BIG5 Hlabisa Local Municipality
(Registration number KZN276)
Annual Financial Statements
for the year ended June 30, 2019

General Information

Legal form of entity	Big 5 Hlabisa Local Municipality
Nature of business and principal activities	Service Delivery
Mayoral committee	
Mayor	CT Khumalo
Deputy Mayor	H T Nkosi
Speaker	GR Mchunu
Councillors	Cllr BN Ngwane
	Cllr SZ Zondo
	Cllr PS Mantengu
	Cllr SZ Mthembu
	Cllr FZ Nkwanyana
	Cllr BL Mafuleka
	Cllr PV Gumede
	Cllr NH Nxumalo
	Cllr MO Ntombela
	Cllr BW Manqele
	Cllr MR Mthembu
	Cllr TM Khumalo
	Cllr NN Xulu
	Cllr SG Hlatshwayo
	Cllr AS Thela
	Cllr NF Ngema
	Cllr ONN Ndwandwe
	Cllr TN Ngema
	Cllr TS Mahlaba
	Cllr DM Mngomezulu
	Cllr HS Ndlovu
	Cllr SF Mdaka
Grading of local authority	Medium Capacity Municipality Grade 2
Chief Finance Officer (CFO)	JM Nkosi
Accounting Officer	Dr VJ Mthembu
Registered office	Municipal Buildings Hlabisa Lot 808 Masson Street Hlabisa 3937
Postal address	P O Box 387 Hlabisa 3937
Attorneys	Philip Walsh Attorneys

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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
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
INEP	Integrated National Electrification Program
EPWP	Extended Public Works Program
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
UIF	Unemployment Insurance Fund
SARs	South African Revenue Services
PAYE	Pay As You Earn

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to June 30, 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The gazette No. 41335 of 15 December 2017 relating to upper limits of the salaries , allowances and benefits of all municipal council members was used to pay the salaries and allowances to councilors in 2017/18 and 2018/19 financial years.

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.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the accounting officer on August 30, 2019 and were signed on its behalf by:

Accounting Officer
DR VJ Mthembu

Statement of Financial Position as at June 30, 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	7	2,861,311	1,918,145
Receivables from exchange transactions	8	7,083,222	5,519,304
Receivables from non-exchange transactions	9	19,543,879	18,476,855
VAT receivable	14	-	936,795
Prepayments		-	2,250,000
Cash and cash equivalents	10	5,510,990	3,499,857
		34,999,402	**32,600,956**
Non-Current Assets			
Investment property	3	960,559	1,377,578
Property, plant and equipment	4	255,527,451	276,649,694
Intangible assets	5	143,315	278,968
Receivables from non-exchange transactions	9	265,823	296,139
		256,897,148	**278,602,379**
Total Assets		**291,896,550**	**311,203,335**
Liabilities			
Current Liabilities			
Finance lease obligation	11	139,486	102,869
Operating lease liability	6	-	17,006
Payables from exchange transactions	15	34,184,981	35,486,421
Consumer deposits		10,542	9,292
Unspent conditional grants and receipts	12	3,006,660	1,694,886
Provisions	13	98,934	97,934
VAT Payables	14	586,401	-
Bank overdraft	10	291	454,135
		38,027,295	**37,862,543**
Non-Current Liabilities			
Finance lease obligation	11	57,440	90,074
Provisions	13	12,538,641	10,304,927
		12,596,081	**10,395,001**
Total Liabilities		**50,623,376**	**48,257,544**
Net Assets		**241,273,174**	**262,945,791**
Accumulated surplus		241,273,172	262,945,787

* See Note 39

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods		113,740	119,556
Service charges	16	2,077,273	2,019,611
Rendering of services		31,129	106,570
Rental of facilities and equipment	17	264,562	259,946
Interest received (trading)		5,965,024	4,723,229
Recoveries	19	930,228	1,044,085
Licences and permits	20	2,354,003	1,878,643
Sale of building Plans		77,310	54,642
Insurance Refund	22	3,610,581	-
Interest received - investment	23	1,239,337	1,166,241
Total revenue from exchange transactions		**16,663,187**	**11,372,523**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	16,454,417	16,777,869
Transfer revenue			
Government grants & subsidies	26	123,089,743	123,433,219
Fines, Penalties and Forfeits	18	1,035,750	1,043,720
Donations Received		-	11,121
Total revenue from non-exchange transactions		**140,579,910**	**141,265,929**
Total revenue		**157,243,097**	**152,638,452**
Expenditure			
Employee related costs	27	(73,774,167)	(68,489,749)
Remuneration of councillors	28	(7,420,389)	(7,917,049)
Depreciation and amortisation	29	(37,197,455)	(11,613,732)
Finance costs	31	(1,127,121)	(1,034,744)
Lease rentals on operating lease	21	(1,120,694)	(2,462,281)
Bad debts Provision	32	(8,754,183)	(7,936,690)
Contracted services	33	(22,786,019)	(18,981,431)
Transfers and Subsidies	25	(2,085,838)	(2,078,718)
General Expenses	34	(21,291,081)	(18,562,726)
Total expenditure		**(175,556,947)**	**(139,077,120)**
Operating (deficit) surplus		**(18,313,850)**	**13,561,332**
Loss on disposal of assets and liabilities		(720,676)	(1,182,207)
Impairment loss	30	(5,109,620)	(1,310,725)
Gain (loss) on non-current assets held for sale		2,445,171	(22,069)
		(3,385,125)	**(2,515,001)**
(Deficit) surplus for the year		**(21,698,975)**	**11,046,331**

* See Note 39

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	240,904,840	240,904,840
Adjustments		
Prior year adjustments	10,994,616	10,994,616
Balance at July 1, 2017 as restated*	**251,899,456**	**251,899,456**
Changes in net assets		
Surplus for the year	11,046,331	11,046,331
Total changes	11,046,331	11,046,331
Opening balance as previously reported	262,945,788	262,945,788
Adjustments		
Correction of errors	26,359	26,359
Restated* Balance at July 1, 2018 as restated*	**262,972,147**	**262,972,147**
Changes in net assets		
Surplus for the year	(21,698,975)	(21,698,975)
Total changes	(21,698,975)	(21,698,975)
Balance at June 30, 2019	**241,273,172**	**241,273,172**

Note(s)

* See Note 39

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Property Rates and Refuse Removal		14,328,874	14,750,738
Sale of goods and services		1,832,725	923,908
Grants		130,168,000	138,112,915
Interest income		1,239,337	1,166,241
VAT Received		6,477,745	8,312,838
Insurance Refunds		4,499,945	1,044,085
Rental of Equipment		277,338	263,843
Licence and permits		2,354,003	1,878,643
Fines		167,783	358,225
		161,345,750	166,811,436
Payments			
Employee costs		(80,578,675)	(76,325,676)
Suppliers		(50,387,263)	(47,847,714)
Finance costs		(1,127,121)	(1,034,744)
INEP Payments		(396,506)	(13,603,986)
Massification projects payments		(4,896,317)	-
		(137,385,882)	(138,812,120)
Net cash flows from operating activities	35	**23,959,868**	**27,999,316**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(21,950,860)	(26,696,613)
Proceeds from sale of property, plant and equipment	4	564,499	-
Purchase of other intangible assets	5	-	(42,621)
Net cash flows from investing activities		**(21,386,361)**	**(26,739,234)**
Cash flows from financing activities			
Finance lease payments		(108,530)	(117,132)
Net increase/(decrease) in cash and cash equivalents		**2,464,977**	**1,142,950**
Cash and cash equivalents at the beginning of the year		3,045,722	1,902,772
Cash and cash equivalents at the end of the year	10	**5,510,699**	**3,045,722**

During preparation of current year annual financial statement, it was identified that prior year figure relating to purchase of property plant and equipment as per note 4 does note agree to the amount disclosed under cash flows from investing activities in the cash flow statement. Note 4 reflect an amount of R26 739 234, while cash flows from investing activities reflect R24 658 050. The correct amount to be disclosed in the cash flows from investing activities should have been R26,739,234. The error amounts to R2 081 184 in total.

