Jozini Local Municipality 2018
(Registration number KZN 272)
Annual Financial Statements
for the year ended 30 June 2018

General Information

Legal form of entity	KZN272 JOZINI LOCAL MUNICIPALITY	
Nature of business and principal activities	Service Delivery	
Mayoral committee		
Mayor	DP Mabika	Mayor
	EL Gumbi	Speaker
	SZ Mathenjwa	Deputy Mayor
	NS Myeni	EXCO Member
	TD Khuzwayo	EXCO Member
	NR Zulu	EXCO Member
	RH Gumede	EXCO Member
	NB Mthethwa	EXCO Member
	ME Ndlela	EXCO Member
Councillors	MZ Nyawo	Ordinary Councillor
	HE Myeni	Ordinary Councillor
	NF Mthethwa	Ordinary Councillor
	MZ Tembe	Ordinary Councillor
	TR Fakude	Ordinary Councillor
	RN Ndlovu	Ordinary Councillor
	PS Shabangu	Ordinary Councillor
	PNS Ngubane	Ordinary Councillor
	SR Myeni	Ordinary Councillor
	DP Jobe	Ordinary Councillor
	M Mathe	Ordinary Councillor
	B Nhlenyama	Ordinary Councillor
	JE Buthelezi	Ordinary Councillor
	LA Khumalo	Ordinary Councillor
	SK Mncwango	Ordinary Councillor
	SV Mathenjwa	Ordinary Councillor
	TW Zikalala	Ordinary Councillor
	D Mahaye	Ordinary Councillor
	VE Gumede	Ordinary Councillor
	NE Gumede	Ordinary Councillor
	NL Mavundla	Ordinary Councillor
	MS Nkosi	Ordinary Councillor
	JP Mkhamubi	Ordinary Councillor
	SS Mkhize	Ordinary Councillor
	BQ Gumede	Ordinary Councillor
	BI Msweli	Ordinary Councillor
	TM Khumalo	Ordinary Councillor
	PE Vilane	Ordinary Councillor
	TZ Nyawo	Ordinary Councillor
	MZ Nxumalo	Ordinary Councillor
	NL Gumbi	Ordinary Councillor
Grading of local authority	Grade 2	
Acting Chief Finance Officer (CFO)	Mr MT Nkosi	

General Information

Acting Accounting Officer	Mr MB Mnguni
Business address	Bottom Town Circle Street Jozini 3969
Postal address	Private Bag x028 Jozini 3969
Bankers	ABSA Bank FNB Bank
Auditors	Auditor General of South Africa Registered Auditors
Attorneys	Weich & Kriel Ndwandwe Attorneys Ubuntu Business Advisory Kwela Attorneys Mkhize Attorneys
Municipal Contact Details	(035) 572 1292 (035) 572 1266

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

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
EPWP	Expanded Public Works Programs
UIF	Unemployment Insurance Fund

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 judgements and estimates.

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

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

According to mScoa circular No.1 of the Municipal Management Act No. 56 of 2003, all municipalities are compulsory required to implement mScoa with effect from 1 July 2017. Jozini Local Municipality has implemented mScoa for the first time to comply with the requirement of this circular, as a result, prior year amounts have been restated accordingly for comparability purposes.

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:

Mr MB Mnguni
Acting Accounting Officer

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	6&8	21,745,512	19,416,057
Receivables from non-exchange transactions	7&8	29,911,048	20,013,543
VAT receivable	9	1,692,838	-
Cash and cash equivalents	10	14,228,367	56,964,441
		67,577,765	**96,394,041**
Non-Current Assets			
Property, plant and equipment	4	272,941,586	235,691,714
Intangible assets	5	792,618	1,298,312
		273,734,204	**236,990,026**
Total Assets		**341,311,969**	**333,384,067**
Liabilities			
Current Liabilities			
Payables from exchange transactions	13	31,600,235	18,439,402
Land stands deposits payable	14	870,874	774,998
VAT payable	15	-	1,934,877
Unspent conditional grants and receipts	11	411,982	6,179,475
		32,883,091	**27,328,752**
Non-Current Liabilities			
Provisions	12	8,274,802	7,135,057
Total Liabilities		**41,157,893**	**34,463,809**
Net Assets		**300,154,076**	**298,920,258**
Accumulated surplus		300,154,065	298,920,258

* See Note 2 & 37 & 36

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods		41,898	162,449
Service charges	17	3,615,080	3,359,661
Rendering of services		58,328	33,227
Rental of facilities and equipment	18	772,452	790,317
Interest income - (trading)		17,213,776	13,739,019
Licences and permits		1,247,519	1,124,883
Recoveries		3,277,135	-
Insurance and skills development levy refunds	20	118,777	525,381
Interest income - investment	21	4,285,596	7,002,506
Total revenue from exchange transactions		**30,630,561**	**26,737,443**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	27,715,944	26,614,454
Transfer revenue			
Government grants & subsidies	24	188,134,492	179,509,588
Fines, Penalties and Forfeits		1,181,170	1,611,524
Total revenue from non-exchange transactions		**217,031,606**	**207,735,566**
Total revenue	16	**247,662,167**	**234,473,009**
Expenditure			
Employee related costs	25	(76,790,073)	(59,936,785)
Remuneration of councillors	26	(14,291,277)	(10,369,882)
Depreciation and amortisation	27	(21,640,747)	(16,237,651)
Finance costs	28	(855,276)	(633,969)
Provision for Debt Impairment	29	(25,959,391)	(46,103,778)
Contracted services	30	(37,896,383)	(27,109,812)
Transfers and Subsidies	23	(16,556,812)	(21,472,811)
Actuarial losses		(170,000)	-
General Expenses	31	(52,522,095)	(44,880,836)
Total expenditure		**(246,682,054)**	**(226,745,524)**
Surplus for the year		**980,113**	**7,727,485**

* See Note 2 & 37 & 36

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	317,477,578	317,477,578
Adjustments		
Prior year adjustments (Refer to note 37)	(26,284,805)	(26,284,805)
Balance at 01 July 2016 as restated*	**291,192,773**	**291,192,773**
Changes in net assets		
Surplus for the year	7,727,485	7,727,485
Total changes	7,727,485	7,727,485
Opening balance as previously reported	298,920,258	298,920,258
Adjustments		
Prior year adjustments (Refer to note 37)	253,694	253,694
Restated* Balance at 01 July 2017 as restated*	**299,173,952**	**299,173,952**
Changes in net assets		
Surplus for the for the year	980,113	980,113
Total changes	980,113	980,113
Balance at 30 June 2018	**300,154,065**	**300,154,065**

Note(s)

