MBHASHE LOCAL MUNICIPALITY (EC 121)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2017

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June, 2017

General Information

Nature of business and principal activities	The Municipality is responsible for the following activities:- - collection of rates in respect of property taxes; - refuse and solid waste removal; - construction and maintenance of access roads, storm water facilities and streetlights within its jurisdiction; and - traffic control, issue of learners licences and renewal of drivers licences, law enforcement activities.

The following is the list of Councillors as at 30 June 2017

Mayoral committee

Mayor	Cllr S.Janda
Speaker	Cllr B. Majavu
Members of the Executive Committee	
	Cllr M. Mbomvu
	Cllr MM Mcotsho
	Cllr XO Willie
	Cllr NM Mlandu
	Cllr N Mkhedamo
	Cllr N Nkomonye
	Cllr N Ngomthi
	Cllr NN Ndlodaka
Chief WHIP	Cllr S. Sibingibingi
Councillors	Cllr P Rulumeni
	Cllr VN Kwedinana
	Cllr LL Sangqu
	Cllr NO Sogayise
	Cllr P Mamba
	Cllr N Nqwena
	Cllr S Mwahla
	Cllr B Jamnda
	Cllr LM Soshankane
	Cllr NE Mbane
	Cllr M Peter
	Cllr P Bhungu
	Cllr T Tshika
	Cllr S Mantshingilane
	Cllr W Namba
	Cllr L Mahobe
	Cllr SD Sicengu
	Cllr ST Sitwayi
	Cllr S Mrobo
	Cllr S Ndinisa
	Cllr L Mantshiyose
	Cllr V Matiwane
	Cllr N Magatya
	Cllr NB Sirunu
	Cllr NN Mboxela
	Cllr NA Tyali
	Cllr S Dlova
	Cllr PP Kondile
	Cllr N Ncethani

General Information

	Cllr C Genyane
	Cllr N Nyalambisa
	Cllr XP Baleni
	Cllr N Ganda
	Cllr SC Livi
	Cllr B Siswana
	Cllr M Tetyana
	Cllr KD Msindwana
	Cllr M Takani
	Cllr L Matiti
	Cllr WM Solontsi
	Cllr M Bhele
	Cllr N Mahlathi
	Cllr N Tyelingane
	Cllr M Tshaka
	Cllr Goniwe Mafanya
	Cllr NT Tafeni
	Cllr S Ndikinda
	Cllr MJ Jafta
	Cllr P Makeleni
Grading of local authority	3
Municipal Manager	Mr S. V. Poswa
Chief Finance Officer	Mr X. Sikobi
Section 79 Chairpersons	Cllr SD Kalityi (MPAC Chair)
	Cllr MK Makapela (Ethics and Members Interest Chair)
	Cllr X Tyhodana (Women`s Caucus Chair)
Registered office	454 Steatfield Road
	Dutywa
	5000
Postal address	P.O. Box 25
	Dutywa
	5000
Bankers	First National Bank (62231175953)
Auditors	Auditor General South Africa
Attorneys	Nginda Attorneys
	Tonise Attorneys
	Vitshima Attorneys
	M Gigaba Incorporated
	NT Vuba Incorporated
	Siyathemba Sokutu Attorneys

General Information

Traditional Leaders	Chief N.M Masiko
	Chief N.W Salakuphathwa
	Chieftain A. N. Sigcawu
	Chief F. F. Ndim
	Chief S. Nyendani
	Chief N. Ngubechanti
	Chief N. W. Zenani
	Chief L. Mtwesi
	Chief A. Dudumayo
	Chieftain N. Sofika
	Chief P. Fudumele
	Chief S. Ntlokondala

General Information

Relevant Legislation	Basic Conditions of Employment Act 75 of 1997
	Broad Based Black Economic Empowerment Act 53 of 2003
	Constitution of the Republic of South Africa Act, 1996
	Deeds Registries Act 47 of 1937
	Disaster Management Act 57 of 2002
	Division of Revenue Act 10 of 2014
	Electoral Act 73 of 1998
	Electoral Commission Act 51 of 1996
	Intergovernmental Relations Framework Act 13 of 2005
	Interim Protection of Informal Lands Rights Act 31 of 1996
	Labour Relations Act 66 of 1995
	Local Government : Municipal Demarcation Act 27 of 1998
	Local Government : Municipal Electoral Act 27 of 2000
	Local Government : Municipal Finance Management Act 56 of 2003
	Local Government : Municipal Property Rates Act 6 of 2004
	Local Government : Municipal Structures Act 117 of 1998 (as amended)
	Local Government : Municipal Systems Act 32 of 2000 (as amended by Act 44 of 2003)
	Local Government : Municipal Fiscal Powers and Functions Act No 12 of 2007
	Prescription Act 18 of 1943
	Prescription Act 68 of 1969
	Prevention and Combating of Corrupt Activities Act
	Prevention of Illegal eviction from an Unlawful Occupation of Land Act 19 of 1998
	Promotion of Access to Information Act 2 of 2000
	Promotion of Administrative Justice Act 3 of 2000
	Promotion of Equality and Prevention of Unfair Discrimination Act 4 of 2000
	Protected disclosures Act 26 of 2000
	Public Audit Act 25 of 2004
	Re-Determination of the Boundaries of Cross-Boundary Municipality Act 6 of 2005
	Reconstruction and Development Program Fund Act 7 of 1994
	Regional Services Councils Act 109 of 1985
	Regulation of Gatherings Act 205 of 1993
	Removal of Restrictions Act 84 of 1967
	Remuneration of Public Office Bearers Act 20 of 1998
	Skills Development Act 97 of 1998
	Skills Development Levies Act 9 of 1999
	South African National Roads Agency Limited and National Roads Act 7 of 1998
	Tobacco Products Control Act 83 of 1993
	Traditional Leadership and Governance Framework Act 41 of 2003
	Transfer of Staff to Municipalities Act 17 of 1998
	Unemployment Insurance Act 63 of 2001
	United Municipal Executive (Pension) Act 12 of 1958
	Value Added Tax 1991

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

Abbreviations

AFS	Annual Financial Statements
EPWP	Extended Public Works Programme
FMG	Financial Management Grant
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
PPE	Property, Plant and Equipment
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MPAC	Municipal Public Accounts Committee
MSIG	Municipal Systems Improvement Grant
SARS	South African Revenue Service
VAT	Value Added Tax

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Section 62 of MFMA, to maintain adequate accounting records and is responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the Annual Financial Statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The Annual Financial Statements have been prepared in accordance with 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 judgments and estimates.

The accounting officer acknowledge 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 behaviours are applied and managed within predetermined procedures and constraints. Salaries, allowances and benefits to public office bearers and Councillors of the municipality were within the upper limits of the framework envisaged in Section 219 of the Constitution.

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, 2018 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 Annual Financial Statements set out on page 5 to 66, which have been prepared on the going concern basis, were approved by the Council on 24 November, 2017 and were signed on its behalf by:

Mr M. Nako
Acting Municipal Manager

Dutywa

24 November, 2017

Accounting Officer's Report

The accounting officer submits his report for the 12 Months period ended 30 June 2017.

1. Review of activities

Main business and operations

The municipality is responsible for the following activities:
- collection of rates in respect of property rates;
- refuse and solid waste removal;
- construction and maintenance of access roads, storm water facilities and streetlights within its jurisdiction;
- traffic control, law enforcement activities, issue of learners licences and renewal of drivers licences and operates principally in South Africa.

2. Going concern

We draw attention to the fact that at 30 June 2017, the municipality had accumulated surplusof R 578,549,018 and that the municipality's total assets exceed its liabilities by R 578,549,018.

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 does not have any interest in the contract that the municipality has with various suppliers for procuring goods and/or services.

5. Borrowing potential

The current ratio is below 1 whilst it was almost 2 in the previous year. This is a temporary setback as it was caused in the main by the internal borrowing from own reserves in order to speed up service delivery on electrification project. These amounts are to be returned as they will be refunded when grant funding is received. Liabilities have also been increased by the short term finance lease which will be settled within the 2017/2018 Financial period, as well as the trade creditors payments that were paid in July 2017.

Our assets versus liabilities show that we have huge potential for borrowing which the municipality is currently not exploring. This option will only be taken to fund borrowings for income-generating assets with the objective of generating a commercial return.

Statement of Financial Position as at 30 June, 2017

Figures in Rand	Note(s)	2017	2016
Assets			
Current Assets			
Receivables from exchange transactions	3	583,566	1,405,857
Receivables from non-exchange transactions	38	16,254	318,453
VAT receivable	4	9,326,286	14,233,136
Consumer debtors	5	2,486,573	2,851,681
Cash and cash equivalents	6	13,635,479	66,777,287
		26,048,158	**85,586,414**
Non-Current Assets			
Investment property	7	47,080,100	47,080,100
Property, plant and equipment	8	557,276,288	524,570,039
Intangible assets	9	2,268,903	675,316
Heritage assets	36	9	9
		606,625,300	**572,325,464**
Total Assets		**632,673,458**	**657,911,878**
Liabilities			
Current Liabilities			
Finance lease obligation	39	11,225,009	25,980,985
Payables from exchange transactions	10	31,561,735	17,594,392
Employee benefit obligation	13	544,181	304,495
Unspent conditional grants and receipts	11	-	1,000,000
Provisions	12	-	345,948
		43,330,925	**45,225,820**
Non-Current Liabilities			
Finance lease obligation	39	-	13,284,700
Employee benefit obligation	13	2,885,664	2,424,359
Provisions	12	7,907,851	7,322,987
		10,793,515	**23,032,046**
Total Liabilities		**54,124,440**	**68,257,866**
Net Assets		**578,549,018**	**589,654,012**
Net Assets			
Accumulated surplus		578,549,018	589,654,012

