.

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

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

11. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and licenses	84 515	(60 991)	23 524	91 812	(70 124)	21 688

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software and licenses	21 688	23 208	(3 070)	(18 302)	23 524

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software and licenses	26 949	3 300	(430)	(8 131)	21 688

Pledged as security

There are no intangible assets pledged as security for any financial liability at year-end.:

Deemed cost

Deemed cost was determined using depreciated replacement cost.

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

12. Finance lease obligation

Minimum lease payments due		
- within one year	110 500	265 200
- in second to fifth year inclusive	-	110 500
	110 500	375 700
less: future finance charges	(3 935)	(38 274)
Present value of minimum lease payments	**106 565**	**337 426**

Present value of minimum lease payments due		
- within one year	106 565	230 860
- in second to fifth year inclusive	-	106 566
	106 565	**337 426**

Non-current liabilities	-	106 566
Current liabilities	106 565	230 860
	106 565	**337 426**

Refer to appendix "A" for descriptions, maturity dates and effective interest of structured loans and finance.

Leases are secured by property, plant and equipment - Note 10.

The average lease term is 5 years and the average effective borrowing rate was 15% (2020: 15%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent..

13. Payables from exchange transactions

Trade payables	87 584 417	83 734 910
Payments received in advance (debtors with credit balances)	2 369 696	2 492 887
Uncleared deposits	4 477 573	3 889 961
Accrued leave pay	2 830 659	2 684 208
Accrued bonus	968 715	987 597
Payroll creditors	3 650 161	7 235 193
Deferred revenue	89 847	42 614
Other payables	2 898	2 898
Retension creditor	2 151 465	1 909 214
Department of Transport	337 342	496 077
	104 462 773	**103 475 559**

14. Consumer deposits

Electricity	123 152	119 489
Water	83 367	80 032
	206 519	**199 521**

15. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

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

	2021	2020
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(3 386 000)	(2 867 000)
Present value of the defined benefit obligation-partly or wholly funded	(2 177 000)	(1 950 000)
	(5 563 000)	**(4 817 000)**
Non-current liabilities	(4 869 000)	(4 384 000)
Current liabilities	(694 000)	(433 000)
	(5 563 000)	**(4 817 000)**

Post retirement benefits

	2021	2020
Post Retirement Medical Aid Benefit		
Balance 1 July	(2 867 000)	(3 452 000)
Interest cost	(225 000)	(275 000)
Expenditure for the year	346 163	320 436
Actuarial Gain	(640 163)	539 564
Total post retirement benefit - 30 June	(3 386 000)	(2 867 000)
Less: Transfer to current portion	363 000	340 000
	(3 023 000)	**(2 527 000)**

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

	2021	2020
Members		
Continuation members (e.g. retirees, widows, orphans)	6	6

The liability in respect of past service has been estimated to be as follows:

	2021	2020
Liability		
Continuation memebers (e.g. retirees, widows, opharns)	(3 386 000)	(2 867 000)

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

- LA Health
- Keyhealth
- Bonitas

Key actuarial assumptions used:

	2021	2020
Assumptions		
Discount rate	8,60%	8,33%
Health Care Cost Inflation Rate	6,10%	4,74%
Net Effective Discount Rate	2,36%	3.43%

15. Employee benefit obligations (continued)

Discount Rate:
GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term consistent with the estimated term of the post-employment liabilities. However where there is no deep market in government bo*nds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate terms should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 8.60% per annum has been used. The corresponding index-linked yield at this term is 3.35%. These rates do not reflect any adjustments for taxation. These rates were deducted from the interest rate data obtained from the Johannesburg Stock Exchange after the market closed on 30 June 2021.

Yields were determined by looking at the duration of the liability and finding the fixed-interest and index-linked yields at the relevant duration using an iterative process (because the yields depend on the liability which in turn depends on the yields).

Health Care Cost Inflation Rate:
This assumption is required to reflect estimated future changes in the cost of medical services resulting from both inflation and specific changes in medical cost (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 6.10% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 4.60%. A larger differential would be unsustainable,eventually forcing members to less expensive options. This implies a net discount rate of 2.36% which derives from ((1+8.60%)/(1+6.10%)) -1.

The next contribution increase was assumed to occur with effect from 1 January 2022.

Post-Employment Mortality:
PA(90) utlimate table, adjusted down by one year of age, and a 1% annual compound mortality improvement from 2010. This means that we expect 1% fewer people to die next year. In the year thereafter, we expect 1.99% fewer people to die, i.e 1.99% is derived from [1 - (1 - 1%)^2],], and so on.

Family Profile:
It has been assumed that female spouses will be five years younger than their male counterparts. Actual medical aid dependants were used and the potential for remarriage was ignored.

Impact of COVID-19:
It is difficult to estimate what impact the pandemic is likely to have on the Municipality`s liability at this early stage. There is much uncertainty as to how it will affect mortality, and whether (And where) a treatment or vaccine will become available. Medical scheme contributions are also likely to increase by more than expected.

Sensitivity Analysis on the Accrued Liability.

Assumption	Change	Change in interest cost
Central assumptions		225 000
Health care inflation	+1%	242 000
Health care inflation	-1%	209 000
Discount rate	+1%	235 000
Discount rate	-1%	213 000
Post-employment mortality	-1yr	235 000

Assumption	Change	Change in Interest Cost
Central assumptions		275 000
Health care inflation	+1%	299 000
Health care inflation	-1%	255 000
Discount rate	+1%	286 000

Figures in Rand	2021	2020

15. Employee benefit obligations (continued)

Discount rate	-1%	263 000
Post employment mortality	-1yr	288 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2020

Long service award

Long service award		
Balance 1 July	(1 950 000)	(1 947 000)
Contribution for the year	(232 000)	(237 000)
Interest cost	(146 000)	(201 000)
Expenditure for the year	41 096	104 351
Actuarial gain / (loss)	109 904	330 649
Subtotal	(2 177 000)	(1 950 000)
Less: Transfer to current portion	331 000	93 000
Balance 30 June	**(1 846 000)**	**(1 857 000)**

The Long Service Award is a defined benefit plan, of which the members are made up as follows:

Total eligible		
As at year end, the following number of employees were eligible for long service bonuses	137	147

Key actuarial assumptions used:

Discount rate	9,27%	7,66%
General earnings inflation rate (long-term)	5,79%	4,16%
Net discount rate	3,29%	3,36%
Average retirement age	62	62

GRAP 25 stipulates that the choice of this rate should be derived from goverment bond yields consistent with the estimated term of the employee benefit liabilities. However where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating, current market rates along the yield curve.

Consequently, a discount rate of 9.27% per annum has been used. This yield was obtained by calculating the duration of the liability and then taking the yield from the yield curve at that duration using an iterative process (because the yield depends on the duration, which in turn depends on the liability). The corresponding liability-weighted index-linked yield is 3.80%.. These rates do not reflect any adjustment for taxation, and were deducted from the interest rate data obtained from the JSE after the market closed on 30 June 2021.

The liability-weighted average term of the total liability is 9.25 years.