* See Note 39

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	-	-	**-**	113,740	**113,740**	**Refer to Note 48**
Service charges	2,263,000	-	**2,263,000**	2,077,273	**(185,727)**	Refer to Note 48
Rendering of services	-	-	**-**	31,129	**31,129**	Refer to Note 48
Rental of facilities and equipment	216,000	58,000	**274,000**	264,562	**(9,438)**	Refer to Note 48
Interest received (trading)	636,251	2,564,000	**3,200,251**	5,965,024	**2,764,773**	Refer to Note 48
Agency services	-	-	**-**	930,228	**930,228**	
Licences and permits	2,309,150	-	**2,309,150**	2,354,003	**44,853**	Refer to Note 48
Other income 1	-	-	**-**	77,310	**77,310**	
Other income - (rollup)	251,000	3,543,000	**3,794,000**	3,610,581	**(183,419)**	Refer to Note 48
Interest received - investment	676,000	373,000	**1,049,000**	1,239,337	**190,337**	Refer to Note 48
Total revenue from exchange transactions	**6,351,401**	**6,538,000**	**12,889,401**	**16,663,187**	**3,773,786**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	17,566,000	-	**17,566,000**	16,454,417	**(1,111,583)**	Refer to Note 48
Transfer revenue						
Government grants & subsidies	124,368,000	5,800,000	**130,168,000**	123,089,743	**(7,078,257)**	Refer to Note 48
Fines, Penalties and Forfeits	1,500,000	(546,000)	**954,000**	1,035,750	**81,750**	Refer to Note 48
Total revenue from non-exchange transactions	**143,434,000**	**5,254,000**	**148,688,000**	**140,579,910**	**(8,108,090)**	
Total revenue	**149,785,401**	**11,792,000**	**161,577,401**	**157,243,097**	**(4,334,304)**	
Expenditure						
Personnel	(65,226,000)	(6,514,000)	**(71,740,000)**	(73,774,167)	**(2,034,167)**	Refer to Note 48
Remuneration of councillors	(7,411,000)	-	**(7,411,000)**	(7,420,389)	**(9,389)**	Refer to Note 48
Depreciation and amortisation	(8,100,000)	-	**(8,100,000)**	(37,197,455)	**(29,097,455)**	Refer to Note 48
Impairment loss/ Reversal of impairments	-	-	**-**	(5,109,620)	**(5,109,620)**	
Finance costs	(220,000)	(220,000)	**(440,000)**	(1,127,121)	**(687,121)**	Refer to Note 48

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
Lease rentals on operating lease	-	-	**-**	(1,120,694)	**(1,120,694)**	Refer to Note 48
Debt Impairment	(6,999,000)	383,000	**(6,616,000)**	(8,754,183)	**(2,138,183)**	Refer to Note 48
Contracted Services	(10,755,000)	(841,000)	**(11,596,000)**	(22,786,019)	**(11,190,019)**	Refer to Note 48
Transfers and Subsidies	(800,000)	(7,025,000)	**(7,825,000)**	(2,085,838)	**5,739,162**	Refer to Note 48
General Expenses	(24,899,000)	1,248,000	**(23,651,000)**	(21,291,081)	**2,359,919**	Refer to Note 48
Other materials	(5,168,000)	-	**(5,168,000)**	-	**5,168,000**	Refer to Note 48
Total expenditure	**(129,578,000)**	**(12,969,000)**	**(142,547,000)**	**(180,666,567)**	**(38,119,567)**	
Operating deficit	**20,207,401**	**(1,177,000)**	**19,030,401**	**(23,423,470)**	**(42,453,871)**	
Loss on disposal of assets and liabilities	-	-	**-**	(720,676)	**(720,676)**	Refer to Note 48
Gain on non-current assets held for sale	-	-	**-**	2,445,171	**2,445,171**	
	-	**-**	**-**	**1,724,495**	**1,724,495**	
Deficit for the year	**20,207,401**	**(1,177,000)**	**19,030,401**	**(21,698,975)**	**(40,729,376)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**20,207,401**	**(1,177,000)**	**19,030,401**	**(21,698,975)**	**(40,729,376)**	

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						
Current Assets						
Inventories	3,000	-	**3,000**	2,861,311	**2,858,311**	Refer to Note 48
Receivables from exchange transactions	-	-	**-**	9,039,921	**9,039,921**	Refer to Note 48
Receivables from non-exchange transactions	29,577,000	259,000	**29,836,000**	19,543,879	**(10,292,121)**	Refer to Note 48
Other asset	417,000	-	**417,000**	-	**(417,000)**	Refer to Note 48
Current Portion of Long term receivables	939,000	-	**939,000**	-	**(939,000)**	Refer to Note 48
Cash and cash equivalents	7,898,000	(3,108,000)	**4,790,000**	5,510,699	**720,699**	Refer to Note 48
	38,834,000	**(2,849,000)**	**35,985,000**	**36,955,810**	**970,810**	
Non-Current Assets						
Investment property	28,817,000	-	**28,817,000**	960,559	**(27,856,441)**	Refer to Note 48
Property, plant and equipment	306,065,000	-	**306,065,000**	255,527,451	**(50,537,549)**	Refer to Note 48
Intangible assets	728,000	-	**728,000**	143,315	**(584,685)**	Refer to Note 48
Receivables from non-exchange transactions	-	-	**-**	265,818	**265,818**	Refer to Note 48
	335,610,000	**-**	**335,610,000**	**256,897,143**	**(78,712,857)**	
Total Assets	**374,444,000**	**(2,849,000)**	**371,595,000**	**293,852,953**	**(77,742,047)**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	139,486	**139,486**	Refer to Note 48
Payables from exchange transactions	16,679,000	(5,451,000)	**11,228,000**	34,184,981	**22,956,981**	Refer to Note 48
Consumer deposits	-	-	**-**	10,542	**10,542**	Refer to Note 48
Unspent conditional grants and receipts	-	-	**-**	3,006,660	**3,006,660**	Refer to Note 48
Provisions	-	-	**-**	98,934	**98,934**	Refer to Note 48
VAT Payables	-	-	**-**	586,401	**586,401**	Refer to Note 48
	16,679,000	**(5,451,000)**	**11,228,000**	**38,027,004**	**26,799,004**	
Non-Current Liabilities						
Finance lease obligation	-	-	**-**	57,440	**57,440**	Refer to Note 48
Provisions	5,500,000	-	**5,500,000**	12,538,641	**7,038,641**	Refer to Note 48

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
	5,500,000	**-**	**5,500,000**	**12,596,081**	**7,096,081**	
Total Liabilities	**22,179,000**	**(5,451,000)**	**16,728,000**	**50,623,085**	**33,895,085**	
Net Assets	**352,265,000**	**2,602,000**	**354,867,000**	**243,229,868**	**(111,637,132)**	
Accumulated surplus	352,265,000	2,602,000	**354,867,000**	241,273,171	**(113,593,829)**	Refer to Note 48

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.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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 judgment 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 judgments include:

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Offsetting

Financial assets and liabilities are offset and the net amount reported on the Statement of Financial Position when there is a legally enforceable right to set off the recognised amount, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post-retirement benefits

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

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

Allowance for doubtful debts

Impairment loss on debtors 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 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Subsequently, Investment Property is measured at costs less accumulated depreciation, less accumulated impairment.

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

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

1.5 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Office Buildings	Straight line	30 years
Fiance Leased asset	Straight line	5 years
Plant and machinery	Straight line	10 - 15 years
Furniture and fixtures	Straight line	7-10 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
IT equipment	Straight line	3-7 years
Land fill site	Straight line	30 years
Infrastructure		
• Roads and Paving	Straight line	30 years
• Roads and water	Straight line	30 years
Community Assets:		
• Recreational Facilities	Straight line	20-30 years
• Security	Straight line	5 years
• Community Halls	Straight line	30 years
• Libraries	Straight line	30 years
• Parks and Gardens	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.

Accounting Policies

1.5 Property, plant and equipment (continued)

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 4).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 4).

1.6 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 a 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.

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.

1.7 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.

Accounting Policies

1.7 Intangible assets (continued)

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

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

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

Where an intangible asset is acquired through a non-exchange transaction or a combination of monetary and non-monetary assets, the asset acquired initial cost at the date of acquisition is measured at its fair value (the cost) as at that date. If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of those assets given up.

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

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

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	Amortisation method	Average useful life
Computer software, other	Straight line	3-5 years

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

1.8 Financial instruments

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

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.

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

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

A financial 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.

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

A financial asset is past due when a counterparty 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 entity had not acquired, issued or disposed of the financial instrument.

Accounting Policies

1.8 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 bank	Financial asset measured at amortised cost
Receivables from exchange and non exchange transactions	Financial asset measured at amortised cost
VAT Receivables	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange and non-exchange transaction	Financial liability measured at amortised cost
Unspent conditional Grant	Financial liability measured at amortised cost
Provisions	Financial liability measured at amortised cost
Bank Overdrafts	Financial liability measured at amortised cost
Finance Lease Liabilities	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.

The municipality recognises financial assets using trade date accounting.

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.

Accounting Policies

1.8 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.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

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.

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.

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

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.

1.9 Leases

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

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

Accounting Policies

1.9 Leases (continued)

Finance leases - lessor

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

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

Finance leases - lessee

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

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

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

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

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.

1.10 Inventories

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

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

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

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

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

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

Accounting Policies

1.10 Inventories (continued)

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

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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

Value in use

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

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

Discount rate

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

Cash-generating units

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

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses 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.

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.

1.12 Employee benefits

Employee benefits are all forms of consideration given by a 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
- 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 programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

1.12 Employee benefits (continued)

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.

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.12 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

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 (deficit).

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

1.13 Provisions and contingencies (continued)

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

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

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

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

1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

1.15 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

1.15 Revenue from exchange transactions (continued)

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

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

1.16 Revenue from non-exchange transactions

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

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

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

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

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

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

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a 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.

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

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

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.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when.

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- The amount of the revenue can be measured reliably; and
- There has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised

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.

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Bequests

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

Services in-kind

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

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

1.17 Investment income

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

1.18 Borrowing costs

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

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

1.19 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 a 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

1.19 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 judgment 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.