* See Note 43

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016
Revenue			
Revenue from exchange transactions			
Service charges	18	474,527	1,322,908
Rental of facilities and equipment	42	1,894,531	1,560,004
Interest received (trading)		82,957	-
Recoveries	16	1,495,663	3,383,742
Other income	19	2,287,345	1,468,531
Interest earned	14	5,111,777	9,004,105
Revenue from non-exchange transactions			
Assessment rates	17	4,032,478	7,701,146
Licence and permits		1,415,198	731,769
Received Donation in kind	46	68,934,355	-
Government grants & subsidies	15	296,985,860	289,997,410
Fines and penalties		3,098,393	2,208,895
Total revenue		**385,813,084**	**317,378,510**
Expenditure			
Employee related costs	21	(120,917,690)	(79,490,942)
Remuneration of Councillors	22	(23,319,930)	(23,984,032)
Depreciation and amortisation	41	(68,997,678)	(69,116,580)
Finance costs	23	(9,121,966)	(15,294,347)
Debt Impairment	24	(458,257)	(2,084,685)
Administrative and other expenditure	25	(152,973,686)	(138,696,400)
Total expenditure		**(375,789,207)**	**(328,666,986)**
Operating surplus (deficit)		**10,023,877**	**(11,288,476)**
Profit/(Loss) on disposal of assets		(21,128,869)	(2,517,045)
Deficit for the year		**(11,104,992)**	**(13,805,521)**

* See Note 43

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	567,860,156	567,860,156
Changes in net assets	1,408,493	1,408,493
Change in accounting policy	(4,391,651)	(4,391,651)
Surplus for the year	38,582,535	38,582,535
Balance at 01 July, 2015 as restated*	**603,459,533**	**603,459,533**
Changes in net assets		
Surplus/(Deficit) for the year	(13,805,521)	(13,805,521)
Total changes	(13,805,521)	(13,805,521)
Balance at 01 July, 2016	**589,654,010**	**589,654,010**
Changes in net assets		
Surplus/(Deficit) for the year	(11,104,992)	(11,104,992)
Total changes	(11,104,992)	(11,104,992)
Balance at 30 June, 2017	**578,549,018**	**578,549,018**

* See Note 43

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		8,854,140	8,360,722
Grants		295,985,860	275,018,874
Interest income		5,194,734	9,004,105
Other receipts		13,035,222	4,853,359
		323,069,956	297,237,060
Payments			
Employee costs		(143,536,629)	(103,139,237)
Suppliers		(140,020,466)	(135,431,273)
Finance costs		(9,121,966)	(15,294,347)
		(292,679,061)	(253,864,857)
Net cash flows from operating activities	34	**30,390,895**	**43,372,203**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(55,146,128)	(121,223,358)
Proceeds from sale of property, plant and equipment	8	1,430,911	-
Purchase of other intangible assets	9	(1,776,810)	(405,900)
Net cash flows from investing activities		**(55,492,027)**	**(121,629,258)**
Cash flows from financing activities			
Finance lease payments		(28,040,676)	-
Net increase/(decrease) in cash and cash equivalents		**(53,141,808)**	**(78,257,055)**
Cash and cash equivalents at the beginning of the year		66,777,287	145,034,342
Cash and cash equivalents at the end of the year	6	**13,635,479**	**66,777,287**

* See Note 43

MBHASHE LOCAL MUNICIPALITY (EC 121)
Annual Financial Statements for the year ended 30 June, 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1,200,000	-	**1,200,000**	474,527	**(725,473)**	44.1
Rental of facilities and equipment	1,207,592	550,000	**1,757,592**	1,894,531	**136,939**	44.2
Interest received (trading)	-	-	**-**	82,957	**82,957**	
Recoveries	-	-	**-**	1,495,663	**1,495,663**	44.3
Other income	78,908,264	10,200,000	**89,108,264**	2,287,345	**(86,820,919)**	44.4
Interest received - investment	10,478,662	-	**10,478,662**	5,111,777	**(5,366,885)**	44.5
Total revenue from exchange transactions	**91,794,518**	**10,750,000**	**102,544,518**	**11,346,800**	**(91,197,718)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	3,621,026	400,000	**4,021,026**	4,032,478	**11,452**	44.6
Donation Revenue	-	-	**-**	68,934,355	**68,934,355**	
Licenses and permits	1,500,000	-	**1,500,000**	1,415,198	**(84,802)**	44.7
Transfer revenue						
Government grants & subsidies	285,924,000	10,000,000	**295,924,000**	296,985,860	**1,061,860**	44.8
Fines, Penalties and Forfeits	2,500,000	1,000,000	**3,500,000**	3,098,393	**(401,607)**	44.9
Total revenue from non-exchange transactions	**293,545,026**	**11,400,000**	**304,945,026**	**374,466,284**	**69,521,258**	
Total revenue	**385,339,544**	**22,150,000**	**407,489,544**	**385,813,084**	**(21,676,460)**	
Expenditure						
Personnel	(89,792,374)	(28,830,670)	**(118,623,044)**	(120,917,690)	**(2,294,646)**	
Remuneration of councillors	(19,331,771)	(3,934,000)	**(23,265,771)**	(23,319,930)	**(54,159)**	
Depreciation and amortisation	(38,199,958)	(31,800,042)	**(70,000,000)**	(68,997,678)	**1,002,322**	44.10
Finance costs	-	-	**-**	(9,121,966)	**(9,121,966)**	44.11
Debt impairment	(1,010,344)	-	**(1,010,344)**	(458,257)	**552,087**	44.12
General Expenses	(118,003,986)	(23,549,303)	**(141,553,289)**	(152,973,686)	**(11,420,397)**	44.13
Total expenditure	**(266,338,433)**	**(88,114,015)**	**(354,452,448)**	**(375,789,207)**	**(21,336,759)**	
Operating surplus	**119,001,111**	**(65,964,015)**	**53,037,096**	**10,023,877**	**(43,013,219)**	
Loss on disposal of assets and liabilities	-	-	**-**	(21,128,869)	**(21,128,869)**	44.14
Surplus	**119,001,111**	**(65,964,015)**	**53,037,096**	**(11,104,992)**	**(64,142,088)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**119,001,111**	**(65,964,015)**	**53,037,096**	**(11,104,992)**	**(64,142,088)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Receivables from exchange transactions	-	-	**-**	583,566	**583,566**	44.15
Receivables from non-exchange transactions	-	-	**-**	16,254	**16,254**	44.16
VAT receivable	-	-	**-**	9,326,286	**9,326,286**	44.17
Consumer debtors	-	-	**-**	2,486,573	**2,486,573**	44.18
Cash and cash equivalents	165,554,142	-	**165,554,142**	13,635,479	**(151,918,663)**	44.19
	165,554,142	**-**	**165,554,142**	**26,048,158**	**(139,505,984)**	
Non-Current Assets						
Investment property	-	-	**-**	47,080,100	**47,080,100**	44.20
Property, plant and equipment	157,525,122	(34,163,973)	**123,361,149**	557,276,288	**433,915,139**	44.21
Intangible assets	686,291	-	**686,291**	2,268,903	**1,582,612**	44.22
Heritage assets	-	-	**-**	9	**9**	
	158,211,413	**(34,163,973)**	**124,047,440**	**606,625,300**	**482,577,860**	
Total Assets	**323,765,555**	**(34,163,973)**	**289,601,582**	**632,673,458**	**343,071,876**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	11,225,009	**11,225,009**	44.23
Payables from exchange transactions	-	-	**-**	31,561,722	**31,561,722**	44.24
Employee benefit obligation	-	-	**-**	544,181	**544,181**	44.25
	-	**-**	**-**	**43,330,912**	**43,330,912**	
Non-Current Liabilities						
Employee benefit obligation	-	-	**-**	2,885,664	**2,885,664**	44.27
Provisions	-	-	**-**	7,907,851	**7,907,851**	44.28
	-	**-**	**-**	**10,793,515**	**10,793,515**	
Total Liabilities	**-**	**-**	**-**	**54,124,427**	**54,124,427**	
Net Assets	**323,765,555**	**(34,163,973)**	**289,601,582**	**578,549,031**	**288,947,449**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	323,765,555	(34,163,973)	**289,601,582**	578,549,031	**288,947,449**	44.29

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), including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Section 62 of MFMA.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention.

The principal accounting policy adopted in the preparation of these annual financial statements are set out below. These accounting policies are consistent with the previous period, except for the policies relating to the new standards and interpretations under note 2.1.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. Amounts are rounded off to the nearest Rand.

1.2 Reporting entity

Mbhashe Local Municipality ("the municipality") is a low capacity local government institution covering Dutywa, Willowvale and Elliotdale in the Eastern Cape.

Accounting Policies

1.3 Judgements, assumptions and estimates

The preparation of financial statements in conformity with GRAP requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgments made by management in the application of GRAP that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year include:

- Impairment of debtors. Management is required to assess the debtors portfolio on an individual and collective basis and to determine an appropriate impairment based on the collection trends, type of consumer and the general economic environment.
- Provision for landfill sites. Management is required to base the provision for the rehabilitation of the landfill sites on appropriate supporting documentation and assumptions relating to available permitted airspace, airspace utilization factor and waste acceptance rate.
- Assessment of conditions related to unspent grants. Management must exercise judgment in assessing the extent to which the conditions pertaining to grants have been met in order to release an appropriate amount to revenue.
- Assets. Management are required to exercise judgment when assessing the fair value / deemed cost of an asset, the extent of any potential impairment, the useful lives and depreciation methods applied to assets.
- Intangible assets. Management is required to assess the useful life of intangible assets based on the period the asset is expected to generate net cash inflows or service potential.

Going concern assumption

These annual financial statements have been prepared on a going concern basis.

Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated 43. The nature and reason for the re-classification is disclosed. Where accounting errors relating to prior years 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 in accounting policy in the current year, the adjustment is made retrospectively in terms of the requirements of the standard, and the prior year comparatives are restated accordingly.

1.4 Value add tax

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

1.5 Investment property

Initial recognition

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 property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

Subsequent measurement and derecognition - cost model

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Investment property is depreciated on the straight line basis over its expected useful life to its estimated residual value.The depreciable amount is determined after taking into account an asset`s residual value.If at any point the residual value exceeds the carrying amount of an investment property, no depreciation is calculated on that investment property. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful life of investment property is estimated to be 40 years.