<u>Earnings Inflation Rate</u>
This assumption is required to reflect the estimated growth in earnings of the eligible employees until retirement. It is important in the LSA are based on an employee`s earnings at the date of the award:

General Earnings Inflation
This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, earnings inflation is between 1.0% and 1.5% above CPI inflation.

15. Employee benefit obligations (continued)

The expected inflation assumption of 4.79% was obtained from the differential between market yields on index-linked bonds (3.80%) consistent with the estimated terms of the liabilities and those of nominal bonds (9.27%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.05%). Therefore, expected inflation is determined as ((1+9.27%-0.50%)/(1+3.80%))-1.

Thus a general earnings inflation rate of 5.79% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 3.29%.

It has been assumed that the next general earnings increase will take place on 1 July 2022:

Promotional Earnings Scale
The annual inflation rates below are in addition to the General Earnings Inflation assumption of 5.79% per annum for all employees.

Average Retirement Age
The normal retirement age of employees is 65. It has been assumed that employees will retire at age 62 on average, which then implicitly allows for expected rates of ill-health and early retirement.

Pre-Retirement Mortality
SA85-90 ultimate table, adjusted down for female lives.

Withdrawal from Service
If an employee leaves, the employer`s liability in respect of that employee ceases. It is therefore important not to overstate withdrawal rates.

Assumption	Change	Liability
General earnings inflation rate	+1%	2 313 000
General earnings inflation rate	-1%	2 054 000
Discount rate	+1%	2 049 000
Discount rate	-1%	2 321 000
Average retirement age	+2yrs	2 294 000
Average retirement age	-2yrs	1 984 000
Withdrawal rate	+20%	1 708 000
Withdrawal rate	-20%	2 503 000
		-

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2020

Assumption	Change		Liability
General earnings inflation rate		-1%	2 086 000
General earnings inflation rate		-1%	1 827 000
Discount rate	+1%		1 823 000
Discount rate	-1%		2 092 000
Average retirement age	+1%		2 057 000
Average retirement age	-1%		1 772 000
Withdrawal rates		+120%	1 490 000
Withdrawal rates		-20%	2 271 000
			15 418 000

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	5 354 083	2 290 084
Library Grant	2 029 391	1 929 450
Project - 36 Erfs Loxton	305 093	305 093
Road paving Loxton	11 203	11 203
Intergrated National Electrification Programme Grant	3 081	1 248
Project - Cemetry	88 739	88 739
COGSTHA Incentive Grant	460 835	460 835
Finance Management Grant	(1)	(1)
Project - Housing	115 555	115 555
Project - EIA Solid Waste Victoria West	99 012	99 012
Project - River Richmond	1 827	1 827
Water Services Infrastructure Grant	2 915 046	17 236
	11 383 864	**5 320 281**

Movement during the year

Balance at the beginning of the year	5 320 281	3 001 758
Additions during the year	72 862 311	58 938 000
Income recognition during the year	(66 798 728)	(56 619 477)
	11 383 864	**5 320 281**

See Appendix "F" for a reconciliation of grants from other spheres of government. The unspent grants are cash-backed by term deposits. The municipality complied with the conditions attached to all grants and received to the extent of the revenue recognised. No unspent conditional grants from previous financial years were withheld during the 2021 or 2020 financial year's.

Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.

See note 22 for reconciliation of grants from National/Provincial Government.

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

17. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	13 067 665	763 855	2 631 052	16 462 572

Reconciliation of provisions - 2020

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	13 758 469	(2 730 524)	2 039 720	13 067 665

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life of the asset. The estimated total rehabilitation cost at the current inflation rate and estimated date of decommission of the sites have been determined at year end.

The calculations of the landfill rehabilitation provision are based on the following assumptions in line with the permit requirements and consistent with prior years:

1) Discount Rate applied: 9.1% in 2021 and (8.81% in 2020)

2) SAFEC escalation rate: 4.9% in 2021 and (-5.87% in 2020) (The unit cost of the various cost elements relating to rehabilitation and closure were adjusted using the Civil Engineering Indices (drawn from the South African Federation of Civil Engineering Contractors website www.safcec.org.za) and the Contract Price Adjustment Factors (drawn from the Statistics South Africa website www.statssa.gov.za), using the coefficients for Civil Engineering Material as provide in the General Conditions of Contract.

3) Net effective discount rate: 4.20% in 2021 and (14.68% in 2020)

4) Life span estimates based on physical verification

5) Assumtions with respect to usage of waste per month

6) Cost estimates with respect to site clearance, shaping and compaction, capping with a geo-synthetic clay liner, vegetation, environmental impact assessment and application permit costs. An allowance has also been made for a 1.8 m high diamond mesh fence around the landfill site.

18. Service charges

	2021	2020
Sale of electricity	16 542 516	14 019 075
Sale of water	6 596 817	11 533 740
Sewerage and sanitation charges	4 829 837	5 123 537
Refuse removal	5 063 482	5 335 824
Less: Departmental charges	(2 523 624)	(1 947 071)
Less: Indigents subsidies	(4 712 711)	(4 552 264)
	25 796 317	**29 512 841**

Figures in Rand	2021	2020

19. Rental of facilities and equipment

Premises		
Premises	296 709	178 091
Venue hire	2 420	12 197
Other	107 668	109 807
	406 797	**300 095**

20. Property rates

Rates received

Residential	4 379 697	4 308 954
Commercial	2 725 516	2 681 492
State	21 369 452	21 369 452
Small holdings and farms	3 149 551	2 753 509
Less: Income forgone	(9 484 047)	(9 902 437)
	22 140 169	**21 210 970**

Valuations

Residential	347 372 000	347 372 000
Commercial	120 845 000	120 845 000
State	81 803 000	81 803 000
Municipal	57 582 000	57 582 000
Farms	4 221 759 000	4 221 759 000
Public service infrastructure	9 742 000	9 742 000
Public benefit organisations	37 089 000	37 089 000
	4 876 192 000	**4 876 192 000**

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.

A general rate of per valuation catgeory as specified in the annual municipal published tariff list is applied to property valuations to determine assessment rates. Rebates on the rateable value of R15 000 (2020: R15 000) are granted to residential and state property owners.

Rates are levied on an annual basis. Interest at 18% per annum (2020: 18%), is levied on rates outstanding two months after due date.

The new general valuation will be implemented on 01 July 2024.

21. Interest, dividends and Rent on Land

Interest - Receivables	3 045 456	1 926 277

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

22. Government grants and subsidies

Operating grants		
Equitable share	42 537 000	34 602 000
Finance Management Grant	2 867 000	2 435 000
Library Grant	900 059	660 000
Expanded Public Works Programme Grant	1 057 000	988 797
Local Government SETA Grant	78 120	-
Solidarity Fund Grant	11 191	-
Disaster Management Grant	-	66 000
	47 450 370	**38 751 797**
Capital grants		
Municipal Infrastructure Grant	6 248 001	7 679 916
Intergrated National Electrification Program Grant	5 498 167	5 005 000
Water System Infrastructure Grant	7 602 190	5 182 764
	19 348 358	**17 867 680**
	66 798 728	**56 619 477**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	24 261 728	22 017 477
Unconditional grants received	42 537 000	34 602 000
	66 798 728	**56 619 477**

Equitable Share

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

The allocated Equitable Share for the year was R42 537 000 (2020: R34 602 000).t.