* See Note 2 & 37 & 36

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Property rates		13,586,068	14,139,558
Sale of goods and services		711,202	1,423,178
Grants		188,268,551	196,596,304
Interest income		4,285,596	7,002,506
VAT received		7,204,105	9,941,122
Refuse removal		1,756,713	-
Other cash item	34	1,804,798	-
		217,617,033	229,102,668
Payments			
Employee costs		(88,953,130)	(68,710,854)
Suppliers		(97,709,052)	(98,947,403)
		(186,662,182)	(167,658,257)
Net cash flows from operating activities	33	**30,954,851**	**61,444,411**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(26,294,166)	(29,145,503)
Work In Progress Additions	4	(32,014,559)	(29,632,804)
Purchase of other intangible assets	5	(76,200)	(1,165,156)
Net cash flows from investing activities		**(58,384,925)**	**(59,943,463)**
Cash flows from financing activities			
Deposits & Refunds		-	(780,290)
Finance lease payments		-	(139,960)
Other cash item - INEP projects	34	(15,306,000)	(18,243,363)
Net cash flows from financing activities		**(15,306,000)**	**(19,163,613)**
Net increase/(decrease) in cash and cash equivalents		**(42,736,074)**	**(17,662,665)**
Cash and cash equivalents at the beginning of the year		56,964,441	74,627,106
Cash and cash equivalents at the end of the year	10	**14,228,367**	**56,964,441**

* See Note 2 & 37 & 36

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
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	-	-	**-**	41,898	**41,898**	Refer to note 45
Service charges	2,988,409	1,171,211	**4,159,620**	3,615,080	**(544,540)**	Refer to note 45
Rendering of services	-	-	**-**	58,328	**58,328**	Refer to note 45
Rental of facilities and equipment	1,008,181	(145,890)	**862,291**	772,452	**(89,839)**	Refer to note 45
Interest income (trading)	7,344,382	-	**7,344,382**	17,213,776	**9,869,394**	
Licences and permits	1,099,182	-	**1,099,182**	1,247,519	**148,337**	Refer to note 43
Recoveries	15,000,000	-	**15,000,000**	3,277,135	**(11,722,865)**	
Other income - (rollup)	824,000	-	**824,000**	118,777	**(705,223)**	Refer to note 43
Interest income - investment	4,865,481	(812,784)	**4,052,697**	4,285,596	**232,899**	Refer to note 43
Total revenue from exchange transactions	**33,129,635**	**212,537**	**33,342,172**	**30,630,561**	**(2,711,611)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	25,552,178	2,795,453	**28,347,631**	27,715,944	**(631,687)**	Refer to note 43
Transfer revenue						
Government grants & subsidies	191,281,000	(3,700,000)	**187,581,000**	188,134,492	**553,492**	Refer to note 43
Fines, Penalties and Forfeits	361,480	(184,963)	**176,517**	1,181,170	**1,004,653**	Refer to note 43
Total revenue from non-exchange transactions	**217,194,658**	**(1,089,510)**	**216,105,148**	**217,031,606**	**926,458**	
Total revenue	**250,324,293**	**(876,973)**	**249,447,320**	**247,662,167**	**(1,785,153)**	
Expenditure						
Personnel	(54,028,000)	(898,000)	**(54,926,000)**	(76,790,073)	**(21,864,073)**	Refer to note 43
Remuneration of councillors	(11,924,616)	-	**(11,924,616)**	(14,291,277)	**(2,366,661)**	Refer to note 43
Depreciation and amortisation	(19,072,000)	(1,068,322)	**(20,140,322)**	(21,640,747)	**(1,500,425)**	Refer to note 43
Finance costs	(14,003)	-	**(14,003)**	(855,276)	**(841,273)**	Refer to note 43
Debt Impairment	(11,671,000)	(2,329,000)	**(14,000,000)**	(25,959,391)	**(11,959,391)**	Refer to note 43
Contracted Services	(2,052,000)	(38,813,000)	**(40,865,000)**	(37,896,383)	**2,968,617**	Refer to note 43

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
Transfers and Subsidies	(2,654,896)	(16,991,000)	**(19,645,896)**	(16,556,812)	**3,089,084**	Refer to note 43
General Expenses	(97,002,000)	48,645,000	**(48,357,000)**	(52,522,095)	**(4,165,095)**	Refer to note 43
Total expenditure	**(198,418,515)**	**(11,454,322)**	**(209,872,837)**	**(246,512,054)**	**(36,639,217)**	
Operating surplus	**51,905,778**	**(12,331,295)**	**39,574,483**	**1,150,113**	**(38,424,370)**	
Actuarial gains/losses	-	-	**-**	(170,000)	**(170,000)**	
Surplus before taxation	**51,905,778**	**(12,331,295)**	**39,574,483**	**980,113**	**(38,594,370)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**51,905,778**	**(12,331,295)**	**39,574,483**	**980,113**	**(38,594,370)**	

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
Statement of Financial Position						
Assets						
Non-Current Assets						
Property, plant and equipment	64,175,530	(53,050)	**64,122,480**	58,308,725	**(5,813,755)**	Refer to note 44
Intangible assets	150,209	-	**150,209**	76,200	**(74,009)**	Refer to note 44
	64,325,739	**(53,050)**	**64,272,689**	**58,384,925**	**(5,887,764)**	
Total Assets	**64,325,739**	**(53,050)**	**64,272,689**	**58,384,925**	**(5,887,764)**	
Net Assets	**64,325,739**	**(53,050)**	**64,272,689**	**58,384,925**	**(5,887,764)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 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 municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

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 waste and water network and other assets

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

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.

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.

Accounting Policies

1.4 Property, plant and equipment (continued)

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.

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

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

Item	Depreciation method	Average useful life
Land		
• Landfill sites	Straight line	15 years
• Parkhomes	Straight line	10-55 years
• Roads and Pavements	Straight line	10-60 years

1.4 Property, plant and equipment (continued)

• Buildings	Straight line	10-55 years
• Storm water drainage	Straight line	20 years
• Parkings and Gardens	Straight line	10 years
• Recreational facilities	Straight line	30 years
Buildings		
Furniture and fixtures		
• Furniture and fittings	Straight line	5-15 years
• Bins and containers	Straight line	5 years
Motor vehicles		
• Other vehicles	Straight line	5-15 years
Office equipment		
• Computer equipment	Straight line	5-15 years
Other property, plant and equipment	Straight line	
• Grader	Straight line	10 years
• TLB	Straight line	10 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).

1.5 Site restoration and dismantling cost

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

1.5 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;

(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and

(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.6 Intangible assets

An asset is identifiable if it either:

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Computer software, other	Straight line	5 years

Intangible assets are derecognised:

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

Accounting Policies

1.7 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.

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

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

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

Derecognition is the removal of a previously recognised financial asset or financial liability from an 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.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

A financial asset is past due when a counterpart has failed to make a payment when contractually due.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the Municipality designates at fair value at initial recognition; or
- are held for trading.

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

Accounting Policies

1.7 Financial instruments (continued)

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 from exchange transactions	Financial asset measured at amortised cost
Receivables from 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 debtors	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

Initial recognition

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

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 entity 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

1.7 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

1.7 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).

Presentation

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

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

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

1.8 Leases

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.9 Impairment of cash-generating assets

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

Accounting Policies

1.9 Impairment of 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 used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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

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

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

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

[Specify judgements made]

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.

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

1.10 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

Accounting Policies

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

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

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

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

[Specify judgements made]

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.

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 Share capital / contributed capital

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

1.12 Employee benefits

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

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

Accounting Policies

1.12 Employee benefits (continued)

- the proceeds are returned to the reporting Municipality to reimburse it for employee benefits already paid.

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

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

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

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

Composite social security programs are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

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

1.13 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus .

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

Accounting Policies

1.13 Provisions and contingencies (continued)

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 46.