Investment property is derecognised on disposal when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.6 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.

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

Subsequent measurement and derecognition - cost model

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite usefullife
Buildings	Straight line	30 years
Other assets	Straight line	5 - 10 years
Infrastructure	Straight line	10 - 60 years
Community assets	Straight line	30 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.

Derecognition of PPE

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.

1.6 Property, plant and equipment (continued)

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.

1.7 Intangible assets

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An intangible asset is an identifiable non-monetary asset without physical substance. The municipality recognises an intangible asset in its statement of financial position only when it meets the definition of an intangible asset and 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 reliably.

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

For intangible assets with indefinite useful life 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. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with the Standards of GRAP on Acccounting Policies, Changes in Accounting Estimates and Errors

Initial recognition

The cost of an item of an asset is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality.

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

Subsequent measurement - cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life.

Amortisation

Amortisation is charged so as to write off the cost of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated asset average lives

Item	Useful life
Computer software	3 to 5 years

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefit or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the surplus or deficit.

1.8 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.

1.8 Investments in controlled entities (continued)

General purpose financial reporting by the 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 01-Jul-16 to 30-Jun-17.

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.

1.9 Heritage assets

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

Recognition

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

The fair values cannot be measured due to nature of assets. The assets are shown in the financial statements at a nominal value of R9 for record keeping.

1.10 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 local sphere of government are considered to be related parties.

Related parties include Councillors, key management personnel and close members of family.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other senior managers reporting directly to the Municipal Manager and supply chain officials.

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

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by 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.

Accounting Policies

1.11 Events after reporting period

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

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

1.12 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Financial instrument at fair value
- Financial instruments at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition

A financial assets/ financial liability shall be recognised in the statement of financial position when, and only when the municipality becomes a party to the contractual provisions of instrument.

Initial measurement financial assets and financial liabilities

When a financial asset/liability is recognised initially, the municipality shall measure it at its fair value plus, in the case of a financial asset/liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset/liability.

Subsequent measurement of financial assets and financial liabilities

The municipality shall measure all financial assets/liabilities after initial recognition using the following categories:
- financial instruments at amortised cost
- financial instrument at fair value

All financial assets measured at amortised cost, or cost, are subject to an impairment review in terms of GRAP 104: Financial Instruments. Financial assets are recognised using trade date accounting.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost.

Receivables from exchange transactions

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments.

Accounting Policies

1.12 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents are recognised at fair value and subsequently carried at amortised cost using the effective interest method. Cash includes cash on hand (including petty cash) and investments comprising cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. Trade and other payables from exchange transactions reflected on the face of the statement of financial position or in the notes thereto are classified as other financial liabilities.

Financial liabilities consist of trade payables and are initially measured at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

Derecognition

Financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the asset expires, is settled or waived, or it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another party.

An entity recognises financial assets using trade date accounting.

Financial liabilities

A financial liability is derecognised when and only when the financial liability is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived).

1.12 Financial instruments (continued)

Impairment of financial assets

A financial asset measured at amortised cost or cost, is assessed at each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the municipality on terms that the municipality would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

The municipality considers evidence of impairment at both a specific asset and collective asset level.

All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. A report on the various categories of customers is drafted to substantiate the impairment evaluation.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment, the Municipality uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in surplus or deficit and reflected in an allowance account against receivables. If impaired financial assets are written off, the write off is made against the allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through surplus or deficit, subject to the restriction that the carrying amount of the financial instrument shall not exceed what the amortised cost would have been had the impairment not been recognised.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Accounting Policies

1.13 Leases

Municipality as lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the assets fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and not guaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The municipality recognises the aggregate payments as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Municipality as lessee

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

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Operating leases - lessor

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

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

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

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

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

Accounting Policies

1.13 Leases (continued)

Municipality as a lessor

Under a finance lease, the Municipality recognised the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguarenteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease installments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight lined revenue and actual payment received will give rise to an asset. The Municipality recognised the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

1.14 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:

Accounting Policies

1.15 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.

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:
- The assets ability to generate significant cash flows; and
- The degree to which it is utilised to generate commercial returns.

The carrying amounts of the municipality's non-cash generating assets are reviewed at each reporting date to determine whether there is any indication of impairment. A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. The recoverable service amount is the greater of an asset's fair value less costs to sell and its value in use.

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

The present value of the remaining service potential of a non-cash-generating asset is determined using the 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.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable service amount. Impairment losses are recognised in surplus or deficit.

An entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exist, the entity shall estimate the recoverable service amount of that asset.

Accounting Policies

1.16 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.

1.17 Employee benefits

Short-term employee benefits

Remuneration to employees is recognised in surplus or deficit as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

Short term employee benefits (those payable within 12 months after the service is rendered) are measured on an undiscounted basis.

An accrual is recognised for the amount expected to be paid in terms of short term bonus or leave arrangements when the municipality has a present legal or constructive obligation to pay the amount as a result of a past service provided by an employee and the amount can be estimated reliably.

Liabilities for annual leave are recognised as they accrue to the employees. The liability is based on the total amount of leave days due to the employee and the total related remuneration package.

Defined contribution plans

A defined contribution plan is a plan under which the municipality pays fixed contributions to a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the surplus or deficit in the period in which the service is rendered by the relevant employees.

The municipality makes contributions to the following plans:
- South African Municipal Workers Union National Provident Fund
- Eastern Cape Group Municipal Pension Fund
- Eastern Cape Group Municipal Gratuity Fund

The municipality makes contributions to the following medical aid schemes:
- HOSMED
- Key Health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

Other long term employee benefit

For other long term employee benefit the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries. Gains and losses arising from actuarial valuation is recognised in surplus or deficit in the year in which they occur.

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.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation.

The municipality has an unfunded other long term employee benefit that relates to long service awards.

1.18 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

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 judgment. Indications that an outflow of resources may be probable are:

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

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

- the amount determined using 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.

Contingencies

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

1.19 Revenue from exchange transactions

Revenue from exchange transactions includes revenue from service charges, rental of facilities and equipment, other income and interest received on investments.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue from the sale of goods in the ordinary course of the municipality's activities is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts. Revenue from the rendering of the services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property that has improvements and receiving service. Tariffs are determined per category of property usage, and are levied at a fixed monthly rate based on the category of the customer.

Accounting Policies

1.19 Revenue from exchange transactions (continued)

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Interest income is recognised using the effective interest rate method.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

1.20 Revenue from non-exchange transactions

Revenue from non-exchange transactions includes rates levied, licences and permits, fines and grants from other spheres of government.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is recognised 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 if applicable, there has been compliance with the relevant legal requirements or restrictions.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable.

Fines constitute both spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. As a result, revenue from spot fines and summonses is recognised when payment is received.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the definition and recognition criteria of an asset have been met.

Unconditional grants and receipts

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached restrictions, the grants are recognised as revenue when received by the entity.

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential 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 the compliance with the restrictions have not been met, the revenue is deferred and recognised as a liability

Interest earned on investments arising from grants is recognised as interest earned in surplus or deficit.

1.21 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.

Accounting Policies

1.22 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

1.23 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

1.24 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

1.25 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the municipality has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Revenues and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

1.26 Commitments

Commitments relate to capital projects for which funds have been committed at year end. Commitments are not recognised as a liability in the statement of financial position or as expenditure in the statement of financial performance but are included in the disclosure note.

2. New standards and interpretations

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

2. New standards and interpretations (continued)

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

2. New standards and interpretations (continued)

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset’s service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset’s service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April, 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April, 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. “Generally accepted accounting practice” has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April, 2018.

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

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Figures in Rand	2017	2016

3. Receivables from exchange transactions

Prepayments	420,759	801,696
Sundry suppliers	-	118,538
Staff Debtors	162,807	485,623
	583,566	**1,405,857**

Staff debtors are made of rental income for municipal buildings rented by officials of the municipality which are not yet received from these tenants as at 30 June 2017. Included in the prepayments is an amount paid to Tagert Line for guns not yet received by 30 June 2017.

Figures in Rand	2017	2016

4. VAT receivable

VAT refund due from SARS	9,326,286	14,233,136

The municipality is registered for VAT on the payment basis. VAT is claimed from / paid to SARS only once payment is made to suppliers or cash is collected on vatable supplies.

5. Consumer debtors

Gross balances		
Rates	18,950,990	20,967,356
Refuse	1,434,734	1,173,040
	20,385,724	**22,140,396**
Less: Allowance for impairment		
Consumer debtors impairment	(17,899,151)	(19,288,715)
Net balance		
Rates	18,950,990	20,967,356
Refuse	1,434,734	1,173,040
Provision for debt impairment	(17,899,151)	(19,288,715)
	2,486,573	**2,851,681**
Included in above is receivables from exchange transactions		
Refuse	1,434,734	1,173,040
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	18,950,990	20,967,356
Gross balance	**20,385,724**	**22,140,396**
Rates		
Current (0 -30 days)	493,155	1,114,626
31 - 60 days	216,550	498,324
61 - 90 days	206,234	700,921
91 + days	18,035,051	18,653,485
	18,950,990	**20,967,356**
Refuse		
Current (0 -30 days)	78,282	67,673
31 - 60 days	36,374	31,633
61 - 90 days	32,877	52,226
91 + days	1,287,201	1,021,508
	1,434,734	**1,173,040**
Impairment		
Consumer debtors impairment	(17,899,151)	(19,288,715)