Municipal Infrastructure Grant - MIG

Balance unspent at beginning of year	2 290 084	-
Current-year receipts	9 312 000	9 970 000
Conditions met - transferred to revenue	(6 248 001)	(7 679 916)
	5 354 083	**2 290 084**

Conditions still to be met - remain liabilities (see note 16).

Library grant

Balance unspent at beginning of year	1 929 450	1 929 450
Current-year receipts	-	660 000
Conditions met - transferred to revenue	(900 059)	(660 000)
Grants revenue receivable	1 000 000	-
	2 029 391	**1 929 450**

Conditions still to be met - remain liabilities (see note 16).

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

LG SETA Grant

Current-year receipts	78 120	-
Conditions met - transferred to revenue	(78 120)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 16).

Project - 36 Erfs Loxton

Balance unspent at beginning of year	305 093	305 093

Conditions still to be met - remain liabilities (see note 16).

Disaster Management Grant

Current-year receipts	-	66 000
Conditions met - transferred to revenue	-	(66 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 16).

Expanded Public Works Programme - EPWP

Balance unspent at beginning of year	11 203	-
Current-year receipts	1 057 000	1 000 000
Conditions met - transferred to revenue	(1 057 000)	(988 797)
	11 203	**11 203**

Conditions still to be met - remain liabilities (see note 16).

Integrated National Electrificiation Programme - INEP

Balance unspent at beginning of year	1 248	1 248
Current-year receipts	5 500 000	5 005 000
Conditions met - transferred to revenue	(5 498 167)	(5 005 000)
	3 081	**1 248**

Conditions still to be met - remain liabilities (see note 16).

Project - Cemetry

Balance unspent at beginning of year	88 739	88 739

Conditions still to be met - remain liabilities (see note 16).

COGSTHA Incentive Grant

Balance unspent at beginning of year	460 835	460 835

Conditions still to be met - remain liabilities (see note 16).

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

Financial Management Grant - FMG

Balance unspent at beginning of year	(1)	(1)
Current-year receipts	2 867 000	2 435 000
Conditions met - transferred to revenue	(2 867 000)	(2 435 000)
	(1)	**(1)**

Conditions still to be met - remain liabilities (see note 16).

Project Housing

Balance unspent at beginning of year	115 555	115 555

Conditions still to be met - remain liabilities (see note 16).

Project Solid Waste

Balance unspent at beginning of year	99 012	99 012

Conditions still to be met - remain liabilities (see note 16).

Project River Richmond

Balance unspent at beginning of year	1 827	1 827

Conditions still to be met - remain liabilities (see note 16).

Water Service Infrastructure Grant

Balance unspent at beginning of year	17 236	-
Current-year receipts	10 500 000	5 200 000
Conditions met - transferred to revenue	(7 602 190)	(5 182 764)
	2 915 046	**17 236**

Conditions still to be met - remain liabilities (see note 16).

Solidarity Fund Grant

Current-year receipts	11 191	-
Conditions met - transferred to revenue	(11 191)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 16).

23. Public contributions and donations

Public contributions	-	24 815
Grants in aid - Northern Cape Provincial Treasury	2 373 294	1 820 550
Donation Pixley Ka Seme District Municipality - Upgrading of existing water infrastructure	7 319 665	-
	9 692 959	**1 845 365**

Conditions still to be met - remain liabilities (see note 16)

Figures in Rand	2021	2020

24. Fines, Penalties and Forfeits

Speed fines	-	9 835 674
Provincial traffic fines	100	-
Library fines	1 090	112
	1 190	**9 835 786**

25. Investment revenue

Interest revenue		
Interest on call accounts	360 477	450 179

26. Revenue

Service charges	25 796 317	29 512 841
Rental of facilities and equipment	406 797	300 095
Interest received (trading)	7 783 824	6 537 189
Licences and permits	581 043	378 969
Sundry income	688 440	221 556
Property rates	22 140 169	21 210 970
Interest, Dividends and Rent on Land	3 045 456	1 926 277
Government grants & subsidies	66 798 728	56 619 477
Public contributions and donations	9 692 959	1 845 365
Fines, Penalties and Forfeits	1 190	9 835 786
	136 934 923	**128 388 525**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	25 796 317	29 512 841
Rental of facilities and equipment	406 797	300 095
Interest received (trading)	7 783 824	6 537 189
Licences and permits	581 043	378 969
Other income	688 440	221 556
	35 256 421	**36 950 650**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	22 140 169	21 210 970
Interest, Dividends and Rent on Land	3 045 456	1 926 277
Transfer revenue		
Government grants & subsidies	66 798 728	56 619 477
Public contributions and donations	9 692 959	1 845 365
Fines, Penalties and Forfeits	1 190	9 835 786
	101 678 502	**91 437 875**

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

27. Employee related costs

Basic	27 737 889	26 049 081
Medical aid - company contributions	329 999	278 620
UIF	245 651	438 327
SDL	274 801	324 940
Other payroll levies	17 963	18 045
Leave pay provision charge	515 798	70 306
Pension fund contributions	4 607 694	4 467 900
Overtime payments	1 208 548	1 596 508
Long-service awards	232 000	237 000
13th Cheques	1 952 331	2 520 003
Car allowance	458 772	354 850
Housing benefits and allowances	261 818	393 628
Telephone allowance	10 020	9 482
Standby allowance	204 898	421 079
	38 058 182	**37 179 769**

Remuneration of the Municipal Manager - Mr SS Ngwevu (20 January 2021 - 30 June 2021)

Annual Remuneration	469 165	-
Car Allowance	30 000	-
Remote Allowance	46 640	-
Contributions to UIF, Medical and Pension Funds	857	-
Other	5 398	-
	552 060	**-**

Remuneration of the Chief Financial Officer - Mr RA Jacobs

Annual Remuneration	672 451	678 290
Car Allowance	125 920	60 000
Remote Allowance	84 636	82 306
Contributions to UIF, Medical and Pension Funds	113 629	110 233
Other	7 596	7 543
	1 004 232	**938 372**

Remuneration of the Acting Municipal Manager - Mr RA Jacobs (1 January 2021 - 24th January 2021)

Acting Allowance	10 381	-

Remuneration of the Acting Municipal Manager - Mr D Maposa (1 July 2020 - 31 October 2020)

Acting Allowance	206 846	472 752
Remote Allowance	-	42 574
Contributions to UIF, Medical and Pension Funds	-	5 692
Other	2 068	-
	208 914	**521 018**

Figures in Rand	2021	2020

Remuneration of the Director of Corporate Services - Me NM Mkontwana (1 July 2020 - 30 June 2021)

Annual Remuneration	673 834	597 173
Car Allowance	60 000	40 000
Remote Allowances	84 636	55 259
Contributions to UIF, Medical and Pension Funds	139 442	128 096
Other	7 618	6 632
	965 530	**827 160**

Remuneration of the Former Director of Technical Services - ZV Seloane (1 December 2018 - 31 December 2019)