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.

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.

1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

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

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.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

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

1.16 Revenue from non-exchange transactions

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.

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

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.

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.

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Taxes

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

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

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

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

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

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

Transfers

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

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

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

Fines

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

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

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

1.17 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.18 Investment income

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

1.19 Borrowing costs

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

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

Accounting Policies

1.20 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether an municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Accounting Policies

1.20 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.21 Comparative figures

It is compulsory for all the municipalities to comply with mScoa with effect from 2017/18 financial year. Jozini municipality implemented mScoa and transactions have been reclassified to different categories compared to prior year signed annual financial statements. As a result, comparative figures have been relassified to conform to mScoa.

1.22 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.

1.23 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.

1.24 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

Accounting Policies

1.24 Irregular expenditure (continued)

(c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

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

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

1.25 Related parties

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

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

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

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

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

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

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

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

Accounting Policies

1.25 Related parties (continued)

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

1.26 Events after reporting date

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

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

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

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

Notes to the Annual Financial Statements

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice as well as in compliance to mScoa requirements as per national treasury requirement with effect from the first of July 2017.

3. New standards and interpretations

3.1 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 110: Living and Non-living Resources	01 April 2020	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 20: Related parties	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
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables		
• GRAP 109: Accounting by Principals and Agents		
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact

3.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods but are not relevant to its operations:

- GRAP 34: Separate Financial Statements
- GRAP 35: Consolidated Financial Statements
- GRAP 36: Investments in Associates and Joint Ventures
- GRAP 37: Joint Arrangements
- GRAP 38: Disclosure of Interests in Other Entities
- IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

Effective dates for the above pronouncements have not yet been gazetted by the Minister of Finance.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

4. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Plant and machinery	5,265,801	(1,608,989)	3,656,812	4,644,149	(1,151,760)	3,492,389
Furniture and fixtures	4,648,347	(3,672,864)	975,483	4,627,979	(3,345,897)	1,282,082
Motor vehicles	9,094,923	(5,309,721)	3,785,202	7,336,154	(4,257,473)	3,078,681
IT equipment	3,906,711	(2,993,727)	912,984	3,718,643	(2,734,646)	983,997
Infrastructure	205,845,822	(137,904,740)	67,941,082	192,403,341	(128,856,296)	63,547,045
Community	154,897,921	(21,009,362)	133,888,559	129,823,605	(13,758,636)	116,064,969
Office Buildings	9,461,068	(1,480,708)	7,980,360	8,642,245	(1,242,603)	7,399,642
Work in progress	53,801,104	-	53,801,104	39,842,909	-	39,842,909
Total	**446,921,697**	**(173,980,111)**	**272,941,586**	**391,039,025**	**(155,347,311)**	**235,691,714**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers received	Transfer out	Depreciation	Impairment loss	Write-Offs	Total
Plant and machinery	3,492,389	621,652	-	-	(457,229)	-	-	3,656,812
Furniture and fixtures	1,282,082	170,040	-	-	(438,209)	-	(38,430)	975,483
Motor vehicles	3,078,681	3,198,967	-	-	(1,715,482)	-	(776,964)	3,785,202
IT equipment	983,997	328,437	-	-	(387,057)	-	(12,393)	912,984
Infrastructure	63,547,045	10,793	14,030,375	-	(9,452,241)	(170,074)	(24,816)	67,941,082
Community	116,064,969	489,381	24,610,010	-	(5,237,949)	(2,017,691)	(20,161)	133,888,559
Office Buildings	7,399,642	890,872	-	-	(310,154)	-	-	7,980,360
Work in Progress	39,842,909	52,598,580	-	(38,640,385)	-	-	-	53,801,104
	235,691,714	**58,308,722**	**38,640,385**	**(38,640,385)**	**(17,998,321)**	**(2,187,765)**	**(872,764)**	**272,941,586**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Transfers received	Transfer out	Reclassification within PPE categories	Reclassification	Depreciation on disposal	Depreciation	Write-offs	Total
Plant and machinery	452,270	3,180,000	-	-	-	-	-	(139,881)	-	3,492,389
Furniture and fixtures	1,019,520	628,117	-	-	-	-	-	(365,555)	-	1,282,082
Motor vehicles	2,599,772	1,945,106	-	-	-	-	193,821	(1,202,339)	(457,679)	3,078,681
IT equipment	1,008,900	277,925	-	-	-	-	-	(302,828)	-	983,997
Infrastructure	73,892,164	3,750,203	-	-	(5,105,416)	-	-	(8,989,906)	-	63,547,045
Community	97,936,509	17,306,440	18,287,279	-	(13,181,863)	-	-	(4,283,396)	-	116,064,969
Office buildings	5,579,966	2,057,712	-	-	-	-	-	(238,036)	-	7,399,642
Work in progress	26,316,843	29,632,804	-	(18,287,279)	18,287,279	(16,106,738)	-	-	-	39,842,909
	208,805,944	**58,778,307**	**18,287,279**	**(18,287,279)**	**-**	**(16,106,738)**	**193,821**	**(15,521,941)**	**(457,679)**	**235,691,714**

Pledged as security

No asset have been pledged as security in 2017/18 financial year.

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	16,989,122	4,797,424	-	21,786,546
Additions/capital expenditure	14,655,225	17,359,333	-	32,014,558
Reclasiification within class of property plant and equipment	14,030,376	24,562,236	1,219	38,593,831
Transferred to completed items	(14,000,385)	(24,640,000)	-	(38,640,385)
	31,674,338	**22,078,993**	**1,219**	**53,754,550**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Total
Opening balance	12,531,463	14,634,687	27,166,150
Additions/capital expenditure	25,669,813	3,962,991	29,632,804
Reclassification	(16,106,738)	(618,393)	(16,725,131)
Transferred to completed items	(5,105,416)	(13,181,861)	(18,287,277)
	16,989,122	**4,797,424**	**21,786,546**

Work in progress taking longer than anticipated to complete	**2018**	**2017**
Mkhuze Stormwater Project	1,678,189	1,678,189
Ngonyameni Hall	4,541,103	4,541,103
Sidakeni Sportsfield	414,428	414,428
	6,633,720	**6,633,720**

Sidakeni Sportsfield R 414 428 was started in 2016 and no funds have been spent on the project in 2017/18 financial year, except for professional fees which were incurred in 2016. The appointment of contractors has been delayed by unavailability of bid adjudication committee. This project has been re-pioritised in 2018/19 MIG implementation plan.

Mkhuze Stormwater Project Feasibility study for this project was done in 2011 at a cost of R 1 678 189, it was discovered that the project is too expensive. The councilors decided to put the project on hold until the municipality obtain more funding.

Ngonyameni Hall, the projection started in 2016, R4 541 103 was spent on the project and no funds were further spent on the project in the 2017/18 financial year. The contractor did not complete the hall and the entire project is under forensic investigation.

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		
Community buildings	3,506,017	4,654,899
Plant and Equipment	220,844	728,611
Infrastructure	3,915,891	1,739,251
Motor Vehicles	-	1,103,190
	7,642,752	**8,225,951**

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.

