Vhembe District Municipality
Annual Financial Statements
for the year ended 30 June 2018

General Information

Legal form of entity	District Municipality
Nature of business and principal activities	Providing municipal services
Mayoral committee	
Executive Mayor	Radzilani FF
Speaker	Nkondo TF
Chief Whip	Ndou RS
Members of the Mayoral Committee	Makhomisane SE
	Chauke TF
	Lerule- Ramakhaya MM
	Ludere R
	Maluleke M
	Matibe TB
	Mawela NG
	Mbedzi TS
	Mutavhatsindi FD
	Phiri CM
Councillors	Maboya TN
	Magada S
	Malada DM
	Managa L
	Mariba MJ
	Mashau P
	Masithi AJ
	Mathukha NR
	Matumba NJ
	Netshisaulu MO
	Radamba NC
	Rambuwani LR
	Ligaraba LE
Category of local authority	Category C
Registered office	Old Parliament Building Thohoyandou 0950
Postal address	Private Bag X5006 Thohoyandou 0950
Bankers	First National Bank
Auditors	Auditor General South Africa
Website	www.vhembe.gov.za

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

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
CIGFARO	Chartered Institute of Government Finance, Audit an Risk Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended..

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 56, in terms of Section 126(1) of the Municipal Finance Management and which I have signed on behalf of the Municipality. The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

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

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

The Accounting Officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The annual financial statements set out on pages 4 to 63, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2018 and were signed on its behalf by:

Accounting Officer
MR Rambado

Accounting Officer's Report

The Accounting Officer submits his report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

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 surplus of the municipality was R 117 788 744 (2017: surplus R 342 100 491).

2. 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.

3. Subsequent events

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

4. Accounting Officer's interest in contracts

The accounting officer has no interests in contracts awarded.

5. Accounting policies

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

6. Corporate governance

The Council

The Council:
- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

Chairperson and Chief Executive

Mr B. Mbewu was the chairperson of the audit committee for the year under review.

In terms of Section 166 of the Municipal Finance Management Act, municipality, must appoint members of the Audit Committee. National Treasury policy requires that municipalities should appoint further members of the municipality's audit committees who are not councillors of the municipality onto the audit committee.

7. Bankers

The municipality has its primary bank account with First National Bank.

8. Auditors

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

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	2	23 962 365	35 198 731
Receivables from exchange transaction	3	101 384 785	69 591 034
Receivables from non-exchange transactions	4	198 411 359	198 411 359
Vat receivable	5	121 651 587	110 036 757
Cash and cash equivalents	6	169 121 635	153 601 867
		614 531 731	**566 839 748**
Non-Current Assets			
Property, plant and equipment	7	5 821 900 989	5 593 102 098
Investment property	8	12 995 616	13 226 866
Intangible assets	9	12 816 451	12 327 431
		5 847 713 056	**5 618 656 395**
Total Assets		**6 462 244 787**	**6 185 496 143**
Liabilities			
Current Liabilities			
Payables from exchange transactions	10	686 456 158	573 983 547
Taxes and transfers payable (non-exchange)	11	45 096 952	73 989 952
Consumer deposits	12	4 409 170	4 409 170
Unspent conditional grants and receipts	13	49 175 388	23 017 721
Provisions	14	50 681 308	49 471 223
Finance lease obligations	15	1 113 482	-
		836 932 458	**724 871 613**
Non-Current Liabilities			
Finance lease obligation	15	1 370 611	-
Total Liabilities		**838 303 069**	**724 871 613**
Net Assets		**5 623 941 718**	**5 460 624 530**
Accumulated surplus		5 623 941 718	5 460 624 530

* See Note 43

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Sale of water	17	103 436 454	120 590 104
Rendering of services		392 267	30 047
Rental of facilities and equipment	18	8 281	39 361
Interest received - trading		-	16 933 551
Certificate of acceptance		-	332 609
Fire services		-	190 249
Sale of tender documents	19	1 014 002	448 780
Licences and permits		389 230	-
Interest earned	21	36 970 060	34 853 707
Other income	22	4 759 868	1 794 258
Total revenue from exchange transactions		**146 970 162**	**175 212 666**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	23	1 360 762 798	1 304 348 739
Sundry income		-	700 329
Total revenue from non-exchange transactions		**1 360 762 798**	**1 305 049 068**
Total revenue	16	**1 507 732 960**	**1 480 261 734**
Expenditure			
Employee related costs	24	(447 052 353)	(439 934 786)
Remuneration of councillors	25	(13 918 539)	(10 917 528)
Depreciation and amortisation	27	(294 540 081)	(281 923 696)
Impairment loss/ Reversal of impairments	28	(291 776 248)	(11 729 836)
Finance costs	29	(2 538 623)	(1 616 902)
Bad debts written off	30	(14 669 189)	-
Bulk purchases	31	(69 007 467)	(51 639 494)
Contracted services	32	(132 549 030)	(87 378 246)
General Expenses	33	(123 743 188)	(255 221 964)
Total expenditure		**(1 389 794 718)**	**(1 140 362 452)**
Operating surplus		**117 938 242**	**339 899 282**
Actuarial gains/losses		(149 498)	2 201 210
Surplus for the year		**117 788 744**	**342 100 492**

* See Note 43

Statement of Changes in Net Assets

Figures in Rand		Accumulated surplus	Total net assets
Opening balance as previously reported	-	8 003 034 686	8 003 034 686
Adjustments			
Correction of errors - Non current assets	-	(2 732 845 759)	(2 732 845 759)
Correction of error - Cash and cash equivalents	-	(103 458 743)	(103 458 743)
Correction of errors - Other	-	(54 240 943)	(54 240 943)
Balance at 01 July 2016 as restated*	**-**	**5 112 489 241**	**5 112 489 241**
Changes in net assets			
Surplus for the year	-	342 100 491	342 100 491
Revaluation of property, plant and equipment	6 034 798	-	6 034 798
Reclassification of assets valuation	(6 034 798)	6 034 798	-
Total changes	-	348 135 289	348 135 289
Restated* Balance at 01 July 2017		**5 460 624 530**	**5 460 624 530**
Changes in net assets			
Correction of Infrastructure accumulated depreciation		45 528 444	45 528 444
Net income (losses) recognised directly in net assets		45 528 444	45 528 444
Surplus for the year		117 788 744	117 788 744
Total recognised income and expenses for the year		163 317 188	163 317 188
Total changes		163 317 188	163 317 188
Balance at 30 June 2018		**5 623 941 718**	**5 623 941 718**

Note(s)

* See Note 43

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		57 365 781	74 372 450
Grants		1 386 920 465	1 216 569 610
Interest income		36 970 060	34 853 707
Other receipts		6 171 381	5 960 194
		1 487 427 687	1 331 755 961
Payments			
Employee costs		(461 170 892)	(451 867 806)
Suppliers		(203 381 299)	(435 858 622)
Finance costs		(2 538 623)	(1 616 902)
		(667 090 814)	(889 343 330)
Net cash flows from operating activities	34	**820 336 873**	**442 412 631**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(541 939 864)	(447 673 746)
Purchase of other intangible assets	9	(2 017 720)	(11 383 166)
Movements in financial Investments		(263 343 614)	-
Net cash flows from investing activities		**(807 301 198)**	**(459 056 912)**
Cash flows from financing activities			
Finance lease obligations		2 484 093	(726 893)
Net increase/(decrease) in cash and cash equivalents		**15 519 768**	**(17 371 174)**
Cash and cash equivalents at the beginning of the year		153 601 867	170 973 041
Cash and cash equivalents at the end of the year	6	**169 121 635**	**153 601 867**

