**Umhlabuyalingana Local Municipality**
**Annual Financial Statements**
**for the year ended 30 June 2018**

# General Information

| | |
|---|---|
| **Legal form of entity** | Municipality<br>KZN 271 |
| **Nature of business and principal activities** | The main purposes of the municipality is to engage in local governance activities,which include planning and promotions of integrated development planning, economic and environmental development and supplying of the following services to the community. Rates and general services all types of services rendered by the municipality includes services for refuse removal. |
| **Mayoral committee** | |
| Mayor | Cllr. N.S Mthethwa |
| Deputy Mayor | Cllr F.G Mlambo |
| Speaker | Cllr. B.T Tembe |
| **Grading of local authority** | Medium capacity municipality |
| **Accounting Officer** | Mrs N.P Gamede |
| MPAC Chairperson | Cllr S.P Mthethwa |
| **Chief Finance Officer (CFO)** | Mr N.P.E Myeni |
| **Exco Members** | Cllr B.N Ntsele<br>Cllr. S.N Tembe<br>Cllr M.D Mathenjwa<br>Cllr M. Z Mhlongo<br>Cllr Z.M Mhlongo |
| **Registered office** | Municipal Building<br>Kwangwanase<br>3973 |
| **Postal address** | Private Bag X 901<br>Kwangwanase<br>3973 |
| **Bankers** | First National Bank of South Africa |
| **Attorneys** | Maseko Mbatha Attorneys |

# General Information

| | |
|---|---|
| **List of councilors** | Cllr. K.O Tembe |
| | Cllr. T.N Magagula |
| | Cllr L.D Tembe |
| | Cllr M Mthembu |
| | Cllr S.G Nxumalo |
| | Cllr G.S Mthembu |
| | Cllr D.A Tembe |
| | Cllr M.I Mthembu |
| | Cllr N Vumase |
| | Cllr J.B Gwala |
| | Cllr N.J Ndabeni |
| | Cllr N.C Mdletshe |
| | Cllr E.G Mhlongo |
| | Cllr J.E Sithole |
| | Cllr B.C Zikhali |
| | Cllr S.M Ndlovu |
| | Cllr T.S Myeni |
| | Cllr L.E Mkhwanazi |
| | Cllr J.G Ngubane |
| | Cllr S.S Gumede |
| | Cllr B.J Tembe |
| | Cllr M.J Mathenjwa |
| | Cllr T.L Mlambo |
| | Cllr H.K Gumede |
| | Cllr T.S Khumalo |
| | Cllr T.J Nxumalo |

# Index

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



| | |
|---|---|
| COID | Compensation for Occupational Injuries and Diseases |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| IMFO | Institute of Municipal Finance Officers |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant |
| INEP | Integrated Electrification Programme |
| FMG | Finance Management Grant |

## Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

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

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

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

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

The annual financial statements set out on pages 5 to 59, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

**Accounting Officer**
**Mrs N.P Gamede**

**Friday, 31 August 2018**

## Statement of Financial Position as at 30 June 2018

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Inventories | 6 | 126,206 | - |
| Receivables from non-exchange transactions | 7 | 11,799,202 | 12,387,073 |
| VAT receivable | 8 | - | 1,697,927 |
| Receivables from exchange transactions | 9 | 1,278,329 | 436,814 |
| Cash and cash equivalents | 10 | 34,628,447 | 18,260,777 |
| | | **47,832,184** | **32,782,591** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 3 | 288,549,507 | 274,298,078 |
| Intangible assets | 4 | 1,078,775 | 1,090,577 |
| | | **289,628,282** | **275,388,655** |
| **Total Assets** | | **337,460,466** | **308,171,246** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Payables from exchange transactions | 13 | 12,457,187 | 19,285,481 |
| VAT payable | 14 | 4,699,055 | - |
| Unspent conditional grants and receipts | 11 | 3,325,741 | 6,079,726 |
| | | **20,481,983** | **25,365,207** |
| **Non-Current Liabilities** | | | |
| Employee benefit obligation | 5 | 1,956,127 | 1,795,964 |
| Provisions | 12 | 12,085,972 | 11,139,144 |
| | | **14,042,099** | **12,935,108** |
| **Total Liabilities** | | **34,524,082** | **38,300,315** |
| **Net Assets** | | **302,936,384** | **269,870,931** |
| Accumulated surplus | | 302,936,384 | 269,870,931 |

* See Note 35 & 34

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|---|---|---|---|
| **REVENUE** | | | |
| **Revenue from exchange transactions** | | | |
| Refuse Removal | 16 | 283,330 | 201,968 |
| Interest on Rates - Debtors | | 1,268,136 | 894,633 |
| Licences and permits | | 3,882,020 | 3,707,490 |
| Commissions received | 17 | 62,386 | - |
| Rental income | 18 | 303,161 | 253,770 |
| Other income | 19 | 237,810 | 352,344 |
| Interest received - investment | | 3,273,313 | 5,121,209 |
| **Total revenue from exchange transactions** | | **9,310,156** | **10,531,414** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Property rates | 20 | 19,829,577 | 19,118,068 |
| **Transfer revenue** | | | |
| Government grants & subsidies | 21 | 178,138,762 | 170,602,127 |
| Public contributions and donations | 22 | 107,497 | 53,262 |
| Fines, Penalties and Forfeits | | 1,606,000 | 1,709,650 |
| **Total revenue from non-exchange transactions** | | **199,681,836** | **191,483,107** |
| **Total revenue** | 15 | **208,991,992** | **202,014,521** |
| **EXPENDITURE** | | | |
| Employee related costs | 23 | (58,301,900) | (46,864,439) |
| Remuneration of councilors | 24 | (12,161,272) | (10,386,046) |
| Depreciation and amortisation | 3&4 | (21,564,593) | (20,316,105) |
| Impairment loss | 25 | (2,909,386) | (860,468) |
| Finance costs | | (954,896) | (878,217) |
| Lease rentals on operating lease | | (1,720,903) | (522,833) |
| Debt Impairment | 26 | (4,429,784) | (2,530,522) |
| Bad debts written off | 26 | (3,585,877) | (621,959) |
| Inventory consumed | | (2,245,586) | (2,603,147) |
| Assets write-off | 3&4 | (112,712) | (9,110) |
| Contracted services | 27 | (33,933,986) | (49,886,633) |
| Transfers and subsidies | 29 | (3,006,668) | (21,852,076) |
| Operational cost | 28 | (31,460,900) | (42,452,062) |
| **Total expenditure** | | **(176,388,463)** | **(199,783,617)** |
| **Operating surplus** | | **32,603,529** | **2,230,904** |
| Loss on write off/disposal of assets | 3 | 156,313 | (123,053) |
| Actuarial (gains)/losses | 5 | 305,613 | (357,958) |
| | | **461,926** | **(481,011)** |
| **Surplus for the year** | | **33,065,455** | **1,749,893** |

* See Note 35 & 34

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| **Balance at 01 July 2016** | **289,296,047** | **289,296,047** |
| Changes in net assets | | |
| Surplus for the year | 1,749,893 | 1,749,893 |
| Transfer of electrification projects | (21,145,393) | (21,145,393) |
| Prior year error | (29,616) | (29,616) |
| Total changes | (19,425,116) | (19,425,116) |
| **Restated* Balance at 01 July 2017** | **269,870,929** | **269,870,929** |
| Changes in net assets | | |
| Surplus for the year | 33,065,455 | 33,065,455 |
| Total changes | 33,065,455 | 33,065,455 |
| **Balance at 30 June 2018** | **302,936,384** | **302,936,384** |

Note(s)

* See Note 35 & 34

## Cash Flow Statement

| Figures in Rand | Note(s) | 2018 | 2017 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Cash receipts from customers and other | | 20,716,262 | 14,312,849 |
| Grants | | 178,138,762 | 173,648,032 |
| Interest income | | 3,273,313 | 5,121,209 |
| Other receipts | | 5,488,020 | 4,064,964 |
| | | 207,616,357 | 197,147,054 |
| **Payments** | | | |
| Employee costs | | (70,363,172) | (59,639,637) |
| Suppliers | | (82,583,197) | (107,114,340) |
| Interest Paid | | (8,069) | (5,565) |
| | | (152,954,438) | (166,759,542) |
| **Net cash flows from operating activities** | 30 | **54,661,919** | **30,387,512** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 3 | (38,416,793) | (73,548,242) |
| Proceeds/Write Offs from sale of assets | 3 | 268,274 | 233,649 |
| Purchase of other intangible assets | 4 | (145,730) | (1,000,965) |
| **Net cash flows from investing activities** | | **(38,294,249)** | **(74,315,558)** |
| **Net decrease in cash and cash equivalents** | | **16,367,670** | **(43,928,046)** |
| Cash and cash equivalents at the beginning of the year | | 18,260,777 | 62,188,823 |
| **Cash and cash equivalents at the end of the year** | 10 | **34,628,447** | **18,260,777** |