1.20 Comparative figures

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

1.21 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.

1.22 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.

1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA 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 and has not been condoned in terms of section 170, or
(b) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act or

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998);
(d) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law.

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.

1.24 Budget information

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

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

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

The approved budget covers the fiscal period from 7/1/2019 to 6/30/2020.

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

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

Accounting Policies

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.

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.

1.27 Contracted Services

Transactions and events are classified as contracted services if and only if they are supplied by external parties not within the municipality. Contracted services can either be outsourced services, contractors or business and professional services.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 1 (amended): Presentation of Financial Statements	April 1, 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	April 1, 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	April 1, 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	April 1, 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	April 1, 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	April 1, 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	April 1, 2020	Unlikely there will be a material impact

Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	1,103,304	(142,745)	960,559	1,510,304	(132,726)	1,377,578

Reconciliation of investment property - 2019

	Opening balance	**Transfers**	**Depreciation**	**Total**
Investment property	1,377,578	(407,000)	(10,019)	960,559

Reconciliation of investment property - 2018

	Opening balance	**Depreciation**	**Total**
Investment property	1,401,515	(23,937)	1,377,578

Pledged as security

No Investment property has been placed as security in current year.

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.

Amounts recognised in surplus or deficit

Rental revenue from Investment property	235,422	185,774

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	53,332,686	-	53,332,686	54,336,516	-	54,336,516
Buildings	29,115,757	(12,321,814)	16,793,943	29,115,758	(9,450,178)	19,665,580
Plant and machinery	1,988,455	(1,562,859)	425,596	1,988,455	(1,371,026)	617,429
Furniture and fixtures	3,698,903	(2,011,481)	1,687,422	3,698,903	(1,845,118)	1,853,785
Motor vehicles	5,916,314	(4,336,576)	1,579,738	10,837,073	(7,383,778)	3,453,295
Office equipment	1,957,511	(1,377,011)	580,500	1,832,011	(1,126,166)	705,845
IT equipment	2,286,920	(1,377,513)	909,407	2,143,353	(1,124,837)	1,018,516
Leased Assets	2,391,012	(2,000,924)	390,088	3,110,150	(2,315,821)	794,329
Infrastructure	117,844,697	(44,288,583)	73,556,114	106,292,723	(27,172,655)	79,120,068
Community	140,864,034	(40,823,924)	100,040,110	131,470,604	(22,852,628)	108,617,976
Landfill site asset	9,776,345	(3,544,498)	6,231,847	8,381,461	(1,915,106)	6,466,355
Total	**369,172,634**	**(113,645,183)**	**255,527,451**	**353,207,007**	**(76,557,313)**	**276,649,694**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Transfers from WIP	Landfill site Movement	Reclassification	Depreciation	Impairment loss	Total
Land	54,336,516	-	-	-	-	-	(1,003,830)	-	-	53,332,686
Buildings	19,665,580	-	-	-	-	-	-	(2,517,976)	(353,661)	16,793,943
Plant and machinery	617,429	-	-	-	-	-	-	(191,833)	-	425,596
Furniture and fixtures	1,853,785	-	-	-	-	-	-	(166,363)	-	1,687,422
Motor vehicles	3,453,295	589,421	(1,104,995)	-	-	-	-	(1,357,983)	-	1,579,738
Office equipment	705,845	125,500	-	-	-	-	-	(250,845)	-	580,500
IT equipment	1,018,516	143,527	-	-	-	-	53,946	(306,582)	-	909,407
Leased assets	794,329	147,010	(180,180)	-	-	-	-	(362,327)	(8,744)	390,088
Infrastructure	79,120,068	11,551,974	-	15,023,048	(15,023,048)	-	(71,526)	(16,437,017)	(607,385)	73,556,114
Community	108,617,976	9,393,428	-	6,425,670	(6,425,665)	-	-	(13,831,467)	(4,139,832)	100,040,110
Landfill site asset	6,466,355	-	-	-	-	1,394,883	-	(1,629,391)	-	6,231,847
	276,649,694	**21,950,860**	**(1,285,175)**	**21,448,718**	**(21,448,713)**	**1,394,883**	**(1,021,410)**	**(37,051,784)**	**(5,109,622)**	**255,527,451**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Omitted assets	Disposals	Transfers received	Corrections	WIP Transfer	Reclassification	Scapping allowance	Depreciation	Impairment loss	T
Land	56,254,784	-	-	-	-	-	-	(1,918,268)	-	-	-	54,3
Buildings	57,130,129	-	-	-	-	-	-	(35,125,712)	-	(1,028,112)	(1,310,725)	19,6
Plant and machinery	1,480,656	-	-	(57,561)	-	-	-	(475,178)	-	(330,488)	-	6
Furniture and fixtures	2,470,377	81,258	-	(252,487)	-	-	-	-	-	(445,363)	-	1,8
Motor vehicles	4,462,588	-	-	-	-	-	-	-	-	(1,009,293)	-	3,4
Office equipment	220,573	15,419	-	(5,082)	-	-	-	478,212	-	(3,277)	-	7
IT equipment	729,976	450,741	-	13,130	-	-	-	-	-	(175,331)	-	1,0
Leased assets	479,407	-	-	2,991	-	-	-	-	-	311,931	-	7
Infrastructure	77,865,622	8,301,108	-	-	232,749	(3,871,737)	(232,749)	-	-	(3,174,925)	-	79,1
Community	63,423,501	17,848,087	4,500,782	-	20,655,953	(6,888,695)	(20,655,953)	35,061,987	(721,775)	(4,605,911)	-	08,6
Landfill site asset	7,544,080	-	-	-	-	-	-	-	-	(1,077,725)	-	6,4
	272,061,693	**26,696,613**	**4,500,782**	**(299,009)**	**20,888,702**	**(10,760,432)**	**(20,888,702)**	**(1,978,959)**	**(721,775)**	**(11,538,494)**	**(1,310,725)**	**76,6**

<u>Change in Estimate:</u>

Physical assessment of property plant and equipment items was performed at year and and estimated useful life of some of the assets have been revised. The carrying amount of such asset as at 30 June 2018 will be depreciated on the revised useful life going forward. This resulted to a total change in estimate amount of **R 13,947,592** in current year.

Pledged as security

Leased assets are held as security for finance lease obligation.

Assets subject to finance lease (Net carrying amount)

Finance Lease Assets	390,088	794,329

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Total
Opening balance	6,772,730	7,580,097	14,352,827
Additions/capital expenditure	11,551,974	9,393,428	20,945,402
Transferred to completed items	(15,064,890)	(6,430,093)	(21,494,983)
	3,259,814	**10,543,432**	**13,803,246**

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Total
Opening balance	825,579	11,770,025	12,595,604
Additions/capital expenditure	8,301,108	17,848,087	26,149,195
Correction of error in retention	(2,121,208)	(5,753,563)	(7,874,771)
Transferred to completed items	(232,749)	(16,284,452)	(16,517,201)
	6,772,730	**7,580,097**	**14,352,827**

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		
Plant and Equipment	-	182,772
Furniture and Fittings	5,939	80,000
Motor vehicles	2,233,202	1,793,805
Land and Buildings	1,630,861	592,968
General operating equipment	-	370,063
Labour costs - Technical Staff	3,834,020	3,581,344
	7,704,022	**6,600,952**

No projects were stopped, halted or taking longer time to complete than anticipated

Employee related costs incurred on employees staff involved in repairs and maintenance were not disclosed in prior year. This has been adjusted and prior year disclosure note updated accordingly.

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

Notes to the Annual Financial Statements

Figures in Rand

5. Intangible assets

	2019			2018		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	1,699,665	(1,556,350)	143,315	1,699,665	(1,420,697)	278,968

Reconciliation of intangible assets - 2019

	Opening balance	**Amortisation**	**Total**
Computer software, other	278,968	(135,653)	143,315

Reconciliation of intangible assets - 2018

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	338,479	42,621	(102,132)	278,968

Pledged as security

No Intangible assets has been placed as security.

6. Operating lease accrual

Current liabilities	-	(17,006)

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

7. Inventories

Inventory Held for sale	2,861,311	1,918,145

7.1 Reconciliation of land held for sale

Opening Balance	1,918,145	-
Land classified as held for sale in current year	961,417	1,918,145
Investment Property classified as held for sale in current year	407,000	-
Land sold and transfered	(425,251)	-
	2,861,311	**1,918,145**

Inventory pledged as security

During the year, the council decided through a resolution to classify some of the vacant land as available for sale.

No inventory held for sale was classified as security in current year.

8. Receivables from exchange transactions

Housing Grants	181,934	-
Sundry Debtors	659,257	601,018
Consumer debtors - Refuse	13,642,151	9,899,363
Consumer debtors - Rental	22,276	54,442
Consumer debtors - Provision for bad debts Refuse	(7,422,396)	(5,035,519)
	7,083,222	**5,519,304**

Refuse		
Current (0-30 days)	363,583	184,659
31 - 60 days	162,446	176,219
61-90 days	161,212	169,411
91 -120 days	159,829	149,041
121 - 365 days	12,795,079	9,220,033
	13,642,149	**9,899,363**

Rentals		
121-365 days	22,726	54,442

Trade and other receivables pledged as security

No receivables were pledged as security in current year.