* See Note 43

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						
Sale of tender documents	174 697	925 303	**1 100 000**	1 014 002	**(85 998)**	**Final budget**
Sale of water	104 645 912	(24 645 912)	**80 000 000**	103 436 454	**23 436 454**	**Final budget**
Rendering of services	-	-	**-**	392 267	**392 267**	**Final budget**
Rental of facilities and equipment	14 960	(11 556)	**3 404**	8 281	**4 877**	**Final budget**
Fire services	160 000	(29 900)	**130 100**	-	**(130 100)**	**Final budget**
Licences and permits	-	-	**-**	389 230	**389 230**	
Other income - (rollup)	2 705 000	2 096 770	**4 801 770**	4 759 868	**(41 902)**	**Final budget**
Interest received - investment	24 000 000	(2 700 000)	**21 300 000**	36 970 060	**15 670 060**	**Final budget**
Total revenue from exchange transactions	**131 700 569**	**(24 365 295)**	**107 335 274**	**146 970 162**	**39 634 888**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	1 386 953 000	23 000 000	**1 409 953 000**	1 360 762 798	**(49 190 202)**	**Final budget**
Sundry income	758 467	152 523	**910 990**	-	**(910 990)**	**Final budget**
Total revenue from non-exchange transactions	**1 387 711 467**	**23 152 523**	**1 410 863 990**	**1 360 762 798**	**(50 101 192)**	
Total revenue	**1 519 412 036**	**(1 212 772)**	**1 518 199 264**	**1 507 732 960**	**(10 466 304)**	
Expenditure						
Employee related costs	(505 510 818)	48 810 758	**(456 700 060)**	(447 052 353)	**9 647 707**	**Final budget**
Remuneration of councillors	(10 519 685)	(662 738)	**(11 182 423)**	(13 918 539)	**(2 736 116)**	**Final budget**
Depreciation and amortisation	(30 933 108)	(8 111 599)	**(39 044 707)**	(294 540 081)	**(255 495 374)**	**Final budget**
Impairment loss/ Reversal of impairments	-	-	**-**	(291 776 248)	**(291 776 248)**	
Finance costs	(1 374 712)	(99 996)	**(1 474 708)**	(2 538 623)	**(1 063 915)**	**Final budget**
Debt Impairment	(15 000 000)	5 000 000	**(10 000 000)**	(14 669 189)	**(4 669 189)**	**Final budget**
Bulk purchases	(61 260 397)	260 397	**(61 000 000)**	(69 007 467)	**(8 007 467)**	**Final budget**
Contracted Services	(30 000 000)	7 897 049	**(22 102 951)**	(132 549 030)	**(110 446 079)**	**Final budget**
Transfers and Subsidies	(7 038 921)	-	**(7 038 921)**	-	**7 038 921**	**Final budget**
General Expenses	(119 211 053)	(21 433 286)	**(140 644 339)**	(123 743 188)	**16 901 151**	**Final budget**
Total expenditure	**(780 848 694)**	**31 660 585**	**(749 188 109)**	**(1 389 794 718)**	**(640 606 609)**	
Operating surplus	**738 563 342**	**30 447 813**	**769 011 155**	**117 938 242**	**(651 072 913)**	
Actuarial gains/losses	-	-	**-**	(149 498)	**(149 498)**	
Surplus before taxation	**738 563 342**	**30 447 813**	**769 011 155**	**117 788 744**	**(651 222 411)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**738 563 342**	**30 447 813**	**769 011 155**	**117 788 744**	**(651 222 411)**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Comparative Information

Comparative Information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Municipal Standard Charts of Accounts implementation and reclassification

The municipal Regulations on Stardand Chart of Accounts promulgated in terms of Government Gazette 37577 dated 22 April 2014 apply to all municipalities and municipal entities and became effective from 01 July 2017.

The main objective of this regulation is to provide for a national standard in respect of uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities and municipal entities which:

- are aligned to budget formats and accounting standards prescribed for municipalities and municipal entities and with the standard chart of accounts for national provincial government, and
- enable uniform information sets recorded in terms of national norms and standards across the whole of government for the purpose of national policy coordination and reporting, benchmarking and performance measurement in local government sphere.

  The impact of this mSCOA regulations definitely affected the municipality's current business processes; transacting and reporting requirements.

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables

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

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

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

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.

Value in use of cash generating 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. They are significantly affected by a number of factors, together with economic factors such as inflation and interest.

Value in use of non- cash generating 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. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment

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 14 - Provisions.

Effective interest rate

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

Allowance for doubtful debts

On receivables, 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. The recoverability percentage on receivables is calculated annual per receivables category.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.4 Investment property

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

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

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

1.4 Investment property (continued)

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

Cost model

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

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

Item	Useful life
Property - buildings	30 - 65 years

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

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

Accounting Policies

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity 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.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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.

1.5 Property, plant and equipment (continued)

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 in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity 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.

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

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

Item	Depreciation method	Average useful life
Land	Straight line	indefinite
Buildings	Straight line	65 years
Plant and machinery	Straight line	5-21 years
Furniture and fixtures	Straight line	3-26 years
Transport assets	Straight line	4-40 years
Office equipment	Straight line	2-30 years
Computer equipment	Straight line	2-12 years
Infrastructure	Straight line	5-80 years
Community assets	Straight line	30 years
Other property, plant and equipment	Straight line	3-27 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.

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

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

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

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.

1.6 Intangible assets (continued)

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

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

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

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

After initial recognition, intangible assets are carried at revalued amount, being fair value at the date of revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that at the reporting date the carrying amount of the asset does not differ materially from its fair value.

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	**Useful life**
Computer software, other	3-20 years

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.

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.

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.

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
Receivable from exchange transactions	Financial asset measured at amortised cost
Receivable from non-exchange transaction	Financial asset measured at amortised cost
Cash and cash equivalent	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	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.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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.

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

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

Reclassification

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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.

1.7 Financial instruments (continued)

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.

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.

Accounting Policies

1.7 Financial instruments (continued)

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

1.8 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 .

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.

1.9 Inventories

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

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

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

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

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

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

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

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

1.9 Inventories (continued)

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

1.10 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

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

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

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

Value in use

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

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

1.10 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

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

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.10 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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.

Accounting Policies

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

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

Recoverable 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:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Accounting Policies

1.13 Employee benefits (continued)

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

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

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.14 Provisions and contingencies

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

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

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

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

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

1.14 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 deficits.

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

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

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

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

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

1.14 Provisions and contingencies (continued)

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.

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.

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 .

1.15 Revenue from exchange transactions (continued)

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.

1.16 Revenue from non-exchange transactions

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

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

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.

Government grants

Government grants are recognised as revenue when:

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

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

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

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

1.16 Revenue from non-exchange transactions (continued)

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.17 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.

1.18 Comparative figures

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

1.19 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.

1.20 Fruitless and wasteful expenditure

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

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

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

1.21 Irregular expenditure (continued)

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

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

1.22 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- -approved and contracted commitments;
- -where the expenditure has been approved and the contract has been awarded at the reporting date; and
- -where disclosure is required by a specific standard of GRAP.

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 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 2017/07/01 to 2018/06/30.