* See Note 35 & 34

# 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** | | | | | | |
| Refuse removal | 201,600 | - | **201,600** | 283,330 | **81,730** | Note 42.1 |
| Interest received | 868,640 | (147,736) | **720,904** | 1,268,136 | **547,232** | Note 42.2 |
| Licences and permits | 4,082,520 | (408,252) | **3,674,268** | 3,882,020 | **207,752** | |
| Commissions received | - | - | **-** | 62,386 | **62,386** | Note 42.3 |
| Rental income | 271,000 | - | **271,000** | 303,161 | **32,161** | Note 42.4 |
| Other income | 1,913,257 | (72,791) | **1,840,466** | 237,810 | **(1,602,656)** | Note 42.5 |
| Interest received - Investment | 3,860,465 | (1,570,402) | **2,290,063** | 3,273,313 | **983,250** | Note 42.6 |
| **Total revenue from exchange transactions** | **11,197,482** | **(2,199,181)** | **8,998,301** | **9,310,156** | **311,855** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 19,516,725 | 312,852 | **19,829,577** | 19,829,577 | **-** | |
| **Transfer revenue** | | | | | | |
| Government grants | 178,051,000 | 1,337,762 | **179,388,762** | 178,138,762 | **(1,250,000)** | Note 42.7 |
| Public contributions and donations | - | 107,497 | **107,497** | 107,497 | **-** | |
| Fines | 1,915,100 | (300,000) | **1,615,100** | 1,606,000 | **(9,100)** | |
| **Total revenue from non-exchange transactions** | **199,482,825** | **1,458,111** | **200,940,936** | **199,681,836** | **(1,259,100)** | |
| **Total revenue** | **210,680,307** | **(741,070)** | **209,939,237** | **208,991,992** | **(947,245)** | |
| **Expenditure** | | | | | | |
| Employee related cost | (58,375,530) | (176,513) | **(58,552,043)** | (58,301,900) | **250,143** | |
| Remuneration of councilors | (12,210,303) | (11,233) | **(12,221,536)** | (12,161,272) | **60,264** | |
| Depreciation and amortisation | (23,238,998) | 3,200,000 | **(20,038,998)** | (21,564,593) | **(1,525,595)** | |
| Impairment loss | - | - | **-** | (2,909,386) | **(2,909,386)** | Note 42.8 |
| Finance costs | (250,000) | (712,644) | **(962,644)** | (954,896) | **7,748** | |
| Lease rentals on operating lease | (450,000) | (480,000) | **(930,000)** | (1,720,903) | **(790,903)** | Note 42.9 |
| Debt Impairment | (16,012,747) | 12,426,859 | **(3,585,888)** | (8,015,661) | **(4,429,773)** | Note 42.10 |
| Contracted Services | (6,992,000) | (26,240,262) | **(33,232,262)** | (33,933,986) | **(701,724)** | |
| Assets Written - Off | - | - | **-** | (112,712) | **(112,712)** | Note 42.14 |
| Transfer and Subsidies | - | (1,500,000) | **(1,500,000)** | (3,006,668) | **(1,506,668)** | 42.15 |
| Operational Cost | (39,739,000) | 5,430,000 | **(34,309,000)** | (31,460,900) | **2,848,100** | |
| Inventory Consumed | (200,000) | (2,052,000) | **(2,252,000)** | (2,245,586) | **6,414** | |
| **Total expenditure** | **(157,468,578)** | **(10,115,793)** | **(167,584,371)** | **(176,388,463)** | **(8,804,092)** | |
| **Operating surplus** | **53,211,729** | **(10,856,863)** | **42,354,866** | **32,603,529** | **(9,751,337)** | |
| Loss on disposal of assets | - | - | **-** | 156,313 | **156,313** | Note 42.11 |
| Actuarial gains/losses | - | - | **-** | 305,613 | **305,613** | Note 42.12 |
| | **-** | **-** | **-** | **461,926** | **461,926** | |
| **Surplus before taxation** | **53,211,729** | **(10,856,863)** | **42,354,866** | **33,065,455** | **(9,289,411)** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
| --- | --- | --- | --- | --- | --- | --- |
| **Surplus for the year excluding capital expenditure** | **53,211,729** | **(10,856,863)** | **42,354,866** | **33,065,455** | **(9,289,411)** | |
| Capital Expenditure | (60,587,330) | (9,197,466) | **(69,784,796)** | (60,382,705) | **9,402,091** | Note 42.13 |
| **Comparison of Budget and Actual amounts** | **(7,375,601)** | **(20,054,329)** | **(27,429,930)** | **(27,317,250)** | **112,680** | |

# Accounting Policies

### 1. Presentation of Annual Financial Statements

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

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

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

### 1.1 Presentation currency

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

### 1.2 Going concern assumption

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

### 1.3 Significant judgements and sources of estimation uncertainty

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

**Impairment testing**

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

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

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

**Useful lives of property plant and equipment and intangible assets**

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

**Effective interest rate**

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

**Allowance for doubtful debts**

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

# Accounting Policies

### 1.4 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

| Item | Depreciation method | Average useful life |
| --- | --- | --- |
| Buildings | Straight line | 20 -30 years |
| Borehole | Straight line | 20 years |
| Clinics | Straight line | 30 years |
| Furniture and fixtures | Straight line | 7 - 10 years |
| Motor vehicles | Straight line | 5 years |
| Office equipment | Straight line | 3 - 7 years |
| IT equipment | Straight line | 3 years |
| Creche | Straight line | 30 years |
| Infrastructure | Straight line | 30 years |
| Roads and Paving | Straight line | 20 years |

# Accounting Policies

### 1.4 Property, plant and equipment (continued)

| | | |
|---|---|---|
| Roads and Water | Straight line | 3 - 10 years |
| Gravel Surface | Straight line | 10 years |
| Recreational Facility | Straight line | 20 -30 years |
| Security | Straight line | 5 years |
| Community Halls | Straight line | 30 years |
| Bins and containers | Straight line | 15 years |
| Libraries | Straight line | 30 years |
| Park facilities | Straight line | 10 years |
| Landfill sites | Straight line | 30 years |
| Leased Office Equipment | Straight line | 5 years |
| Specialised vehicles | Straight line | 10 years |
| Special Plant and Equipment | Straight line | 10 - 15 years |

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

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

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

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

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

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

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

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

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

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

### 1.5 Intangible assets

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

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

# Accounting Policies

### 1.5 Intangible assets (continued)

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

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

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

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

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

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

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

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

| Item | Depreciation method | Average useful life |
|---|---|---|
| Intangible assets under development | Straight line | 5 years |

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

### 1.6 Financial instruments

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

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

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

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

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

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

### 1.6 Financial instruments (continued)

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

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

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

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

**Classification**

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

| Class | Category |
|---|---|
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Consumer debtors | Financial asset measured at amortised cost |
| Receivables and exchange transactions | Financial asset measured at amortised cost |
| Receivables and non-exchange transactions | Financial asset measured at amortised cost |
| VAT Receivables | Financial asset measured at amortised cost |

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

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

**Initial measurement of financial assets and financial liabilities**

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

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

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

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

# Accounting Policies

### 1.6 Financial instruments (continued)

**Subsequent measurement of financial assets and financial liabilities**

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

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

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

**Fair value measurement considerations**

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

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

**Reclassification**

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

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

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

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

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

**Gains and losses**

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

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

## Accounting Policies

### 1.6 Financial instruments (continued)

**Derecognition**

**Financial liabilities**

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

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

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

### 1.7 Leases

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

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

**Operating Leases**

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

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

**Finance leases - lessee**

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

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

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

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

**Operating leases - lessor**

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

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

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

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

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

### 1.7 Leases (continued)

**Operating leases - lessee**

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

### 1.8 Inventories

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

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

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

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

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

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

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

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

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

### 1.9 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.

### 1.9 Impairment of cash-generating assets (continued)

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

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

**Identification**

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

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

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

**Reversal of impairment loss**

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

### 1.10 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.

# Accounting Policies

**1.10 Impairment of non-cash-generating assets (continued)**

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.

**Identification**

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

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

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

**Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

# Accounting Policies

### 1.10 Impairment of non-cash-generating assets (continued)

**Reversal of an impairment loss**

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

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

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

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

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

### 1.11 Employee benefits

**Short-term employee benefits**

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

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

**Defined contribution plans**

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

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

### 1.12 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

# Accounting Policies

### 1.12 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and

**1.12 Provisions and contingencies (continued)**

- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

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

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

### 1.13 Revenue from exchange transactions

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

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

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

**Measurement**

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

**Sale of goods**

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

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

**Rendering of services**

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

### 1.14 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

**Recognition**

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

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

### 1.14 Revenue from non-exchange transactions (continued)

**Measurement**

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

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

**Transfers**

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

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

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

**Fines**

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

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

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

**Property Rates**

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

**Gifts and donations, including goods in-kind**

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

**Services in-kind**

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

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

### 1.15 Investment income

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

### 1.16 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

### 1.17 Value Added Tax (VAT)

The municipality has registered VAT on cash basis but account for VAT on accrual basis

### 1.18 Comparative figures

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

### 1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

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

### 1.20 Fruitless and wasteful expenditure

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

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

### 1.21 Irregular expenditure

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

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

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

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

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

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

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

# Accounting Policies

### 1.21 Irregular expenditure (continued)

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

### 1.22 Budget information

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

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

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

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

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

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

### 1.23 Related parties

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

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

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

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

### 1.24 Events after reporting date

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

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

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

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

## Accounting Policies

### 1.25 Commitments

Items are classified as commitments where the municipality commits itself into future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:
- Approved and contracted commitments;
- Where the expenditure has been approved and the contract has been awarded at the reporting date; and
- Where disclosure is required by specific GRAP standard.

### 1.26 Retention

Retention is also commonly called retainage and is a term referring to the percentage of payment held back from a construction contract. This is a financial term and the owners of a building, or those who are paying for its work to be done, take the lead in drawing up and enforcing the retention plan. General contractors sometimes have retention plans as well

Retention is a percentage of the amount certified as due to the contractor on an interim certificate, that is deducted from the amount due and retained by the client. The purpose of retention is to ensure that the contractor properly completes the activities required of them under the contract. Retention can also be applied to nominated sub-contractors, and the main contractor may also apply retention to domestic sub-contractors.