Figures in Rand	2017	2016

5. Consumer debtors (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	282,985	563,715
31 - 60 days	124,939	245,672
61 - 90 days	137,654	427,062
91 + days	13,111,014	13,054,227
	13,656,592	14,290,676
Less: Allowance for impairment	(13,578,382)	(14,149,434)
	78,210	**141,242**
Industrial/ commercial		
Current (0 -30 days)	110,444	213,195
31 - 60 days	42,606	94,586
61 - 90 days	35,869	136,386
91 + days	4,200,540	4,923,985
	4,389,459	5,368,152
Less: Allowance for impairment	(4,320,770)	(5,139,281)
	68,689	**228,871**
National and provincial government		
Current (0 -30 days)	178,008	405,389
31 - 60 days	85,380	189,699
61 - 90 days	65,587	189,699
91 + days	2,010,698	1,696,779
	2,339,673	**2,481,566**
Total		
Current (0 -30 days)	571,437	1,182,299
31 - 60 days	252,925	529,960
61 - 90 days	239,110	753,147
91 + days	19,322,252	19,674,990
	20,385,724	22,140,396
Less: Allowance for impairment	(17,899,151)	(19,288,715)
	2,486,573	**2,851,681**
Less: Provision for debt impairment		
General and specific impairment	(17,899,151)	(19,288,715)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(19,288,715)	(22,672,457)
Contributions to allowance	1,389,564	3,383,742
	(17,899,151)	**(19,288,715)**

6. Cash and cash equivalents

Cash on hand	18,941	1,353
Cash at bank	1,299,065	3,460,266
Call Investment deposits	12,317,473	63,315,668
	13,635,479	66,777,287
	13,635,479	**66,777,287**

6. Cash and cash equivalents (continued)

The municipality had the following bank and investment accounts:

Account number / description (Continued)	Bank statement balances			Cash book balances		
	30 June, 2017	**30 June, 2016**	**30 June, 2015**	**30 June, 2017**	**30 June, 2016**	**30 June, 2015**
First National Bank Limited - Account number 62562355373	60,624	437,138	-	60,624	437,138	-
First National Bank Limited - Account number 62562352410	376,913	357,143	-	376,913	357,143	-
First National Bank Limited - Account number 62562829188	24,685	23,425	-	24,685	23,425	-
First National Bank Limited - Account number 62562827364	62,034	433,699	-	62,033	433,699	-
First National Bank Limited - Account number 62562354002	70,020	359,774	-	70,021	359,774	-
First National Bank Limited - Account number 62231175953	1,595,054	8,700,494	6,886,128	1,299,065	3,460,266	4,225,986
Standard Bank Limited - Account Number 280775954	-	1,749,621	1,750,377	-	1,749,622	1,750,377
ABSA Bank Limited - Account number 9057233364	715,653	683,539	657,702	718,359	686,123	659,640
ABSA Bank Limited - Account Number 9056533115	45,792	43,934	42,464	45,949	44,084	42,567
First National Bank Limited - Account Number 62015966099	5,356	5,873	5,815	5,356	5,874	5,815
ABSA Bank Limited - Account Number 9205591041	1,812,359	1,733,796	1,667,488	1,818,988	1,740,137	1,672,215
First National Bank Limited - Account Number 62231177769	3,177,614	369,565	347,444	3,177,614	369,565	347,444
First National Bank Limited - Account Number 62231195323	96,707	92,424	89,438	96,708	92,524	89,438
ABSA Bank Limited - Account number 9100317908	188,855	180,875	174,082	189,546	181,536	174,575
First National Bank - Account Number 62232870487	778,151	746,572	720,363	777,594	746,573	720,363
ABSA Bank Limited - Account number 9110889747	288,520	284,263	281,560	288,887	284,626	281,687
First National Bank - Account Number 74321424942	4,525,598	55,457,177	134,384,097	4,604,196	55,803,825	135,060,784
Cash on hand	-	-	-	18,941	1,353	3,451
Total	**13,823,935**	**71,659,312**	**147,006,958**	**13,635,479**	**66,777,287**	**145,034,342**

First National Bank Limited - Account Number 62231175953 is the municipality's primary bank account.

7. Investment property

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	47,080,100	-	47,080,100	47,080,100	-	47,080,100

Figures in Rand	2017	2016

7. Investment property (continued)

Reconciliation of investment property - 2017

	Opening balance	Total
Investment property	47,080,100	47,080,100

Reconciliation of investment property - 2016

	Opening balance	Total
Investment property	47,080,100	47,080,100

Rental income and operating expenditure relating to investment property was identified as not being material. As such these amounts have not been separately disclosed.

8. Property, plant and equipment

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land and Buildings	49,354,787	(23,192,599)	26,162,188	46,937,539	(21,547,271)	25,390,268
Other Assets	97,468,914	(32,938,646)	64,530,268	100,382,348	(24,623,079)	75,759,269
Infrastructure and community assets	750,735,107	(377,493,805)	373,241,302	681,276,799	(346,820,046)	334,456,753
Landfill site	6,336,479	(5,526,987)	809,492	6,336,479	(4,841,890)	1,494,589
WIP	92,533,038	-	92,533,038	87,469,160	-	87,469,160
Total	**996,428,325**	**(439,152,037)**	**557,276,288**	**922,402,325**	**(397,832,286)**	**524,570,039**

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land and Buildings	25,390,268	2,417,248	-	-	(1,645,328)	26,162,188
Other Assets	75,759,269	3,596,865	(1,329,891)	-	(13,495,975)	64,530,268
Infrastructure and community assets	334,456,753	68,934,355	(21,229,889)	44,068,137	(52,988,054)	373,241,302
Landfill site	1,494,589	-	-	-	(685,097)	809,492
WIP	87,469,160	49,132,015	-	(44,068,137)	-	92,533,038
	524,570,039	**124,080,483**	**(22,559,780)**	**-**	**(68,814,454)**	**557,276,288**

Included in the carrying amount of plant and machinery assets acquired under a finance lease in 2014/15 and 2015/16 Financial period through a finance lease form Kwane. Refer to note 37 for details pertaining to the lease.

The useful life of the certain items of Property, Plant and Equipment was revised during the current financial year. The effect of the revision has decreased the depreciation charge in the current financial years by R236,635 and changed the depreciation in the future period as set out in the below table.

	Change in estimate 2017	**Change in estimate** 2018	**Change in estimate** 2019	**Change in estimate** 2020	**Change in estimate** 2021
Property, Plant and Equipment	(236,635)	(147,311)	180,205	245,009	(25,408)

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land and Buildings	26,020,905	33,360	-	885,182	(1,549,179)	25,390,268
Other assets	47,693,048	41,230,741	-	-	(13,164,520)	75,759,269
Infrastructure and community assets	352,323,969	-	(2,517,045)	36,575,077	(51,925,248)	334,456,753
Landfill site	3,897,064	-	-	-	(2,402,475)	1,494,589
WIP	44,936,802	79,992,617	-	(37,460,259)	-	87,469,160
	474,871,788	**121,256,718**	**(2,517,045)**	**-**	**(69,041,422)**	**524,570,039**

9. Intangible assets

	2017			2016		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	2,793,127	(524,224)	2,268,903	1,016,317	(341,001)	675,316

Reconciliation of intangible assets - 2017

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	675,316	1,776,810	(183,223)	2,268,903

Reconciliation of intangible assets - 2016

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	446,857	405,900	(177,441)	675,316

Figures in Rand	2017	2016

10. Payables from exchange transactions

Trade payables	19,161,697	7,001,817
Debtors with credit balances	736,669	2,022,893
Accrued leave pay	6,918,968	4,640,008
Accrued bonus	2,043,633	1,649,085
Contract retentions	1,662,612	2,120,548
Other creditors	1,038,143	160,031
	31,561,735	**17,594,392**

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
IEC Grant	-	1,000,000

Movement during the year

Balance at the beginning of the year	1,000,000	15,978,536
Additions during the year	-	57,333,000
Income recognition during the year	(1,000,000)	(72,311,536)
	-	**1,000,000**

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

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

The reconciliation pertaining to MIG is included as part of Note 15 "Government grants and subsidies".

Figures in Rand	2017	2016

12. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Reversed during the year	Change in estimate	Total
Environmental rehabilitation	7,322,987	-	584,864	7,907,851
Other provisions	345,948	(345,948)	-	-
	7,668,935	**(345,948)**	**584,864**	**7,907,851**

Reconciliation of provisions - 2016

	Opening Balance	Interest	Change in Estimate	Total
Environmental rehabilitation	6,914,675	-	408,312	7,322,987
Other provisions	315,243	30,705	-	345,948
	7,229,918	**30,705**	**408,312**	**7,668,935**

Analysis of provisions:

	2017	2016
Non-current liabilities	7,907,851	7,322,987
Current liabilities	-	345,948
	7,907,851	**7,668,935**

Environmental rehabilitation provision

Willowvale site

The License for the closure of the Willowvale site was extended on the 08 September 2015 for a period of 2 years.

An environmental specialist has been appointed to assist the Municipality with the management and closure of this site. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed. Interactions with the Licensing authority are currently in progress.

Given that the site is expected to be closed within the next 12 months the costing prepared by the environmental specialist have been used as the basis for the rehabilitation provision. Where appropriate a discount rate of 6% was used.

The landfill site's lifespan expectancy from the end of the financial year is expected to be 2 months.

Dutywa site

The License for the closure of Dutywa site was extended on the 8 September 2015 for a period of 2 years.

An environmental specialist has been appointed to assist the Municipality with the management and closure of this site. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed. Interactions with the Licensing authority are currently in progress.

Given that the sites are expected to be closed within the next 12 months the costing prepared by the environmental specialist have been used as the basis for the rehabilitation provision. Where appropriate a discount rate of 6% was used.

The landfill site is lifespan expectancy from the end of the financial year is expected to be 2 months.

Figures in Rand	2017	2016

12. Provisions (continued)

Elliotdale site

The Elliotdale site's license is valid until 17 December 2020, but is reviewed every 5 years.

An environmental specialist has been appointed to assist the Municipality with the management of this site. A recent review of the facilities indicated that the site needs to be upgraded to meet current environmental and legislative requirements. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed to enable the landfill site to continue operating as envisaged. Interactions with the Licensing Authority are currently in progress.

Based on the past usage the environmental specialist estimates that the landfill capacity is adequate up to 2037 provided:
- regular site upgrades are effected,
- the operations are properly managed and
- the license is renewed every 5 years

The provision for land rehabilitation is based on the current cost of the following activities being undertaken to close the site in 2037:
- Closing 1 cell, including capping
- Rehabilitation of the Leachate Pond
- Removal of any structures
- Storm water control
- Greening of site
- Ground water monitoring

The landfill site's lifespan expectancy from the end of the financial year is expected to be 21 years. Where appropriate a discount rate of 6% was used.