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

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

1.25 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

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.

1.25 Related parties (continued)

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.

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

1.26 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

1.27 Value-added tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.
The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

2. Inventories

Consumable stores	-	4 014 874
Maintenance materials	15 645 632	25 261 188
Water	8 316 733	5 922 669
	23 962 365	**35 198 731**

Inventory pledged as security

No inventories were pledged as security for liabilities in the current financial year.

3. Receivables from exchange transactions

Consumer debtors	100 573 708	-
Consumer Debtors - Thulamela	-	212 806 928
Consumer Debtors - Makhado	-	108 117 602
Consumer Debtors - Musina	-	13 421 125
Consumer Debtors - Mutale	-	23 738 222
Rental Debtors	392 245	392 245
Other trade receivables	418 832	418 832
	101 384 785	**358 894 954**

Less: Provision for impairment		
Provision for debt impairment	-	(289 303 920)

Net balance		
Consumer debtors	100 573 708	-
Consumer debtors - Thulamela	-	212 806 928
Consumer debtors - Makhado	-	108 117 602
Consumer debtors - Musina	-	13 421 125
Consumer debtors - Mutale	-	23 738 222
Rental debtors	392 245	392 245
Other trade receivables	418 832	418 832
Provision for debt impairment	-	(289 303 920)
	101 384 785	**69 591 034**

Water and sewage		
Current (0-30 days)	11 360 690	1 059 159
31 - 60 days	19 325 091	6 657 377
61 - 90 days	10 647 198	10 509 113
91 - 120 days	9 645 036	5 922 076
121-150 days	6 605 691	5 546 678
>150 days	42 990 002	328 389 474
Provision for impairment	-	(289 303 920)
	100 573 708	**68 779 957**

Figures in Rand	2018	2017

3. Receivables from exchange transactions (continued)

Reconciliation of allowance for impairment

	2018	2017
Opening balance	(289 303 920)	(289 303 920)
Bad debts written off against allowance	289 303 920	-
	-	**(289 303 920)**

4. Receivables from non-exchange transactions

	2018	2017
Sundry debtors	13 710 596	13 710 596
Debtors - Mutale	1 373 245	1 373 245
Debtors - Musina	183 299 132	183 299 132
Other receivables	28 386	28 386
	198 411 359	**198 411 359**

5. Vat Receivable

	2018	2017
Vat	121 651 587	110 036 757

The Municipality accounts for Value Added Tax on the payment basis.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

	2018	2017
Cash on hand	1 107	3 000
Bank balances	168 755 826	(52 816 206)
Short-term deposits	364 702	206 415 073
	169 121 635	**153 601 867**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	**30 June 2017**	**30 June 2016**	**30 June 2018**	**30 June 2017**	**30 June 2016**
FNB - Main Account - 62021931458	89 784 342	20 595 389	-	(112 427 694)	(72 832 479)	(37 413 353)
FNB - Call Account - 62036334803	282 202	-	-	-	-	-
FNB - Thulamela Water - 62370167233	42 704 975	9 913 943	-	-	-	-
FNB - Mutale Water - 62407577131	907 440	596 136	-	-	-	-
FNB - Makhado Water - 62387689668	17 573 742	7 721 400	-	-	-	-
Total	**151 252 701**	**38 826 868**	**-**	**(112 427 694)**	**(72 832 479)**	**(37 413 353)**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

7. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	6 350 000	-	6 350 000	6 350 000	-	6 350 000
Buildings	124 083 710	(30 772 183)	93 311 527	124 083 710	(26 637 981)	97 445 729
Plant and machinery	9 556 673	(3 163 426)	6 393 247	9 556 673	(2 072 079)	7 484 594
Furniture and fixtures	12 718 245	(5 205 709)	7 512 536	8 669 467	(2 750 656)	5 918 811
Transport assets	71 225 335	(27 459 144)	43 766 191	69 183 296	(16 862 725)	52 320 571
Office equipment	-	-	-	3 436 919	(904 712)	2 532 207
Computer equipment	8 246 330	(4 510 661)	3 735 669	7 265 965	(2 890 823)	4 375 142
Infrastructure	5 378 678 259	(805 721 386)	4 572 956 873	5 099 527 754	(508 046 235)	4 591 481 519
Community assets	27 168 032	(5 882 998)	21 285 034	27 168 032	(4 977 397)	22 190 635
Other property, plant and equipment	33 250 627	(19 383 513)	13 867 114	29 539 570	(15 714 416)	13 825 154
Leased assets	2 876 355	(635 107)	2 241 248	2 371 110	(2 371 110)	-
Work in progress	1 050 481 550	-	1 050 481 550	789 177 736	-	789 177 736
Total	**6 724 635 116**	**(902 734 127)**	**5 821 900 989**	**6 176 330 232**	**(583 228 134)**	**5 593 102 098**

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers received	Reclassification	Other changes, movements	Depreciation	Impairment	Total
Land	6 350 000	-	-	-	-	-	-	6 350 000
Buildings	97 445 729	-	-	-	-	(4 134 202)	-	93 311 527
Plant and machinery	7 484 594	-	-	-	-	(911 150)	(180 197)	6 393 247
Furniture and fixtures	5 918 811	627 024	-	2 532 207	113 841	(1 606 615)	(72 732)	7 512 536
Transport assets	52 320 571	2 042 038	-	-	-	(9 968 167)	(628 251)	43 766 191
Office equipment	2 532 207	23 584	-	(2 532 207)	(23 584)	-	-	-
Computer equipment	4 375 142	980 365	-	-	(97 242)	(1 518 047)	(4 549)	3 735 669
Infrastructure	4 591 481 519	-	279 150 505	-	-	(269 242 517)	(28 432 634)	4 572 956 873
Community assets	22 190 635	-	-	-	-	(905 601)	-	21 285 034
Other property, plant and equipment	13 825 154	3 711 055	-	-	(696 099)	(2 919 332)	(53 664)	13 867 114
Leased Assets	-	2 876 355	-	-	-	(635 107)	-	2 241 248
Work in progress	789 177 736	540 454 319	(279 150 505)	-	-	-	-	1 050 481 550
	5 593 102 098	**550 714 740**	**-**	**-**	**(703 084)**	**(291 840 738)**	**(29 372 027)**	**5 821 900 989**

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Correction of error	Total
Land	6 350 000	-	-	-	-	-	6 350 000
Buildings	101 522 281	28 850	-	(4 134 202)	-	28 800	97 445 729
Plant and machinery	4 832 179	23 268	-	(611 520)	(144 407)	3 385 074	7 484 594
Furniture and fixtures	5 459 321	1 545 867	-	(290 370)	(647 705)	(148 302)	5 918 811
Transport assets	39 815 980	10 083 558	-	(4 151 045)	(100 523)	6 672 601	52 320 571
Office equipment	685 291	595 478	-	(159 422)	(221 203)	1 632 063	2 532 207
Computer equipment	3 084 076	778 310	-	(1 282 760)	(663 925)	2 459 441	4 375 142
Infrastructure	7 329 608 710	-	278 471 353	(267 458 008)	-	(2 749 140 536)	4 591 481 519
Community assets	23 096 236	-	-	(905 601)	-	-	22 190 635
Other property, plant and equipment	13 418 470	3 367 758	-	(1 513 820)	(8 919 765)	7 472 511	13 825 154
Leased assets	593 319	-	-	(593 319)	-	-	-
Work in progress	643 639 618	431 250 657	(278 471 353)	-	-	(7 241 186)	789 177 736
	8 172 105 481	**447 673 746**	**-**	**(281 100 067)**	**(10 697 528)**	**(2 734 879 534)**	**5 593 102 098**

Ownership

Vhembe District Municipality has buildings structures such as Mititi, Makuya MPCC, Musina fire station, Disaster Muledane and Water reservoirs on land it does not have ownership of. The process of obtaining the ownership and rights of land is currently underway.