- Often the percentage of retention ranges from 5% to 10% depending on:

a) The risk of the project, if the risk of failure is high then the percentage will be at maximum 10%.

b) The experience of the awarded contractor, if the contractor has minimum experience of the work to be executed then the percentage will be maximum 10%.

- Half of the amount retained is released on certification of practical completion ('substantial completion' for Institution of Civil Engineers (ICE) contracts) and the remainder is released upon certification of making good defects (or 'final statement' for design and build contracts such as Joint Contracts Tribunal (JCT).

- Interim certificates should make clear the amount of retention and a statement should also be prepared showing retention for nominated sub-contractors. The contract may require that retention is kept in a separate bank account and that this is certified to contractors. In this case, the client will generally keep any interest paid on the account.

| Figures in Rand | 2018 | 2017 |
| --- | --- | --- |

## 2. New standards and interpretations

### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2018 or later periods:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
| --- | --- | --- |
| • GRAP 20: Related parties | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 109: Accounting by Principals and Agents | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 18 (as amended 2016): Segment Reporting | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 108: Statutory Receivables | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 32: Service Concession Arrangements: Grantor | 01 April 2019 | Unlikely there will be a material impact |

### 3. Property, plant and equipment

| | 2018 | | | 2017 Restated | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 658,992 | - | 658,992 | 658,992 | - | 658,992 |
| Buildings | 38,960,194 | (10,582,685) | 28,377,509 | 38,885,194 | (9,220,996) | 29,664,198 |
| Electrification | - | - | - | 3,736,617 | - | 3,736,617 |
| Infrastructure assets | 333,999,825 | (87,004,761) | 246,995,064 | 295,600,807 | (66,039,847) | 229,560,960 |
| Other property, plant and equipment | 21,501,615 | (8,983,673) | 12,517,942 | 18,994,196 | (8,316,887) | 10,677,309 |
| Leased Assets | - | - | - | 386,090 | (386,091) | - |
| **Total** | **395,120,626** | **(106,571,119)** | **288,549,507** | **358,261,896** | **(83,963,821)** | **274,298,076** |

**Reconciliation of property, plant and equipment - 30 June 2018**

| | Opening balance | Additions | Work-in-Progress | Write Off | Donated Assets | Transfers | Impairment reversal | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Land | 658,992 | - | - | - | - | - | - | - | - | 658,992 |
| Buildings | 29,664,198 | 75,000 | - | - | - | - | - | (1,294,610) | (67,079) | 28,377,509 |
| Electrification | 3,736,617 | - | - | - | - | (3,736,617) | - | - | - | - |
| Infrastructure assets | 229,560,960 | 13,962,470 | 20,703,774 | - | - | 3,736,617 | - | (18,126,436) | (2,842,321) | 246,995,064 |
| Other property, plant and equipment | 10,677,309 | 3,675,549 | - | (111,961) | 107,497 | - | 156,314 | (1,986,766) | - | 12,517,942 |
| | **274,298,076** | **17,713,019** | **20,703,774** | **(111,961)** | **107,497** | **-** | **156,314** | **(21,407,812)** | **(2,909,400)** | **288,549,507** |

### 3. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 30 June 2017 (Restated)**

| | Opening balance | Additions | Disposals | Transfers Out | Write Off | WIP | Depreciation | Impairment loss | Electricity WIP write off | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Land | 658,992 | - | - | - | - | - | - | - | - | 658,992 |
| Buildings | 26,046,787 | 4,922,437 | - | - | - | - | (1,305,026) | - | - | 29,664,198 |
| Electrification | - | 20,330,934 | - | (16,594,787) | - | 21,145,863 | - | - | (21,145,393) | 3,736,617 |
| Infrastructure assets | 189,814,687 | 44,091,060 | - | (10,306,573) | - | 23,334,828 | (16,512,575) | (860,467) | - | 229,560,960 |
| Other property, plant and equipment | 8,896,514 | 4,203,811 | (356,870) | - | (9,110) | - | (2,057,036) | - | - | 10,677,309 |
| | **225,416,980** | **73,548,242** | **(356,870)** | **(26,901,360)** | **(9,110)** | **44,480,691** | **(19,874,637)** | **(860,467)** | **(21,145,393)** | **274,298,073** |

**Pledged as security**

There are no Property, Plant and Equipment pledged as security for the municipality.

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 3. Property, plant and equipment (continued)

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

| | 2018 | 2017 |
|---|---|---|
| **Cumulative expenditure recognised in the carrying value of property, plant and equipment** | | |
| Buildings | 38,907,086 | 23,334,827 |
| Infrastructure | 5,127,659 | 22,088,129 |
| | **44,034,745** | **45,422,956** |

Work in Progress prior year was split to recognise expenditure in respective categories, the reallocation was done to Land and Buildings and Infrastructure Electrification.

Current year work in progress was reallocated to Land and Building and Electrification Infrastructure Assets as it closing balance making up the balance for WIP.

| | 2018 | 2017 |
|---|---|---|
| **Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected** | | |
| Manguzi Multipurpose<br>Manguzi Multipurpose Centre is a multi year project, and estimated to be completed November 2017.<br>Contractor surrendered the contract and the municipality is awaiting for new specification for re-advertisement to commence with the project. | 20,842,953 | 14,562,762 |
| | **20,842,953** | **14,562,762** |

**Reconciliation of Work-in-Progress 2017 Name change**

| | Included within Infrastructure | Included within Electrification | Total |
|---|---|---|---|
| Opening balance | 22,695,309 | 3,736,617 | 26,431,926 |
| Additions/capital expenditure | 35,301,906 | 28,141,103 | 63,443,009 |
| Transferred to completed items | (13,962,470) | (31,877,720) | (45,840,190) |
| | **44,034,745** | **-** | **44,034,745** |

**Reconciliation of Work-in-Progress 2017 Comparative reclassification**

| | Included within Infrastructure | Included within Community | Included within Other PPE | Total |
|---|---|---|---|---|
| Opening balance | 13,043,323 | - | 9,651,506 | 22,694,829 |
| Additions/capital expenditure | 60,584,191 | 1,470,173 | 12,436,523 | 74,490,887 |
| Transferred to completed items | (50,292,687) | (1,470,173) | - | (51,762,860) |
| | **23,334,827** | **-** | **22,088,029** | **45,422,856** |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 3. Property, plant and equipment (continued)

**Expenditure incurred to repair and maintain property, plant and equipment**

| **Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance** | | |
|---|---|---|
| Contracted Services - Plumbing | 95,014 | 142,900 |
| Contracted services - G5 Material | 192,000 | 40,000 |
| Contracted services - G7 Material | 85,769 | 591,382 |
| Contracted - Hiring Excavator | 310,500 | 590,001 |
| Contracted Service - Hiring of Grader | 227,500 | 3,399,294 |
| Contracted Service - Hiring Water Tank | - | 1,596,379 |
| Maintenance Storm Water | - | 207,300 |
| Contracted Service - TLB Hire | - | 194,750 |
| Renovations Mayors Office | - | 195,790 |
| Renovations Security Office Traffic Department | - | 196,764 |
| Locksmith | 31,655 | 10,000 |
| Contracted Service - Building Renovations | 128,190 | 646,788 |
| Contracted Service - Painting | - | 37,250 |
| Contracted Services - Parkhome Renovations | - | 79,412 |
| Contracted Service - Paving | 470 | 234,520 |
| Service Septic Tanks | 32,000 | 17,700 |
| Road Markings | 120,600 | 197,000 |
| Site Clearing | - | 84,714 |
| Tree Cutting | 238,603 | 206,000 |
| Computer Repair | 66,856 | 162,922 |
| Aircon Regas | 58,960 | 7,500 |
| Chainsaw Repair | - | 18,497 |
| Electrical | 4,200 | 17,035 |
| Furniture Repair | - | 3,664 |
| Contracted Service - Motor Vehicle | 2,239,779 | 1,466,882 |
| Contracted Service - Grass Cutting | 75,461 | 940,991 |
| Bridge repair | 113,515 | - |
| Parking shelters | 26,800 | - |
| Glass and Window replacement | 195,250 | - |
| Markets roof repair | 27,100 | - |
| Borehole repair | 51,700 | - |
| | **4,321,922** | **11,285,435** |

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

## 4. Intangible assets

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 1,716,101 | (637,326) | 1,078,775 | 2,671,769 | (1,581,192) | 1,090,577 |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 4. Intangible assets (continued)

**Reconciliation of intangible assets - June 2018**

| | Opening balance | Additions | Write Off | Amortisation | Total |
|---|---|---|---|---|---|
| Computer software, other | 1,090,577 | 145,730 | (752) | (156,780) | 1,078,775 |

**Reconciliation of intangible assets - June 2017**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software, other | 553,072 | 1,000,965 | (463,460) | 1,090,577 |

### 5. Employee benefit obligations

**Long Service Awards**

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries

of commencing service and a retirement gift determined by reference to length of service.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as

at 30 June 2017 by Independent Actuarial One Pangaea Financial (‘OPF’), Fellow of the Actuarial Society of South Africa. The

present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

| | 2018 | 2017 |
|---|---|---|
| **Carrying value** | | |
| Opening accrued liability | (1,795,964) | (1,154,232) |
| Current interest cost | (311,973) | (222,016) |
| Current interest cost | (166,547) | (105,426) |
| Expected benefit payments | 12,744 | 43,668 |
| Actuarial gain/(loss) | 305,613 | (357,958) |
| | **(1,956,127)** | **(1,795,964)** |

| | 2018 | 2017 |
|---|---|---|
| **Assumptions used at the reporting date:** | | |
| **Discount rates used** | | |
| General Inflation Rate | 9.50 % | 9.43 % |
| Plant and equipment | 6.02 % | 6.27 % |
| Real Rate | 7.02 % | 7.27 % |
| | - | - |
| | 63 | 63 |
| | | SA 85-90 |