Trade and other receivables past due but not impaired

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

1 month past due	156,459	347,193

Trade and other receivables impaired

The ageing of these receivables are as follows:

3 to 6 months	107,156	221,186
Over 6 months	5,046,620	1,852,636

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

9. Receivables from non-exchange transactions

Fines	17,548,501	16,680,534
Provision for bad debts - Fines	(17,115,744)	(16,681,761)
Staff Debtors	470,072	500,388
Provision for bad debts - staff debtors	(204,249)	(204,249)
Creditors with Debit Balances	4,367	8,229
Consumer debtors - Rates	29,775,514	28,017,440
Provision for bad debts - Property rates	(10,668,759)	(9,547,587)
	19,809,702	**18,772,994**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

9. Receivables from non-exchange transactions (continued)

Non-current assets	265,823	296,139
Current assets	19,543,879	18,476,855
	19,809,702	**18,772,994**

Rates		
Current (0 -30 days)	1,244,874	461,740
31 - 60 days	436,435	411,407
61 -90 days	420,469	404,597
91 - 120 days	398,643	413,680
121 - 365 days	27,275,096	26,476,754
	29,775,517	**28,168,178**

Summary of receivables from exchange and non-exchange transactions:		
Government:		
Current (0 -30 days)	(24,992)	16,858
31 - 60 days	(196)	(63,308)
61 -90 days	14,834	8,403
91 - 120 days	14,834	4,477
121 - 365 days	6,805,463	3,451,533
	6,809,943	**3,417,963**

Other Receivables		
Current (0 -30 days)	20,650	222,100
31 - 60 days	10,325	103,600
61 -90 days	10,325	101,066
91 - 120 days	10,325	97,969
121 - 365 days	2,059,425	5,122,219
	2,111,050	**5,646,954**

Agriculture		
Current (0 -30 days)	649,781	368,627
31 - 60 days	215,020	161,737
61 -90 days	215,802	161,383
91 - 120 days	200,733	144,309
121 - 365 days	7,862,930	5,653,925
	9,144,266	**6,489,981**

Industrial/Commercial		
Current (0 -30 days)	587,710	236,435
31 - 60 days	188,328	113,455
61 -90 days	184,128	105,786
91 - 120 days	178,827	102,820
121 - 365 days	6,044,217	4,316,932
	7,183,210	**4,875,428**

Residential		
Current (0 -30 days)	347,167	378,348
31 - 60 days	154,467	172,124
61 -90 days	153,483	171,303
91 - 120 days	152,715	168,663
121 - 365 days	15,438,402	14,798,182
	16,246,234	**15,688,620**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

9. Receivables from non-exchange transactions (continued)

Fines		
Current (0 -30 days)	152,150	47,850
31 - 60 days	347,010	172,250
61 -90 days	161,650	61,450
91 - 120 days	214,388	128,600
121 - 365 days	16,673,304	16,270,384
	17,548,502	**16,680,534**

Staff Debtors		
Over 365 days	470,072	500,388

Reconciliation for bad debts allowances:

Opening Balance	31,469,115	29,331,998
Contribution to allowance	824,759	2,137,117
Contribution for to allowance - traffic fines	433,983	-
	32,727,857	**31,469,115**

Receivables from non-exchange transactions pledged as security

No receivables from non-exchange transaction were pledged as security in current financial year.

Receivables from non-exchange transactions past due but not impaired

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

1 month past due	91,372	1,193,809

Receivables from non-exchange transactions impaired

The ageing of these receivables is as follows:

3 to 6 months	276,892	916,542
Over 6 months	11,133,914	14,700,843

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	601	536
Bank balances	5,510,389	3,499,321
Bank overdraft	(291)	(454,135)
	5,510,699	**3,045,722**

Current assets	5,510,990	3,499,857
Current liabilities	(291)	(454,135)
	5,510,699	**3,045,722**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

10. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2019	June 30, 2018	June 30, 2017
ABSA Bank - 4053709558	3,288,879	3,255,171	56,026	3,288,879	3,255,171	56,026
FNB Bank - 62205724174	-	-	(6)	-	-	(6)
FNB Bank-62641677466	584,869	38,862	16,605	584,869	38,862	16,605
FNB Bank -62641681251	118,806	41,352	4,694	118,806	41,352	4,694
ABSA Bank- 9104689480	-	-	1	-	-	1
Nedbank Bank- 7881083085	-	-	1,661	-	-	1,661
Nedbank Bank- 03/7165016708/000001	96,942	91,629	86,149	96,942	91,213	86,149
Mercantile - 4100167725	18,660	17,225	16,225	18,660	17,225	16,225
FNB Main Bank Account - 62632389450	739,807	(454,135)	1,453,755	739,807	(454,135)	1,453,755
Absa Bank - 9109586760	-	-	58,065	-	-	58,065
FNB Main Bank Account- 62022340385	94,962	3,297	88,291	94,962	3,297	88,291
FNB Bank-62641679123	379,987	30,606	113,856	379,987	30,606	113,856
FNB Call Account	187,476	21,180	7,444	187,476	21,180	7,444
Petty Cash	-	-	-	601	536	-
Total	**5,510,388**	**3,045,187**	**1,902,766**	**5,510,989**	**3,045,307**	**1,902,766**

In 2018, the cash book balance relating to ABSA account(4053709558) was incorrectly disclosed as R3,263,124 instead of R3,255,171 resulting to an error of R 7,953. This has been corrected and prior year disclosure adjusted accordingly. On 30 June 2017, there was a journal equal to R1,661,12 that was incorrectly processed against cash and cash equivalents to correct take on balances. Further deposits from customers were presented as cash and cash equivalents, this has been corrected and prior year figures restated accordingly.

11. Finance lease obligation

	2019	2018
Minimum lease payments due		
- within one year	139,486	103,225
- in second to fifth year inclusive	59,128	(5,374)
	198,614	97,851
less: future finance charges	(5,374)	(9,082)
Present value of minimum lease payments	**193,240**	**88,769**

	2019	2018
Present value of minimum lease payments due		
- within one year	135,800	102,869
- in second to fifth year inclusive	57,440	90,073
	193,240	**192,942**

	2019	2018
Non-current liabilities	57,440	90,074
Current liabilities	139,486	102,869
	196,926	**192,943**

Average lease term is 5 years and average effective borrowing rate is 12% per annum. The nature of finance lease liabilities are agreements in place with Vodacom 4U for the supply of laptops. Finance lease liabilities are secured with lease assets that are located at the municipality premises.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Disaster Management Grant	1,267,785	1,267,785
Intergrated National Electrification Programme Grant	-	396,506
Work Study Grant	-	27,595
Cogta By Law Grant	-	3,000
Municipal Infrastructure Grants	730,760	-
Schemes Program Grant	750,000	-
Massification Grant	258,115	-
	3,006,660	**1,694,886**

The balance in this grant is as a result of amount received during 2004/2005 Financial Year for the disaster that happen in the Municipal area. The Department of Human Settlement is currently busy with new business plan for the grant to amend the memorandum of agreement (MOA) in order for the municipality to utilize this grant, therefore no movement during the year.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

13. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Change in discount factor	Actuarial Gain	Total
Environmental rehabilitation	8,381,461	1,394,884	280,779	-	10,057,124
Long Services award	2,021,400	296,424	187,381	75,246	2,580,451
	10,402,861	**1,691,308**	**468,160**	**75,246**	**12,637,575**

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Actuarial Gain	Total
Environmental rehabilitation	7,897,543	483,918	-	-	-	8,381,461
Provision for long service award	1,557,789	257,700	(78,911)	134,980	149,842	2,021,400
	9,455,332	**741,618**	**(78,911)**	**134,980**	**149,842**	**10,402,861**

Non-current liabilities	12,538,641	10,304,927
Current liabilities	98,934	97,934
	12,637,575	**10,402,861**

Provision for land fill site rehabilitation was disclosed excluding current portion of long term liability. This has been restated and prior year disclosure restated accordingly.

Valuation assumptions:

Eligible Employees	**2018**	**2019**
Number of Employees	201	222
Average annual Salary	236,647	207,824
Average Age (Years)	44	39
Average Past Service Costs	6	14

Net Discounting Rate	**2018**	**2019**
Discount rate	9.50 %	9.17 %
CPI	6.02 %	5.29 %
Salary Increase rate	7.02 %	6.29 %
Net Discount Rate	2.32 %	2.71 %

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 for setting the financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2018 the duration of liabilities was 9.62 years. The duration is based on the weighted averages of the obligations of Big 5 False Bay and Hlabisa as at 30 June 2018. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 27 June 2019 is 9.17% per annum, and the yield on inflation-linked bonds of a similar term was about 3.21% per annum. This implies an underlying expectation of inflation of 5.29% per annum ([1 + 9.17% - 0.5%] / [1 + 3.21%] - 1).

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

13. Provisions (continued)

We have assumed that salary inflation would exceed general inflation by 1.00% per annum, i.e. 6.29% per annum.