Annual Remuneration	-	320 980
Car Allowance	-	30 000
Remote Allowance	-	40 571
Contributions to UIF, Medical and Pension Funds	-	58 595
Other	-	22 072
	-	**472 218**

Remuneration of the Acting Senior Manager Technical Services - Mr T Phillips (1 September 2020 - 12 February 2021)

Annual Remuneration	416 351	384 388
Car Allowance	52 509	26 676
Travel allowance	-	34 000
Acting allowance	73 582	-
Contributions to UIF, Medical and Pension Funds	71 194	65 364
Other	4 975	4 177
	618 611	**514 605**

Remuneration of the Senior Manager Technical Services - Mr TH Zingange (15 February 2021 - 30 June 2021)

Annual Remuneration	214 811	-
Remote Allowance	30 731	-
Car Allowance	58 000	-
Contributions to UIF, Medical and Pension Funds	32 686	-
Other	2 760	-
	338 988	**-**

28. Remuneration of councillors

Councillors	2 800 889	2 961 351

Councillors' remuneration consist of the following:

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

Remuneration of the Mayor - KJ Arens (1 September 2020 - 30 June 2021)

Mayoral allowance	505 054	-
Transport allowance	166 668	-
Telephone allowance	37 000	-
Contributions to pension, medical and SDL	5 390	-
	714 112	**-**

Remuneration of the Mayor - JZ Lolwana (Deceased 11 July 2020)

Mayoral allowance	50 505	611 261
Transport allowance	16 667	194 806
Telephone allowance	3 700	44 400
Contributions to pension, medical and SDL	675	8 115
	71 547	**858 582**

Remuneration of other councillors

Councillor allowance	1 311 152	1 379 888
Transport allowance	432 680	439 762
Telephone allowance	255 300	266 400
Contributions to pension, medical and SDL	16 098	16 720
	2 015 230	**2 102 770**

29. Depreciation and amortisation

Property, plant and equipment	28 402 415	23 375 782
Intangible assets	18 302	8 131
	28 420 717	**23 383 913**

30. Impairment loss / Reversal of impairments

Impairments

Property, plant and equipment Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]	93 359	1 279 248

[Disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information has otherwise been disclosed:]

The main classes of assets affected by impairment losses are:

The main classes of assets affected by reversals of impairment losses are:

The main events and circumstances that led to the recognition of these impairment losses are as follows:

The main events and circumstances that led to the reversals of these impairment losses are as follows:

31. Finance costs

Trade and other payables	2 528 688	7 953 812
Finance leases	46 306	65 622
Other interest incurred	3 002 052	2 515 720
	5 577 046	**10 535 154**

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

32. Bulk purchases

Electricity - Eskom	19 821 514	18 721 297
Water	1 118 264	943 552
	20 939 778	**19 664 849**

33. General expenses

Advertising	29 334	141 227
Auditors remuneration	4 352 970	3 631 940
Bank charges	266 685	324 271
Commission traffic fine enforcement collections	1 018	1 982 605
Consulting and professional fees	5 353 352	7 747 956
COVID-19 PPE expenditure	216 986	196 383
Fines and penalties	-	20 739
Hire	-	7 200
Insurance	733 878	602 399
Fleet	1 567 104	1 351 917
Motor vehicle expenses	22 432	-
Fuel and oil	968 756	976 671
Printing and stationery	275 444	331 237
Protective clothing	309 454	182 917
Inventory, spares and materials consumed	1 885 467	1 792 263
Research and development costs	143 694	125 417
Royalties and license fees	61 778	46 531
Subscriptions and membership fees	508 250	507 705
Telephone and fax	257 035	257 237
Training	90 390	2 027
Travel - local	814 348	844 515
COVID-19 PPE expenditure	199 858	-
Materials job creation	215 176	132 096
Other expenses	20 165	51 072
Rental paid	475 980	780 628
Paraffin subsidy	457 826	296 840
Expense 10	119 970	390 442
Convention bureau	82 028	39 714
	19 429 378	**22 763 949**

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

34. Cash generated from operations

Deficit	(5 742 906)	(13 982 684)
Adjustments for:		
Depreciation and amortisation	28 420 717	23 383 913
Gain on sale of assets and liabilities	1 060 984	252 197
Fair value adjustments	(1 678 792)	(462 219)
Finance costs	93 359	1 279 248
Debt impairment	27 805 308	26 133 390
Movements in retirement benefit assets and liabilities	746 000	(582 000)
Movements in provisions	2 631 050	2 039 720
Other non-cash items	(7 319 665)	-
Changes in working capital:		
Inventories	40 306	30 806
Other receivables from exchange transactions	-	1 021 379
Receivables from exchange transactions	(21 433 113)	(33 244 657)
Statutory receivables from non-exchange transactions	(4 564 638)	(11 599 264)
Payables from exchange transactions	987 213	31 280 157
Unspent conditional grants and receipts	6 063 583	2 318 523
Consumer deposits	6 998	8 007
	27 116 404	**27 876 516**

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	5 110 933	2 127 663
Total capital commitments		
Already contracted for but not provided for	5 110 933	2 127 663

Authorised operational expenditure

This committed expenditure relates to property, plant and equipment and will be financed by government grants.

36. Contingencies

2021:

A claim was lodged against the municipality by Mr DS Nkili, due to a dispute utilizing materials without consent. The municipality is currently disputing the claim of the services provider with the assistance of the Ofice of the State Attorney. The amount claimed by the plaintif amounts to R 229 332.00.

The Municipality is the second respondent in this matter. Ms Jolla instituted action to evict Mr Absolom from the property. The municipality instructed the State Attorney to bring an application to be joined as an application in the matter and joint the relief sought by Ms Jolla. The amount claimed by the plaintif amounts to R 10 000.00.

This matter was initially referred to the State Attorney to oppose the Contempt of the Court proceedings. The Contempt of Court applicationwas withdrawn by Imatu. The Municipality subsequently instructed us to review the arbitration award. The review application will be filed within the next week. The amount claimed by the plaintif amounts to R 20 000.00.

Application to evict Mr Antonie from the property of the Municipality. The amount claimed by the plaintif amounts to R 10 000.00.

A claim was lodged against the municipality by Mr. N Oerson to seek a recourse for what he deems as unfair practice which lead to him being appointed as the Chief Traffic Officer for Ubuntu Local Municipality. The financial impact of the claim is currently unknown.

2020:

A claim was lodged against the municipality by Mr DS Nkili, due to a dispute utilizing materials without consent. If successful, the municipality will be liable for an amount of R152 888 plus interest.

A claim was lodged against the municipality by Mr. N Oerson to seek a recourse for what he deems as unfair practice which lead to him not being appointed as the Chief Traffic Officer for Ubuntu Local Municipality The financial impact of the claim is currently unknown.