**Members withdrawn from services: (Average for males and females)**

| | 2018 | 2017 |
|---|---|---|
| Age 20 | 12.00 % | 12.00 % |
| Age 25 | 6.60 % | 6.60 % |
| Age 30 | 5.10 % | 5.10 % |
| Age 35 | 3.60 % | 3.60 % |
| Age 40 | 2.60 % | 2.60 % |
| Age 45 | 1.80 % | 1.80 % |
| Age 50 | 1.10 % | 1.10 % |
| | - | - |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 5. Employee benefit obligations (continued)

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

| | | |
|---|---|---|
| Opening balance | 1,795,964 | 1,154,232 |
| Service cost | 311,973 | 222,016 |
| Interest cost | 166,547 | 105,426 |
| Expected benefit payment | (12,744) | (43,668) |
| Actuarial (gain)/loss | (305,613) | 357,958 |
| | **1,956,127** | **1,795,964** |

**Net expense recognised in the statement of financial performance**

| | | |
|---|---|---|
| Current service cost | 311,973 | 222,016 |
| Interest cost | 166,547 | 105,426 |
| Actuarial (gains) losses | (305,613) | 357,958 |
| Settlement | (12,744) | (43,668) |
| | **160,163** | **641,732** |

**Demographic and Decrement Assumption**

The following withdrawal assumptions were applicable over the prior and current valuation periods:

| | | |
|---|---|---|
| 20 | 12.00 % | 12.00 % |
| 25 | 6.60 % | 6.60 % |
| 30 | 5.10 % | 5.10 % |
| 35 | 3.60 % | 3.60 % |
| 40 | 2.60 % | 2.60 % |
| 45 | 1.80 % | 1.80 % |
| 50 | 1.10 % | 1.10 % |

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

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2017 the duration of liabilities was 9.80 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 29 June 2018 is 9.50% per annum, and the yield on inflation linked bonds of a similar term was about 2.81% per annum. This implies an underlying expectation of inflation of 6.02% per annum ([1 + 9.50% - 0.5%] / [1 + 2.81%] - 1).

We have assumed that salary inflation would exceed general inflation by 1.0% per annum, i.e. 7.02% per annum.

However, it is the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 2.32% per annum ([1 + 9.50%] / [1 + 7.02%] - 1).

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 5. Employee benefit obligations (continued)

**Valuation assumptions**

The key assumptions used in the valuation, with the prior year's assumption shown for comparison, are summarised below:

| | 30 June 2018 | 30 June 2017 |
|---|---|---|
| Discount rate | 9.50 % | 9.43 % |
| CPI | 6.02 % | 6.27 % |
| Salary increase rate | 7.02 % | 7.27 % |
| Net Discount Rate | 2.32 % | 2.01 % |

**Valuation Method**

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

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

### 6. Inventories

| | | |
|---|---|---|
| Merchandise | 126,206 | - |

### 7. Receivables from non-exchange transactions

| | | |
|---|---|---|
| Rates Debtors | 43,215,081 | 40,688,369 |
| Fines | 5,278,941 | 3,963,741 |
| Less: Provisions for the year - Rates | (32,975,214) | (29,081,732) |
| Less: Provisions Fines | (3,719,606) | (3,183,305) |
| | **11,799,202** | **12,387,073** |

| | | |
|---|---|---|
| **Rate Debtors (Ageing)** | | |
| Current (0-30 days) | 1,024,165 | 2,018,389 |
| 31-60 days | 886,539 | 880,497 |
| 61-90 days | 810,499 | 852,315 |
| 91-120 days | 795,419 | 836,204 |
| 121-365 days | 39,698,459 | 36,100,964 |
| | **43,215,081** | **40,688,369** |

**Fines**

| | | |
|---|---|---|
| **Fines (Ageing)** | | |
| Current (0-30 days) | 212,117 | 240,856 |
| 31-60 days | 159,985 | 181,661 |
| 61-90 days | 264,524 | 300,364 |
| 91-120 days | 250,458 | 284,392 |
| 121-365 days | 4,391,857 | 2,956,468 |
| | **5,278,941** | **3,963,741** |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 7. Receivables from non-exchange transactions (continued)

**Receivables from non-exchange transactions past due but not impaired**

Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2018, 2,577,042 (2017:R2 703 682) were past due but not impaired.

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

| | | |
|---|---|---|
| 1 month past due | 880,004 | 852,315 |
| 2 months past due | 886,539 | 880,497 |
| 3 months past due | 810,499 | 970,870 |

**Receivables from non-exchange transactions impaired**

As of 30 June 2018, other receivables from non-exchange transactions of 36,586,006 (2017: 32,265,037) were impaired and provided for.

The amount of the provision was 4,429,784 as of 30 June 2018 (2017: 2,530,522)

### 8. VAT

| | | |
|---|---|---|
| VAT Receivables | - | 1,697,927 |

VAT is accounted for on an accrual basis but claimed / paid over to SARS on a cash basis.

### 9. Receivables from exchange transactions

| | | |
|---|---|---|
| **Gross balances** | | |
| Creditors Overpayment | 831,765 | 155,168 |
| Debtor PMU | 17,388 | 23,170 |
| Debtors Employee Overpayment | - | 11,824 |
| Refuse | 142,439 | 46,795 |
| Debtors - Rentals | 171,788 | 133,620 |
| Other Debtors | 114,949 | 66,237 |
| | **1,278,329** | **436,814** |

| | | |
|---|---|---|
| **Net balance** | | |
| Creditors Overpayment | 831,765 | 155,168 |
| Debtor PMU | 17,388 | 23,170 |
| Debtors Employee Overpayment | - | 11,824 |
| Debtors-Waste | 142,439 | 46,795 |
| Debtors - Rentals | 171,788 | 133,620 |
| Other debtors | 114,949 | 66,237 |
| | **1,278,329** | **436,814** |

| | | |
|---|---|---|
| **Creditors Overpayment** | | |
| > 365 days | 831,765 | 155,168 |

| | | |
|---|---|---|
| **Debtors PMU** | | |
| Current (0 -30 days) | 17,388 | 23,170 |

| | | |
|---|---|---|
| **Debtors Overpayment** | | |
| Current (0 -30 days) | - | 11,824 |

| Figures in Rand | 2018 | 2017 |
| --- | --- | --- |

### 9. Receivables from exchange transactions (continued)

| | | |
| --- | --- | --- |
| **Refuse** | | |
| Current (0 -30 days) | 44,203 | 46,795 |
| 31 - 60 days | 39,850 | - |
| 61 - 90 days | 31,824 | - |
| 91 - 120 days | 26,562 | - |
| | **142,439** | **46,795** |
| **Rental** | | |
| Current (0 -30 days) | 23,369 | 34,102 |
| 31 - 60 days | 22,145 | 27,613 |
| 61 - 90 days | 20,848 | 21,002 |
| 91 - 120 days | 17,175 | 11,825 |
| 121 - 365 days | 14,430 | 8,936 |
| > 365 days | 73,821 | 30,142 |
| | **171,788** | **133,620** |
| **Other (specify)** | | |
| Current (0 -30 days) | 114,949 | 66,237 |

### 10. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
| --- | --- | --- |
| Cash on hand | 719 | 1 |
| Bank balances | 28,783,844 | 12,713,451 |
| Short-term deposits | 5,798,641 | 5,499,873 |
| Other cash and cash equivalents | 45,243 | 47,452 |
| | **34,628,447** | **18,260,777** |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 10. Cash and cash equivalents (continued)

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | 30 June 2018 | 30 June 2017 | 30 June 2016 | 30 June 2018 | 30 June 2017 | 30 June 2016 |
| First National Bank - Current Account Hluhluwe - 62025236408 | 22,713,642 | 713,704 | 8,336,188 | 22,713,642 | 713,704 | 8,336,188 |
| First National Bank - Call Account Hluhluwe - 62055161146 | - | 3,902 | 997,903 | - | 3,902 | 997,903 |
| First National Bank - Call Account Hluhluwe - 62217154351 | 1,352,822 | 821,240 | 788,193 | 1,352,822 | 821,240 | 788,193 |
| First National Bank - Call Account Hluhluwe - 74275256516 | 4,393,217 | 4,138,519 | 3,846,009 | 4,393,217 | 4,138,519 | 3,846,009 |
| Standard Bank - Call Account Empangeni - 068824491 | 18,941 | 18,110 | 17,111 | 18,941 | 18,110 | 17,111 |
| Nedbank - Call Account Richardsbay - 28702097 | 33,144 | 31,376 | 29,627 | 33,144 | 31,376 | 29,627 |
| First National Bank - Call Account Hluhluwe - 62424086785 | 516 | 484,361 | 46,711,753 | 516 | 484,361 | 46,711,753 |
| First National Bank - Fixed Deposit Account - 74622621601 | 6,479,688 | 11,999,747 | - | 6,479,688 | 11,999,747 | - |
| First National Bank - Call Account Hluhluwe - 62217154351 | - | 2,365 | 1,395,792 | - | 2,365 | 1,395,792 |
| **Total** | **34,991,970** | **18,213,324** | **62,122,576** | **34,991,970** | **18,213,324** | **62,122,576** |

## 11. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| **Unspent conditional grants and receipts** | | |
|---|---|---|
| COGTA - Small Town Rehabilitation | 162,260 | 162,260 |
| Arts and Culture | 100,000 | 100,000 |
| Manguzi Road Project | 17,307 | 17,307 |
| Urban Development | 907,195 | 907,195 |
| INEP Energy Electrification | - | 2,916,223 |
| Manzengwenya Project | 7,500 | 7,500 |
| M A P | 251,168 | 251,168 |
| Phelandaba Development Grant | 178,600 | 178,600 |
| Nhlange Lake Restaurant | 5,600 | 5,600 |
| KwaTembe Concrete Project | 86,111 | 86,111 |
| Mbazwana and Munguzi Hubs | 160,000 | 160,000 |
| Environmental Grant | 200,000 | 200,000 |
| Wall to Wall Scheme | - | 1,000,000 |
| Small Town | - | 87,762 |
| Border Development | 1,250,000 | - |
| | **3,325,741** | **6,079,726** |

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

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

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

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 11. Unspent conditional grants and receipts (continued)

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

### 12. Provisions

**Reconciliation of provisions - 2017 Name change**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Environmental rehabilitation | 11,139,144 | 946,828 | 12,085,972 |

**Reconciliation of provisions - 2017 Comparative reclassification**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Environmental rehabilitation | 10,266,492 | 872,652 | 11,139,144 |

**Environmental rehabilitation provision**

The municipality operates three Landfill sites, which are Thandizwe, Mbazwana and Skhemelele.