The municipality performed the residual value movement on vehicles and assessment of other movable assets. It was considered that the assets with zero book value will be sold in following financial year, hence the assessment was not effected as those amounts are not significant.

No property, plant and equipment were pledged as security for liabilities.

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

8. Investment property

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	14 800 000	(1 804 384)	12 995 616	14 800 000	(1 573 134)	13 226 866

Reconciliation of investment property - 2018

	Opening balance	**Depreciation**	**Total**
Investment property	13 226 866	(231 250)	12 995 616

Reconciliation of investment property - 2017

	Opening balance	**Depreciation**	**Total**
Investment property	13 458 119	(231 253)	13 226 866

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.

9. Intangible assets

	2018			2017		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	17 615 264	(4 798 813)	12 816 451	15 597 544	(3 270 113)	12 327 431

Reconciliation of intangible assets - 2018

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	12 327 431	2 017 720	(1 528 700)	12 816 451

Reconciliation of intangible assets - 2017

	Opening balance	**Additions**	**Amortisation**	**Impairment loss**	**Total**
Computer software, other	2 554 886	11 383 166	(592 376)	(1 018 245)	12 327 431

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Payables from exchange transactions

Trade payables	47 793 688	30 090 831
Payments received in advanced	16 352 409	30 808 527
Other accrued expenses	163 353 024	117 051 001
Retention	127 237 890	104 380 560
Accrued bonus	10 161 584	8 970 293
Creditors - Musina	171 192 482	171 192 482
Creditors - Makhado	125 933 566	104 070 304
Sundry deposits	4 477 067	4 477 067
Deposits received	558 322	558 322
Other Payables	19 396 126	2 384 160
	686 456 158	**573 983 547**

11. Taxes and transfers payable (non-exchange)

Transfers payable	45 096 952	73 989 952

12. Consumer deposits

Water	4 409 170	4 409 170

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	32 536 816	8 800 000
Municipal Water Infrastructure Grant	15 009 190	14 217 721
Expanded Public Works Programme Integrated Grant	711 279	-
Public Transport Network Grant	918 103	-
	49 175 388	**23 017 721**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 23 for reconciliation of grants from National/Provincial Government.

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

14. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Leave provision	42 262 820	3 818 868	(2 991 898)	-	43 089 790
Performance bonus	91 138	-	-	-	91 138
Long service award	7 117 265	1 133 231	(600 618)	(149 498)	7 500 380
	49 471 223	**4 952 099**	**(3 592 516)**	**(149 498)**	**50 681 308**

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Leave provision	38 542 163	3 720 657	-	-	-	42 262 820
Performance bonus	91 138	-	-	-	-	91 138
Long service award	8 428 969	1 904 997	(324 641)	(690 850)	(2 201 210)	7 117 265
	47 062 270	**5 625 654**	**(324 641)**	**(690 850)**	**(2 201 210)**	**49 471 223**

The principle assumptions	**2018**	**2017**
Discount rate	6,50 %	8,03 %
CPI	4,88 %	4,85 %
Net Effective Discount rate	2,06 %	2,06 %
Expected Retirement Age - Females	63 Years	63 Years
Expected Retirement Age - Males	63 Years	63 Years

Performance Bonus provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

15. Finance lease obligation

	2018	2017
Minimum lease payments due		
- within one year	1 113 482	-
- in second to fifth year inclusive	1 370 611	-
	2 484 093	-
less: future finance charges	(294 142)	-
Present value of minimum lease payments	**2 189 951**	**-**

It is municipality policy to lease certain [property]motor vehicles and equipment under finance leases.

The average lease term was three years and the average effective borrowing rate was 10%

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

16. Revenue

Service charges - Water	103 436 454	120 590 104
Sale of goods	1 014 002	448 780
Certificate of acceptance	-	332 609
Rendering of services	392 267	30 047
Rental of facilities and equipment	8 281	39 361
Fire service	-	190 249
Licences and permits	389 230	-
Interest received - investment	36 970 060	34 853 707
Interest received (trading)	-	16 933 551
Government grants & subsidies	1 360 762 798	1 304 348 739
Sundry income	-	700 329
Other income 1	4 759 868	1 794 258
	1 507 732 960	**1 480 261 734**

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

Service charges	103 436 454	120 590 104
Sale of goods	1 014 002	448 780
Certificate of acceptance	-	190 249
Rendering of services	392 267	30 047
Rental of facilities and equipment	8 281	39 361
Fire services	-	332 609
Licences and permits	389 230	-
Interest received (trading)	-	16 933 551
Interest received - investment	36 970 060	34 853 707
Other income 1	4 759 868	1 794 258
	146 970 162	**175 212 666**

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

Transfer revenue

Government grants & subsidies	1 360 762 798	1 304 348 739
Sundry income	-	700 329
	1 360 762 798	**1 305 049 068**

17. Service charges

Musina	-	39 419 067
Thulamela	-	5 484 072
Makhado	-	75 686 965
Mutale	103 436 454	-
	103 436 454	**120 590 104**

18. Rental of facilities and equipment

Premises

Premises	8 281	39 361

19. Sale of tender documents

Tender documents	1 014 002	448 780

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

20. Other income

21. Investment revenue

Interest revenue		
Bank	36 970 060	34 853 707

22. Other income

Water connections	4 759 868	1 794 258

Figures in Rand	2018	2017

23. Government grants and subsidies

Operating grants

Equitable share	824 727 469	743 857 561
Financial management grant	1 795 000	1 460 000
Public Transport Network Grant	1 325 897	1 892 358
Expanded public works programme grant	604 717	3 462 000
Biosphere reserve	-	200 000
	828 453 083	**750 871 919**

Capital grants

Municipal infrastructure grant	500 623 184	459 694 541
Water services infrastructure grant	31 686 531	93 782 279
	532 309 715	**553 476 820**
	1 360 762 798	**1 304 348 739**

Equitable Share

In terms of the Division of Revenue Act, the annual equitable share allocated to the municipality is an unconditional grant. A portion of this grant is used to subsidise the provision of basic services to indigent community members in line with national policy.

Municipal infrastructure grant

Balance unspent at beginning of year	8 800 000	64 333 872
Current-year receipts	524 360 000	497 287 000
Conditions met - transferred to revenue	(500 623 184)	(459 694 541)
Amount withdrawn by treasury	-	(93 126 331)
	32 536 816	**8 800 000**

The grant is intended to provide capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions, to provide for new, rehabilitation and upgrading of municipal infrastructure.

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

Water services infrastructure grant

Balance unspent at beginning of year	14 217 721	6 560 131
Current-year receipts	32 478 000	108 000 000
Conditions met - transferred to revenue	(31 686 531)	(93 782 279)
Amount withdrawn by treasury	-	(6 560 131)
	15 009 190	**14 217 721**

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

Provide explanations of conditions still to be met and other relevant information.