However, it is the relative levels of the discount rate and salary inflation to one another that is important, rather than the nominal values. We have thus assumed a net discount factor of 2.71% per annum ([1 + 9.17%] / [1 + 6.29%] - 1).

Demographic Assumptions:	**2018**	**2019**
Normal Retirement Age		
• Females	60	60
• Males	63	63
Mortality-SA	SA 85-90	SA85-90

Environmental rehabilitation provision

The Provision for rehabilitation of land fill site relate to the legal obligation to rehabilitate the land used for waste disposal in accordance with the National Environment Management Act No 107 of 1998and Environmental Conversation Act No 73 of 1989. It is calculated as a present value of the expenditure expected to be incurred to settle the future obligations during rehabilitation of the land.

14. VAT Payable Liability

	2019	**2018**
VAT Input liability	1,379,060	1,862,519
VAT Output liability	(2,009,957)	(1,206,619)
VAT control receivables	44,496	280,895
	(586,401)	**936,795**

All VAT Input were submitted to SARs in time, no outstanding return as at year end.

15. Payables from exchange transactions

Trade payables	13,946,959	16,656,197
Other payables	1,102,846	1,102,846
Retention liability	4,072,322	2,244,795
Accrued Bonus	1,840,577	1,521,120
Deposits received	293,327	261,741
Pension Fund Liability	1,922,010	1,698,835
PAYE Deductions	880,991	1,013,931
Other Employee Deductions	181,736	31
Skills Control Account	53,638	46,680
Unemployment Insurance Fund Payable	62,321	56,907
Payables -Unions	53,421	748
Payables - Medical Aid	567,350	361
Deposit on sale of land	2,414,365	4,182,485
Leave Pay Provision	4,832,515	4,840,085
Hall Hire	7,838	7,838
Other payables - Salary Control	3,169	(6,749)
Debtors with Credit balances	1,945,229	1,850,341
Creditors with Debit Balances	4,367	8,229
	34,184,981	**35,486,421**

16. Service charges

Refuse removal	2,077,273	2,019,611

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

17. Rental of facilities and equipment

Premises		
Rental Income	264,562	259,946

18. Fines, Penalties and Forfeits

Traffic Fines and Penalties	1,035,750	1,043,720

19. Recoveries

Insurance and VAT recoveries	930,228	1,044,085

Recoveries relate to amounts recouped from prior year invoices submitted and rejected by SARs, these invoices were re-submitted in current year and accepted hence the municipality received a refund. The municipality also received refund from insurance for loss incurred which which forms part of the recoveries above.

20. Licences and permits (exchange)

Road and Transport	2,354,003	1,878,643

21. Lease rentals on operating lease

Equipment		
Contractual amounts	1,120,694	2,462,281

Big 5 Hlabisa had operating lease agreements with Nashua Zululand on a month to month basis from the beginning of the year to 31 January 2019. These printers were taken back to the supplier in at the end of January 2019 and there are no more operating lease relating to printers

22. Insurance Refunds

Insurance Refund	3,610,581	-

23. Investment revenue

Interest revenue		
Bank	1,239,337	1,166,241

Interest from investments arises from favourable bank balance and short term investments.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

24. Property rates

Rates

Residential	1,818,380	1,788,153
Commercial	3,143,842	3,022,074
Agriculture	3,765,835	4,540,955
Public Property and Protected Areas	7,726,360	7,426,687
	16,454,417	**16,777,869**

Valuations

Residential	213,558,280	213,558,280
Commercial	152,811,167	152,811,167
State	181,124,350	181,124,350
Municipal	31,648,701	31,648,701
Agriculture	1,922,990,332	1,922,990,332
Public Service Infrastructure	509,000	509,000
Special Properties	116,603,380	116,603,380
Place of worship	9,804,600	9,804,600
Rural Communal Land	99,984,664	99,984,664
	2,729,034,474	**2,729,034,474**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014 Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.The MEC has extended the validity period to expire on 30 June 2020.

25. Grants and subsidies paid

Other subsidies		
Art Centres Subsidies	-	250,651
Youth In Action	23,996	607,700
IDP Projects	500	268,045
National Archive Commission	-	(45,707)
Social Relief	2,059,827	998,029
Disaster Management Fund	1,515	-
	2,085,838	**2,078,718**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

26. Government grants and subsidies

Operating grants		
Equitable share	94,296,000	84,732,000
Extended Public Works Programme Intergrated Grant	1,826,000	2,027,722
Local Government Management Grant	3,870,000	3,800,000
Municipal Demarcation Transition Grant	-	8,280,000
Development Planning and Shared Services	27,595	672,405
Migration of Records Grants	-	200,000
Construction, Education and Training SETA	171,908	60,092
Cogta Bylaws	3,000	23,000
Community Library Service Grant	2,626,000	1,974,000
	102,820,503	**101,769,219**
Capital grants		
Municipal Infrastructure Grant	20,269,240	21,664,000
	123,089,743	**123,433,219**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	35,056,199	38,712,340
Unconditional grants received	94,296,000	84,732,000
	129,352,199	**123,444,340**

Equitable Share

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

Disaster Management Grant

Balance unspent at beginning of year	1,267,785	1,267,785

Conditions still to be met - remain liabilities (see note 12).

The balance in this grant is as a result of amount received during 2004/2005 Financial Year for the disaster that happen in the Municipal area. The Department of Human Settlement is currently busy with new business plan for the grant to amend the memorandum of agreement (MOA) in order for the municipality to utilize this grant, therefore no movement during the year.

Intergrated National Electrification Program Grant

Balance unspent at beginning of year	396,506	19,490
Current-year receipts	-	14,000,000
Reclassification from Revenue	(396,506)	(13,603,984)
Unspent portion withheld	-	(19,000)
	-	**396,506**

Conditions still to be met - remain liabilities (see note 12).

Work/Study grant

Balance unspent at beginning of year	27,595	700,000
Conditions met - transferred to revenue	(27,595)	(672,405)
	-	**27,595**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

26. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 12).

Municipal By laws Grant

Balance unspent at beginning of year	3,000	26,000
Conditions met - transferred to revenue	(3,000)	(23,000)
	-	**3,000**

Conditions still to be met - remain liabilities (see note 12).

Municipal Infrastructure Grant

Current-year receipts	21,000,000	21,664,063
Conditions met - transferred to revenue	(20,269,240)	(21,664,063)
	730,760	**-**

Conditions still to be met - remain liabilities (see note 12).

Hlabisa Sewage Grant

Current-year receipts	-	1,798,319
Conditions met - transferred to revenue	-	(1,798,319)
	-	**-**

LG SETA

Balance unspent at beginning of year	-	25,475
Current-year receipts	-	34,617
Conditions met - transferred to revenue	-	(60,092)
	-	**-**

Financial Management Grant

Current-year receipts	3,870,000	3,800,000
Conditions met - transferred to revenue	(3,870,000)	(3,800,000)
	-	**-**

Municipal Demarcation Transition Grant

Current-year receipts	-	8,280,000
Conditions met - transferred to revenue	-	(8,280,000)
	-	**-**

Migration of Records Grant

Current-year receipts	-	200,000
Conditions met - transferred to revenue	-	(200,000)
	-	**-**

Extended Public Works Grant

Balance unspent at beginning of year	-	135,720

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

26. Government grants and subsidies (continued)

Current-year receipts	1,826,000	1,892,000
Conditions met - transferred to revenue	(1,826,000)	(2,027,720)
	-	-

Corridor development Grant

Current-year receipts	-	652,752
Conditions met - transferred to revenue	-	(652,752)
	-	-

Community Library Grant

Current-year receipts	2,626,000	1,974,001
Conditions met - transferred to revenue	(2,626,000)	(1,974,001)
	-	-

Schemes program Grant

Current-year receipts	750,000	-

Conditions still to be met - remain liabilities (see note 12).

Massification Electrification Grant

Current-year receipts	5,800,000	-
Reclassification out of revenue	(5,541,885)	-
	258,115	-

Conditions still to be met - remain liabilities (see note 12).