The Municipality estimated rehabilitation cost are R12 085 972 (2017: R11 139 144) to restore the landfill site at the end of its useful life, estimated to be 30 years from the date of revaluation. The amount of rehabilitation is dependent on future costs technology, inflation and site consumption. The discount rate of the provision was 8.5% (2017: 8.5%).

The financial implication of rehabilitating the landfill site was determined by the independent practitioner engineer Mpume Naleli Technologies.

The date on which Mpume Naleli Technologies valued landfill sites was 30 May 2017. The landfill sites are revalued every four year.

**Long service award provision**

Long services award are payable after ten years of continuous services and every five years thereafter to employees.

A provision is an estimate of the long service award base on historic staff turnover, taking into account management estimate of the likelihood that staff may leave before long services become due.
No other long services benefit are provided to employees.

For key assumptions and values please refer to note 5.

### 13. Payables from exchange transactions

| | 2018 | 2017 |
|---|---|---|
| Trade payables | 2,254,462 | 9,259,864 |
| Accrued leave pay | 3,365,172 | 2,922,866 |
| Accrued bonus | 1,179,527 | 980,080 |
| Accrued expense | - | 22,360 |
| Retention Creditors | 5,449,442 | 6,098,953 |
| Other creditors | 208,584 | 1,358 |
| | **12,457,187** | **19,285,481** |

**Ageing trade and other payables**

| | 2018 | 2017 |
|---|---|---|
| Trade payables (0-30 days) | 2,254,462 | 9,203,834 |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 14. VAT payable

| | | |
|---|---|---|
| VAT payables | 4,699,055 | - |

### 15. Revenue

| | | |
|---|---|---|
| Service charges | 283,330 | 201,968 |
| Interest received (trading) | 1,268,136 | 894,633 |
| Licences and permits | 3,882,020 | 3,707,490 |
| Commissions received | 62,386 | - |
| Rental income | 303,161 | 253,770 |
| Other income | 237,810 | 352,344 |
| Interest received - investment | 3,273,313 | 5,121,209 |
| Property rates | 19,829,577 | 19,118,068 |
| Government grants & subsidies | 178,138,762 | 170,602,127 |
| Public contributions and donations | 107,497 | 53,262 |
| Fines, Penalties and Forfeits | 1,606,000 | 1,709,650 |
| | **208,991,992** | **202,014,521** |

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

| | | |
|---|---|---|
| Service charges | 283,330 | 201,968 |
| Interest received (trading) | 1,268,136 | 894,633 |
| Licences and permits | 3,882,020 | 3,707,490 |
| Commissions received | 62,386 | - |
| Rental income | 303,161 | 253,770 |
| Other income | 237,810 | 352,344 |
| Interest received - investment | 3,273,313 | 5,121,209 |
| | **9,310,156** | **10,531,414** |

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

| | | |
|---|---|---|
| **Taxation revenue** | | |
| Property rates | 19,829,577 | 19,118,068 |
| **Transfer revenue** | | |
| Government grants & subsidies | 178,138,762 | 170,602,127 |
| Public contributions and donations | 107,497 | 53,262 |
| Fines, Penalties and Forfeits | 1,606,000 | 1,709,650 |
| | **199,681,836** | **191,483,107** |

### 16. Refuse removal

| | | |
|---|---|---|
| Refuse removal | 283,330 | 201,968 |

### 17. Commission received

| | | |
|---|---|---|
| **Traffic** | | |
| Motor licensing | 62,386 | - |

### 18. Rental Income

| | | |
|---|---|---|
| Rental income | 303,161 | 253,770 |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 19. Other income

| | | |
|---|---|---|
| Business Licensing | 3,600 | 1,658 |
| Sundry income | 89,269 | 222,375 |
| Library Income | 24,079 | 17,477 |
| Tender Documents | 90,213 | 110,834 |
| Property clearance revenue | 750 | - |
| Building plans revenue | 29,899 | - |
| | **237,810** | **352,344** |

## 20. Property rates

### Rates

| | | |
|---|---|---|
| Residential | 330,000 | - |
| Commercial | 11,008,667 | 9,723,526 |
| State | 12,927,001 | 13,200,675 |
| Property trust | 1,431,000 | 960,000 |
| Less: Income forgone | (5,867,091) | (4,766,133) |
| | **19,829,577** | **19,118,068** |

### Valuations

| | | |
|---|---|---|
| Residential / Hospitality | 68,500,000 | 92,900,000 |
| Commercial | 571,225,000 | 506,075,000 |
| State | 656,340,000 | 658,120,000 |
| State trust Land | 572,400,000 | 572,400,000 |
| Municipality | 32,400,000 | 27,900,000 |
| Protected Area | 164,500,000 | 164,500,000 |
| Place of Worship | 4,300,000 | 4,300,000 |
| | **2,069,665,000** | **2,026,195,000** |

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014, annual valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of 0,0025 (2017:0,0025 ) is applied to property valuations of ITB to determine the assessment rate. The billing remained constant from previous year.

Business Properties are billed at R0.01 (2017: R0,01) per rand for a period. Hospitality will be included in this category.

The new general valuation will be implemented on 01 July 2019.

Protected Area and Public Benefit Organisations are valuated but exempt from billing.

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 21. Government grants and subsidies

**Operating grants**

| | | |
|---|---|---|
| Equitable share | 133,848,000 | 121,121,000 |
| Financial Management Grant | 1,900,000 | 1,825,000 |
| EPWP Grant | 4,165,000 | 2,277,000 |
| Small Town Rehabilitation | 87,762 | 3,412,238 |
| Library Grant | 1,657,000 | 1,592,000 |
| Electrification grant - COGTA | - | 3,549,889 |
| Wall to Wall Scheme | 1,000,000 | - |
| | **142,657,762** | **133,777,127** |

**Capital grants**

| | | |
|---|---|---|
| Municipal Infrastructure Grant | 35,481,000 | 36,825,000 |
| | **178,138,762** | **170,602,127** |

**Conditional and Unconditional**

Included in above are the following grants and subsidies received:

| | | |
|---|---|---|
| Conditional grants received | 44,290,762 | 49,481,127 |
| Unconditional grants received | 133,848,000 | 121,121,000 |
| | **178,138,762** | **170,602,127** |

**MSIG**

**Department of Sport**

**COGTA -Small Town Reabilitation**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 162,260 | 162,260 |

**Spatial Development**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 100,000 | 100,000 |

**Project Consolidate Manguzi**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 17,307 | 17,307 |

**Library Grant**

| | | |
|---|---|---|
| Current-year receipts | 1,675,000 | 1,592,000 |
| Conditions met - transferred to revenue | (1,675,000) | (1,592,000) |
| | - | - |

**Urban Development Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 907,195 | 907,195 |

**Department of energy**

**Manzengwenya Project**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 7,500 | 7,500 |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

**21. Government grants and subsidies (continued)**

**Municipal Assistance Program (MAP)**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 251,168 | 251,168 |

**Phelandaba Development Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 178,600 | 178,600 |

**Nhlange Lake Restaurant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 5,600 | 5,600 |

**Kwa Tembe Concrete Project**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 86,111 | 86,111 |

**Mbazwana and Manguzi Hubs**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 160,000 | 160,000 |

**IDP Community Participation**

**MIG**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 35,481,000 | 36,825,000 |
| Conditions met - transferred to revenue | (35,481,000) | (36,825,000) |
| | - | - |

**FMG**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 1,900,000 | 1,825,000 |
| Conditions met - transferred to revenue | (1,900,000) | (1,825,000) |
| | - | - |

**EPWP**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 4,165,000 | 2,277,000 |
| Conditions met - transferred to revenue | (4,165,000) | (2,277,000) |
| | - | - |

**Tourism and Environmental Affairs Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 200,000 | 200,000 |

**INEP Electrification Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 2,916,223 | - |
| Current-year receipts | 25,000,000 | 20,000,000 |
| Expenditure incurred | (27,916,223) | (17,083,777) |
| | **-** | **2,916,223** |

| Figures in Rand | 2018 | 2017 |
| --- | --- | --- |

## 21. Government grants and subsidies (continued)

**Cogta electrification grant**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | - | 3,549,889 |
| Conditions met - transferred to revenue | - | (3,549,889) |
| | **-** | **-** |

**Wall to Wall Scheme**

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

**Small Town**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 87,762 | 3,500,000 |
| Conditions met - transferred to revenue | (87,762) | (3,412,238) |
| | **-** | **87,762** |