5. 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	1,789,140	(996,522)	792,618	2,048,534	(750,222)	1,298,312

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	1,298,312	76,200	(581,894)	792,618

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	585,008	1,165,156	(451,852)	1,298,312

6. Receivables from exchange transactions

	2018	2017
Debtors with credit balance	37,053	-
Consumer debtors - Refuse	21,197,787	19,163,779
Consumer debtors - Housing rental	510,672	252,278
	21,745,512	**19,416,057**

7. Receivables from non-exchange transactions

	2018	2017
Fines	5,791,890	4,725,140
Allowance for bad debts-Fines	(5,500,390)	(4,207,815)
Debtors with credit balance	334,110	-
Insurance refunds	9,000	330,912
Refund from supplier	3,614,368	(39)
Consumer debtors - Rates	25,492,612	18,894,008
Staff and payroll debtors	169,458	271,337
	29,911,048	**20,013,543**

8. Receivables from exchange and non-exchange transaction disclosure

	2018	2017
Gross balances		
Consumer debtors - Rates	120,475,746	92,465,540
Consumer debtors - Refuse	38,425,588	33,841,782
Consumer debtors - Housing Rental	510,672	252,278
Fines	5,791,890	4,725,140
Consumer debtors - Staff and payroll debtors	169,458	271,337
	165,373,354	**131,556,077**

	2018	2017
Less: Allowance for impairment		
Consumer debtors - Rates	(94,983,134)	(73,571,532)
Consumer debtors - Refuse	(17,227,801)	(14,678,003)
Consumer debtors - Fines	(5,500,390)	(4,207,815)
	(117,711,325)	**(92,457,350)**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Receivables from exchange and non-exchange transaction disclosure (continued)

Net balance		
Consumer debtors - Rates	25,492,612	18,894,008
Consumer debtors - Refuse	21,197,787	19,163,779
Consumer debtors -Housing Rental	510,672	252,278
Consumer debtors - Fines	291,500	-
Consumer debtors - Staff and payroll	169,458	271,337
	47,662,029	**38,581,402**

Included in above is receivables from exchange transactions		
Refuse	38,425,218	33,841,782
Business service levies	370	-
Housing rental	510,672	1,708,825
	38,936,260	**35,550,607**

Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	120,475,745	92,461,703
Staff and payroll debtors	169,458	275,134
	120,645,203	**92,736,837**

Net balance	**159,581,463**	**128,287,444**

Rates		
Current (0 -30 days)	2,598,272	2,470,434
31 - 60 days	1,315,767	1,516,490
61 - 90 days	1,275,696	2,125,251
91 - 120 days	1,257,856	1,762,794
121 - 365 days	114,028,154	84,586,745
	120,475,745	**92,461,714**

Trafic Fines		
Current (0 -30 days)	199,600	214,450
31 - 60 days	68,600	206,450
61 - 90 days	161,750	133,700
91 - 120 days	93,050	90,100
121 - 365 days	5,268,890	4,080,140
	5,791,890	**4,724,840**

Refuse		
Current (0 -30 days)	928,647	967,123
31 - 60 days	482,283	620,971
61 - 90 days	466,221	871,200
91 - 120 days	463,732	710,388
121 - 365 days	36,084,335	30,672,101
	38,425,218	**33,841,783**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Receivables from exchange and non-exchange transaction disclosure (continued)

Rental Debtors		
Current (0 -30 days)	352,733	136,154
31 - 60 days	23,989	42,428
61 - 90 days	13,556	42,428
91 - 120 days	13,427	42,428
121 - 365 days	106,967	-
> 365 days	-	(11,160)
	510,672	**252,278**

Staff debtors		
121 - 365 days	-	271,337
> 365 days	169,458	-
	169,458	**271,337**

Reconciliation of allowance for impairment		
Balance at beginning of the year	92,457,350	53,795,166
Contributions to allowance	25,456,744	38,662,184
	117,914,094	**92,457,350**

9. VAT receivable

VAT	1,692,838	-

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	(4,231)	9,827
Bank balances	3,550,768	5,350,830
Short-term deposits	10,681,830	51,603,784
	14,228,367	**56,964,441**

Notes to the Annual Financial Statements

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
FNB Bank-Main Account-6262 418 5432	1,977,881	1,305,764	8,925,696	1,977,881	1,305,764	8,925,696
Petty Cash	-	-	-	(2,249)	1,683	70
ABSA Bank-Operational Account-4069624954	1,839,084	4,165,127	12,007,220	1,570,905	3,969,909	12,007,220
Grinrod bank-Investment-1644419/110000340006	8,380,105	22,352,243	11,021,308	8,380,105	22,352,243	11,021,308
STD Bank-Investments-268741042	39,415	10,463,963	10,173,392	39,415	10,463,963	10,173,392
Investec	-	5,896,241	10,130,199	-	5,896,241	10,130,199
FNB Bank Unspent conditional Grants-62406733164	2,027,058	1,904,863	1,785,447	2,027,058	1,904,863	1,785,447
FNB Bank-MIG-62420774033164	221,561	208,276	195,203	221,561	208,276	195,203
Ithala Bank-Investment-18607525	-	5,160,651	5,056,874	-	5,160,651	5,056,874
FNB Bank Investment-	13,691	5,617,725	15,319,275	13,691	5,617,725	15,319,275
Cashier's collections	-	-	-	-	8,143	12,379
Total	**14,498,795**	**57,074,853**	**74,614,614**	**14,228,367**	**56,889,461**	**74,627,063**

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
National Electrification Grant	-	3,267,666
Ubuhle besiko cultural village	69,700	69,700
Development of Recycling Centre	10,730	10,730
Fresh Product Market Grant	73,002	73,002
Implementation of Pound	48,418	48,418
Housing Grant	76,073	76,073
MIG	-	2,633,886
Library grant	134,059	-
	411,982	**6,179,475**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation	5,450,057	702,745	6,152,802
Long service award provision	1,685,000	437,000	2,122,000
	7,135,057	**1,139,745**	**8,274,802**

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Environmental rehabilitation	4,827,916	622,141	5,450,057
Long service award provision	1,255,000	430,000	1,685,000
	6,082,916	**1,052,141**	**7,135,057**

Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relate to the legal obligation to rehabilitate the landfill sites used for waste disposal in accordance with the National Environmental management Act 107 of 1998 and Environmental Conservation Act No 73 of 1989. It is calculated as the present value of the expenditure expected to be required to settle the future obligation to rehabilitate the landfill sites.

The discount rate used reflect the current market assessment of the time value of money and the risks specific to the liability. The valuation for the provision of the landfill sites was reviewed by an independent landfill site and environmental specialist.

Long Service award

Defined Contribution Plan. Jozini offers bonuses for every 5 years of completed service from 5 years to 45 years. Below are acturial assumption relating to calculation of the defined contribution plan liability:

Acturial Assumptions	**2018**	**2017**
Discount Rate	9.23 %	9.01 %
CPI	5.79 %	5.81 %
Salary Increase rate	6.79 %	6.81 %
Net Discount rate	2.28 %	2.06 %
	24.09 %	**23.69 %**

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 8.27 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 29 June 2018 is 9.23% per annum, and the yield on inflationlinked bonds of a similar term was about 2.78% per annum. This implies an underlying expectation of inflation of 5.79% per annum ([1 + 9.23% - 0.5%] / [1 + 2.78%] - 1). We have assumed that salary inflation would exceed general inflation by 1.0% per annum, i.e. 6.79% 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 2.28% per annum ([1 + 9.23%] / [1 + 6.79%] - 1).