Financial management grant

Balance unspent at beginning of year	-	41 879
Current-year receipts	1 795 000	1 460 000
Conditions met - transferred to revenue	(1 795 000)	(1 501 879)
	-	**-**

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

23. Government grants and subsidies (continued)

Provide explanations of conditions still to be met and other relevant information.

Expanded Public Works Programme

Current-year receipts	1 316 000	3 462 000
Conditions met - transferred to revenue	(604 721)	(3 462 000)
	711 279	**-**

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

Provide explanations of conditions still to be met and other relevant information.

MISA grant

Balance unspent at beginning of year	-	45 000
Amount withdrawn by treasure	-	(45 000)
	-	**-**

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

Provide explanations of conditions still to be met and other relevant information.

Public Transport Network Grant

Current-year receipts	2 244 000	-
Conditions met - transferred to revenue	(1 325 897)	-
	918 103	**-**

Conditions have been met.

Water and operation subsidy

Balance unspent at beginning of year	-	39 756 709
Amount withdrawn by treasury	-	(39 756 709)
	-	**-**

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

24. Employee related costs

Basic	283 380 596	289 729 169
Bonus	22 266 088	21 629 479
Social contributions: Bargaining Council	143 501	(258 904)
Social contributions: Medical aid	12 114 951	10 802 672
Social contributions: Pension	49 159 121	43 808 748
Social contributions: Unemployment Insurance Fund	2 585 661	2 601 581
SDL	-	3 651 950
Allowance: Overtime	32 957 699	29 804 734
Allowance: Housing benefits	10 231 259	11 677 087
Allowance: Travel or motor car, accommodation, subsistence	26 392 792	20 677 640
Allowance: Standby	2 191 061	5 798
Allowance: Other	121 498	26 936
Other benefits: Long-service awards	2 500 626	1 214 147
Leave pay provision charge	3 007 500	4 563 749
	447 052 353	**439 934 786**

Remuneration of municipal manager

Annual Remuneration	832 337	67 054
Acting allowance	-	231 797
Backpay	32 968	-
Car Allowance	221 265	14 748
Car re-imbursement	95 025	-
Cell phone allowance	30 000	2 500
Contributions to UIF, medical and pension funds	318 346	13 107
Subsistence Allowance	6 705	-
	1 536 646	**329 206**

Remuneration of chief finance officer

Annual Remuneration	657 757	274 066
Acting allowance	-	107 753
Car Allowance	108 000	45 000
Car re-imbursement	66 143	-
Contributions to UIF, Medical and Pension Funds	128 157	-
Housing Allowance	24 000	-
Non Pensionable Income	162 641	-
Other	24 000	-
Performance bonus	54 813	-
Subsistence Allowance	7 492	-
	1 233 003	**426 819**

Remuneration of technical manager

Annual Remuneration	657 757	274 066
Acting Allowance	-	3 791
Car Allowance	164 277	68 449
Car-reimbursement	72 975	-
Cellphone Allowance	24 000	10 000
Contributions to UIF, Medical and Pension Funds	131 421	4 132
Non Pensionable Income	246 659	-
Performance Bonuses	1 961	-
	1 299 050	**360 438**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

24. Employee related costs (continued)

Remuneration of general manager :Planning

Annual Remuneration	116 019	634 928
Back pay	-	12 425
Car Allowance	25 581	120 663
Cell phone allowance	4 000	24 000
Contributions to UIF, Medical and Pension Funds	27 787	148 524
Housing allowance	15 662	110 031
Other	4 000	3 308
Overtime	34 806	-
Performance Bonuses	-	53 670
Reimbursive allowance	-	33 816
	227 855	**1 141 365**

Remuneration of general manager: Corporate services

Annual Remuneration	348 058	-
Acting Allowance	6 240	120 241
Car Allowance	108 489	-
Car re-imbursement	30 743	-
Cellphone Allowance	12 000	-
Contributions to UIF, Medical and Pension Funds	98 845	-
Performance Bonuses	24 171	-
Subsistence Allowance	1 849	-
	630 395	**120 241**

25. Remuneration of councillors

Executive Mayor	873 158	694 686
Chief Whip	755 237	533 534
Speaker	669 721	623 010
Mayoral Committee Members	3 477 858	3 879 368
Councillors	8 142 565	5 186 930
	13 918 539	**10 917 528**

26. Administrative expenditure

27. Depreciation and amortisation

Property, plant and equipment	294 540 081	281 923 696

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

28. Impairment of assets

Impairments		
Property, plant and equipment	28 432 634	11 729 836
Property, plant and equipment whose condition was assessed to be very poor and broken was impaired during the year.		
Investments	263 343 614	-
The investment in VBS mutual bank has been impaired due to the bank being placed under curatorship. It is not certain that the this investment will be recovered.		
	291 776 248	**11 729 836**

29. Finance costs

Interest on late payments	2 538 623	1 616 902

30. Debt impairment

Bad debts written off	14 669 189	-

31. Bulk purchases

Water	69 007 467	51 639 494

32. Contracted services

Consultants and professional services		
Legal Fees	15 221 175	12 485 802
Professional Fees	27 770 419	10 788 672
Audit Committee	265 843	539 580
Laboratory services	3 619 070	-
Collection Costs	11 135 807	3 017 680
Contractors		
Event Promoters	183 736	1 286 589
Repairs and Maintenance- Buildings	175 224	49 152 291
Repairs and Maintenance- Equipment	592 862	848 085
Repairs and Maintenance- Unspecified Assets	59 807 035	6 839 979
Safeguarding and Security	13 678	-
Employee Wellness	283 426	291 135
Outsourced services		
Personnel and Labour	11 114 430	460 243
Administration and Support	2 200 000	971 034
Professional Staff	81 750	403 038
Call Centre	9 200	-
Hygiene Services	14 300	-
Medical Services	7 085	294 118
Business advisory	53 990	-
	132 549 030	**87 378 246**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

33. General expenses

Accommodation	2 475 362	1 687 875
Advertising	1 503 360	555 463
Assessment rates & municipal charges	1 982 048	1 076 411
Audit Fees	3 181 074	2 931 806
Bank charges	206 342	241 181
Chemicals	10 956 341	8 439 771
Community programmes	-	1 882 930
Conferences and seminars	227 339	263 780
Consumables	7 634 154	2 815 135
Copyright fees	12 580	-
Electricity	45 591 932	44 426 893
Entertainment	119 577	100 293
Fuel and oil	6 676 901	5 677 456
Lease rentals on operating lease	992 094	2 323 303
IDP Review Costs	-	964 356
IT expenses	745 524	4 266 853
Insurance	5 169 363	4 672 923
Licences	541 793	391 014
Magazines, books and periodicals	-	51 875
Marketing	57 205	2 182 337
Mayor's bursary fund	2 009 033	2 841 875
Planning forums	-	3 270
Postage and courier	291 691	7 583
Project maintenance costs	-	192 000
Protective clothing	-	3 319 591
Research and development costs	-	5 000
Sanitation Expenses	1 366 502	77 135 638
Skills development fund	4 320	294 050
Subscriptions and membership fees	5 153 801	5 002 163
Telephone and fax	4 098 495	4 262 668
Title deed search fees	-	1 372 933
Travel - local	883 094	1 583 492
Uniforms	-	702 040
Water connection	-	3 029 009
Water services expenditure	21 863 263	70 518 997
	123 743 188	**255 221 964**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