**Border Development**

| | | |
| --- | --- | --- |
| Current-year receipts | 1,250,000 | - |

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

## 22. Public contributions and donations

| | | |
| --- | --- | --- |
| Public contributions and donations | 107,497 | 53,262 |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 23. Employee related costs

| | | |
|---|---|---|
| Basic | 42,375,835 | 33,752,427 |
| Cellphone Allowance | 534,788 | 491,317 |
| Performance Bonus | 582,534 | 461,002 |
| Medical aid - company contributions | 1,710,289 | 1,311,015 |
| UIF | 307,722 | 261,241 |
| Leave pay provision charge | 670,971 | 926,802 |
| Overtime payments | 1,498,268 | 963,989 |
| Long-service awards | 478,520 | 326,492 |
| 13th Cheques | 2,303,283 | 1,900,309 |
| Acting allowances | 368,950 | - |
| Car allowance | 2,680,980 | 2,268,000 |
| Standby Allowance | 405,981 | 513,000 |
| GroupLife Insurance | 440,450 | 415,064 |
| SALGBC - Levies | 14,570 | 12,273 |
| Rural Allowance | 517,553 | 575,064 |
| Pension | 3,411,206 | 2,686,444 |
| | **58,301,900** | **46,864,439** |

**Remuneration of Municipal Manager (NP Gamede)**

| | | |
|---|---|---|
| Annual Remuneration | 1,052,021 | - |
| Car Allowance | 162,486 | - |
| Backpay | 46,011 | - |
| Contributions to UIF, Medical and Pension Funds | 15,357 | - |
| Cellphone allowance | 27,081 | - |
| Rural Allowance | 119,617 | - |
| | **1,422,573** | **-** |

**Remuneration of Chief Finance Officer**

| | | |
|---|---|---|
| Annual Remuneration | 951,984 | 851,150 |
| Car Allowance | 162,000 | 162,000 |
| Performance Bonuses | 116,398 | 90,665 |
| Contributions to UIF, Medical and Pension Funds | 28,789 | 27,332 |
| Backpay | 45,333 | 89,879 |
| Cellphone allowance | 25,200 | 25,200 |
| Rural Allowance | 108,798 | 81,599 |
| | **1,438,502** | **1,327,825** |

**Remuneration of Director - Community Services**

| | | |
|---|---|---|
| Annual Remuneration | 891,933 | 851,150 |
| Car Allowance | 152,246 | 162,000 |
| Performance Bonuses | 116,398 | 90,665 |
| Contributions to UIF, Medical and Pension Funds | 27,465 | 27,260 |
| Cellphone allowance | 23,683 | 25,200 |
| Backpay | 45,333 | 82,701 |
| Leave | 53,805 | - |
| Rural Allowance | 102,247 | 81,599 |
| | **1,413,110** | **1,320,575** |

**Remuneration Former Municipal Manager (SE Bukhosini) resigned 30 July 2017**

| | | |
|---|---|---|
| Annual Remuneration | 92,021 | 1,039,237 |
| Car Allowance | 15,000 | 180,000 |
| Performance Bonuses | - | 110,425 |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

**23. Employee related costs (continued)**

| | | |
|---|---|---|
| Contributions to UIF, Medical and Pension Funds | 4,428 | 32,686 |
| Backpay | - | 98,145 |
| Cellphone allowance | 2,500 | 30,000 |
| Rural Allowance | 11,043 | 99,383 |
| Leavepay | 182,979 | - |
| | **307,971** | **1,589,876** |

**Remuneration Corporate and Human Resources (Corporate Services)**

| | | |
|---|---|---|
| Annual Remuneration | 951,984 | 851,150 |
| Car Allowance | 162,000 | 160,200 |
| Performance Bonuses | 116,398 | 90,665 |
| Contributions to UIF, Medical and Pension Funds | 28,762 | 27,260 |
| Backpay | 45,333 | 82,701 |
| Cellphone allowance | 25,200 | 25,200 |
| Rural Allowance | 108,798 | 81,599 |
| | **1,438,475** | **1,318,775** |

**Remuneration of Director Technical Services**

| | | |
|---|---|---|
| Annual Remuneration | 825,107 | 737,963 |
| Car Allowance | 162,000 | 162,000 |
| Performance Bonuses | 103,131 | 78,582 |
| Contributions to UIF, Medical and Pension Funds | 173,488 | 139,713 |
| Backpay | 39,291 | 71,427 |
| Cellphone allowance | 25,200 | 25,200 |
| Rural Allowance | 94,298 | 70,723 |
| | **1,422,515** | **1,285,608** |

**Mayor Cllr N.S Mthethwa**

| | | |
|---|---|---|
| Annual Remuneration | 580,353 | 325,389 |
| Car Allowance | 193,451 | 108,463 |
| Backpay | 32,608 | 52,114 |
| Contributions to UIF, Medical and Pension Funds | - | 4,849 |
| Cellphone Allowance | 30,300 | 17,712 |
| Mobile data | 3,600 | 3,000 |
| SDL | 8,005 | 454 |
| | **848,317** | **511,981** |

**Deputy Mayor Cllr F.G Mlambo**

| | | |
|---|---|---|
| Annual Remuneration | 464,283 | 27,025 |
| Car Allowance | 154,761 | 9,008 |
| Reimbursive allowance | 163,032 | - |
| Backpay | 23,765 | - |
| Cellphone Allowance | 30,300 | 2,245 |
| Performance bonus | - | 387 |
| Mobile data | 3,600 | 387 |
| SDL | 6,567 | - |
| | **846,308** | **39,052** |

**Speaker Cllr B.T Tembe**

| | | |
|---|---|---|
| Annual Remuneration | 464,283 | 27,025 |
| Car Allowance | 154,761 | 9,008 |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

**23. Employee related costs (continued)**

| | | |
|---|---|---|
| Performance Bonuses | - | 5,405 |
| Contributions to UIF, Medical and Pension Funds | - | 369 |
| Cellphone Allowance | 30,300 | 2,244 |
| Data Allowance | 3,600 | 387 |
| Backpay | 28,187 | - |
| SDL | 5,925 | - |
| | **687,056** | **44,438** |

**Exco Members Cllr B.N Ntsele**

| | | |
|---|---|---|
| Annual Remuneration | 241,517 | 196,355 |
| Car Allowance | 80,506 | 65,452 |
| Contributions to UIF, Medical and Pension Funds | 3,671 | 2,912 |
| Backpay | 21,496 | 21,840 |
| Data Allowance | 3,600 | 3,000 |
| Cellphone allowance | 30,300 | 17,712 |
| | **381,090** | **307,271** |

**Exco Member Cllr S.N Tembe**

| | | |
|---|---|---|
| Annual Remuneration | 241,517 | 196,355 |
| Car Allowance | 80,506 | 65,452 |
| Cellphone Allowance | 30,300 | 17,712 |
| Data Allowance | 3,600 | 3,000 |
| Backpay | 21,496 | 21,840 |
| Contributions to UIF, Medical and Pension Funds | 3,677 | 2,912 |
| | **381,096** | **307,271** |

**Exco Member Cllr M.D Mathenjwa**

| | | |
|---|---|---|
| Annual Remuneration | 241,517 | 196,355 |
| Car Allowance | 80,506 | 65,452 |
| Cellphone Allowance | 30,300 | 17,712 |
| Data Allowance | 3,600 | 3,000 |
| Backpay | 21,496 | 20,222 |
| Contributions to UIF, Medical and Pension Funds | 3,653 | 2,896 |
| | **381,072** | **305,637** |

**Exco Member Cllr Z.M Mhlongo**

| | | |
|---|---|---|
| Annual Remuneration | 241,517 | 196,355 |
| Car Allowance | 80,506 | 65,452 |
| Cellphone Allowance | 30,300 | 17,712 |
| Data Allowance | 3,600 | 3,000 |
| Backpay | 21,496 | 20,222 |
| Contributions to UIF, Medical and Pension Funds | 3,642 | 2,896 |
| | **381,061** | **305,637** |

**Exco Member Cllr M.Z Mhlongo**

| | | |
|---|---|---|
| Annual Remuneration | 241,517 | 196,355 |
| Car Allowance | 80,506 | 65,452 |
| Cellphone Allowance | 30,300 | 17,712 |
| Data Allowance | 3,600 | 3,000 |
| Backpay | 21,496 | 20,222 |
| Contributions to UIF, Medical and Pension Funds | 3,669 | 2,896 |
| | **381,088** | **305,637** |

| Figures in Rand | 2018 | 2017 |
| --- | --- | --- |

### 24. Remuneration of Councillors

| | | |
| --- | --- | --- |
| Mayor | 840,312 | 511,981 |
| Deputy Mayor | 681,131 | 39,052 |
| Exco Members | 1,301,318 | - |
| Speaker | 681,131 | 44,438 |
| Councillors | 5,438,105 | 8,871,279 |
| Travel Allowance | 2,134,475 | - |
| Cell phone Allowance | 1,084,800 | 793,683 |
| Data Allowance | - | 125,613 |
| | **12,161,272** | **10,386,046** |

**In-kind benefits**

The Mayor, Deputy Mayor, Speaker are full-time councilors. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.

The Mayor has three full-time bodyguards . The Deputy Mayor and speaker have two full-time bodyguards.