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

27. Employee related costs

Basic	50,788,919	46,977,191
Bonus	4,583,059	4,321,275
Medical aid - company contributions	3,680,690	3,138,644
UIF	394,609	372,478
Bargain Council	22,693	20,444
Leave pay provision charge	480,682	627,155
Defined contribution plans	7,423,039	6,625,525
Overtime payments	87,109	415,416
Car allowance	5,379,690	5,052,249
Housing benefits and allowances	461,056	417,215
Cell Phones Allowances	101,129	271,422
Other Allowances	371,492	226,371
	73,774,167	**68,465,385**

Remuneration of municipal manager

Annual Remuneration	588,839	621,454
Car Allowance	-	263,302
Back pay and other allowances	104,567	-
Contributions to UIF, Medical and Pension Funds	1,785	11,850
Cellphone Allowance	18,783	25,613
Housing Allowance	122,088	138,942
Travel Claim	243,236	76,629
	1,079,298	**1,137,790**

Remuneration of chief finance officer

Annual Remuneration	486,110	38,774
Car Allowance	-	16,064
Acting Allowance	-	79,323
Contributions to UIF, Medical and Pension Funds	1,785	759
Housing Allowance	86,307	7,192
Cellphone Allowance	26,712	2,226
Back Pay and Other allowances	64,206	-
Travel allowances	202,984	-
	868,104	**144,338**

Remuneration of Director Corporate Service

Annual Remuneration	631,869	573,209
Car Allowance	-	69,541
Back pay and other allowances	71,155	-
Contributions to UIF, Medical and Pension Funds	184,465	211,403
Cellphone Allowance	15,223	14,974
Housing Allowance	95,146	93,590
Travel Claim	87,534	78,655
	1,085,392	**1,041,372**

Remuneration of Director Community Services

Annual Remuneration	486,110	461,077
Car Allowance	-	194,416
Back pay and other allowances	111,269	-
Contributions to UIF, Medical and Pension Funds	1,785	9,157

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

27. Employee related costs (continued)

Travel Claim	199,710	63,858
Housing Allowances	86,307	84,432
Cellphone Allowance	26,712	26,274
	911,893	**839,214**

Remuneration of Director Planning and Infrastructure

Annual Remuneration	238,780	158,983
Car Allowance	-	45,026
Skills levy	2,430	-
Contributions to UIF, Medical and Pension Funds	446	2,979
Housing Allowance	-	22,216
Cellphone Allowance	-	6,346
Other allowances	11,020	-
	252,676	**235,550**

28. Remuneration of councilors

Mayor	1,033,946	797,411
Deputy Mayor	541,217	376,641
Mayoral Committee Members	1,011,369	1,067,030
Speaker	296,126	376,971
Councillors	4,193,082	4,850,045
MPAC	344,649	448,951
	7,420,389	**7,917,049**

There is a decrease in Councillors remuneration in 2018/2019 financial years due to the recovery of salary over payment made in prior year. The MEC for local government has approved 95% of Grade 2 of the upper limits for Big 5 Hlabisa Municipality councillors however 100% was implemented. The 5% was recovered in the current financial year hence the decrease.

In-kind benefits

The Deputy Mayor and Mayoral Committee Members are part-time employees. The Mayor is a full -time employee. The Mayor, Deputy Mayor and Speaker have offices and secretarial support at the cost of the council.

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

The Mayor has six full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards. Cllr SZ Mthembu, Cllr FZ Nkwanyana and Cllr GR Mchunu are watched from the municipality security company.

The gazette **No.41335** of December 2017 relating to upper limits of salaries, allowances and benefits of the municipal council was used to pay the salaries and allowance for concillors in 2018/2019 financial years.

The previous mayor resigned on the 15th of May 2019 and the speake, CT Khumalo assumed the office of the mayor from the 1st of June 2019. Currently there is one vacant from mayoral committee and councillors.

29. Depreciation and amortisation

Property, plant and equipment	37,051,783	11,487,663
Investment property	10,019	23,937
Intangible assets	135,653	102,132
	37,197,455	**11,613,732**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

30. Impairment of assets

Impairments		
Property, plant and equipment	5,109,620	1,310,725

A conditional assessment was performed for all property plant and equipment items. Based on the assessment results, assets assessed to have a very poor conditions are impaired. Conditions considered during this assessment includes amongst others, the functionality of the assets as well as its physical status. Some infrastructure and community assets as well as office buildings have been impaired during the year.

31. Finance costs

Other interest expenses	1,127,121	1,034,744

Other interest expenses relate to finance costs charged on provision for landfill site and provision for long service award.

32. Debt impairment

Debt impairment	5,080,076	2,137,117
Bad debts written off	3,674,107	5,799,573
	8,754,183	**7,936,690**

33. Contracted services

Outsourced Services		
Business and Advisory	1,157,587	143,912
Catering Services	297,656	206,348
Cleaning Services	91,713	199,291
Hygiene Services	289,004	9,906
Internal Auditors	2,096,400	2,898,392
Professional Staff	908,459	708,899
Consultants and Professional Services		
Business and Advisory	3,261,711	1,718,927
Infrastructure and Planning	4,480	257,400
Legal Cost	171,315	410,805
Contractors		
Artists and Performers	430,085	278,510
Catering Services	13,476	248,781
Event Promoters	2,197,961	1,363,598
Gardening Services	353,376	7,814
Interior Decorator	-	168,948
Maintenance of Buildings and Facilities	1,518,063	985,265
Maintenance of Equipment	2,243,202	2,057,432
Safeguard and Security	7,751,531	6,746,099
Stage and Sound Crew	-	172,436
Removal of Hazardous Waste	-	398,668
	22,786,019	**18,981,431**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

34. General expenses

Advertising	1,351,518	1,672,870
Auditors remuneration	1,979,590	1,581,943
Bank charges	93,755	407,114
Municipal Services	552,254	506,117
Skills Development levy Expenses	847,311	713,753
Hire	48,789	-
Insurance	981,253	686,960
IT expenses	1,334,263	1,405,405
Fuel and oil	1,863,434	1,612,989
Printing and stationery	699,427	495,763
Protective clothing	62,233	209,974
Security (Guarding of municipal property)	36,000	36,000
Bursaries - Employees	500	35,515
Subscriptions and membership fees	10,500	782,927
Telephone and fax	3,216,071	2,351,990
Transport and freight	181,195	253,100
Training	-	511,873
Travel - local	3,015,248	2,246,739
Title deed search fees	-	43,149
Bursary non-employees	450,516	1,126,062
General expenses	-	203,270
Learnership and Internship	2,209,190	378,543
Community Development and Training	1	194,820
Driver's Licenses and Permits	33,917	37,514
Donation expenses	42,412	-
Remuneration of ward committees	2,281,704	1,068,336
	21,291,081	**18,562,726**

Advertisement expenses were overstated in prior year due to mis-allocation of accounting fees which were classified as advertisement costs instead of being classified as professional staff costs under contracted services. This has been corrected and prior year figures restated accordingly.

Figures in Rand	2019	2018

35. Cash generated from operations

(Deficit) surplus	(21,698,975)	11,046,331
Adjustments for:		
Depreciation and amortisation	37,197,455	11,613,732
Gain on sale of assets and liabilities	720,676	1,182,207
(Loss) gain on non-current assets held for sale	(2,445,171)	22,069
Donations received	-	(11,121)
Cash received from assets sold under auction	(564,499)	-
Insurance Refunds presented separatly on cashflow statement	(4,540,809)	(1,044,085)
Finance costs	1,127,121	1,034,744
Impairment loss	5,109,620	1,310,725
Bad debts	8,754,183	7,936,690
Movements in operating lease assets and accruals	(17,006)	-
Movements in provisions	296,424	296,424
Actuarial gain or loss	75,246	149,842
Other non-cash items	(279,379)	(331,589)
Changes in working capital:		
Inventories	(943,166)	(1,918,145)
Receivables from exchange transactions	(1,563,918)	(991,679)
Receivables from non-exchange transactions	(1,036,708)	(4,530,498)
Prepayments	2,250,000	(1,250,000)
Payables from exchange transactions	(1,301,440)	(1,789,856)
VAT	1,523,196	5,943,551
Unspent conditional grants and receipts	1,311,774	(679,586)
Consumer deposits	1,250	(9,463)
Current Portion of Long services award	1,000	19,023
Operating Lease smoothing	(17,006)	-
	23,959,868	**27,999,316**

36. Commitments

Authorised capital expenditure

Approved , Contracted and authorised by accounting officer:		
• Property, plant and equipment	2,822,635	9,819,275
Budget approved but not yet contracted for:		
• Property, plant and equipment	17,500,000	-

Total capital commitments		
Already contracted for but not provided	2,822,635	9,819,275
Budget approved but not yet contracted for:	17,500,000	-
	20,322,635	**9,819,275**

1. Commitment are calculated using approved value-(including VAT) of the project which includes costs for consultants, and contracted supplier/construction company/vendor

2. Commitments for capital projects/MIG are removed from the commitment schedule when the completion certificate is prepared and the municipality is satisfied with the work done.

3. Commitments balance at the end of the financial period excludes retention payments/value, as retention is a creditor and forms part of the accounting records already.

37. Contingencies

1. BIG2/0001- Republic Watch (Pty) Ltd:

When two municipality merged, The Republic Watch Pity Ltd was appoint by BIG 5 before merger using section 36 of MFMA but the appointment process was not properly followed. The municipality contested this since there was no valid contract or any supporting documentation. Municipality stopped paying the supplier therefore they took the matter to court. The matter will be set down for argument in the High Court Pietermaritzburg and we estimate your exposure to be in the region of R1.8 million.

The case have not been progressing since last year and attorneys have logged an application to overturn the judgement granted against the municipality. Big5 Hlabisa was ordered to pay **R 1,056,220.83** together with interest as from 10th day of January 2017and further to comply with service level agreement. The Municipality was also requested to allow the applicant to render services as per signed service level agreement and pay for the services up to 31st of October 2019.

Legal costs already paid amount to R114,000 and additional R120 000 is anticipated by the attorneys depending on the progress of the matter.