Other Provisions

This amount comprises a provision in favour of SARS for PAYE and resultant penalties and interest relating to a lumpsum payment made to a former Municipal Manager for which no PAYE was withheld. The Municipality has requested a tax directive from SARS. The likelihood and timing of the settlement is not as yet certain.

13. Employee benefit obligations

Defined benefit plan

The municipality has an unfunded defined benefit plan that relates to long service awards. Benefits in the form of additional leave days and cash rewards accrue to employees based on the number of years of experience.

An actuarial valuation was performed using generally accepted actuarial principles.

The reporting entity and those charged with the governance of the entity are responsible for determining the assumption used in valuations of this nature and should give evidence of their approval of the assumptions.

The disclosure shown below assumes that actuarial gain and losses are recognised immediately as required in terms of GRAP 25.

Defined benefit obligation

	2017	2016
Opening balance	2,728,854	2,393,117
Benefits paid	(304,495)	(250,325)
Net expense recognised in the statement of financial performance	1,005,486	586,062
	3,429,845	**2,728,854**

Amount recognised in surplus and deficit

	2017	2016
Service cost	1,350,609	324,951
Interest cost	225,968	190,833
Actuarial losses	(571,091)	70,278
	1,005,486	**586,062**

Figures in Rand	2017	2016

13. Employee benefit obligations (continued)

Amount recognised in statement of financial position

Current Employee Benefit obligation	544,181	304,495
Non-Current Employee Benefit Obligation	2,885,664	2,424,359
	3,429,845	**2,728,854**

Reconciliation of net statement of financial position amount

Opening balance	2,728,854	2,393,117
Amount recognised in Statement of Financial Performance	1,005,486	586,062
Payment made to pensioners	(304,495)	(250,325)
	3,429,845	**2,728,854**

Key assumptions

Discount rates used	8.67 %	8.77 %
Salary escalation rate	6.47 %	7.27 %

The above discount rates have been based on market indicators at each year end. For 2017 the rate is based on market yields on government bonds as at the end of June 2017 as published by the Bond Exchange of South Africa. The salary escalation rate is based on underlying market inflation plus an allowance for the fact that on average salary increases generally exceed inflation.

For the purposes of the valuation the difference between the discount rate and the salary inflation rate is more significant than the individual items. The salary inflation gap of 1.% applied in 2017 [2016: 1.5%] is consistent with rates generally used in the market for the valuation of benefits of this nature.

The results of the valuation are sensitive to the assumptions chosen.

Sensitivities

1% increase in discount rate	-	-
Decreases in defined benefit obligation	3,215,591	2,558,887
Percentage	6.3 %	6.2 %
1% decrease in discount rate	-	-
Increases in defined benefit obligation	3,671,601	2,921,172
Percentage	7.1 %	7.1 %
1% increase in salary inflation	-	-
Increases in defined benefit obligation	3,674,474	2,922,118
Percentage	7.1 %	7.1 %

Figures in Rand	2017	2016

13. Employee benefit obligations (continued)

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

The municipality makes contributions to the following plans:
- South African Municipal Workers Union National Provident Fund
- Eastern Cape Municipal Pension Fund
- Eastern Cape Municipal Gratuity Fund

The municipality makes contributions to the following medical aid schemes:
- HOSMED
- Key health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

These contributions have been expensed.

14. Revenue

	2017	2016
Service charges	474,527	1,322,908
Rental of facilities and equipment	1,894,531	1,560,004
Interest received (trading)	82,957	-
Recoveries	1,495,663	3,383,742
Other income	2,287,345	1,468,531
Interest received - investment	5,111,777	9,004,105
Property rates	4,032,478	7,701,146
Donation from SANRAL	68,934,355	-
Licences and permits	1,415,198	731,769
Government grants & subsidies	296,985,860	289,997,410
Fines and Penalties	3,098,393	2,208,895
	385,813,084	**317,378,510**

	2017	2016
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	474,527	1,322,908
Rental of facilities and equipment	1,894,531	1,560,004
Interest received (trading)	82,957	-
Recoveries	1,495,663	3,383,742
Other income (Refer to note 18)	2,287,345	1,468,531
Interest earned - investments	5,111,777	9,004,105
	11,346,800	**16,739,290**

	2017	2016
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	4,032,478	7,701,146
Donation from SANRAL	68,934,355	-
Licence and permits	1,415,198	731,769
Transfer revenue		
Government grants & subsidies	296,985,860	289,997,410
Fines and penalties	3,098,393	2,208,895
	374,466,284	**300,639,220**

Figures in Rand	2017	2016

15. Government grants and subsidies

Equitable share	210,060,000	193,756,000
Municipal System Improvement Grant	-	930,000
Integrated Electrification Programme	17,000,000	20,000,000
Finance Management Grant	1,625,000	1,600,000
Other government grants	61,860	47,874
Municipal Infrastructure Grant	65,745,000	72,311,536
Library subsidies	350,000	300,000
Extended Public Works Programme	1,144,000	1,052,000
IEC Grant	1,000,000	-
	296,985,860	**289,997,410**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	85,514,000	95,893,536
Unconditional grants received	210,471,860	194,103,874
	295,985,860	**289,997,410**

Equitable Share

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

Finance Management Grant

Current-year receipts	1,625,000	1,600,000
Conditions met - transferred to revenue	(1,625,000)	(1,600,000)
	-	**-**

The Financial Management Grant is a conditional grant. The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA. The focus of the FMG Grant is to build awareness and undertake training on MFMA reforms including budgeting, reporting and financial processes.

Municipal Systems Improvement Grant

Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(930,000)
	-	**-**

The Municipal Systems Improvement Grant is a conditional grant. The purpose of the MSIG is to support municipalities in building in-house capacity in terms of systems focusing on Local and Economic Development; financial viability, institutional development and good governance. This grant have been since moved to the Disctrict .

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	15,978,536
Current-year receipts	65,745,000	56,333,000
Conditions met - transferred to revenue	(65,745,000)	(72,311,536)
	-	**-**

The Municipal Infrastructure Grant is a conditional grant, the purpose of which is to provide all South Africans with at least a basic level of service through the provision of grant finance to cover the capital cost of basic infrastructure for the poor. It is part of government's overall strategy to eradicate poverty and to create conditions for local economic development. The Municipality utilises these funds to primarily fund access roads and related infrastructure.

Figures in Rand	2017	2016

15. Government grants and subsidies (continued)

IEC Grant

Balance unspent at beginning of year	1,000,000	-
Current-year receipts	(1,000,000)	1,000,000
	-	**1,000,000**

Conditions still to be met - remain liabilities (see note 11).

This Grant was received from Provincial Cooperative Governance and Traditional Affairs (COGTA) towards provision of access to voting stations in preparation of local government elections for 2016.

EPWP

Current-year receipts	1,144,000	1,052,000
Conditions met - transferred to revenue	(1,144,000)	(1,052,000)
	-	**-**

The Expanded Public Works Programme (EPWP) is a conditional grant and is one of government's short-to-medium term programs aimed at alleviating and reducing unemployment. The EPWP will achieve this aim through the provision of work opportunities coupled with training.

Integrated Electrification Programme

Current-year receipts	17,000,000	20,000,000
Conditions met - transferred to revenue	(17,000,000)	(20,000,000)
	-	**-**

The Integrated Electrification Programme is a conditional grant. The purpose of the Integrated Electrification Programme Grant is to facilitate the development of the electrical infrastructure grid as part of the Integrated National Electrification Programme.

16. Recoveries

Debt impairment recovered	1,495,663	3,383,742

17. Property rates

Rates charged

Assessment rates	4,032,478	7,701,146

The above amounts are net of rebates amounting to R110 105.49 (2016: R279 387.99)

Valuations

Residential	19,140,130,300	19,140,130,300
Commercial	16,068,465,800	16,068,465,800
State	15,924,730,000	15,924,730,000
Municipal	26,433,124,500	26,433,124,500
	'7,566,450,600	**'7,566,450,600**

The Applicable gerenal rates for current financial period and its comaparative year is as follows:

A general rate of R 0.006 (2016: R 0.014) is applied to residential property valuations to determine assessment rates.
A general rate of R 0.008 (2016: R 0.015) is applied to business property valuations to determine assessment rates.
A general rate of R 0.009 (2016: R 0.018) is applied to government property valuations to determine assessment rate A
general rate of R 0.007 (2016: R 0.015) is applied toVacant Sites valuations to determine assessment rates

Figures in Rand	2017	2016

18. Service charges

Refuse removal	474,527	1,322,908

The amount disclosed above for revenue from service charges is in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

19. Other income

Administration Fees	337,767	301,849
Building Plans	108,558	136,112
Burial and cemetery	3,027	3,250
Public Toilets	149,280	86,394
Pound Fees	591,295	269,654
Sundry income	1,097,418	671,272
	2,287,345	**1,468,531**

20. Interest received - external investments

Interest revenue		
Interest on bank accounts and investment balances	5,111,777	9,004,105

21. Employee related costs

Bargaining council contributions	22,038	14,844
Basic	56,305,253	44,533,550
Bonus (13th cheque)	4,071,327	3,372,320
Casual wage employment	28,270,670	10,689,002
Cellphone Allowance	2,986,737	554,217
Housing benefits and allowances	2,418,380	1,474,473
Leave related costs	2,379,243	1,480,336
Long-service awards	821,962	335,737
Medical aid - company contributions	3,429,422	2,521,646
Overtime payments	5,867,625	4,105,128
Post-employment benefits	11,186,768	5,861,035
Skills Development Levy	998,527	872,427
Stand by Allowances	183,958	73,389
Travel, motor car, accommodation, subsistence and other allowances	1,203,529	1,062,420
Unemployment Insurance Fund	772,251	464,942
Workmens Compensation	-	2,075,476
	120,917,690	**79,490,942**