In addition to the salary increase assumption arrived at in the previous page, the following promotional increases were applied at the following ages:

Age Band	**Promotional Increase**
20-24	5.00 %

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Provisions (continued)

25-29		4.00 %
30-34		3.00 %
35-39		2.00 %
		14.00 %

13. Payables from exchange transactions

	2018	2017
Trade and other payables	15,361,230	7,007,035
Retention	7,942,281	5,181,643
Accrued bonus	55,375	-
Surety	1,329,677	1,145,005
Deposits received	74,924	2,007
Leave pay provision	4,731,908	3,767,390
Bonus provision	1,567,893	1,038,838
Compensation commission	4,637	-
Debtors with credit balances	371,163	285,651
Other Payables	161,147	11,833
	31,600,235	**18,439,402**

The annual bonus is payable on the anniversary of the employee's date of employment with the Municipality. The annual bonus is calculated monthly as per the formula at the ordinary salary rate earned during each relevant month and accumulated and paid to the employee.

A Municipality pays every employee, for each month that the employee was paid or entitled to be paid in respect of each completed 12 months of service with such municipality. In the event that the employer a prorated share of bonus for the period of the year that he/she worked.

In terms of the performance agreements, employee's contract of employment, Local Government performance Regulations 2006 and the Jozini Remuneration Policy, management (Section 57 mangers) are entitled to the payment of a performance bonus that is equivalent to the score obtained during performance appraisal.

Relates to accrual for unused leave at year-end. The leave is expected to be taken over the next financial year and is calculated based on employee total cost to company.

Provision for leave, annual and performance bonus have been reclassified to payables and accruals from exchange transaction because they relate to service rendered by employees. Refer to reclassification of accounts note disclosed.

14. Payables from non-exchange transactions

	2018	2017
Deposits received	870,874	774,998

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

15. VAT payable

Tax payables-VAT	-	1,934,877

VAT payable relate to VAT output that was charged on Intergrated National Electrification Program projects in 2016/17 financial year.

16. Revenue

Sale of goods	41,898	162,449
Rendering of services	58,328	33,227
Service charges	3,615,080	3,359,661
Rental of facilities and equipment	772,452	790,317
Interest income (trading)	17,213,776	13,739,019
Licences and permits	1,247,519	1,124,883
Recoveries	3,277,135	-
Insurance and skills development levy refunds	118,777	525,381
Interest income - investment	4,285,596	7,002,506
Property rates	27,715,944	26,614,454
Government grants & subsidies	188,134,492	179,509,588
Fines, Penalties and Forfeits	1,181,170	1,611,524
	247,662,167	**234,473,009**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Sale of goods	41,898	162,449
Service charges	3,615,080	3,359,661
Rendering of services	58,328	33,227
Rental of facilities and equipment	772,452	790,317
Interest income (trading)	17,213,776	13,739,019
Licences and permits	1,247,519	1,124,883
Recoveries	3,277,135	-
Insurance and skills development funds refunds	118,777	525,381
Interest income - investment	4,285,596	7,002,506
	30,630,561	**26,737,443**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	27,715,944	26,614,454
Transfer revenue		
Government grants & subsidies	188,134,492	179,509,588
Fines, Penalties and Forfeits	1,181,170	1,611,524
	217,031,606	**207,735,566**

17. Service charges

Solid waste	3,615,080	3,359,661

18. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	772,452	790,317

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

19. Other revenue

Recoveries	3,277,135	-
Insurance and Staff recoveries	118,777	525,381
	3,395,912	**525,381**

20. Other income

Insurance refunds	44,559	348,735
Staff recoveries	-	93,846
Skills development levy refund	74,218	82,800
	118,777	**525,381**

21. Investment revenue

Interest revenue		
Bank	4,285,596	7,002,506

22. Property rates

Rates Billed

Residential	10,400,692	7,125,894
Commercial	818,059	818,059
State owned, agricultural properties and vacant land	16,497,193	18,670,501
	27,715,944	**26,614,454**

Valuations

Agriculture	916,884,000	916,884,000
Business, Commercial and Industrial	500,761,000	500,761,000
Commercial Tourism	140,424,000	140,424,000
Hosipital industry	1,700,000	1,700,000
Municipal	12,240,000	12,240,000
Place of worship	9,563,000	9,563,000
Protected areas	865,549,000	865,549,000
Public Service Infrastructure	14,211,000	14,211,000
Rural Communal Land	292,164,000	292,164,000
Residential	161,834,000	161,834,000
State owned	1,108,376,000	1,108,376,000
	4,023,706,000	**4,023,706,000**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2018.

23. Grants and subsidies paid

Other subsidies		
Poverty relief grant	16,556,812	21,472,811

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

24. Government grants and subsidies

Operating grants		
Equitable share	142,766,551	134,845,000
Expanded Public Works Program	3,156,000	3,338,000
Municipal Human Settlement Capacity Grant	-	19,195
Financial Management Grant	1,900,000	1,825,000
Community Library Services Grant	2,308,941	1,013,857
	150,131,492	**141,041,052**
Capital grants		
MIG	38,003,000	38,468,536
	188,134,492	**179,509,588**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	45,367,941	44,664,588
Unconditional grants received	142,766,551	134,845,000
	188,134,492	**179,509,588**

Equitable Share

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

Ubuhle besiko cultural grant

Balance unspent at beginning of the year	69,700	69,700

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

Development of recycling center grant

Balance unspent at beginning of year	10,730	10,730

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

Fresh products Market grants

Balance unspent at beginning of year	73,002	73,002

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

Implementation of pound Grant

Balance unspent at beginning of year	48,418	48,418

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

Housing Grant

Balance unspent at beginning of year	76,073	76,073

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

24. Government grants and subsidies (continued)

MIG

Balance unspent at beginning of year	2,633,886	2,633,886
Current-year receipts	38,003,000	35,689,000
Conditions met - transferred to revenue	(38,003,000)	(35,689,000)
Roll over not approved	(2,633,886)	-
	-	**2,633,886**

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

Expanded Public Works Grant

Current-year receipts	3,156,000	3,338,000
Conditions met - transferred to revenue	(3,156,000)	(3,338,000)
	-	**-**

Financial Management Grant

Current-year receipts	1,900,000	1,825,000
Conditions met - transferred to revenue	(1,900,000)	(1,825,000)
	-	**-**

Library Grant

Balance unspent at beginning of year	-	(129,385)
Current-year receipts	2,443,000	871,000
Conditions met - transferred to revenue	(2,308,941)	(741,615)
	134,059	**-**

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

25. Employee related costs

Basic	50,385,707	40,252,250
Bonus	3,038,640	2,362,820
Medical aid - company contributions	2,492,175	1,780,193
UIF	367,248	298,147
Leave pay provision charge	1,324,349	734,224
Overtime payments	4,700,947	3,193,709
Long-service awards	274,816	477,316
Car allowance	5,233,892	5,392,175
Housing benefits and allowances	324,021	474,839
Acting allowances	788,452	23,305
Standby allowances	753,879	-
Cellphone and Telephones	432,256	154,739
Pension expenses	6,673,691	4,793,068
	76,790,073	**59,936,785**