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

37. Related parties

Relationships

Interest in related parties	Any enitity in which a Councillor and / or management of the municipality have the ability to control and / or excercise significant influence over.
Services rendered to related parties	The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. Refer to note 44 where we have disclosed this information under the heading Councillors arrear consumer accounts.
Compensation of related parties	Compensation of Councillors is set out in note 28
Compensation of related parties	Compensation of key management personnel is set out in note 27
Loans granted to Related Parties	In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004.
Related party relationships	The municipalities key officials declared the following relationships with the listed companies. It should be noted that no transactions were entered into between these related parties and the municipality.
JL Lolwana	No business interest, shares and / or directorships held.
PE Jantjies	Directorship - National Delight Closed Corporation, Ubuntu Agency.
W Schutz	Owner Victoria Wes Gastehuis.
B De Bruyn	No business interest, shares and / or directorships held.
JC Pieterse	No business interest, shares and / or directorships held.
KJ Arens	Owner Arens Drankwinkel.
JH Vorster	No business interest, shares and / or directorships held.
MN Baadjies	No business interest, shares and / or directorships held.
AJ Robertson	No business interest, shares and / or directorships held.
Municipal Manager - SS Ngwevu	No business interest, shares and / or directorships held.
Acting Municipal Manager - D Maposa	Owner Small formal Holding.
Chief Financial Officer - RA Jacobs	Shares and Directorship - Chrisperitos (Pty) Ltd, Umthwalo Accounting (Pty) Ltd.
Director Corporate Services - NM Mkontwana	No business interest, shares and / or directorships held.
Director Technical Services - ZV Seloane	No business interest, shares and / or directorships held.
Acting Senior Manager Technical Services - T Phillips	No business interest, shares and / or directorships held.
Senior Manager Technical Services - TH Zingange	No business interest, shares and / or directorships held.

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

Related party balances

Provision for doubtful debts related to outstanding balances with related parties

JL Lolwana	-	151 110
KJ Arens	23 815	8 725
PE Jantjies	46 427	33 756
AJ Robertson	76 257	-
W Schuts	-	7 388
MN Baadjies	55 284	-
JH Vorster	8 113	-

Remuneration of management

Management class: Executive management

2021

Name	Acting Allowances	Annual Remuneration	Car Allowances	Contributions to UIF, Medical and Pension Funds	Other Allowances	Remote Allowances	Total
Senior Management	290 809	2 446 612	326 429	357 808	30 415	246 643	3 698 716

2020

Name	Acting Allowances	Annual Remuneration	Car Allowances	Contributions to UIF, Medical and Pension Funds	Other Allowances	Remote Allowances	Total
Senior Management	499 428	1 980 831	164 000	367 980	40 425	220 710	3 273 374

38. Risk management

Financial risk management

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

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Employee benefit obligation	206 519	-	-	-
Unspent conditional grants and receipts	694 000	-	-	-
	900 519	**-**	**-**	**-**

At 30 June 2020	Less than 1 year	Between 1 and 2 year	Between 2 and 5 years	Overs 5 years
Employee benefit obligation	199 521	-	-	-
Uspent conditional grants	433 000	-	-	-
	632 521	**-**	**-**	**-**

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Receivables are disclosed net, after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to note 6 and 7 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 6 and 7 for balances included in receivables that were re-negotiated for the period under review.

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.

Market risk

Interest rate risk

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

Notes to the Audited Annual Financial Statements

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Price risk

The municipality is not exposed to price risk.

39. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

	At amortised cost	Total
Statutory receivables from non-exchange transactions	30 844 305	30 844 305
Receivable from exchange transactions	6 969 255	6 969 255
Cash and cash equivalents	12 582 817	12 582 817
	50 396 377	**50 396 377**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	100 663 399	100 663 399
Consumer deposits	206 519	206 519
Unspent conditional grants and receipts	11 383 864	11 383 864
	112 253 782	**112 253 782**

2020

Financial assets

	At amortised cost	Total
Statutory receivables from non-exchange transactions	27 241 485	27 241 485
Receivable from exchange transactions	13 341 450	13 341 450
Cash and cash equivalents	4 782 023	4 782 023
	45 364 958	**45 364 958**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	99 803 754	99 803 754
Consumer deposits	199 521	199 521
Unspent conditional grants and receipts	5 320 281	5 320 281
	105 323 556	**105 323 556**

40. Unauthorised expenditure

	2021	2020
Opening balance as previoulsy reported	357 524 073	349 100 400
Management is initiating an investigation in to the nature and completeness of the Unauthorised expenditure as disclosed and as required in the MFMA.	**357 524 073**	**349 100 400**
Add: Unauthorised expenditure - current year	40 046 760	8 423 673
Closing balance	**397 570 833**	**357 524 073**

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

Unauthorised expenditure: Budget overspending – per municipal department:

Vote 4	35 656 539	8 423 673
Vote 5	2 352 953	-
Vote 6	2 037 268	-
	40 046 760	**8 423 673**

Disciplinary steps taken/criminal proceedings

Management is initiating an investigation in to the nature and completeness of unauthorised expenditure as disclosed and as required.

41. Fruitless and wasteful expenditure

Opening balance as previously reported	33 048 869	25 139 950
Opening balance as restated	**33 048 869**	**25 139 950**
Add: Expenditure identified - current	-	7 908 919
Closing balance	**33 048 869**	**33 048 869**

Expenditure identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings		
Interest on overdue accounts	Management is initiating an investigation in to the nature and completeness of the Fruitless and Wasteful expenditure as disclosed and as required in the MFMA.	-	7 464 534
Fines and penalties	Management is initiating an investigation in to the nature and completeness of the Fruitless and Wasteful expenditure as disclosed and as required in the MFMA.	-	444 385
		-	**7 908 919**

Fruitless and and wasteful expenditure of R 2 528 688.00 was identified, however due to the exemption granted to municipalities by the Minister of Finance, R 0 fruitless and and wasteful expenditure was reported.

42. Irregular expenditure

Opening balance	81 519 182	62 060 405
Opening balance as restated	**81 519 182**	**62 060 405**
Add: Irregular Expenditure - current year	7 694 622	3 437 567
Add: Irregular Expenditure - correction of error	-	16 021 210
Closing balance	**89 213 804**	**81 519 182**

Notes to the Audited Annual Financial Statements

Figures in Rand

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

	Disciplinary steps taken/criminal proceedings		
Procurement in contravention of Supply chainmanagement policy - no quotations obtained	Management is initiating an investigation into the nature, accuracy and completeness of the irregular expenditure as disclosed and as required in the MFMA	-	1 736
Procurement in contravention of Supply chainmanagement policy - less than 3 quotationsobtained	Management is initiating an investigation into the nature, accuracy and completeness of the irregular expenditure as disclosed and as required in the MFMA	89 213	230 233
Procurement in contravention of Section 32 ofthe Municipal Supply Chain Regulations	Management is initiating an investigation into the nature, accuracy and completeness of the irregular expenditure as disclosed and as required in the MFMA	6 353 331	19 045 396
PPPF Act not applied	Management is initiating an investigation into the nature, accuracy and completeness of the irregular expenditure as disclosed and as required in the MFMA	-	181 412
Employee costs	Management is initiating an investigation into the nature, accuracy and completeness of the irregular expenditure as disclosed and as required in the MFMA	1 252 078	-
		7 694 622	**19 458 777**

43. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	3 046 202	2 538 497
Current year subscription / fee	508 250	507 705
Amount paid - current year	(550 000)	-
	3 004 452	**3 046 202**