34. Cash generated from operations

	2018	2017
Surplus	117 788 744	342 100 491
Adjustments for:		
Depreciation and amortisation	294 540 081	281 923 696
Impairment loss	291 776 248	11 729 836
Debt impairment	14 669 189	-
Movements in provisions	1 210 085	2 423 709
Actuarial gains / losses	149 498	(2 201 510)
Other non-cash items	(8 774 876)	-
Correction of prior year error	46 082 033	200 670 523
Changes in working capital:		
Inventories	11 236 367	(262 526)
Receivables from exchange transactions	(46 462 940)	(46 247 701)
Other receivables from non-exchange transactions	-	(40 993 226)
Vat receivable	(11 614 830)	(69 519 436)
Payables from exchange transactions	112 472 607	(172 175 885)
Taxes and transfers payable (non exchange)	(28 893 000)	22 490 391
Unspent conditional grants and receipts	26 157 667	(87 779 129)
Consumer deposits	-	253 398
	820 336 873	**442 412 631**

35. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	101 384 783	101 384 783
Other receivables from non-exchange transactions	-	198 411 359	198 411 359
Cash and cash equivalents	350 664	-	350 664
	350 664	**299 796 142**	**300 146 806**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	677 293 266	677 293 266
Taxes and transfers payable (non-exchange)	45 096 952	45 096 952
Consumer deposits	4 409 170	4 409 170
	726 799 388	**726 799 388**

2017

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	69 591 034	69 591 034
Other receivables from non-exchange transactions	-	198 411 359	198 411 359
Cash and cash equivalents	206 415 073	-	206 415 073
	206 415 073	**268 002 393**	**474 417 466**

35. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	573 983 547	573 983 547
Taxes and transfers payable (non-exchange)	73 989 952	73 989 952
Consumer deposits	4 409 170	4 409 170
	652 382 669	**652 382 669**

Figures in Rand	2018	2017

36. Commitments

Capital commitments

Already contracted for but not provided for		
• Infrastructure	1 097 513 842	1 256 359 877
Total capital commitments		
Already contracted for but not provided for	1 097 513 842	1 256 359 877

Authorised operational expenditure

Already contracted for but not provided for		
• Telephone,data,network,and software expenses	2 017 720	784 807
• Financial management support	-	17 566 843
• HR and payroll services	-	170 000
• Insurance	-	5 893 074
• Supply of office Materials	169 435	1 944 465
• Printing	-	404 000
• Provision of quarterly news letters	729 000	-
• Supply of petrol	2 513	-
• Development of sludge management plan for waste water works	524 400	-
• Repairs of office equipment, plant and transport assets	1 998 426	-
• Provision of office furniture and equipment	1 400 830	-
• Supply of materials	316 391	-
• Supply and installation of laboratory shelves	1 343 372	-
• Storage and server visualisation	1 463 587	-
• Onsite support and financial year-end readiness process	34 845	-
• Supply of diesel	675 450	-
• Purchase of water tanker truck	2 599 199	-
• Catering services	14 650	-
• Refurbishment, testing, drilling and cleaning of boreholes and water pumps	17 448 920	-
• Provision of transport facilities	34 000	-
• Renovation and supply of window blinds at a fire station	2 931 317	-
• Testing of transport assets road worthiness	13 760	-
• Advertising	7 300	-
• Accommodation, flight, meal and car hire	21 506	-
• M PAC training course for M PAC committees	71 250	-
• Supply of 210 sea20w 50 at Sibasa	104 000	-
• Supply of 15kg multipurpose grease at Sibasa	43 980	-
• Supply of 25 kg HTH granular at Malamulele and Mhinga	77 511	-
	34 043 362	**26 763 189**
Total operational commitments		
Already contracted for but not provided for	34 043 362	26 763 189

Total commitments

Total commitments		
Authorised capital expenditure	1 097 513 842	1 256 359 877
Authorised operational expenditure	34 043 362	26 763 189
	1 131 557 204	**1 283 123 066**

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

Operating leases - as lessee (expense)

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
36. Commitments (continued)		
Minimum lease payments due		
- within one year	1 297 537	1 183 958
- in second to fifth year inclusive	1 166 425	2 463 962
	2 463 962	**3 647 920**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

37. Contingencies

Contingent Liabilities:

Capstain Trading	608 660	608 660
Generic Core / Denrob Business Enterprise	904 924	904 924
Getusdsburg Community	17 375 599	17 375 599
Gudani Security	2 300 064	2 300 064
Hermans truck accident repairs(pty)ltd	142 843	142 843
K.T. Nsikazi.com	3 708 956	3 708 956
Khethwayo Construction CC	-	2 398 777
Konani Trading	-	595 650
Konani Trading	1 379 514	783 864
MICS empowerment	1 508 531	1 808 531
Mandiwana Tshifhiwa	-	33 318
Mathavha Thiambiwi Nelson	-	150 000
Minister Of Water And Sanitation	307 083 113	307 083 113
Mr Sibandela	-	260 000
Munzhelele Mashudu Mary Rose	5 000 000	2 380 000
Sharon pipeline specialists	2 488 975	2 488 975
Stan South	11 644 558	11 644 558
Synergy Income Fund Ltd	-	479 515
Telkom SA	9 119	9 119
Thiambi Winnie Phuluwa	200 000	350 000
Thikhathali Mashika Attorneys	-	9 119
Tinyiko Manganyi OBO Manganyi Andile	1 000 000	1 000 000
Tricks Wought	1 419 870	1 419 870
Wounter and Leone Mentjies	-	163 418
	356 774 726	**358 098 873**

37. Contingencies (continued)

MICS Empowerment
MICS Empowerment is litigating against the Municipality as they are alleging that they have serviced water equipment which was taken from the National Department of Water Affairs as the former Water Service Authority. The Municipality is disputing claim as it does not have a contractual relationship with MICS EMPOWERMENT. They are suing for R 1,508,531.33. The case is still pending

Capstain Trading
Capstain Trading is litigating against the Municipality and is disputing the validity of a cession that is purported to have been signed between the Capstain as the cedar and the third party. On the strength of the cession agreement the Municipality paid the third party an amount of R 608,660.42. The Municipality is defending the case. The case is pending.

Tricks Wought
Tricks Wrought instituted a claim of R 1,419, 871.00 due to the Municipality not honouring a cession agreement. The Municipality is disputing the claim. The case is pending.

Thiambi Winnie Phuluwa
Thiambi Winnie Phuluwa sued the Municipality for an amount of R 200,000.00 including her legal cost claiming that the motor vehicle of the Municipality was the sole cause of that accident. The case is pending.

Generic Core/Denrob Business Enterprises
Generic Core, a sub-contractor, is suing Denrob Business Enterprises for R 904,924.10 for the job done. The Municipality is a joinder due to a contractual relationship with Denrob Enterprises as the main contractor. The estimated disbursement is R400, 000.00 and the case is still pending.

Getrusburg Community Property Association
The Association is suing the Makhado Municipality for R 27,984,000.00 for drawing borehole water from its premises without consent. Makhado Municipality has joined VDM as a Water Services Authority. The estimated disbursement is R 700,000.00 and the case is still pending.

Sharon Pipeline Specialists
Sharon pipeline is litigating against the municipality as they are alleging that they provided services and has been paid. Sharon is suing the municipality for an amount of R 2,488,975.22. The municipality is defending the case. The case is still pending.