### 25. Impairment of assets

| | | |
| --- | --- | --- |
| **Impairments** | | |
| Impairment Fixed Assets<br>Certain Property, Plant and Equipment were considered for Impairment in the current period due to lack of maintenance in some areas of Sportsfield. Impairment reversal was also considered on Access Roads as they were maintained and the useful life increased. The recoverable amount of the asset was based on its fair value less costs to sell. | 2,909,386 | 860,468 |

The main classes of assets affected by impairment losses are:

Sportsfields

There's lack of maintenance on the local sportfields. It has been visible through verification that soccerfields are not maintained and possibly vandalism on the facilities. Impairment was recommended until facilities are maintained.

### 26. Debt impairment

| | | |
| --- | --- | --- |
| Contributions to debt impairment provision | 4,429,784 | 2,530,522 |
| Bad debts written off | 3,585,887 | 621,959 |
| | **8,015,671** | **3,152,481** |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 27. Contracted services

| | | |
|---|---|---|
| Catering | 5,366,703 | 10,445,467 |
| Fleet/Transport Services | 519,370 | 4,504,332 |
| Artist and Performers | 1,591,324 | 1,070,321 |
| Audit committee | 297,680 | 324,524 |
| Repairs and maintenance | 4,321,922 | 11,285,435 |
| Internal Audit | 2,798,974 | 3,040,440 |
| Legal advise | 1,893,271 | 1,339,500 |
| Card production | 413,012 | 377,699 |
| Professional fees | 5,841,498 | 5,624,051 |
| Security services | 6,632,129 | 5,288,356 |
| Employee wellness | 97,992 | 122,540 |
| Town Planner | 1,168,000 | 1,472,575 |
| Pest control | 352,355 | 975,232 |
| Fire service | 35,280 | 189,500 |
| Medical services | 78,200 | - |
| Financial services support | 2,526,276 | 3,826,661 |
| | **33,933,986** | **49,886,633** |

The detailed breakdown of expenditure to repair and maintain property plant and equipment incurred is substantiated on note 3.

### 28. Operational cost

| | | |
|---|---|---|
| **Operational cost consist of:** | | |
| Accommodation | 3,447,442 | 4,173,368 |
| Audit fees | 1,705,387 | 1,359,345 |
| Membership fee | 515,240 | 500,000 |
| SDL | 619,262 | 407,257 |
| Tracker | 88,252 | - |
| Wet Fuel | 1,966,749 | 2,817,218 |
| Advertising | 557,936 | 454,324 |
| Postage | 11,859 | 757,775 |
| Computer expense | 2,175,862 | 1,593,112 |
| Insurance | 461,682 | 376,848 |
| Vehicle licence | 100,435 | 131,228 |
| Printing and publication | 477,003 | 388,000 |
| Voluntarily workers | 228,820 | 947,170 |
| Seating allowance | 1,408,131 | - |
| Car Rental | 364,955 | 93,532 |
| Reimbursive travel | 1,583,383 | 2,550,739 |
| Training's & Workshops | 540,988 | 1,329,930 |
| Gifts and Promotional | 4,769,314 | 4,829,761 |
| Hire Charges | 6,337,792 | 15,887,831 |
| Bank charges | 128,385 | 200,552 |
| Water and electricity | 776,750 | 702,770 |
| Uniforms | 1,099,273 | 1,016,719 |
| Ward Committees | 2,096,000 | 1,833,350 |
| Disaster relief | - | 69,000 |
| Commission paid | - | 32,232 |
| | **31,460,900** | **42,452,061** |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 29. Transfers and subsidies

| | | |
|---|---|---|
| School support | 412,277 | 736,330 |
| Sporting Equipment and Kits | - | 4,665,752 |
| Pauper burial | - | 1,360,148 |
| Water Assets transfer | - | 4,173,393 |
| Town improvement | 529,619 | 365,695 |
| Bursaries | 214,159 | 1,042,821 |
| Social Relief | 1,850,613 | 9,507,937 |
| | **3,006,668** | **21,852,076** |

## 30. Cash generated from operations

| | | |
|---|---|---|
| Surplus | 33,065,445 | 1,749,893 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 21,564,593 | 20,316,105 |
| (Profit)/Loss on sale of property, plant and equipment | (156,313) | 123,053 |
| Assets write off | 112,712 | 9,110 |
| Impairment deficit | 2,909,386 | 860,468 |
| Debt impairment | - | 166 |
| Non-cash item - Boreholes | - | 4,173,393 |
| Other non cash item | (215,585) | (56) |
| Movements in provisions | 946,828 | 1,514,384 |
| **Changes in working capital:** | | |
| Inventories | (126,206) | - |
| Receivables from exchange transactions | 587,871 | (51,036) |
| Receivables from non-exchange transactions | (841,515) | (5,344,106) |
| Payables from exchange transactions | (6,828,294) | 9,066,250 |
| VAT | 6,396,982 | 1,015,792 |
| Unspent conditional grants and receipts | (2,753,985) | (3,045,904) |
| | **54,661,919** | **30,387,512** |

## 31. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Kwambila Multipurpose Centre | 4,390,913 | 9,445,140 |
| • Mseleni Electrification | - | 306,082 |
| • Manguzi Multipurpose Centre | 6,286,071 | 10,338,146 |
| • Mboza Electrification Phase 2 | - | 865,252 |
| • Ngutshane Sportfield | 659,941 | - |
| • Manaba Electrification | - | 8,789,689 |
| • Ward 4 Electrification | - | 3,403,663 |
| • Manzibomvu Community Hall | 1,399,774 | - |
| | **12,736,699** | **33,147,972** |

| | | |
|---|---|---|
| **Total capital commitments** | | |
| Already contracted for but not provided for | 12,736,699 | 33,147,972 |

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, existing cash resources, funds internally generated or grants.

The amount disclosed for commitments is vat exclusive.

| Figures in Rand | 2018 | 2017 |
| --- | --- | --- |

### 32. Contingencies

**32.1. NATAL JOINT PENSION VS UMHLABUYALINGANA MUNICIPALITY**

Natal Joint Municipal Pension Fund (NJMPF) has a claim in terms of Regulation 1 (xxi)(h) of the Regulations to the Natal Joint Municipal Pension Fund (Superannuation). NJMPF have been granted Default Judgment. A warrant of execution has been issued, they have attached municipal movable property. Financial exposure including disbursement amounts to R500 000.

The municipality is defending the case using municipal lawyers and the matter have been referred to high court.

**32.2. LUYEZA TRADING CONSTRUCTION CC VS UMHABUYALINGANA MUNICIPALITY**

This relate to the construction of Zama Zama Sportfield, the contractor was unable to complete the project and was subsequently released from the contract. The contractor instructed a claim against municipality and the amount of the claim was R100 000.
The municipality is defending the case through our municipal lawyers.

**32.3. NGUBANE & CO. VS UMHLABUYALINGANALOCAL MUNICIPALITY**

Ngubane and Co Partnership has instituted a claim against municipality for breach of contract and subsequent damage as a result thereof. Settlement amount is R600 000

The municipality is defending the case through our municipal lawyers

**32.4 MAPUTALAND CORAL DIVERS VS UMHLABUYALINGANA MUNICIPALITY**

The matter is regarding non-payment of municipal rates by the tenant. The municipality is withholding the issuance of business license

Expected outcome, To have tenant comply with the Municipal Rates Act and pay the rates accordingly.
Contingent financial exposure R200 000.

### 33. Related parties

Refer to note 22 and 23 for Key Management information and their remuneration.

### 34. Prior period errors

Land was incorrectly depreciated. The classification of Land was group in the category of Buildings and the calculation of Land depreciation occurred as a results.

Depreciation error of R21 967 was corrected in the current period.

Contractor claim retention amount less than the amount that was provided for retention per specified projects..

Electrification projects were recognised as part of Work in Progress, and on completion the projects are handed over to Eskom, they are not part of municipality assets.

INEP projects are no longer recognised in the municipality accounts as there's principal/agent relationship and municipality act as an agent. The recognition of it was therefore reverse on the municipality books to account for the transaction correctly.

The correction of the error(s) results in adjustments as follows:

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 34. Prior period errors (continued)

| | | |
|---|---|---|
| **Statement of financial position** | | |
| Other payables | - | 56,031 |
| Retention | - | (4,447) |
| Depreciation land | - | (21,967) |
| | **-** | **29,617** |

| | | |
|---|---|---|
| **Statement of financial position** | | |
| Work in Progress | - | 21,145,381 |

| | As previously reported | Correction of an error | Restated |
|---|---|---|---|
| WIP Electrification project | 21,145,381 | (21,145,381) | - |
| Net assets | - | 21,145,381 | 21,145,381 |
| | **21,145,381** | **-** | **21,145,381** |

| | | |
|---|---|---|
| **Statement of financial performance** | | |
| LGSITA | - | 15,419 |
| Employee Related Cost - PAYE | - | 40,014 |
| Computer Expense - SKL Computers | - | 598 |
| Depreciation land | - | (21,967) |
| | **-** | **34,064** |

### 35. Comparatives reclassification

Certain comparative figures have been reclassified as a result of the Municipal Standard Chart Of Accounts (mSCOA). Comparatives have been reclassified to improve the readability and comparability of the annual financial statements.