Remuneration of Municipal Manager

Annual remuneration	1,058,579	960,362
Backpay	55,080	276,456
Contributions to UIF, medical and pension funds	84,786	175,977
Travel, motor car, accommodation, subsistence and other allowance	175,977	72,201
	1,374,422	**1,484,996**

Mr V Poswa was appointed Municipal Manager from March 2015

Figures in Rand	2017	2016

21. Employee related costs (continued)

Remuneration of Chief Finance Officer

Annual remuneration	719,483	645,485
Backpay	46,181	72,984
Bonus	108,000	36,000
Travel, motor car, accommodation, subsistence and other allowance	289,718	276,720
Contributions to UIF, medical and pension funds	3,569	1,785
	1,166,951	**1,032,974**

Mr X Sikobi was appointed as Chief Financial Officer from 01 July 2015

Remuneration of Senior Manager - Community Services

Annual remuneration	833,566	778,808
Backpay	45,548	39,576
Bonus	24,000	24,000
Travel, motor car, accommodation, subsistence and other allowance	168,006	168,006
Contributions to UIF, medical and pension funds	3,569	1,785
	1,074,689	**1,012,175**

The Community Services Manager, Mr M Mtongana, was appointed as the Community Services Manager on 01 March 2013

Remuneration of Senior Manager Corporate Services

Remuneration of Senior Manager Corporate Services		
Annual remuneration	765,791	701,635
Backpay	45,881	106,103
Bonus	72,000	72,000
Travel,motorcar,accomodation,subsistance and other allowances	217,063	209,085
Contributions to UIF, medical and pension funds	47,966	41,943
	1,148,701	**1,130,766**

Mr M P Nini was appointed as a Senior Manager from June 2015.

Remuneration of Senior Manager Infrastructure Services		
Annual remuneration	824,772	772,136
Backpay	45,458	39,497
Bonus	-	80,000
Travel, motor car, accommodation, subsistence and other allowance	116,755	116,755
Contributions to UIF, medical and pension funds	125,639	119,241
	1,112,624	**1,127,629**

Miss N Y Mqoqi was appointed as a Senior Manager from 1 April 2014.

Remuneration of Senior Manager Operations

Annual remuneration	910,167	434,148
Backpay	45,881	34,324
Bonus	24,000	24,000
Leave pay	-	95,136
Travel, motor car, accomodation,subsistence and other allowances	108,657	59,224
Contributions to UIF,Medical and Pension Funds	81,569	72,281
	1,170,274	**719,113**

Mr M Nako was appointed as Senior Manager from 15 December 2015.

Figures in Rand	2017	2016

21. Employee related costs (continued)

Remuneration of Senior Manager Planning and Development

Annual remuneration	857,566	802,807
Backpay	45,548	39,576
Travel, motor car, accommodation, subsistence and other allowance	168,006	168,006
Contributions to UIF, medical and pension funds	3,569	1,785
	1,074,689	**1,012,174**

Mr C B Mqingwana was appointed as a Senior Manager of Planning and Development from 04 March 2014.

22. Remuneration of Councillors

Council remuneration and allowances	23,319,930	23,984,032

Analysis of council remuneration

Mayor	637,131	764,097
Speaker	510,161	610,106
Traditional leaders	353,130	360,000
Executive committee members	3,934,798	3,484,739
Councillors remuneration	11,903,865	11,937,136
Councillors allowances	2,225,452	3,085,754
Ward committee remuneration	3,755,393	3,742,200
	23,319,930	**23,984,032**

23. Finance costs

Interest paid on trade and other payables	181,629	137,390
Finance cost on lease liability	8,355,473	14,748,645
Rehabilitation of landfill sites	584,864	408,312
	9,121,966	**15,294,347**

24. Debt impairment

Bad debts written off	458,257	2,084,685

The debt impairment amount consists of the following:

Consumer debtors	-	2,084,685
Staff debtors	458,257	-
	458,257	**2,084,685**

The above staff debtors write off relates to staff debts that were previous raised by Auditor General for the differences identified between leave paid to employees as well as acting allowances and the amounts recalculated during the audit.

Figures in Rand	2017	2016

25. Administrative and other expenditure

Advertising	546,087	328,767
Audit committee fees	372,647	245,087
Auditors remuneration	3,473,106	3,210,820
Bank charges	406,527	195,618
Books & Publications	581,742	214,772
Catering	1,881,661	1,356,667
Cleaning	189,038	403,461
Community development and public participation	1,389,512	1,164,971
Conferences and seminars	553,280	165,172
Consumables	878,900	635,660
Donations	389,829	482,087
ECDC Facilities	-	847,109
Electricity	602,350	483,112
Equipment and plant hire	1,929,339	849,583
Expanded Public Works Programme	565,446	3,046,720
Fuel and oil	4,775,613	3,541,010
IT Expenses	961,985	1,169,312
Indigent support	5,379,836	4,342,348
Insurance	153,235	1,756,126
Interest and Penalties	-	2,095,576
Lease rentals on operating lease	2,364,643	937,412
Legal expenses	2,141,675	3,362,110
Medical expenses	-	16,013
Motor vehicle expenses	684,552	168,164
Other expenses	10,476,327	7,306,137
Postage and courier	16,687	15,972
Printing and stationery	984,315	839,706
Professional fees	7,069,607	4,296,000
Projects	13,906,696	10,177,214
Promotions and Branding	293,572	44,550
Protective clothing	392,803	526,132
Refuse	4,625,713	290,720
Repairs and maintenance	53,705,147	63,757,565
Safety Plan	592,612	842,268
Security	8,150,421	5,873,425
Software expenses	855,298	671,836
Special programme	3,110,608	1,742,454
Subscriptions and membership fees	1,191,422	1,672,280
Telephone and fax	1,618,637	1,085,673
Tourism development	1,209,766	950,648
Training	2,865,706	1,212,771
Travel - local	7,239,701	6,207,551
Water	4,447,645	165,821
	152,973,686	**138,696,400**

26. Auditors' remuneration

Fees	3,473,106	3,210,820

Figures in Rand	2017	2016

27. Commitments

Authorised capital expenditure

Approved and contracted for		
• Land and buildings	3,515,333	3,241,461
• Infrastructure	31,132,819	137,955,040
• Community Halls	36,631,510	1,884,424
	71,279,662	**143,080,925**

Figures in Rand	2017	2016

28. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include Councillors, key management personnel and close members of family.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager and supply chain officials.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public.

Related party balances

	2017	2016
Assessment Rates - Owing by related parties		
C.Genyane	63	-
N Mtsi	-	84
M Sibingibingi	523	-
L Matiti	37,894	-
N Mlungu	-	1,699
N Janda	-	2,543
M Potelwa	-	2,443
Amounts regarding deposits received from related parties for sale of land		
M Peter	58,800	58,800
C Mqingwana	62,100	62,100
M Mbomvu	15,000	15,000
M Mcotsho	20,000	20,000
N N Ndlodaka	69,000	69,000
M Noyila	-	15,000
M Nako	48,800	48,800

In the prior years the municipality sold land to the community. Included in deposits received are the above amounts from councillors and employees of the municipality.

The land has not been transferred to the buyers. Transfer will only take place when the full price of the property has been paid.

Related party transactions

During the year the Municipality rendered services to various Councillors residing within its jurisdiction. These services include rates and refuse charges.

Please refer to Note 22 for a detail of remunerationt of Councillors.

During the year the Municipality actively monitored the amounts outstanding by Councillors and sent communications to remind all Councillors to ensure that all accounts are paid to date.

Key management information

Position	Name	Description
Municipal Manager	Mr SV Poswa	Employed in terms of Section 56 of MSA
Chief Financial Officer	Mr CX Sikobi	Employed in terms of Section 57 of MSA
Senior Manager Infrastructure Services	Ms NY Mqoqi	Employed in terms of Section 57 of MSA
Senior Manager Corporate Services	Mr MP Nini	Employed in terms of Section 57 of MSA
Senior Manager Community Services	Mr M Mtongana	Employed in terms of Section 57 of MSA
Senior Manager Operations	Mr M Nako	Employed in terms of Section 57 of MSA
Senior Manager Planning and Development	Mr CB Mqingwana	Employed in terms of Section 57 of MSA

28. Related parties (continued)

Remuneration of key management

2017

Position	Basic salary	Backpay	Contributions to UIF, Medical and Pension Fund	Travel, motor car, accommodatior, subsistence and other allowance	Bonus	Total
Municipal Manager	1,058,579	55,080	84,786	175,977	-	1,374,422
Chief Financial Officer	719,483	46,181	3,569	289,718	108,000	1,166,951
Senior Manager Corporate Services	765,791	45,881	47,639	217,063	72,000	1,148,374
Senior Manager Community Services	833,566	45,548	3,569	168,006	24,000	1,074,689
Senior Manager Infrastructure Services	824,772	45,458	125,639	116,755	-	1,112,624
Senior Manager Operations	910,167	45,881	81,569	108,657	24,000	1,170,274
Senior Manager Planning and Development	857,566	45,548	3,569	168,006	-	1,074,689
	5,969,924	**329,577**	**350,340**	**1,244,182**	**228,000**	**8,122,023**

29. Unauthorised expenditure

Opening balance	88,364,321	57,447,698
Unauthorised expenditure current year	14,263,490	30,916,623
	102,627,811	**88,364,321**

Unauthorised expenditure relates to expenditure incurred which is in excess of the budgeted amount on the individual votes.

30. Fruitless and wasteful expenditure

Opening balance	6,382,728	6,251,638
Fruitless and wasteful expenditure - current year	181,629	131,090
Telkom Fraud Case reported to SAPS	18,484	-
	6,582,841	**6,382,728**

Details / incidents of fruitless and wasteful expenditure relating to this period only

Interest levied by Workmen`s Compensation on late payment of COIDA prior year assessments	-	113,605
Interest on overdue accounts and penalties	181,629	17,485
Telkom Fraud Case reported to SAPS	18,484	-
	200,113	**131,090**

A report on fruitless and wasteful expenditure incurred will be submitted to the Council for consideration in the 2016/2017 and then referred to Municipal Public Accounts Committee.

No fruitless and wasteful expenditure was written off or recovered during the year.