2. BIG2/0002 - Vezwe Investment CC:

The municipality was sued for payments made on work performed by Bonakude Consulting (Pty) Ltd which claim was ceded to Vezwe Investment CC. Application for summary judgement was made and opposed, plaintiff attorneys suggested payment of 50% of the claimed amount which the municipality rejected.

Should the matter proceed to trial, anticipated costs are close to R20 000.

BIG FIVE HLABISA MUNICIPALITY// TENDELE COAL MINE Pity LTD APPLICATION BY GLOBAL TRUST & OTHERS

The mine land was within the jurisdiction of BIG 5 Hlabisa, however this have changed after merger and the mine is now within the jurisdiction of Mtubatuba municipality hence there is dispute between the municipality and the mining company.
The matter has been set down for adjudication on the 24th day of August 2018 in the High Court Pietermaritzburg. You have recently provided us with an application for an interested party to join the proceedings. It is estimated that contingent liability / exposure, will be confined to legal costs in the approximate sum of R115 000 , obviously subject to the course that the litigation follows.

R30 000 in legal costs has been paid to date.

SAMWU OBO MP PHAKATHI / LABOUR COURT MATTER
When the two municipality merged, there was a placement policy affecting the staff members. Mr Phakati wanted to be placed in a position of a deputy CFO, however he was placed as manager income. This lead to disagreements and the case was taken to court for judication. Mr Phakathi has instituted proceedings for the setting aside of an arbitration award, which matter is being dealt with in the labour court. Should the matter proceed to finalization, we suggest a contingency of R125 000.00 in respect of legal costs.

A deposit of **R 40 000** was paid on this matter.

BIG2/0007- Spar Rental Claim:

The matter has been stagnant. No further action of legal proceedings have been filed on this matter. Additional information is required for attorneys to continue with legal proceedings. Financial loss is expected to be R65 000 if the matter proceed to judgement

BIG2/008-Nhlahla:

There was a case between the municipality and the plaintiff were the plaintiff intended to sale municipal property. The judgment was overturned and the attorneys are working of the case to be dismissed. The amount in dispute is R 25 000 of which interest and costs would be added.The e claim was in respect of an alleged motor vehicle collision which the municipal employee is denying as never happened. It was alleged that a desk fall out of the municipal vehicle and hit the plaintiff vehicle. The matter was taken to small Claims court and resolved. payment was made.

Deposit of **R25 000** has been paid to cover the costs associated with this case.

Figures in Rand	2019	2018

37. Contingencies (continued)

WAMKELWA TRADING ENTERPRISE CC

This supplier was appointed to do the back up system and maintenance of preconditions. The documentation was not signed by the supplier within stipulated time. Hence the supplier claimed that the municipality owes them. This have been taken to court. It is estimated that the contingent liability to be in the region of R600 000.00 and the matter has yet to be set down for hearing in the High Court, Pietermaritzburg.

Additional legal costs have been anticipated to be **R120 000** and the total claim on this case including costs and interest is estimated to be **R1 652 613.39.**

Gumbi Zodwa and Others:

This is a Labour matter, in terms whereof you have instructed us to file notices of opposition, in respect of an application brought by SAMWU to convert an arbitration award, to enable SAMWU to attach municipal property is a Labour matter, in terms whereof you have instructed us to file notices of opposition, in respect of an application brought by SAMWU to convert an arbitration award, to enable SAMWU to attach municipal property. The matter was filled with CCMA and opposing papers were presented.

Xolani Eric Bukhosini:

The case relates to allegations for stealing diesel on the 24th January 2019 of which Mr Xolani is defending the case. The matter is at regional court and expected financial exposure is R200 000 if the matters succeed.

38. Related parties

Relationships
Refer to note 26 for management remunerations
Refer to note 27 for remuneration of councillors

39. 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:

Statement of financial position

39. Prior-year adjustments (continued)

2018

	Note	As previously reported	Correction of error	Re-classification	Re-classification	Restated
Current Assets:		-	-	-	-	-
Receivables from exchange transactions		7,727,669	(356,051)	6,198	(1,858,512)	5,519,304
Prepayments		3,000,000	(750,000)	-	-	2,250,000
Cash and Cash Equivalents		3,053,280	(1,661)	(6,198)	-	3,045,421
Receivables from non-exchange transactions		16,780,488	(162,145)	-	1,858,512	18,476,855
Non Current Assets:		-	-	-	-	-
Property Plant and Equipment		271,870,078	4,779,616	-	-	276,649,694
Current Liabilities:		-	-	-	-	-
Payables from exchange transactions		(35,316,958)	(169,463)	-	-	(35,486,421)
VAT Payable		(686,840)	1,623,635	-	-	936,795
Current Portion of Provision for landfil site		(245,614)	-	-	245,614	-
Non-Current Liabilities:		-	-	-	-	-
Provisions		(10,059,313)	-	-	(245,614)	(10,304,927)
Equity:		-	-	-	-	-
Retained Surplus		(257,983,560)	(4,962,227)	-	-	(262,945,787)
		(1,860,770)	**1,704**	**-**	**-**	**(1,859,066)**

Statement of financial performance

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Sale of Goods		869,266	294,374	(1,044,085)	119,555
Recoveries		-	-	1,044,085	1,044,085
Property rates		16,772,761	-	5,108	16,777,869
Donations received		16,229	-	(5,108)	11,121
Employee related costs		(67,837,102)	(163,446)	(489,201)	(68,489,749)
Remuneration of Councillors		(7,991,073)	-	74,024	(7,917,049)
General expenditure		(19,335,738)	(75,515)	848,527	(18,562,726)
Contracted Services		(17,845,682)	(294,374)	(841,371)	(18,981,427)
Transfers and Subsidies		(2,486,739)	-	408,021	(2,078,718)
Depreciation and amortisation		(9,043,231)	(2,570,501)	-	(11,613,732)
Debt Impairment		(7,195,694)	(740,996)	-	(7,936,690)
Loss on disposal of assets		-	(1,182,207)	-	(1,182,207)
Impairment loss		-	(1,310,725)	-	(1,310,725)
Surplus for the year		**(114,077,003)**	**(6,043,390)**	**-**	**(120,120,393)**

Property Plant and Equipment

Community halls owned by the municipality were verified during the year, however it was noted that they had never been accounted for in the fixed asset register of the municipality. Total cost of **R4,500,782** of these assets was recorded against accumulated surplus. Prior year depreciation was also restaed by an amount equal to **R 2 570 501**.

Further the traffic building was burnt down in in September 2017 during strike by community. This was not impaired in previous years, an impairment loss was calculated and prior period amount was adjusted accordingly.

Two community halls were burnt down as well in previous year and no impairment provided in previous year. These two halls were impaired to **nil** value. Total Impairment loss is **R 1,310,725**

39. Prior-year adjustments (continued)

According to GRAP 3, paragraph 39, a change in an accounting estimate that gives rise to changes in assets and liabilities, or relates to an item of net assets, it shall be recognised by adjusting the carrying amount of the related asset, liability or item of net assets in the period of the change. During the year under review, it was discovered that changes in present value of provision for landfill site was expensed in prior years. Prior year amounts have been restated to correct the error. An amount of **R 3,019,920** relating to periods prior to 2017-18 financial year have been processed against retained surplus.

Some computer plant and equipment were identified during physical verification, however they had never been recorded in the municipality fixed asset register. These assets were recorded in prior year at depreciated replacement costs and depreciated accordingly.

Payables from exchange transaction

During the year, it was noted that SARs set-off the amount payable by the municipality against the refund owed to the municipality. The municipality has been using different account to account for all the SARs assessments as well as payments made therefore other accounts were having the same amount for years. This has been rectified and all the accounts relating to PAYE payable have been merged so that only one account will be affected each time PAYE account is paid or adjusted.

The municipality acquired office equipment to be used in traffic department, the invoice date relate to last year, however an error was made and the invoice was accounted for in current year. This has been adjusted and the supplier's account was adjusted in prior year. The total invoice amount is **R 313,669.4**0 VAT inclusive. Further leave pay accruals has been adjusted by **R 163 446** due to incorrect number of days used to calculate provision for leave pay in prior year.

Income statement

Debt Impairment were resulted to write-off the receivable from SARs based on the VAT statement obtained.

Contracted Services: Repairs and maintenance were disclosed as general expenses in prior year, this has been reclassified to contracted services. Further an error occurred last year where security expenses were processed as revenue from sale of goods. Prior year amounts have been restated to correct the errors.

Property rates: An amount of **R 5,108** relating to property rates was incorrectly presented as donations income in prior year. This has been corrected and prior year amounts restated accordingly.

Insurance refunds were disclosed as revenue from sale of goods in prior year. This has been reclassified to other income under recoveries income and prior year figures have been adjusted accordingly.

General expenditure: A detailed review of current and prior year trial balance was performed, it was noted that several general expenditure items were incorrectly disclosed under general expenditure and contracted services. Several account numbers has been classified to their correct categories as per mSCOA chart of accounts.

Employee Related Costs

Travel allowance and standby allowances were incorrectly disclosed in remuneration of councilors. This has been re-classified and prior year figures restated accordingly.