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

Distribution losses

Electricity distribution losses		
kWh purchased	12 591 564	12 993 338
Less: kWh sold	(8 312 336)	(7 982 973)
kWh Losses	**4 279 228**	**5 010 365**
% losses	33,98%	38,56%
Average cost per unit	1,583	1,476
Loss on Rand value	6 774 018	7 395 299

Water distribution losses (Kilo litres)		
Kilo litres purchased	870 940	1 046 392
Less: Kilo litres sold	(657 952)	(798 220)
	212 988	**248 172**
% losses	24,45%	23,72%
Average cost per kilo litre	1,423	1,002
Loss in Rand value	303 082	248 668

Audit fees

Opening balance	5 596 728	3 083 499
Current year subscription / fee	8 067 294	4 633 778
Amount paid - current year	(3 258 725)	(300 000)
National Treasury assistance	(2 373 294)	(1 820 549)
	8 032 003	**5 596 728**

PAYE, UIF and SDL

Opening balance	1 455 783	1 033 828
Current year subscription / fee	4 831 063	4 702 152
Penalties & Interest	552 701	557 352
Amount paid	(5 968 503)	(4 837 549)
	871 044	**1 455 783**

Pension and Medical Aid Deductions

Opening balance	4 956 345	2 232 095
Current year subscription / fee	8 072 126	7 137 692
Amount paid - current year	(10 081 541)	(4 413 442)
	2 946 930	**4 956 345**

Figures in Rand	2021	2020

VAT

VAT receivable	7 039 766	6 767 447

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

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

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 PE Jantjies	5 040	41 388	46 428
Councillor JH Vorster	2 117	5 996	8 113
Councillor AJ Robertson	2 015	74 242	76 257
Councillor MN Baadtjies	2 520	52 736	55 256
Councillor KJ Arens	8 216	15 376	23 592
Councillor B De Bruyn	5 053	54 022	59 075
	24 961	**243 760**	**268 721**

30 June 2020	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor JZ Lolwana	5 630	145 479	151 109
Councillor PE Jantjies	3 466	30 290	33 756
Councillor W Schultz	20 374	840	21 214
Councillor KJ Arens	1 892	7 113	9 005
Councillor B De Bruyn	7 220	83 822	91 042
	38 582	**267 544**	**306 126**

44. Going concern

We draw attention to the fact that at 30 June 2020, the municipality incurred a deficit of 5 742 906 (2020: deficit 13 982 684) for the financial year.

We further draw attention to the fact that at 30 June 2020 a material uncertainity exists regarding the ability of the municipality to continue as a going concern. These factors are listed below:

1) The provisions for rehabilitation of landfill sites and employee benefit provisions are not cash backed.

2) The municipality experienced cash flow problems during the year, which resulted in major creditors not being paid timeously.

3) The municipalitiy's current liabilities exceeds it's current assets by 64 493 579 (2019: 63 252 010) which indicates a current ratio which is below the required norm of 1.5 - 2.

4) The municipality incurred a net deficit for the year under review of the major contributors to this change is increases in bulk purchase, general expenses and finance costs.

Even though the above uncertainties exist regarding the municipality's ability to continue as a going concern, the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities,contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependant on a number of factors. The most significant of these is that the Accounting Officer continues to procure funding for the ongoing operations of the municipality.

Furthermore the municipality has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipality is currently implementing a system to enhance revenue collection and cash flow by improving on the debt recoverability.

The municipality still has the ability to levy rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocation in terms of the Division of Revenue Act.

In assessing whether the going concern assumption is appropriate under the current economic climate resulting from the COVID-19 pandemic, managment considered a wide range of factors including the current and expected performance of the municipality, any announced and potential restructuring of organisational units, the likelihood of continued government funding and if neccessary potential sources of replacement funding.

45. Events after the reporting date

1)COVID19 Pandemic:
Within the municipal space the effects of the COVID-19 outbreak are likely to be a current-period events which will require ongoing evaluation to determine the extent to which developments, after the reporting date should be recognized in the reporting period.

2) Amendment to the Municipal Structures Act:
There was an amendment to the Municipal Structures Act, the new amendment has resulted in an increase in the the number of the Municipal Councillors from 7 to 11. Furthermore the Municipal Council has changed from a plenary system to an executive system. Before the amendment, the Mayor was also the Council's Speaker, however that has also changed. The changes are effective from the 1st November 2021 and the Act became available as at 5th November 2021.

3) Council meeting held on the 31st of August 2021:
At a Council meeting held on the 31st of August 2021 the Council passed the following resolutions:

3.1 - The Council approved a disposal and /or write-offs of certain assets;
3.2 - Land registered in the municipality's name but has been transferred for the purpose of residential dwelling and the council approved that the land be transferred from the municipality's name as the municipality has lost control of the land.
3.3 - Approved the application made by the CFO to write-off certain debts as irrecoverable

46. Impact of COVID-19 and Financial Sustainability

The Municipality is in no way immune to the harsh economic realities as a result of the COVID-19 pandemic. As far possible, the Municipality factored in the effect of the lockdown levels had on its economic enviroment. At this stage, the uncertainty still remains as to how long the pandemic will remain and how long the economy will take to recover from the lockdown levels.

Notes to the Audited Annual Financial Statements

47. Deviation Section 36(2) Supply Chain Management Regulations

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

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.

For the period under review there were instances where goods and services were procured via a deviation from the normal Supply Chain Management Regulations.

The reasons for these deviations were documented and reported to the Accounting Officer, who considered them and subsequently approved the deviation from the normal Supply Chain Management Regulations.
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Reason for deviation:	Number of deviations 2021	Rand value 2021	Number of deviations 2020	Rand value 2020
Sole supplier	1	55 860	4	134 794
Emergency	8	487 520	28	8 407 070
Other	6	222 833	5	81 582
	15	**766 213**	**37**	**8 623 446**

48. Budget differences

Material differences between budget and actual amounts

All variances greater than 10% will be explained on the final Annual Financial Statements for the year ended 30 June 2021.

X1: Services charges - The indigent subsidy charge is budgeted for under general expenditure, however in the GRAP Annual Financial statements note 19, it its offset against the service charge income. This is the reason for the significant variance to budget. Other factors include the changes in the customers' consumption pattern as alternative cheaper sources of energy are becoming a norm in the country.

X2: Rental of facilities and equipment - Improvements in the billing of investment property rentals and increased rental on municipal properties.

X3: Interest received (revenue from exchange transactions) - Interest received from trading income should be viewed along with the amount of R3 045 456 levied on non-exchange receivables which is split in the Annual Financial Statements for disclosure purposes.

X4: Licences and permits - General increase in the level of license and permit renewals. As this income stream has experienced an uptake in activity in the 2021 financial year.

X5: Other income - The variance is mainly attributed to the impact of the lock down during which sales activity for these sundry services dropped below the expected activity as per the budget.

X6: Interest received investment - variance insignificant.

X7: Property rates - variance insignificant.

X8: Interest received (revenue from non-exchange transactions) - Interest received from trading income should be viewed along with the amount of R3 045 456 levied on non-exchange receivables which is split in the Annual Financial Statements for disclosure purposes.