**Statement of financial performance**

**2017 Comparative reclassification**

| | Note | As previously reported | Account description change | Re-classification | Restated |
|---|---|---|---|---|---|
| Employee related cost | | (49,253,591) | - | 2,389,152 | (46,864,439) |
| Lease rentals | | - | - | (522,833) | (522,833) |
| Contracted services | | (11,285,436) | - | (38,601,197) | (49,886,633) |
| Transfers and subsidies | | - | - | (21,852,077) | (21,852,976) |
| Actuarial gains/losses | | - | - | (357,959) | (357,959) |
| Inventory consumed | | - | - | (2,603,147) | (2,603,147) |
| General expenses | | (61,548,061) | - | 61,548,061 | - |
| General expense/Operational cost | | (42,452,062) | 42,452,062 | - | - |
| **Movement for the year** | | **(164,539,150)** | **42,452,062** | **-** | **(122,087,987)** |

### 36. Risk management

**Financial risk management**

**Liquidity risk**

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

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 36. Risk management (continued)

**Credit risk**

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

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

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

| Financial instrument | 2017 Name change | 2017 Comparative reclassification |
|---|---|---|
| Receivables from exchange transactions | 1,278,329 | 436,814 |
| Receivables from non-exchange transactions | 11,799,202 | 12,387,073 |
| Cash and cash equivalents | 34,628,447 | 18,260,777 |

Refer to note 6 and note 8 for ageing of receivables as well as note 9 for further disclosure of cash and cash equivalents.

**Market risk**

**Interest rate risk**

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

## 37. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had accumulated surplus of 302,936,384 and that the municipality's total assets exceed its liabilities by 302,936,384.

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.

## 38. Unauthorised expenditure

| | | |
|---|---|---|
| Opening balance | 6,313,535 | 4,843,362 |
| Boreholes | - | 1,470,173 |
| | **6,313,535** | **6,313,535** |

## 39. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance | 8,611 | 3,147 |
| Add: Fruitless and wasteful expenditure | 8,270 | 5,464 |
| Recovered during the period | (3,800) | - |
| | **13,081** | **8,611** |

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 40. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | 7,590,530 | 6,439,830 |
| Add: Irregular Expenditure - current year | 4,912,663 | 1,150,700 |
| | **12,503,193** | **7,590,530** |

**Details of irregular expenditure – Current Period**

| | | |
|---|---|---|
| Manguzi Multi Purpose | Tender advertised for 21 days instead of 30 days. Tender from previous period, but all tender process were followed. | 4,716,075 |
| BPG Mass Appraisal | Bid was awarded during the time when the adjudication had three senior managers instead of four senior managers as per SCM regulation. (2013/14) financial period. | 196,588 |
| | | **4,912,663** |

**Details of irregular expenditure - In Service of the State**

| | | |
|---|---|---|
| | Submitted for Condonation to the Office of MEC | |
| Repeat Suppliers identify by CAATs | | 841,157 |
| Identified Suppliers by CAATs in 2015/16 financial year. | | 3,693,937 |
| Bids advertised | | 1,904,736 |
| SCM Processes not properly followed | Procurement of Mayoral Vehicle | 1,150,700 |
| | | **7,590,530** |

### 41. Additional disclosure in terms of Municipal Finance Management Act

**Audit fees**

| | | |
|---|---|---|
| Current year subscription / fee | 2,798,974 | 1,383,204 |
| Amount paid - current year | (2,798,974) | (1,383,204) |
| | - | - |

**PAYE and UIF**

| | | |
|---|---|---|
| Current year subscription / fee | 11,144,176 | 6,247,016 |
| Amount paid - current year | (11,144,176) | (6,247,016) |
| | - | - |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Current year subscription / fee | 3,057,550 | 2,260,094 |
| Amount paid - current year | (3,057,550) | (2,260,094) |
| | - | - |

**VAT**

| | | |
|---|---|---|
| VAT receivable | - | 1,697,927 |
| VAT payable | 4,699,055 | - |
| | **4,699,055** | **1,697,927** |

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

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

| Figures in Rand | 2018 | 2017 |
| --- | --- | --- |

## 42. Actual operating expenditure versus budgeted operating expenditure

42.1 Refuse removal

There's a 29% increase in service charges is a result of new contracts for refuse removal between the municipality and refuse removal customers entered in April 2018 after the adjustment budget

42.2 Interest received

There's a 43% increase in actual income compared to budget as results of none payment of our debtors has increased our debtors book, and we anticipated that positive response will reduce in in the current period, however our clients did not respond positively, hence the interest increased

42.3 Commission received

100% increase on commission received is as a results of new income stream introduced in the financial period. The income was received from motor vehicle licensing from transport department.

42.4 Rental Income

Rental income has increase by 11% as the provision was based on prior year actual, Public participation were here held and Revenue enhancement strategies were implemented.

42.5 Other Income

There was an under collection for sundry revenue, these revenue stream consist of business licensing, library income tender documents and business plan revenue and the listed income are difficult to budget for.

42.6 Interest received - Investments

Revenue received from interest on investments and current account is in excess by 43% than the budget as a result of less withdrawals on investment than what was anticipated during the financial period.

42.7 Government Grants

Border Development grant was received in the third quarter of the financial period, the utilisation of it will be effected in the next financial period.

42.8 Impairment loss

During the verification process it was identify that the Sportfields were not properly maintained, the facilities were in a condition to be devalued and a decrease in value therefore was provided for the provision for impairment loss increase. As a results there was 100% increase of actual expenditure compared to budget.

42.9 Lease rental

There's an increase of 21% on lease rental due to expire of lease agreement and there was a month to month servicing of machine.

42.10 Debt Impairment

There's over budget of 55% on debt impairment as a results Ingonyama Trust and Other Government properties were moved as they fall within Jozini district. Other business properties were removed from valuation roll. The original budget was fairly based on the incidents happened in the prior financial period and was adjusted accordingly. The budget was overstated.

42.11 Assets Write Off

| Figures in Rand | 2018 | 2017 |
|---|---|---|

## 42. Actual operating expenditure versus budgeted operating expenditure (continued)

Increase of 100% on asset write offs is a result of disposal of redundant assets by the municipality , the municipality did not budget for this item because we did not anticipate that we will dispose any assets.

42.12 Actuarial gains/losses

There's a 100% increase on expenditure compared to budget due to actuarial gains/losses not budgeted for.

42.13 Capital Expenditure

Capital budget has reduced due to Electrification Grant not expensed in the current period, additional computer equipment, furniture and office equipment has not been purchased during the financial period as budgeted for
Rollover of unspent grants grant received has contributed to increase in original budget.

42.14 Assets write off

Asset write off has increase by 100% due to unexpected write off of equipment that were identified to be of poor condition after physical verification.

42.15 Contracted services

There's a 50% increase on contracted service expenditure as a results of expenditure reclassification from general expenditure.

## 43. Deviation from supply chain management regulations

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

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

## 44. Deviations

Assets that have been recognised, but which are subject to restrictions, the amount of restriction are as follows:

| | | |
|---|---|---|
| Deviations for the year | 548,805 | 676,397 |

## 45. Budget statement

**Changes from the approved budget to the final budget**

| Figures in Rand | 2018 | 2017 |
|---|---|---|

### 45. Budget statement (continued)

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. Below are the reasons for adjustment budget.

**Licence and permits**

Licences and permits revenue decreased after another DLTC office opening in a distance of 90 km from our offices meaning less people are coming for our DLTC services

**Interest on Investments**

Interest on investment revenue decreased as well because no short term deposits have been made in the first two quarters of the financial year

**Interest on outstanding debtors**

Interest earned on outstanding debtors has decreased by R147 736, the decrease is due to that it was overstated in the original budget

**Other Income**

Other revenue decreased as a result of decrease in other revenue sources like tender monies, library income and LGSETA refunds.

**Property Rates**

The municipality used an assumption that it will collect 63% from its property rates debtors, as compared to prior year collection rate of which it was assumed to be 100%

**Government Grants**

Operating has increased by R1 337 762 which is a Provincial Grant from EDTEA for Kosi Bay Boarder Integrated Economic Development, as well as a rollover grant from COGTA for Manguzi Precinct Plan.

**Personnel Costs**

Increase in employee related cost due to municipality understated cost base on SALGA agreement, medical aid, pension fund, long services award and overtime.

**Public Contributions & Donations**

The adjustment in donation budget is as result , that we received the donation from department of art and culture.

**Remuneration of Councilors**

Original budget for councilors allowance is adjusted by on basis of Government Gazette for the upper limits that are issued by office of the MEC.

**Traffic Fines**

The adjustment in traffic income budget was caused by that the speed cameras were taken to repairers , and that resulted in reduction in revenue collections

**Debt Impairment**

Debt impairment has decreased significantly as a results of large number of properties being removed from valuation roll and transferred to Jozini local municipality. A huge budget was originally done based on the prior estimate on Ingonyama Trust Properties being written off.

**Employee Costs**

| Figures in Rand | 2018 | 2017 |
|---|---|---|

**45. Budget statement (continued)**
Employee benefits has increased as a result of adjustments to travelling allowances for other employees and a new position for IT manager.

**Remuneration Of Councilors**

Councilors remuneration budget was adjusted by R11 233, the increase is a result of new upper limits gazetted by the KZN MEC in December 2017.

**Finance charges**

Finance charges decreased by R250 000 due to the fact that there are no new finance lease agreements entered in this financial year.

**Depreciation and Amortisation**

Depreciation was overstated in the original budget as it included electrification projects that will not be capitalised as it is not the mandate of the municipality to implement these electrification projects.

**Finance charges**

There's an increase on finance cost as a results of finance charges on rehabilitation of Landfill Site that was not originally budgeted for on this vote.

**Contracted Services**

This resulted from new GRAP Standard that prompted for Repairs and Maintenance be disclosed per function. The adoption of the new standard resulted in adjustment budget from Repairs and Maintenance to Contracted Service account.

**Transfers Recognised - Capital**

The adjustment was caused by INEG roll-over and other internal generated funds top up for other projects.

**Internally Generated Funds**

The adjustment in internal generated funds, was caused by the provision of budget for new grader.

**Executive Council department**

Original budget for Executive Council was R21 681 702 and it increased to R23 204 731, the increase was due to community upliftment programmes to assist communities in alleviating poverty.