31. Irregular expenditure

Opening balance	348,684,903	269,573,814
Add: Irregular Expenditure - current year movement (Recurring Irregular)	31,196,366	79,111,089
Add: Irregular identified by AGSA during the Annual Audit	1,060,114	-
Less: Irregular expenditure - written off by council	(16,027,619)	-
	364,913,764	**348,684,903**

During the 2015/2016 financial year the municipality conducted a special review of all transactions from the 2011/2012 financial year to 2015/2016 financial year in order to compile a comprehensive list of irregular expenditure.

The current year(2016/2017) movement is expenditure that relates to 2016/2017 payments of contracts that were identified as irregular by A2A Kopano 2015/2016 exercise. This Expenditure is recurring in nature and it is currently investigated by Council.

Details of irregular expenditure – current year

Bid evaluation discrepancies identified	9,894,746
Limitation of scope - No supporting documentation	3,160,884
No bid specification/adjudication minutes	1,188,290
No Municipal rates clearance certificate/lease agreement	16,952,445
Irregular Identified during the Annual Audit	1,060,114
	32,256,479

Analysis of Irregular Expenditure Balance - current year

Recurring from prior years	31,196,366
Irregular Identified during the Annual Audit	1,060,114
	32,256,480

32. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA Fees

Opening balance	416,850	557,850
Current year subscription / fee	1,090,599	1,150,210
Amount paid - current year	(246,709)	(1,160,210)
Amount paid - previous years	-	(131,000)
	1,260,740	**416,850**

Contract awarded to close family members of person in the service of the state state

During the year 2016/2017 an award was made to ICT Choice for the Supply and delivery of Computers , the owner/director of ICT Choice Mr. S. Maqula is a spouse of Mrs N. Maqula who works at the Department of Human Settlements.

The total value of the award for the supply and delivery of computers was R 960 733.08.

Audit fees

Current year subscription / fee	3,473,106	3,210,820
Amount paid - current year	(3,473,106)	(3,210,820)
	-	**-**

PAYE and UIF

Current year subscription / fee	17,283,031	13,239,021
Amount paid - current year	(17,283,031)	(13,239,021)
	-	**-**

Pension and Medical Aid Deductions

Current year subscription / fee	10,541,341	7,621,899
Amount paid - current year	(10,541,341)	(7,621,899)
	-	**-**

The municipality does not contribute to councillors' medical aid and pension plans.
Refer to Note 28 "Related parties" for disclosure of amounts owed by councillors.

VAT

VAT receivable	9,326,286	14,233,136

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned. Refer to note 44

Incident		
Emergency	1,430,063	-
Other minor breaches	-	13,737,681
Sole Supplier	1,521,915	-
Other exceptional cases	17,723,409	-
Financial support to LED projects	-	4,898,800
Renovations to Municipal sites	-	1,235,941
	20,675,387	**19,872,422**

33. Contingencies

Contingent liabilities

The municipality is currently party to the following contingent liabilities:

	Nature fo Contingent Liability	Projected cost
Incremate (Pty) Ltd vs Mbhashe Local Municipality		60,000,000
Mawethu Sakwe vs Mbhashe Local Municipality		5,880
Celina Siwundla vs Mbhashe Local Municipality	Damages claim arising from alleged unlawful demolition of a house.	284,750
Mziwonke Manxiwa vs Mbhashe Local Municipality	Damages claim arising from alleged unlawful demolition of a house.	762,525
Moses Mbambo vs Mbhashe LM and others	Damages claim arising from alleged assault.	500,000
Notyesi Inc. vs Mbhashe LM (Nature - Taxation)		35,230
S.Sondli vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	488,488
V.Nosilela vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	905,492
S.Manxiwa vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	1,659,043
Z.Majebe vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	864,861
S.Mlakuhlwa vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	114,524
S.Gobeni vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	762,525
Itu Facility Trading vs Mbhashe LM		200,000
L.Mbete vs Mbhashe Local Municipality		800,000
L.Mkhondweni vs Mbhashe LM		150,000
M.M Mkwedi vs Mbhashe LM		300,000
T.Square Eng. vs Mbhashe LM		123,819
Centre Point Developers vs Mbhashe LM		18,000,000
Shack demolition Dutywa CBD		150,000
Lease Agreements Mbhashe(handled by Tonise)		250,000
Businesses licensing (handled by Tonise)		30,000
L.Singqumba vs Mbhashe Local Municipality		500,000
		86,887,137

33. Contingencies (continued)

The following are litigations against the Municipality for which no estimate is available:

Balintulo vs Mbhashe Local Municipality

Mangathi Community vs Mbhashe Local Municipality

Mputhi Community vs Mbhashe Local Municipality

Mbhashe Local Municipality vs Nokhanyo Magatya & 3 others

Contingent assets

The following are cases where the Municipality is a claimant:

The municipality is currently party to the following litigations:	Nature of the Contingent Asset	Projected cost
Fraudulent payment (Telkom) reported to SAPS	Fraudulent payment	18,484
Land Invaders - Elliotdale	Claim for land invasion	150,000
Mbhashe LM vs Juspo		60,000
Mbhashe LM vs Maqhula	Eviction	8,000
Mbhashe LM vs Landisile Mithi & Others	Interdict	119,303
Mbhashe LM vs B.S Titus Holdings & BP Garage	Interdict	90,000
		445,787

The folllowing are Litigations the Municipality is the claimant, for which no estimate is available:

Mbhashe Local Municipality vs Zizi Agricultural Co-op and another

Mbhashe Local Municipality vs Mthetheleli Bhele & others

Mbhashe Local Municipality vs Somhlahlo

Mbhashe Local Municipality vs Phakama Gatyana

Mbhashe Local Municipality vs Nkosinathi Ndlodaka

Mbhashe Local Municipality vs Thembelani Marafane

Mbhashe Local Municipality vs Ntlokwinendaba & Mbambo

34. Cash generated from operations

Deficit	(11,104,992)	(13,805,521)
Adjustments for:		
Depreciation and amortisation	68,997,678	69,116,580
Gain on sale of assets and liabilities	21,128,869	2,517,045
Donations - Non cash item	(68,934,355)	-
Debt impairment	458,257	2,084,685
Movements in operating lease assets and accruals	-	(14,108)
Movements in retirement benefit assets and liabilities	700,991	335,737
Movements in provisions	238,916	439,017
Other non cash items resulting from prior period errors.	-	(9,240,809)
Changes in working capital:		
Receivables from exchange transactions	364,034	(204,735)
Consumer debtors	365,108	1,223,879
Other receivables from non-exchange transactions	302,199	(233,824)
Payables from exchange transactions	13,967,340	2,826,100
VAT	4,906,850	3,306,693
Unspent conditional grants and receipts	(1,000,000)	(14,978,536)
	30,390,895	**43,372,203**

35. Risk management

Financial risk management

The Municipality is exposed to the following risks:

- market risk (including interest rate risk);
- credit risk; and
- liquidity risk

The municipality seeks to minimise the effects of these risks in accordance with the municipality’s policies approved by the Council. The municipality does not enter into or trade in financial instruments for speculative purposes.

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Council has the ultimate responsibility for liquidity risk management, and has established an appropriate liquidity risk management framework for the management of the municipality’s short, medium and long-term funding and cash flow requirements.

The municipality manages liquidity risk by maintaining adequate reserves and banking facilities. The Finance Department monitors the cash flow requirements on a regular basis.

The Municipality's investment portfolio consists of short term deposits and current accounts with a notice period of 30 days or less. Due to the short term nature of the portfolio a maturity analysis is not required.

Interest rate risk

Market risk is the risk that changes in market prices, such as interest rates will affect the municipality’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Market risk consists primarily of interest rate risk
Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipality does not enter into long term financing arrangements thereby minimising the interest rate cash flow risk exposures on long-term financing.

The exposure to interest rate risk is limited as the municipality's investment portfolio is entirely cash based. The Municipality's primary focus is not to generate interest income but rather to preserve the capital value of the funds. There has been no change since the previous financial year to the municipality’s exposure to market risks or the manner in which it manages and measures the risk.

35. Risk management (continued)

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the municipality. Due to the nature of the entity's operations, the municipality has an obligation to provide services to all qualifying people in its area. As such, the municipality is not able to select only creditworthy counterparts.

Potential concentrations of credit rate risk consist mainly of investments, trade receivables and cash and cash equivalents.

Trade receivables comprise of a large number of consumers, dispersed across different industries and geographical areas. Trade receivables are presented net of an allowance for impairment.

The existing trade receivable portfolio has historically been significantly impaired as a result of a number of contributing factors, including an inaccurate and unreliable customer database. The municipality has started the process of cleansing its trade receivable portfolio to ensure completeness of its trade receivables. All policies affecting trade receivables have been reviewed and updated to assist the municipality in the cleansing process. Refer note 4 for more detailed information on the composition of the trade receivables portfolio.

Except for trade receivables which have already been impaired, the following financial assets are exposed to limited credit risk at year end:

Cash and cash equivalents (including investments) are held with the following counter parties:	2017	2016
ABSA Bank	3,061,728	2,936,506
First National Bank (Primary Bank)	10,554,811	62,089,806
Standard Bank	-	1,749,622

36. Heritage assets

	2017			2016		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heritage assets which fair values cannot be reliably measured: (Para .94)						
Heritage Assets which fair values cannot be reliably measured	9	-	9	9	-	9

Reconciliation of heritage assets 2017

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Historical monuments	9	9

Reconciliation of heritage assets 2016

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Historical monuments	9	9

Heritage assets which fair values cannot be reliably measured

Graves, Caves and Memorial Sites

The Municipality`s heritage assets consists of graves,grave sites,traditional dwelling and caves. Their fair value cannot be reliably measured. Fair value cannot be determined reliably due to nature of the assets. The assets have been allocated a nominal value of R9 for record keeping.