X9: Government grants & subsidies - Increase in the unspent conditional grants and receipts at 30 June 2021 mainly due to the roll over MIG and WSIG funded infrastructure projects the work on which was delayed due to the COVID-19 pandemic.

X10: Public contribturions & donations - National Treasury's contribution towards the audit fee expense of the municipality was not budgeted for in the 2021 annual budget as this contribution is discretionary.

X11: Fines, Penalties and Forfeits - The municipality has terminated the services of the entity which was administering the issuing and collection of traffic violations and fines via speed camera's during the previous financial year. Coupled with this minimal actual income was generated from traffic fines due to the COVID-19 lockdown for a portion of the financial year.

X12: Employee related costs - variance insignificant.

X13: Remuneration of councilors - variance insignificant.

X14: Depreciation and amortisation - As the municipalities final depreciation, impairments and amortisation figure is based on the final fixed asset register as prepared and finalised in August 2021 variances between actual and budgeted depreciation is expected. The actual depreciation figure is determined after taking into account the remaining useful life of the asset after making adjustments based on the assets assessed condition during the verification process. The budgeted figure is based on straight line depreciation of the assets at 30 June 2020.

X15: Impairment loss - As the municipalities final depreciation, impairments and amortisation figure is based on the final fixed asset register as prepared and finalised in August 2021 variances between actual and budgeted depreciation is expected. The actual depreciation figure is determined after taking into account the remaining useful life of the asset after making adjustments based on the assets assessed condition during the verification process. The budgeted figure is based on straight line depreciation of the assets at 30 June 2020.

X16: Finance costs - variance insignificant.

X17: Debt impairment - The actual debt impairment is determined after assessing the individual debtor's payment profile and contribution towards outstanding debt during the period under review. The budgeted figure is based on the anticipated payment percentage of debtors and will vary from the actual figure as determined at year-end.

X18: Bulk purchases - The variance is in line with the increased level of activity and proposed actual price increases which were larger than anticipated.

X19: Contracted services - This line item should be view in line with the underspend on general expenses as the items budgeted for as contracted services such as consulting fees etc are disclosed as part of general expenses in the GRAP Annual financial statements for the year ended 30 June 2021.

X20: General expenses - This line item should be view in line with the underspend on contracted services as the items budgeted for as contracted services such as consulting fees etc are disclosed as part of general expenses in the GRAP Annual financial statements for the year ended 30 June 2021.

X21: Loss on disposal of assets and liabilities - This is an event that occurs and cannot be anticipated during the budget process.

X22: Fair value adjustments - Actual fair value adjustments are recognised in response to the expert's report at 30 June 2021. This item is not budgeted for as part of the annual budget process.

X23: Actuarial gains/losses - Actual actuarial gains and losses are recognised in response to the expert's report at 30 June 2021. This item is not budgeted for as part of the annual budget process.

X24: Inventory - The budgeted closing position was estimated, the actual closing position is based on the actual inventory on hand readings as at 30 June 2021.

X25: Other receivables from exchange transactions - This variance is due to the budget being compiled without taking in to account the split of receivables between receivable from exchange, non-exchange, statutory and other. Furthermore refer to items x1, x2, x3, x7 and x17 above.

X26: Statutory receivables from non-exchange transactions - This variance is due to the budget being compiled without taking in to account the split of receivables between receivable from exchange, non-exchange, statutory and other. Furthermore refer to items x1, x2, x3, x7 and x17 above.

X27: Statutory receivables from exchange transactions - This variance is due to the budget being compiled without taking in to account the split of receivables between receivable from exchange, non-exchange, statutory and other. Furthermore refer to items x1, x2, x3, x7 and x17 above.

X28: Receivables from exchange transactions - This variance is due to the budget being compiled without taking in to account the split of receivables between receivable from exchange, non-exchange, statutory and other. Furthermore refer to items x1, x2, x3, x7 and x17 above.

X29: Receivables from non-exchange transactions - This variance is due to the budget being compiled without taking in to account the split of receivables between receivable from exchange, non-exchange, statutory and other. Furthermore refer to items x1, x2, x3, x7 and x17 above.

X30: Cash and cash equivalents - The variance is mainly due to unspent conditional grants spending patterns see X9, along with an increase in accounts payable from exchange transactions.

X31: Investment property - Refer to item x22, also correction of previously unrecognised investment properties in the year ended 30 June 2021.

X32: Property, plant and equipment - Refer to x14, x21 and the impact of the adjustment on investment property (see x31).

X33: Intangible assets - Additions and software derecognitions in the current year which were not anticipated at the time of the budget process.

X34: Finance lease obligation - The finance lease obligation budgeted for did not align with the actual amortisation and treatment of the finance lease obligation in terms of GRAP.

X35: Payables from exchange transactions - The cash flow constraints of the municipality has lead to an above budgeted increase in payables. The main contributor to the increased position is Eskom.

X36: Consumer deposits - variance insignificant.

X37: Employee benefit obligations - The actual employee benefit obligating is determined at year end by an actuary. The budgeted figure is based on the anticipated increase in the provision and will vary from the actual figure as determined at year-end.

X38: Unspent conditional grants and receipts - Increase in the unspent conditional grants and receipts at 30 June 2021 mainly due to the roll over MIG and WSIG funded infrastructure projects the work on which was delayed due to the COVID-19 pandemic. The Library grant for 2021 was accrued for but was only received in the 2022 financial year.

X39: Provisions - Incorrect estimates raised with respect to the impact of landfill rehabilitation provision. The budgeted movement on provisions also included the estimated impact of the actuarial valuation increases for employee benefit obligations.

49. Principal - Agent arrangements

Agent in arrangementt

Ubunto Local Municipality is the Agent in the Principal-Agent arrangement with the Provincial Department of Transport, and collects licencing fees on behalf of the Provincial Department of Transport. The municipality can retain a portion of the fees collected and the net amount is due to the Provincial Department. The amount retained is recorded as Agency Fees income in the Statement of Financial Performance.Ubuntu Local Municipality is the Agent in the Principal-Agent arrangement with the Provincial Department of Transport, and collects licencing fees on behalf of the Provincial Department of Transport. The municipality can retain a portion of the fees collected and the net amount is due to the Provincial Department. The amount retained is recorded as Agency Fees income in the Statement of Financial Performancet.

The municipality does not incur any expenses on behalf of the Provincial Department. No significant risks are noted to arise from the arrangement as the municipality merely collects monies on behalf of the department as part of its existing service offering at the traffic department and municipal cashier collection points. No resources are held on behalf of the Provincial Department (other than the receipts).

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
Compensation received for agency activities		
Commission	116 596	93 938

Reconciliaiton of Agency Funds and Disbursements - 2021

Principal name	Total Agency funds received	Amount remitted to the principal	Variance
Department of Transport	1 568 328	(1 022 535)	545 793

The reason for the above variance is due to 12% commission witheld by the municipality and cashflow contraints.

Reconciliaiton of Agency Funds and Disbursements - 2020

Principal name	Total Agency funds received	Amount remitted to the principal	Total
Department of Transport	1 235 369	(818 601)	416 768

The reason for the above variance is due to 12% commission witheld by the municipality and cashflow contraints.