Remuneration of municipal manager

Annual Remuneration	1,061,753	260,549
Use of personal assets	-	172,021
Contributions to UIF, Medical and Pension Funds	1,785	3,249
Other	-	26,573
Celphone allowance	18,000	-
Housing Allowance	73,672	-
	1,155,210	**462,392**

Acting chief finance officer

Annual Remuneration		61,785
Contributions to UIF, Medical and Pension Funds		149
Housing Allowance		4,325
		66,259

Acting chief financial officer

Annual Remuneration	80,243	379,465
Travel Allowance	25,643	122,587
Performance Bonuses	-	-
Contributions to UIF, Medical and Pension Funds	298	29,870
Acting allowance	11,840	65,119
Housing Allowance	-	-
Other	-	-
	118,024	**597,041**

Remuneration of executive directors

Annual Remuneration	1,389,729	-
Car Allowance	65,707	-
Contributions to UIF, Medical and Pension Funds	71,463	-
Housing allowance	24,856	-
Phone allowance	141,902	-
	1,693,657	**-**

Acting director-Technical

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

25. Employee related costs (continued)

Annual Remuneration	72,981	229,981
Subsistance allowance	1,866	-
Contributions to UIF, Medical and Pension Funds	-	26,300
Travel Allowance	23,500	74,619
Acting Allowance	11,840	41,439
Reimbursed travel allowance	12,275	-
	122,462	**372,339**

Acting Director-Planning

Annual Remuneration	-	131,418
Contributions to UIF, Medical and Pension Funds	-	57,097
Travel allowance	-	42,639
Acting Allowance	-	23,680
	-	**254,834**

Acting director Community Services

Annual Remuneration	80,243	131,418
Contributions to UIF, Medical and Pension Funds	-	47,427
Travel Allowance	25,643	42,639
Acting Allowance	11,840	23,680
Re-imbursed travel allowance	19,662	-
	137,388	**245,164**

26. Remuneration of councillors

Mayor	844,792	786,347
Deputy Mayor	555,510	489,057
Executive Committee	3,769,593	1,738,950
Speaker	685,130	737,870
Councillors	8,436,252	6,617,658
	14,291,277	**10,369,882**

In-kind benefits

The Mayor and the speaker each have use of a Council owned vehicle for official duties.

The Mayor and deputy mayor each have two full time bodyguards.

The gazette No. 41335 of 15 December 2017 relating to upper limits of the salaries, allowances an benefits of the municipal council was used to pay the salaries and allowance for councilors in 2017/2018 financial years.

27. Depreciation, amortisation and impairment

Depreciation on property, plant and equipment	17,998,321	15,785,800
Impairment on property, plant and equipment	2,187,766	-
Write offs	872,766	-
Intangible assets	581,894	451,851
	21,640,747	**16,237,651**

28. Finance costs

Finance costs on provision for landfil site and long service award	855,276	633,969

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

28. Finance costs (continued)

Finance costs disclosed above are mainly from landfill site and long service award provision. An error occurred in previous year where interest on provision for landfill site was omitted. An adjustment had been made to correct this error.

29. Provision for Debt impairment and write-off

Provision for bad debts	25,355,854	35,660,224
Bad debts written off	603,537	10,443,554
	25,959,391	**46,103,778**

VAT receivable from SARs was increasing each year. Recoverability of such receivable was assessed against the SARs VAT income statement of account. It was confirmed that probability of recovering this amount from SARS is very low hence a provision for bad debts was raised.

30. Contracted services

Outsourced Services		
Animal Care	697,682	-
Burial Services	588,087	637,356
Catering Services	3,954,721	2,066,699
Cleaning Services	259,102	-
Internal Auditors	1,377,597	1,212,822
Professional Staff	748,029	975,300
Security Services	717,061	-
Transport Services	10,000	-
Electrical	172,900	-
Consultants and Professional Services		
Business and Advisory	11,119,053	10,022,314
Infrastructure and Planning	859,772	-
Legal Cost	5,055,979	2,534,723
Contractors		
Aerial Photography	95,200	-
Artists and Performers	113,090	524,557
Audio-visual Services	8,573	-
Catering Services	448,544	-
Electrical	954,243	1,239,118
Employee Wellness	163,880	234,285
Event Promoters	615,683	964,207
Maintenance of Buildings and Facilities	3,630,721	3,240,996
Maintenance of Equipment	220,845	675,460
Maintenance of Unspecified Assets	4,203,903	2,223,289
Medical Services	928,555	-
Photographer	-	558,686
Traffic and Street Lights	77,462	-
Transportation	4,000	-
Stage and Sound Crew	810,908	-
Exhibit Installations	60,793	-
	37,896,383	**27,109,812**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

31. General expenses

Advertising	662,299	1,086,800
Auditors remuneration	2,782,652	1,651,347
Bank charges	67,496	137,252
Cleaning	443	587
Consumables	2,409,020	2,596,429
Entertainment	479,394	12,461
Hire charges	1,394,195	685,587
Insurance	483,051	377,292
IT expenses	31,679	51,761
Promotions and sponsorships	1,787,687	4,101,325
Skills development fund	716,201	411,295
Motor vehicle expenses	371,867	71,081
Fuel and oil	4,421,008	1,495,066
Postage and courier	7,004	6,120
Printing and stationery	1,074,131	1,463,337
Uniforms & Protective clothing	880,406	671,499
Workmen's compensation	9,454	-
Bursaries-non employees	605,423	1,091,195
Subscriptions and membership fees	-	1,276,591
Telephone and 3 G data	6,037,510	2,656,075
Events	1,051,898	1,291,794
Travel agency and visas	2,626,664	-
Travel-local	8,338,522	6,086,557
Remuneration of ward committees	3,844,427	3,009,901
Electricity	5,400,131	4,422,317
Prayer days expenses	148,842	479,674
Signage	421,679	-
Learnerships &Internships	631,643	-
Bursaries-Employees	299,251	-
Achievements and Awards	297,000	152,205
Bargain council	19,117	528,264
Operation Sukuma Sakhe Interventions	194,500	4,354,266
Incidential costs	66,903	-
Daily allowances	972,921	159,100
Accommodation costs	3,793,578	4,198,289
Other expenses	194,099	355,369
	52,522,095	**44,880,836**

According to mScoa, several general expenditure items have been reclassified to other sections such as contracted services and remunerations. Comparative figures have been adjusted accordingly.