Following is the list of heritage assets:
. Graves (Gcaleka`s Grave,King Hintsa`s Grave and King Sarhili`s Grave) .
Memorial sites (Nqadu Great Place,Fort Bowker and Fort Malan Memorial) . Caves (Sinqumeni Caves,Ngqamakhwe Rock Art and Ludiza Cave) . Mhlakaza`s House
Nongqawuse`s House

37. Operating lease liability

Operating leases - as lessee (expense)

Minimum lease payments due		
-Within one year	5 349 651	1 658 803
-In second to fifth year	7 581 550	2 494 360

At the Statement of Financial Position date, where the municipality is a lessee under operating leases, it will have an operating lease liability.

Operating lease payments represent rentals payable by the municipality for certain of its office equipment, and vehicles. No contingent rental is payable.

The municipality is party to three lease commitment, which is a lease of a photocopiers, and two leases of vehilces.

38. Receivables from non-exchange transactions

Other receivables from non-exchange revenue	16,254	318,453

Receivables from non-exchange transactions

Balance as at 30 June 2017	Opening balance	Movement	Amount written off	Closing balance
Recoveries of staff expenses	30,303	(30,303)	-	-
SARS debtor	54,600	(38,347)	-	16,253
Other debtors	233,549	-	(233,549)	-
	318,452	**(68,650)**	**(233,549)**	**16,253**

Balance as at 30 June 2016	0pening balance	Amount Actual written off	Movement	Net balance
Recoveries of staff expenses	-	-	30,303	30,303
SARS debtor	322,827	(268,227)	-	54,600
Other debtors	233,549	-	-	233,549
	556,376	**(268,227)**	**30,303**	**318,452**

39. Finance lease obligation

Finance lease		
Minimum lease payments due		
- within one year	16,440,324	34,336,458
- in second to fifth year inclusive	-	16,440,324
	16,440,324	50,776,782
less: future finance charges	(1,253,402)	(9,608,875)
Present value of minimum lease payments	**15,186,922**	**41,167,907**

Present value of minimum lease payments due		
- within one year	15,186,922	25,980,985
- in second to fifth year inclusive	-	13,284,700
	15,186,922	**39,265,685**

During the year and the 2014/15 Mbhashe Local Municipality entered into a finance lease to purchase items of plant and equipment for the implementation of infrastructure related projects. The finance lease is for the period of 3 years with instalments payable monthly and bears an implicit interest rate of 32.25%(started 2014/15) 24%(started 2015/16) per annum. At the end of the lease period ownership of all assets will transfer to Mbhashe Local Municipality.

40. Financial instruments disclosure

Categories of financial instruments

Financial instruments are classified in the following categories:

Financial assets: At amortised cost

Financial liabilities: At amortised cost

The classification of financial instruments is determined at initial recognition based on the purpose for which the financial assets are acquired or liabilities assumed. The amounts relating to financial instruments reflected below approximates fair value.

2017

Financial assets

	At amortised cost	Total
	-	-
Trade and other receivables from exchange transactions	583,566	583,566
Receivables from non-exchange transactions	16,254	16,254
Consumer debtors	2,486,573	2,486,573
Cash held with bank institutions	13,635,479	13,635,479
Vat receivable	9,326,286	9,326,286
	26,048,158	**26,048,158**

Financial liabilities

	At amortised cost	Total
Other creditors	1,038,143	1,038,143
Accrued bonus	2,043,633	2,043,633
Staff leave accrual	6,918,968	6,918,968
Trade payables	19,161,697	19,161,697
Provisions	7,907,851	7,907,851
Employee benefits obligations	3,429,845	3,429,845
Sundry creditors	269,823	269,823
Contract retentions	1,662,612	1,662,612
Finance lease obligation	11,225,009	11,225,009
Debtors with credit balances	736,669	736,669
	54,394,250	**54,394,250**

Interest charged to overdue trade debtor accounts:

The municipality started charging interest on overdue trade debtor accounts in May 2017. The interest has been charged at the 1% per annum based on best estimate. No interest was charged in the 2015/16 financial year

The net effect is not considered to have a material impact on the users understanding of the financial statements, even though it enhances the compliance with MFMA.

Interest charge at prime interest	82,957	-

. Financial instruments disclosure (continued)

2016

Financial assets

	At amortised cost	Total
Trade and other receivables form exchange transactions	920,234	920,234
Receivables from non-exchange transactions	318,453	318,453
Consumer debtors	2,851,681	2,851,681
Cash and cash equivalents	66,777,287	66,777,287
Vat receivable	18,037,580	18,037,580
	88,905,235	**88,905,235**

Financial liabilities

	At amortised cost	Total
Unspent conditional grants and receipts	1,000,000	1,000,000
Accrued bonus	1,649,085	1,649,085
Staff leave accrual	4,640,008	4,640,008
Trade payables	7,001,817	7,001,817
Provisions	7,668,935	7,668,935
Employee benefits obligations	2,728,854	2,728,854
Sundry creditors	160,031	160,031
Contract retentions	2,120,548	2,120,548
Finance lease obligation	39,265,685	39,265,685
Debtors with credit balances	2,022,893	2,022,893
	68,257,856	**68,257,856**

41. Depreciation and amortisation

Property, plant and equipment	68,997,678	69,116,580

42. Rental of facilities and equipment

Premises		
Premises	1,488,755	1,150,741
Rental of Halls	221,356	186,839
Rentals of Billboards	184,420	222,424
	1,894,531	**1,560,004**

43. Prior period errors

During the year 2016/17 the it was note by AGSA that an error occurred in the presentation of Cash Flow Statement for the previous year , i.e 2015/16 where an positive movement in the finance lease liability was disclosed or accounted for as a Cash outflow under Cash flows from Financing activities, this was in contravention of GRAP 2. Therefore the prior year Cash Flow Statement had to be recalculated. The identified misstatement was R9,086,732.

44. Deviation from supply chain management regulations

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

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

45. Budget differences

Material differences between budget and actual amounts

44.1 Service charges are reflecting a 61% reduction in projected billing, this is a result of discontinuing the billing of tenant accounts for refuse removal and rather billing the owner. This was done in October 2016 during the financial year, therefore at budgeting stage these accounts were taken into consideration.There was also a 56% reduction in the tariff charge, this was done to motivate the customer to settle the long outstanding debt balance.

44.2 The Municipality increased its collection with regards to rentals due to an enhanced lease register and implementation of efficient controls.

44.3 This positive variance is a result of debtors impairment that has gone down due to invalid and municipal accounts that have been written off. The municipal also embarked on an exercise to fully implemenet a council resolution taken in October 2013 to write off takeon balances that was not fully implemented. This also reduced the impairment of huge debtors book balance that was irrecoverable. The municipality also overcollected its annual rates biling by up to 50%, this means the customers started settling the old debt book.

44.4 The negative variance amounts to undercollection by 30% due to poor revenue collection in terms of proceeeds from the Construction Plant Machinery. The budget figure also included VAT refunds target of R 15 million, the actual collection was R 23,4 million which has subsequently been allocated to clear the vat control accounts.

44.5 The negative variance resulted from the withdrawals made by council from the reserves to fastrack service delivery targets. Thsese withdrawals will be refunded during the 2017/18 financial period. The municipality holds various investment accounts that are not lucrative, hence management has made submissions to council to consider closing some of the investment accounts.

44.6 The variance is below the significant percentage of 10%.

44.7 The variance is below the significant percentage of 10%.

44.8 The variance is below the significant percentage of 10%.

44.9 The negative variance does not necessary reflect bad performance from the municipality because at mid-year an adjustment was made after assessing the mid-year financial performance. However the overall financial performance on traffic fines has been impressive and improved a great deal.

44.10 The variance is below the significant percentage of 10%.

44.11 Relates to the finance leases that the municipality entered into, however these leases are coming to an end during 2017/18. The finance costs have been budgeted under capital expenditure together with the repayments for the finance leases.

44.12 This variance relates to the write-off which took place during the year, which relate to the 2014/15 staff debtors raised during the audit, the supporting documentation was subsequently traced and proved that the employees did not unduly benefit so the debts are written off.

44.13 Included in the actual expenditure under Repairs and Expenditure is the exependiture for Electrification and rennovations of Community Halls, whereas these are budgeted under capital expenditure. The variance reflect amongst other things expenditure on Water Consumption that relates to a long outstanding debt from ADM which was caused by properties not transferred. Another drastic increase was on the municipality's spending on operational projects, this has coincided with improved institutional performance.

44.14 The municipality held an auction where some of the movable assets were disposed off.

45. Budget differences (continued)

44.15 The receivable from exchange transactions consist of amount prepaid to suppliers and staff debtors for the rental income overdue.

44.16 Actual amount relates to the credit amount from SARS for the EMP 201

44.17 The municipality budgeted for VAT under other income on the SOFP and the actual amount relates to the VAT receivable at year-end.

44.18 Actual amount has taken impairment into consideration for debtors. The municipality expects to collect the whole amount billed when budgeting.

44.19 Actual amoung includes investment balances from prior year and movement during the year instead of the current year balance.

44.20 This variance relates to balance of investment properties from prior year. When budgeting the municipality only budgets for additions because of the resources available to it. This ensures that the municipality's budget is realistic.

44.21 Actual amount includes historical cost balances for PPE, unlike the budget which only focuses on additions.

44.22 The increased balance relates to the SAGE upgrade for mSCOA Implementation and new acquistions of upgraged laptops to be compatible to SAGE.

44.23 This is budgeted under capital expenditure in the municipal budget, this ensured the budget is properly monitored to avoid overspending.

44.24 These are budgeted for under difference categories of the municipal budget. At year-end the expenses or asset votes were already committed for these amounts.

44.25 On the budget these are provided for under the personnel costs.

44.27 This is budgeted under Personnel Costs on the Statement of Financial Performance.

44.28 This relates to provisions of which a major contributor is landfill sites that are budgeted under General Expenses on the Statement of Financial Performance.

44.29 Actual amount includes prior adjustments and balances.

46. Received Donation in Kind

During the year Sanral constructed roads in the Rural areas of the Mbhashe Local Municipality on behalf of Mbhashe Local Municipality , the value of the constructed roads amounts to R68 934 354.79, This value has been treated as revenue received in kind and the Non current assets have been accounted for.