50. Prior period errors

The following errors were corrected in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors:

50.1 Prior period error - Misstatement of payables from exchange transactions

During the period under review it was noted that unrecognised income from hall and venue hire was disclosed as part of trade payables at 30 June 2020. The comparative statements for 2019/20 financial year have been restated.

The effect of the correction of the error(s) is summarised below:

	2021	2020
Statement of financial position		
Decrease in payables from exchange transactions	-	172
Statement of financial performance		
Increase in rental facilities and equipment	-	(172)

50.2 Prior period error - Misstatement of payables from exchange transactions (trade payables)

During the period under review it was noted that various trade and other payables were not reconciled between the external creditors listing at 30 June 2020 and the general ledger control account at 30 June 2020. The comparative statements for 2019/20 financial year have been restated.

The effect of the correction of the error(s) is summarised below:

	2021	2020
Statement of financial postion:		
Decrease in payables from exchange transactions	-	2 953 207
Increase in opening accumulated surplus / (deficit)	-	(1 246 109)
	-	1 707 098
Statement of financial performance:		
Decrease general expenses	-	(1 707 099)

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

50.3 Misstatement of payable from exchange transactions (Payroll creditors)

During the period under review it was noted that various payroll creditors were not reconciled between the external creditors listing at 30 June 2020 and the general ledger control account at 30 June 2020. The comparative statements for 2019/20 financial year have been restated.

The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Decrease in payables from exchange transactions	-	2 568 188
Increase in opening accumulated surplus / (deficit)	-	(2 178 137)
	-	390 051
Statement of financial performance:		
Decrease general expenses	-	(451 937)
Increase in finance costs	-	61 886
	-	(390 051)

50.4 Prior period error - Other assets misstated in the FAR

During the period under review it was noted that the Movable assets register was misstated due to the ommission of an asset as well as the incorrect inclusion of previously scrapped / disposed assets at 30 June 2020. The comparative statements for 2019/2020 financial year have been restated.

The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Decrease in payables from exchange transactions	-	(4 987)
Increase in opening accumulated surplus / (deficit)	-	3 937
	-	(1 050)
Statement of financial performance:		
Decrease in depreciation and amortisation	-	(565)
Increase in loss on disposal of assets	-	1 616
	-	1 051

50.5 Misstatement of payable from exchange transactions (Accrued bonus)

During the period under review it was noted that the accrued bonus provision was misstated due to an error in the provision calculation at 30 June 2020. The comparative statements for 2019/2020 financial year have been restated.

The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Decrease in payables from exchange transactions	-	345 190
Statement of financial performance:		
Decrease in employee related costs	-	(345 190)

50.6 Prior period error - Misstatement of other receivables from exchange transactions (deposits paid)

During the period under review it was noted that deposits paid was misstated due to an inadequate general ledger reconciliation process at 30 June 2020. The comparative statements for 2019/2020 financial year have been restated.

The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Decrease in other receivables from exchange transactions	-	(10 824)
Statement of financial performance:		
Increase in general expenditure	-	10 824

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020

50.7 Prior period error - Misstatement of investment property

During the period under review it was noted that the Investment property register was misstated due to various property ommissions being identified at 30 June 2019. The comparative statements for 2019/2020 financial year have been restated.

The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in investment property	-	15 974 791
Increase in opening accumulated surplus / (deficit)	-	(15 900 898)
	-	73 893
Statement of financial performance:		
Increase in fair value adjustments	-	(73 893)

50.8 Prior period error - Misstatement of property, plant and equipment (land)

During the period under review it was noted that the Land property register was misstated due incorrect recognition of impairment on land at 30 June 2020. The comparative statements for 2019/2020 financial year have been restated.

The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in property, plant and equipment	-	42 334
Statement of financial performance:		
Decrease in impairment loss	-	(42 334)

50.9 Prior period error - Misstatement of property, plant and equipment (infrastructure)

During the period under review it was noted that the infrastructure register was misstated due incorrect inclusion of vat on an asset addition at 30 June 2020. The comparative statements for 2019/2020 financial year have been restated.

The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Decrease in property, plant and equipment	-	(13 434)
Statement of financial performance:		
Increase in general expenses	-	13 641
Decrease in depreciation and amortisation	-	(207)
	-	13 434

50.10 Prior period error - receivable from exchange transactions missated

During the period under review it was noted that the receivables from exchange transactions was misstated due to an incorrect ledger posting at 30 June 2020. The comparative statements for 2019/2020 financial year have been restated.

The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Decrease in receivables from exchange transactions	-	(9 137)
Statement of financial performance:		
Decrease service charges	-	9 137

50.11 Prior period error - Misstatement of property, plant and equipment (land)

During the period under review it was noted that the Land property register was misstated due incorrect recognition of of ERF545 as a municipal property at 30 June 2019. The comparative statements for 2019/2020 financial year have been restated.

The effect of the correction of the error(s) is summarised below:

The following reclassifications adjustment occurred:

	2021	2020
Statement of financial postion:		
Decrease in property, plant and equipment (land)	-	(24 927)
Decrease in opening accumulated surplus / (deficit)	-	24 927
	-	-

50.12 Prior period error - Deferred revenue misstated

During the period under review it was noted that the prepaid electricity sales vouchers not fully consumed at 30 June 2020 were not deferred at 30 June 2020. The comparative statements for 2019/2020 financial year have been restated.

The effect of the correction of the error(s) is summarised below:

	2021	2020
Statement of financial postion:		
Decrease in payables from exchange transactions	-	6 573
Statement of financial performance:		
Increase service charges	-	(6 573)

50.13 Prior period error - Input vat incorrectly expensed

During the period under review it was noted that input vat on the purchase of a movable asset was incorrectly expensed to general expenses instead of the input vat control account at 30 June 2020. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2021	2020
Statement of financial position:		
Increase in statutory receivables from exchange transactions	-	913
Statement of financial performance:		
Decrease in general expenses	-	(913)

50.14 Prior period error - Correction of commitments

During the period under review it was noted that commitments were misstated due to the incorrect inclusion of a completed contract. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

The effect of the correction of the error(s) is summarised below:

	2021	2020
Disclosure notes - Commitments:		
As previously reported	-	119 126
Correction of error	-	2 008 537
Restated	-	2 127 663

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50.15 Prior period error - Correction of irregular expenditure

During the period under review it was noted that irregular expenditure was misstated as certain irregular expenditure identified during the audit process of 2019/2020 was not included. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

The effect of the correction of the error(s) is summarised below:

Disclosure notes - Commitments:		
As previously reported	-	3 437 567
Correction of error	-	16 021 210
Restated	-	19 458 777

50.16 Prior period error - Prior period error - Correction of incorrect classification

During the period under review it was noted that certain line items were misstated due to misallocation errors. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

The effect of the correction of the error(s) is summarised below:

Statement of financial position		
Property, plant and equipment	-	(4 988)
Payables from exchange transactions	-	4 988
	-	-
Statement of financial performance:		
Rental of facilities	-	514
Other income	-	39 200
Depreciation and amortization	-	1 321 582
Impairment loss	-	(1 321 582)
General expenses	-	(39 714)
Employee related costs	-	(36 715)
Remuneration of councillors	-	36 715
	-	-