32. Auditors' remuneration

External Audit Fees	2,782,652	1,651,347

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

33. Cash generated from operations

Surplus	980,113	7,727,485
Adjustments for:		
Depreciation and amortisation	21,640,747	16,237,651
Finance costs	855,276	633,969
Debt impairment	25,959,391	46,103,778
Movements in operating lease assets and accruals	-	7,002
Movements in provisions	1,139,745	1,052,141
Unpent conditional grants written-off	-	(1,133,334)
Prior year output vat on INEP written-off	-	(2,111,636)
INEP set off against equitable share	(3,267,266)	-
MIG grant netted off against equitable share	(2,633,886)	-
INEP projects transferred out	(3,598,453)	-
Movement in lease obligation	-	(139,960)
Other non cash items	(1,755,356)	(594,352)
Changes in working capital:		
Receivables from exchange transactions	(2,329,455)	(2,510,750)
Other receivables from non-exchange transactions	(9,897,505)	8,397,633
Payables from exchange transactions	13,160,832	(563,277)
VAT	(3,627,715)	1,194,441
Taxes and transfers payable (non exchange)	95,876	(14,845)
Unspent conditional grants and receipts	(5,767,493)	(3,048,342)
Movement in provisions (reclassification)	-	(9,793,193)
	30,954,851	**61,444,411**

34. Other cash item

A grant relating to Integrated National Electrification Program was received and incurred during the year. Projects relating to this program were paid directly from the bank and no expenditure was recorded hence it was not included in general expenditure.

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	26,821,760	36,813,264
Total capital commitments		
Already contracted for but not provided for	26,821,760	36,813,264

Authorised operational expenditure

Total commitments

Total commitments		
Authorised capital expenditure	26,821,760	36,813,264

36. Prior period errors

37. Prior-year adjustments

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

37. Prior-year adjustments (continued)

Statement of financial position

2017

	As previously reported	2016 Adjustments	2017 Adjustments	Re-classification	Restated
Non-Current Assets					
Property Plant and Equipment	320,989,052	44,513,839	3,749,588	-	369,252,479
Work in Progress	92,656,125	(67,119,991)	(3,749,588)	-	21,786,546
Accumulated depreciation	(156,351,993)	2,028,780	(1,024,098)	-	(155,347,311)
Current assets					
VAT Receivables	15,038,214	(5,874,721)	(9,163,493)	-	-
Receivable from exchange transactions	20,872,605	-	(1,456,547)	-	19,416,058
Current Liabilities					
Trade and Other Payables	(13,629,380)	-	(3,845)	(4,806,228)	(18,439,453)
VAT Payable	-	176,486	(2,111,363)	-	(1,934,877)
Equity and Liability					
Accumulated Surplus	(338,864,159)	26,284,805	13,659,096	-	(298,920,258)

Statement of finanical performance

2017

	As previously reported	2017 Adjustments	Restated
Revenue from exchange transactions			
Revenue from exchange transactions	(760,540)	3,845	(756,695)
Grants and transfers	(181,620,951)	2,111,363	(179,509,588)
Interest Income	(13,739,019)	(25,944)	(13,764,963)
Other income - refund	-	3,277,135	3,277,135
Expenditure			
Depreciation and amortisation	15,137,315	1,100,336	16,237,651
Bad debts written-off (VAT Receivables)	35,660,224	10,443,554	46,103,778

Explanations-Prior Period Errors

The following prior period errors adjustments occurred:

Clearing account-Other payables

Account 7000/7099 relating to clearing account was classified as other income in 2016/17 financial year. The error had been identified and corrected in 2017/18 financial year. The total amount adjusted is **R 3 845.**

Completed Work In Progress

Upon analysis of the fixed assets register and inspection of the completion certificates for all completed work in progress, it was identified that some projects were completed in previous years but never capitalised to their respective classes of property plant and equipment. A total of R 27 100 097.10 relating to projects completed in previous years was capitalised to infrastructure (R 6 877 061), community buildings (R 19 592 825) and other assets(R 630 211). Depreciation was calculated and corrected accordingly.

37. Prior-year adjustments (continued)

GRAP 109: Intergrated National Electrification Program

GRAP 109 requires the municipality to consider if they are acting as the principal or as an agent when executing projects. Upon analysis of the information available, it was noted that Jozini municipality is acting as an agent in INEP projects therefore no assets should be capitalised from this project. The total of R 22 546 662.42 relating to INEP projects had been corrected and this result to a decrease in work in progress amount presented in prior year. The error had been corrected retrospectively and prior year work in progress have been adjusted accordingly.

In prior year, Integrated National Electrification program projects worth R 16,138,247.00 (excluding VAT) were derecognised from work in progress. A prior period adjustment was made to account for the VAT portion of R2 111 363.

Fixed Assets register Versus Prior year final trial balance

Upon analysis of the 2016/17 final fixed asset register, it was noted that the closing balance as per the final trial balance does not agree to the closing balance as per the fixed asset register. The difference amounts to R 46 598 was identified and this will result to an increase in property plant and equipment.

Decrease in VAT receivables

An investigation was performed on the VAT receivable account, it was noted that the balance reflected on the VAT statement of account is different to amount processed in general ledger. An assessment of the recoverability of the VAT receivable was made and the debtor was impaired as disclosed above.

Receivables from Exchange transaction

Included in the receivables from exchange transactions is an amount for rentals. The Municipality entered into a lease agreement with Department of Public Works to lease offices (Thusong Center), during this period the Municipal tariffs were different to rental amount as per the agreement. In prior years, the Municipality continue to bill the Department of Public Works using Municipal tariffs which were higher than lease agreement amounts. The Municipal council resolved to write off the difference as from the initial inception date of the lease agreement

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

37. Prior-year adjustments (continued)

Reclassifications

According to national treasury requirements, all municipalities are required to prepare annual financial statements according to mScoa chart with effect from 01 July 2017. Jozini Local municipality adopted the chart and annual financial statements were prepared accordingly. In-order to comply with this chart, prior period figures have been reclassified accordingly.

The following reclassifications adjustment occurred:

Reclassification details

In previous years,all assets building related assets were combined and presented as one line item. According to mScoa, buildings have been split into community buildings, office buildings and information technology equipment.

Revenue from exchange and non-exchange transaction have been reclassified into different categories as according to the mScoa defination.

In prior years, expenditure items such as cleaning, security, consulting, internal auditing, financial support, and legal advise were classified as general expenditure. According to mScoa, all transaction that are not provided by the municipality itself are classified as contracted services therefore prior year items have been re-stated accordingly for comparatibility purposes.

In prior years, poverty alleviation expenses were dislcosed as general expenses, this have been re-classified to transfer and subsidies expenditure according to mScoa definition.

In prior years, salaries paid to interns were classified as general expenses, this have been re-classified to employee related cost as per mScoa definition.

The effect of the reclassifications are reflected below;

Reclassification-Buildings

Non-Current Assets	As previously reported	Restated Amount	Reclassification
Buildings	137,088,024	-	137,088,024
Community Buildings	-	101,844,134	(101,844,134)
Office buildings	-	4,581,681	(4,581,681)
IT Equipment	-	59,979	(59,979)
Work in Progress	-	30,602,230	(30,602,230)
	137,088,024	**137,088,024**	**-**

Reclassification-Revenue

Revenue from exchange transactions	As previously reported	Restated Amount	Reclassification
Sale of goods	-	162,449	(162,449)
Rendering of services	-	33,227	(33,227)
Rental facilities & Equipment	758,628	790,317	(31,689)
Interest from trading	-	13,739,019	(13,739,019)
Interest received-investment	-	7,002,506	(7,002,506)
Interest income	20,741,525	-	20,741,525
Licences & Permits	1,100,460	1,124,883	(24,423)
Commission received	-	348,735	(348,735)
Other income	760,540	176,646	583,894
Revenue from non-exchange transactions			
Fines, Penalties and Forfeits	1,631,999	1,611,524	20,475
	24,993,152	**24,989,306**	**3,846**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

37. Prior-year adjustments (continued)

Reclassification-Expenditure

Expenditure	As previously reported	Restated Amount	Reclassification
Employee related costs	58,931,021	59,764,763	833,742
Contracted services	53,931	27,109,812	27,055,881
Transfers and subsidies	3,140,867	21,472,811	18,331,944
General expenses	91,274,428	44,880,836	(46,221,567)
	153,400,247	**153,228,222**	**-**

38. Comparative figures

Certain comparative figures have been reclassified due to the implementation of mScoa and the effect is reflected in the statement of financial position as well as income statement.