During the year ending 30 June 2018, calculation of leave pay accruals was based on 252 working days in a year, whereas the collective agreement stipulates total number of working days to be 250 in a year. Leave pay accrual calculation was performed for comparative year using the number of days stipulated in the collective agreement. This result to a prior period error of **R163 446** and comparative year has been adjusted accordingly.

Figures in Rand	2019	2018

39. Prior-year adjustments (continued)

Irregular expenditure

Opening balance	-	230,326,201
Adjustments made to oppening balance	-	(59,108,185)
Less irregular incorrectly disclosed in prior year	-	(3,000,000)
Restated opening balance	**-**	**168,218,016**

The opening balance of irregular expenditure disclosed in prior year was not agreeing to the closing balance as disclosed on 30 June 2017. An amount of R 217,571,690 was disclosed as opening balance instead of R 158,463,505. This error has been corrected and prior year disclosure note revised as presented above. Further an amount of R3 000 000 was incorrectly disclosed as irregular in prior year, the expenditure was incurred in current year therefore adjustment has been made to disclose it in the correct period.

Receivables from exchange and non-exchange transactions

Debtors with credit balance as well as creditors with debit balances were disclosed as receivables from exchange transaction in prior year. The total amount of R1,858,512 has been re-classified to receivables from non-exchange transactions. In addition sundry debtors amount to R 356,051 has been investigated and cleared against the receivables from exchange transaction.

Pre-payments balance presented in prior year annual financial statements was overstated by R750,000 relating to additional invoice that was paid in July 2018 by recorded in may 2018 by mistake. The invoice has been reversed and prior year balances restated accordingly to correct such misstatement.

Deposits received from customers was incorrectly presented as cash and cash equivalents in prior year. This has been adjusted and the total amount taken to receivables from exchange transactions.

Cash and Cash Equivalents

In 2018, the cash book balance relating to ABSA account(4053709558) was incorrectly disclosed as R3,263,124 instead of R3,255,171 resulting to an error of R 7,953. This has been corrected and prior year disclosure adjusted accordingly. On 30 June 2017, there was a journal equal to R1,661,12 that was incorrectly processed against cash and cash equivalents to correct take on balances. Further deposits from customers was presented as cash and cash equivalents, this has been corrected and prior year figures restated accordingly.

VAT Payable

The municipality performed a detailed VAT analysis and investigations of issues presented in prior year management report. It was noted that prior year VAT payable balance was misstated due to VAT input on retention and SARs assessments adjusting journals which were incorrectly accounted for. Further it was noted that VAT on retention was processed as VAT output instead of input. A detailed reconciliation statement was performed and a total of **R 1 623 635** was corrected to account for these errors.

Provisions

Prior year annual financial statements includes current portion of landfill site liability. Current portion of landfill site liability does not meet the definition of current liability as defined in the conceptual framework. This has been adjusted and prior year amount restated accordingly. The total adjustment amounts to **R245 614**

40. Comparative figures

Certain comparative figures have been reclassified and restated..

41. Risk management

Financial risk management

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

41. Risk management (continued)

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.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

At June 30, 2019	Less than 1 year
Finance Lease Obligations	57,440
Trade and other payables	34,184,981
Unspent conditional grant	3,006,660
VAT payable	586,401

At June 30, 2018	Less than 1 year
Finance Lease Obligations	102,869
Operating Lease Accruals	17,006
Trade and other payables	35,486,421
Unspent Conditional Grant	1,694,886
VAT Payable	(936,795)

Credit risk

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

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

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

Financial instrument	2019	2018
Bank	5,510,990	3,499,857
Unspent Conditional Grant	(3,006,660)	(1,694,886)
Bank overdraft	(291)	(454,135)
Receivables from exchange transactions	7,035,141	5,519,304
Receivables from non-exchange transactions	19,591,960	18,476,855
Finance lease Obligations	(139,486)	(102,869)
Trade Payables	(34,184,981)	(35,486,421)
VAT Receivable	(586,401)	936,795
Prepayments	-	2,250,000

Market risk

Interest rate risk

The municipality’s interest rate risk arises from long service award obligation and provision for landfill site.

42. Going concern

We draw attention to the fact that at June 30, 2019, the municipality had an accumulated surplus (deficit) of R 241,273,172 and that the municipality's total assets exceed its liabilities by R 241,273,172.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

42. Going concern (continued)

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the municipality will continue to get support through government grants as well as funds received from services rendered to the community. The municipality has implemented policies to increase their cashflows through collections from debtor and to reduce bad debts.

43. Events after the reporting date

Some of the municipal property and assets were affected by a community strike that took place in August 2019. Some assets of the municipality were destroyed during this time, however no adjustment were made to the financial statements since there was no condition as at year end relating to this event therefore its a non adjusting event.

44. Unauthorised expenditure

Opening balance as previously reported	69,656,718	59,988,836
Over Expenditure	51,593,213	9,667,882
Opening balance as restated	**121,249,931**	**69,656,718**
Closing balance	**121,249,931**	**69,656,718**

Unauthorised expenditure increased drastically due to over-expenditure in current year compared to budgeted amount. Unauthorised expenditure disclosed above is inclusive of non-cash items, non cash items are **R 36 551 823** in total broken down as follows:

(i) Depreciation and Impairment	R 29 097 455
(ii) Bad debts Provision	R 1 624 072
(iii) Loss on disposal	R 720 676
(iv) Impairment Loss	R 5 109 620

45. Fruitless and wasteful expenditure

Opening balance as previously reported	2,908,480	2,111,974
Interest on late payments of 3rd parties accounts	383,510	796,506
Opening balance as restated	**3,291,990**	**2,908,480**
Closing balance	**3,291,990**	**2,908,480**

Fruitless and wasteful expenses arises from late payment of third parties accounts.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

46. Irregular expenditure

Opening balance as previously reported	168,218,015	217,571,690
No Supplier Chain Management Process followed	-	9,535,130
Irregular expenditure due to one quotation obtained	32,340	309,724
Irregular expenditure due to absent of Advert	-	91,166
Irregular expenditure - No relevant documents available	619,340	2,800
Irregular expenditure - incorrect calculations of PPPFA	-	772,973
Irregular Expenditure - CIDB required lower than required	1,371,371	2,042,717
Irregular expenditure - Bidder did not score position 1	578,048	-
Irregular expenditure - Regulation 32 not followed	6,855,242	-
Irregular expenditure - No Purchase Order, invoice and appointment letter	155,707	-
Irregular Expenditure- No Tax clearance certificate	515,200	-
Opening Blance adjustment	-	(59,108,185)
Opening balance as restated	**178,345,263**	**171,218,015**
Less: Prior year adjustment for items incorrectly disclosed as irregular expenditure	3,000,000	(3,000,000)
Closing balance	**181,345,263**	**168,218,015**

47. Additional disclosure in terms of Municipal Finance Management Act

SALGA fees

Opening balance	850,000	850,000

No Payment have been made to SALGA in current year.

Skills Development Levy

Current year subscription / fee	798,713	713,753
Amount paid - current year	(661,646)	(667,073)
	137,067	**46,680**

Audit fees

Opening balance	-	48,178
Current year subscription / fee	1,979,590	1,606,991
Amount paid - current year	(1,979,590)	(1,238,654)
	-	**416,515**

PAYE and UIF

Current year subscription / fee	10,882,435	-
Amount paid - current year	(10,894,688)	-
	(12,253)	**-**

Pension and Medical Aid Deductions

Opening balance	-	2,751,551
Current year subscription / fee	10,948,329	15,581,497
Amount paid - current year	(8,432,287)	(16,632,622)
	2,516,042	**1,700,426**

48. Deviation from supply chain management regulations

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

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

Additional costs were incurred during the financial year under review and process followed in incurring those costs deviated from the precision of par 12(1) (d)(i) as stated above. The reason for these deviations were documented.

Deviations are disclosed as follows:	**2019**	**2018**
Current Year Deviation	2,228,444	2,484,459
Approved by council	(2,228,444)	(2,484,459)
	-	-

49. Budget differences

Material differences between budget and actual amounts

Employee related costs was more than the budgeted amount by 2%. This was mainly due to basic annual increase as well as encashment of bonus and leave pay for employees who resigned during the year.

Depreciation and amortisation increased drastically due to revised useful life of assets during the year under review.

Operating leases show and unfavourable balance, however this has been noted that this costs was budgeted for under general expenses although it is presented separately.

Contracted services were in excess of the budgeted amount by 116%. This is mainly due to volume of events and activities incurred in current year.

General expenses , transfer and subsidies are favourable and this was due to over budget in this category.

Debt Impairment presented in current year is more than what was budgeted for due to the fact that council took a resolution to write off interest on debtors which was not budged for.

Impairment Loss was under budgeted for hence we have unfavourable balance.

Interest received from trading is favourable due to the fact that debtors are taking longer than anticipated to settle their accounts and interest is compounded annually.

Property rates are unfavourable, the collection rate decreased in current year as a result of customers failing to settle their accounts on time.

Grants are less than budgeted amount, this was due to aggressive budgeting.