Tinyiko Mangayi Obo Manganyi Andile
Tinyiko has instituted a claim against the municipality alleging that there were bodily injuries sustained due negligence by the municipality. She is suing the municipality for an amount of R1 000,000.00. The case is still in house.

Konani Trading
Konani has instituted a claim against the municipality as they alleged that they have suffered damages as a result of the municipality failing to comply with the training agreement that was concluded. The claim amount is R 783 864.00. The case is still in house.

Munzhelele Mashudu Maryrose
Mashudu is litigating against the municipality as she alleges that she has lost her house due to fire as a result of negligence by municipality fire officials and their late response on cases as such. She is claiming an amount of R1 900 000.00 as the value of the burnt house, R450 000.00 as the value of the burnt properties, R25 500.00 as rent lost, R4500 as rent from march 2016 to date of final payment. The municipality is defending the case.

Konani Trading
Konani has instituted a claim against the municipality as they alleged that they have suffered damages as a result of the municipality failing to comply with the training agreement that was concluded. The claim amount is R 595,650. 00. The case is still in house.

37. Contingencies (continued)

K.T Nsikazi.com
Nsikazi is litigating against the municipality as they allege that they had leased the municipality IT hardware materials which upon expiry of the contract were never returned to them. They are claiming an amount of R 3,708,956.39 being the value of items in possession of the municipality. The municipality is defending the case.

Phalandwa Edzlsani/Nyambeni Frans
Nyambeni Frans has instituted a claim against the Municipality as he alleges that the water tanker collided with his car at the time of accident. No letter of demand sent yet.

Minister of water and sanitation
The Department of water and Sanitation has instituted legal proceedings against Vhembe District Municipality for outstanding water services. Their claiming an amount of R 307,083,112.67. The Municipality is defending the case

Stan South Financial and Investment Services. CC.
Stan South Financial and Investment Services are claiming for the work done. They are claiming R 11,644,558.18. The Municipality is defending the case

Hermans Truck Accident Repairs(Pty)Ltd|
Hermans Truck Accident Repairs (PTY) LTD has instituted a claim against Vhembe District Municipality for not paying them an amount of R142,843.41. This amount is for towing and storage.

Thiambi Winnie Phuluwa
Thiambi Winnie Phuluwa sued the Municipality for an amount of R 200,000.00 including her legal cost claiming that the motor vehicle of the Municipality was the sole cause of that accident. The case is pending.

Telkom SA
Telkom has written a letter of demand claiming an amount of R 9,119.27 including Vat. They are alleging that on or about the 16th of January 2016 while the Vhembe District Municipality employees were working, they damaged TELKOM cables.

Contingent assets

The district municipality had an outstanding investment amount of R300 000 000 with VBS Mutual Bank as at the end of the financial year, which by the time the Mutual Bank was placed under curatorship had an accrued interest of R16 385 968, and It is therefore not certain that the capital/ invested amount together with the accrued interest amounting to R316 386 088 will be received from the VBS Mutual Bank.

38. Risk management

Liquidity risk

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

Credit risk

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

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

39. Unauthorised expenditure

Opening Balance	1 053 400 509	678 246 364
Incurred during the year	-	125 690 738
Non cash items- Depreciation,Amortisation,and Impairment	-	249 463 407
Condonement	(1 053 400 509)	-
	-	**1 053 400 509**

During the current year and the prior year the municipality incurred unauthorised expenditures. In terms of Section 32 of the MFMA the council appoint a committee to investigate these. The investigations are still underway and no condonment, write off or recovery has been made of these expenses.

40. Fruitless and wasteful expenditure

Opening balance	54 729 211	41 327 447
Incurred during the year	1 035 562	13 401 764
Condonement	(54 729 211)	-
	1 035 562	**54 729 211**

During the year and the prior year the municipality incurred unauthorised, irregular and fruitless expenditures. In terms of Section 32 of the MFMA the council appoint a committee to investigate these. The investigations are still underway and no condonment, write off or recovery has been made of these expenses.

41. Irregular expenditure

Opening balance	882 090 784	656 073 731
Add: Irregular Expenditure - current year	167 440	208 443 856
Add:Irregular Expenditure- prior years expenditure-discover during the year	-	17 573 197
Less: Amounts recoverable (but condoned)	(882 090 784)	-
	167 440	**882 090 784**

Details of irregular expenditure – current year

	-

During the current year and the prior year the municipality incurred irregular expenditures. In terms of section 32 of the MFMA the council appoint a committee to investigate these. The council will appoint the committee to investigate.

42. Additional disclosure in terms of Municipal Finance Management Act

Deviation

Current year	2 827 218	3 011 148
Noted by council	(2 827 218)	(3 011 148)
	-	-

Material losses

Incurred during the year	68 761 977	89 960 722

Audit fees

Current year subscription / fee	3 625 685	3 471 386
Amount paid - current year	(3 625 685)	(3 471 386)
	-	-

Figures in Rand	2018	2017

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

PAYE and UIF

	2018	2017
Current year subscription / fee	65 789 238	63 511 332
Amount paid - current year	(59 035 755)	(58 334 026)
	6 753 483	**5 177 306**

Pension and Medical Aid Deductions

	2018	2017
Current year subscription / fee	94 205 155	53 687 710
Amount paid - current year	(94 205 155)	(53 687 710)
	-	-

43. Prior-year correction of errors

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

Statement of financial position

2017

	Note	As previously reported	Correction of error	Re-classification	Restated
Inventories	2	69 705 005	(34 506 274)	-	35 198 731
Receivables from exchange transactions	3	102 079 804	(32 488 770)	-	69 591 034
Receivables from non exchange transactions	4	198 382 973	28 386	-	198 411 359
Vat receivable	5	91 046 325	18 990 432	-	110 036 757
Cash and cash equivalents	6	257 060 610	(103 458 743)	-	153 601 867
Property, plant and equipment	7	8 367 642 996	(2 774 540 898)	-	5 593 102 098
Investment property	8	13 226 866	-	-	13 226 866
Intangible assets	9	12 327 431	-	-	12 327 431
Payables from exchange transactions	10	(490 166 382)	(83 817 165)	-	(573 983 547)
Taxes and transfers payable- non exchange transactions	11	(73 989 952)	-	-	(73 989 952)
Consumer deposits	12	(4 409 170)	-	-	(4 409 170)
Unspent conditional grants	13	(23 017 721)	-	-	(23 017 721)
Provisions	14	(49 471 223)	-	-	(49 471 223)
Revaluation reserve		(6 034 798)	-	6 034 798	-
Accumulated surplus		(8 464 382 764)	3 009 793 032	(6 034 798)	(5 460 624 530)
		-	-	-	-

Notes to the Annual Financial Statements

43. Prior-year correction of errors (continued)

Statement of financial performance

2017

	Note	As previously reported	Correction of error	Re-classification	Restated
Revenue from exchange transactions	16	201 125 623	(25 912 957)	-	175 212 666
Revenue from non exchange transactions	16	1 305 049 068	-	-	1 305 049 068
Employee costs	24	(439 934 786)	-	-	(439 934 786)
Remuneration of councillors	25	(10 917 528)	-	-	(10 917 528)
Administration	26	(971 034)	-	971 034	-
Depreciation and amortisation	27	(240 687 568)	(41 236 128)	-	(281 923 696)
Impairment loss/ Reversal of impairment		(10 607 841)	(1 121 995)	-	(11 729 836)
Finance costs	29	(1 616 902)	-	-	(1 616 902)
Bulk purchases	31	-	(51 639 494)	-	(51 639 494)
Collection costs		(706 733)	-	706 733	-
Repairs and maintenance		(50 208 455)	-	50 208 455	-
Auditors remuneration		(3 471 386)	-	3 471 386	-
Contracted services	32	-	-	(87 378 246)	(87 378 246)
General expenditure	33	(287 905 590)	-	32 683 626	(255 221 964)
Actuarial gains/ Losses		2 201 210	-	-	2 201 210
Surplus for the year		**461 348 078**	**(119 910 574)**	**662 988**	**342 100 492**