The effects of the reclassification are as reflected in note above.

39. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus of R 301,593,566 and that the municipality's total assets exceed its liability by R 301,593,566.

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.

40. Events after the reporting date

No events after reporting period were identified.

41. Unauthorised expenditure

Opening Balance	55,488,369	17,790,911
Unauthorised expenditure	29,237,102	37,697,458
	84,725,471	**55,488,369**

42. Fruitless and wasteful expenditure

Opening Balance	5,262,554	116,582
Interest-SARS	-	46,809
Penalties-SARS	-	219,531
Other	5,150	10,447
Joy project	-	4,593,850
Ghost employees	-	271,337
Ghost employees recoverable	(169,458)	-
	5,098,246	**5,258,556**

43. Irregular expenditure

Opening balance	313,411,653	294,187,641
Add: Irregular Expenditure - current year	40,176,178	783,070
Add Irregular expenditure-capital expenditure/tender prior year	15,932,415	18,298,055
Irregular-other	5,396,977	142,887
	374,917,223	**313,411,653**

43. Irregular expenditure (continued)

Analysis of expenditure awaiting condonation per age classification

Current year	-	22,568,163
Prior years	316,755,804	294,187,641
	316,755,804	**316,755,804**

44. Deviation from supply chain management regulations

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

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

Additional costs were incurred during the financial year under review and the process followed in incurring those costs deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the Accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviations are disclosed below:

Figures in Rand	2018	2017
Opening Balance	22,395,048	10,781,235
Current Year	4,245,036	11,613,813
Subtotal	26,640,084	22,395,048
	26,640,084	**22,395,048**

45. Budget differences

Material differences between budget and actual amounts

45. Budget differences (continued)

All material variances are explained below:

Service charges - The service charges are less than the budgeted amount due to certain sites that the municipality had initially planned to collect refuse six times per week but ended up collecting fewer times per week because of capacity.

Rental of facilities - The rental of facilities are less than the budgeted amount due to the fact that budgeted amounts were based on municipal tariffs which are higher than rental amount in lease agreements.

Sale of Goods-These revenue item hinges on sale of supplier chain management documents of which it is not easy to budget with pinpoint precision.

Rendering of services - These revenue item hinges on services rendered like hall hire services of which it is not easy to budget with pinpoint precision.

Interest income (trading) - There is a significant increase in interest on debtors due to the fact that customers are not settling their accounts in time. 50% Debt relief was provided to all customers in a bid to encourage all customers to settle their accounts. Unfortunately very few customers used this debt relief to clear their debt hence the debt balance is increasing each year. Municipality had to charge interest on the debtors balance hence it increased.

Licences and permits - This revenue stream emanates from learners licenses issued. The learners licenses depends on the number of people who apply and the municipality cannot be certain as to the number of applications hence the actual amount received is higher than amount budgeted for.

Interest income- investment - The municipality had more funds in the investment accounts than anticipated hence more interest was accrued.

Property rates - There are properties whose market values are disputed by owners and this was taken into account when budgeting.The municipality continued to bill for the disputed properties.

Fines,Penalties and Forfeits - More fines have been issued than budgeted for as it is not easy to budget with pinpoint precision as this income hinges on road infringement cases, some of which are reduced in court.

Employee related costs-The employee related costs was under budgeted for. The variance is due to additional employees added during the current year, salary increase effected each year, bonus and overtime paid, increase in provision for leave and annual bonus. In addition pension funds and medical aid payments also contributed to such an increase. It was also noted that employee related costs were under budgeted for.

Remuneration of councilors - The actual expenditure was higher than the budgeted amount due to huge amounts of re-imbursement of travel allowances for councilors which had been allocated to this section, however travel allowance was budgeted under general expenses.

Depreciation and amortisation - The actual amount is higher than the budgeted amount because of under budgeting.

Finance costs - The variance is due to interest on landfill site and long service awards provisions which were not budgeted for.

Debt Impairment - The budget was based on the intention to grant amnesty to debtors who would put valid reasons for non payment of accounts and were ready to at least pay 50% thereof. The turn-up was lower than anticipated.The provision for doubtful debts increase is hence higher than anticipated.

Transfers and subsidies - The actual amount is lower than the budgeted amount for due to poverty alleviation projects which were stopped as more funds were spent on capital projects.

General expenses - General expenses were underbudgeted for.

Contracted services - When budgeting the effect of mScoa chart was not considered however a lot of transactions had been categorised as contracted services as per mScoa definitions.

Notes to the Annual Financial Statements

Figures in Rand

46. Contingencies

Matter	Name of claimant	Progress of the claim	Possible liability
VAT Service	Preson Investments (Pty) Ltd t/a	Attented pre-trial conference on 20 June 2017	3,500,000
Breach of contract	Chain Concept Siyakwethemba Construction JV Mbuthuma Construction	Instruction was received to close the file on 05 May 2017	670,754
Labour dispute	Lonowabo Carssion Maka	Trail finalised on 16-10-2018, awaiting judgment and merits appear good	4,869,960
Labour dispute	John Fitzgerald Kuhlekonke Khumalo	Application in labour court On the roll for 31 August 2018	150,000
			9,190,714

47. 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.

As at 30 June 2018(restated)	Less than 1 Year	Between 1 and 2 years	Between 2 to 5 years	Over 5 years
Borrowings	26,391,818	-	-	-
Deposits and refunds	870,874	-	-	-
	27,262,692	**-**	**-**	**-**

As at 30 June 2017 (Restated)	Less than 1 year	Between 1 and 2 years	Between 2 to 5 years	Over 5 years
Borrowings	18,439,400	-	-	-
Deposits and refunds	774,998	-	-	-
	19,214,398	**-**	**-**	**-**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

47. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents.

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.

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

Financial instrument	**2018**	**2017**
Receivables from exchange transaction	21,745,473	19,416,018
Receivables from non-exchange transactions	26,398,559	20,013,582
VAT Receivables / (Payables)	1,667,247	(1,934,877)
Cash and cash equivalents	14,228,367	56,964,441
Payables from exchange transactions	(26,391,818)	(18,439,400)
Deposits payables	(870,874)	(774,998)

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

48. Additional disclosure in terms of Municipal Finance Management Act

Pension contribution

Opening balance	1	-
Current year subscription / fee	6,635,441	4,821,329
Amount paid - current year	(6,635,442)	(4,821,329)
	-	-

Medical Aid Deductions		
Opening balance	1	-
Current year subscription / fee	2,450,447	1,780,193
Amount paid - current year	(2,450,448)	(1,780,193)
	-	-