43. Prior-year correction of errors (continued)

Cash flow statement

2017

	Note	As previously reported	Correction of error	Restated
Cash flow from operating activities				
Sale of goods		42 751 330	31 621 120	74 372 450
Grants		1 245 462 711	(28 893 101)	1 216 569 610
Interest income		34 853 707	-	34 853 707
Other receipts		20 692 535	(14 732 341)	5 960 194
Employee related costs		(447 887 422)	(3 980 384)	(451 867 806)
Suppliers		(354 457 748)	(81 400 874)	(435 858 622)
Finance costs	29	(1 616 902)	-	(1 616 902)
		539 798 211	**(97 385 580)**	**442 412 631**
Cash flow from investing activities				
Purchases of property, plant and equipment	7	(441 600 583)	(6 073 163)	(447 673 746)
Purchases of intangible assets	9	(11 383 166)	-	(11 383 166)
		(452 983 749)	**(6 073 163)**	**(459 056 912)**
Cash flow from financing activities				
Finance lease obligations		(726 893)	-	(726 893)

Errors

Inventory
Water Inventory and, Consumables were overstated in prior year's set of financial statements due to incorrect valuation and and errors in posting. Water Inventory and, Consumables were overstated by R 25,045,307 and R 9,460,967; respectively. The reversal of the valuation and correction of errors in posting resulted in Profit or loss being overstated by R 34,506274.

Receivables from exchange transactions
The correction of R 32,488,770 is made up of the following: Thulamela debtors increased by R 7,683,444 ; Makhado debtors decreased by R 33,714,877 ; Musina debtors decreased by R 6,605,415 ; and Mutale debtors increased by R 148,078.
The increase in Thulamela debtors is made up of an increase of R 6,211,286 in the control account to agree to the age analysis and an increase in the accumulated surplus. The rest of the changes were due to re-allocation of debtors with credit balances from debtors to other payables of R 1,472,158.

The decrease in Makhado debtors is due to the correction of the control account to agree with the age analysis, the correction amounted to R 35,220,662 which resulted to a decrease in both debtors and accumulated surplus. The rest of the adjustments relate to the re-allocation of debtors with credit balances to the tune of R 1,505,785 to payments received in advance.
The decrease in Musina debtors is due to the reversal of R 31,385,963.50 of incorrect billing done on the department of public works, this reversal of the billing decreased the debtors by R 31,385,963.50, a decrease in accumulated surplus by R 30,518,313.79, and a decrease in revenue from sale of water by R 867,650. The rest of the correction relates to re-allocation of debtors with negative balances to payments received in advance. This re-allocation increased both Musina debtors and payments received in advance to the tune of R 24,780,548.50.
The increase in Mutale debtors is the correction of the control account to agree with the age analysis, the correction amounted to R 64,552 which increased consumer debtors and accumulated surplus. The rest of the corrections relate to the re-allocation of debtors with credit balances to payments received in advance to the tune of R 83,526.

Receivables from non-exchange transactions
The correction of R 28,386 relates to an overpayment of the supplier during the 2015/2016 financial year. This overpayment was noted during the year under audit. Therefore, a debtors was raised and accumulated surplus increased by R 28,386.

Notes to the Annual Financial Statements

43. Prior-year correction of errors (continued)

Vat receivable
Vat receivable was understated by R18,990,432 in prior year's set of financial statement due to incorrect treatment of vatable items. As a result profit or loss was understated by R 18,990,432.

Cash and cash equivalents
Bank balances were overstated by R 103,458,743 expenditure items being captured twice on the cash book. This resulted in profit or loss being underused to the tune of R 103,458,743.

Property, Plant and Equipment
In the previous set of financial statements for the year ending 30 June 2017,the costs / valuation indicated under infrastructure assets was incorrectly stated due to deficiencies in the unit rates applied to the infrastructure assets. this correction resulted in a decrease of R 2,613,737,190.79 in the cost of the infrastructure assets and an increase of R 68,610,028.18 in the accumulated depreciation of infrastructure assets.There were also infrastructure assets that could not be verified during the audit by audit general.A review of the whole population of assets on the register during the 2017/18 asset verification resulted in a correction of cost for assets that could not be verified of R116,731,499.86 and accumulated depreciation of R 8,183,561.18 .
In the previous set of financial statements for the year ending 30 June 2017, the figure indicated under buildings was incorrectly stated as a result of omission of carports constructed in Vuwani fire station and training centre.The correction resulted in an increase of R 28,800 in the cost of buildings.

In the previous set of financial statement for the year 30 June 2017 , the figure indicated for capital work in progress was incorrectly stated as a result of duplication of payment vouchers in the work in progress schedule . This correction resulted in a decrease of R4,596,858 in the value of work in progress.

In the previous set of financial statements for the year ending 30 June 2017,the figure indicated for furniture and fittings,transport assets, IT Equipment ,Office Equipment ,Plant and machinery and other PPE were incorrectly stated as a result of moveable assets not included on the assets register that were identified during the 2017/18 asset verification exercise.This correction resulted in an increase in cost of R 9,871,905.90 and an increase in accumulated depreciation of R1,552,241.40 .

Payables from exchange transactions
Payables from exchange transactions were overstated due to errors in capturing, and transacting in wrong segments resulting in an overstatement of trade payables by R 4,408,828, an understatement of income received in advance, other accrued expenses, and other payables by R 27,842,018, R 57,999,815 and R 2,384,160; respectively. Profit or loss was overstated by R 83,817,165.

Bulk purchases
No bulk purchases were recognised in the prior year's set of financial statements. The recognition resulted in decrease in profit by R 51,639,494.

43. Prior-year correction of errors (continued)

Reclassifications

Repairs and maintenance
In prior year's set of financial statements repairs and maintenance were disclosed as a separate line item. mCOA's charts of accounts classify repairs and maintenance under contracted services. This reclassification was adopted to align the financial statements to the mSCOA's charts of accounts to achieve uniformity and comparability.

Auditor's remuneration
Auditor's remuneration was disclosed as a separate line item in prior year's set of financial statements. mSOA's charts of accounts classify auditor's fees under general / operating expenditure line item. The municipality adopted this classification to achieve uniformity and comparability

Contracted services / General expenses
mSCOA's charts of accounts classify certain general / operating expenditure items under contracted services. These include, but not limited to, legal fees, repairs and maintenance, employee wellness, medical services. The municipality has adopted this classification to achieve uniformity and comparability.

Revaluation reserve
The decrease in the revaluation reserve is due to the re-allocation of valuation assets which were in the asset register in the prior year, these assets were valued and brought in the asset register, however, the valuation was incorrectly disclosed as a revaluation reserve instead of accumulated surplus. The re-allocation decreased the revaluation reserve by R 6,034,798 and increase accumulated surplus.