Big 5 Hlabisa Local Municipality
(Registration number KZN276)
Annual Financial Statements
for the year ended 30 June 2020
Auditor Genaral South Africa

General Information

Legal form of entity	Big 5 Hlabisa Local Municipality
Nature of business and principal activities	Service Delivery
The following is included in the scope of operation	Rates and waste management and general services Local government activities Planning and promotion of the integrated development plan Land, economic and environmental development The mandate of the municipality is in terms of section 152 of the Constitution of South Africa
Mayor	CT Khumalo
Deputy Mayor	H T Nkosi
Speaker	GR Mchunu
EXCO Members	Cllr FZ Nkwanyana Cllr ONN Ndwandwe Cllr TN Ngema
Ordinary Councillors:	Cllr SZ Mthembu Cllr BN Ngwane 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 MLL Ntshangase Cllr TS Mahlaba Cllr DM Mngomezulu Cllr HS Ndlovu Cllr PS Mantengu Cllr SS Zondo
Grading of local authority	Medium Capacity Municipality Grade 3
Chief Finance Officer (CFO)	Mr. JM Nkosi
Accounting Officer	Dr VJ Mthembu
Registered office	Municipal Buildings Hlabisa Lot 808 Off Masson Street Hlabisa 3937

General Information

Postal address	P O Box 387 Hlabisa 3937
Bankers	First National Bank ABSA Bank
Auditors	Auditor Genaral South Africa
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
AGSA	Auditor General of South Africa
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 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

The accounting officer would like to confirm that salaries, allowances and benefits of Councilors, loans made to Councilors, if any, and payments made to councilors for loss of office as disclosed in the Annual Financial Statements below are within the upper limits of the framework envisaged in section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

Accounting Officer
DR VJ Mthembu

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Land held for sale	3	736 800	748 920
Operating lease asset	4	18 692	39 254
Receivables from exchange transactions	5	5 418 259	10 209 848
Receivables from non-exchange transactions	6	16 124 111	19 524 784
Cash and cash equivalents	7	15 580 460	5 510 990
		37 878 322	**36 033 796**
Non-Current Assets			
Investment property	8	1 768 815	1 939 609
Property, plant and equipment	9	247 417 370	248 197 026
Intangible assets	11	1 210 306	1 120 325
Receivables from non-exchange transactions	6	235 506	265 823
		250 631 997	**251 522 783**
Total Assets		**288 510 319**	**287 556 579**
Liabilities			
Current Liabilities			
Finance lease obligation	12	79 678	157 950
Payables from exchange transactions	14	31 725 953	38 961 372
VAT payable	16	1 029 154	635 100
Consumer deposits	17	9 189	10 542
Employee benefit obligation	10	121 357	51 235
Unspent conditional grants and receipts	15	3 572 086	2 937 343
		36 537 417	**42 753 542**
Non-Current Liabilities			
Finance lease obligation	12	43 750	81 321
Employee benefit obligation	10	2 724 186	2 431 282
Provisions	13	10 398 232	10 057 124
		13 166 168	**12 569 727**
Total Liabilities		**49 703 585**	**55 323 269**
Net Assets		**238 806 734**	**232 233 310**
Accumulated surplus		238 806 734	232 233 310

* See Note 45

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods		81 203	113 740
Service charges	19	2 061 654	2 077 273
Rendering of services		28 464	31 129
Rental of facilities and equipment	20	252 554	264 562
Interest on receivables accounts	38	-	5 965 024
VAT recoveries	22	-	930 228
Licences and permits	23	1 842 320	2 334 099
Other income	26	376 657	3 707 795
Interest received - investment	27	1 592 393	1 239 337
Total revenue from exchange transactions		**6 235 245**	**16 663 187**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	28	18 737 553	16 454 416
Transfer revenue			
Government grants & subsidies	30	178 783 584	146 380 391
Fines, penalties and forfeits	21	491 531	1 035 750
Donations Received		1 438 498	1 171 775
Total revenue from non-exchange transactions		**199 451 166**	**165 042 332**
Total revenue	18	**205 686 411**	**181 705 519**
Expenditure			
Employee related costs	31	(77 686 453)	(73 413 606)
Remuneration of councillors	32	(8 615 791)	(7 420 389)
Depreciation and amortisation	33	(19 126 090)	(21 867 192)
Finance costs	36	(567 005)	(468 160)
Lease rentals on operating lease	24	(1 196 244)	(1 081 440)
Bad debts expenses	37	(4 451 812)	(3 942 032)
Accounts receivables written-off	38	(4 345 253)	(4 812 151)
Contracted services	39	(55 446 735)	(46 120 155)
Transfers and subsidies	29	(2 578 536)	(2 085 838)
General expenses	40	(22 315 184)	(22 620 720)
Total expenditure		**(196 329 103)**	**(183 831 683)**
Operating surplus (deficit)		**9 357 308**	**(2 126 164)**
Loss on disposal of assets and liabilities		-	(720 847)
Scrapping allowance	9	(417 146)	(179 206)
Actuarial gains/losses	10	180 516	(75 246)
Impairment loss	35	(2 913 664)	(5 100 876)
Land held for sale write-down to net realisable value		(7 016)	-
Gain on non-current assets held for sale		143 314	4 035 033
		(3 013 996)	**(2 041 142)**
Surplus (deficit) for the year		**6 343 312**	**(4 167 306)**

* See Note 45

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	262 972 147	262 972 147
Adjustments		
Prior year adjustments_refer to note 45	(26 571 531)	(26 571 531)
Balance at 01 July 2018 as restated*	**236 400 616**	**236 400 616**
Surplus for the year	(4 167 306)	(4 167 306)
Total changes	(4 167 306)	(4 167 306)
Restated opening balance	232 233 310	232 233 310
Adjustments		
Prior year adjustments	230 112	230 112
Balance at 01 July 2019 as restated*	**232 463 422**	**232 463 422**
Surplus for the year	6 343 312	6 343 312
Total changes	6 343 312	6 343 312
Balance at 30 June 2020	**238 806 734**	**238 806 734**

Note(s)

* See Note 45

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Property rates and refuse removal		17 944 678	14 328 874
Sale of goods and services		109 667	144 869
Grants		195 614 744	153 658 152
Interest income		1 592 393	1 239 337
Staff debtors receipts		30 317	30 317
VAT Received		5 244 886	6 477 745
Insurance refunds		376 657	3 707 795
Rental of equipment		252 554	264 562
Licence and permits		1 842 320	2 354 003
Other cash item		-	52 509
Fines		123 035	167 783
		223 131 251	182 425 946
Payments			
Employee costs		(85 939 217)	(80 372 878)
Suppliers		(89 996 302)	(71 771 687)
Finance costs		(567 005)	(468 160)
INEP Payments		(15 997 619)	(396 506)
Massification projects payments		-	(5 611 202)
		(192 500 143)	(158 620 433)
Net cash flows from operating activities	41	**30 631 108**	**23 805 513**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(20 318 495)	(21 950 901)
Proceeds from sale of property, plant and equipment	9	-	564 328
Purchase of other intangible assets	11	(127 300)	-
Net cash flows from investing activities		**(20 445 795)**	**(21 386 573)**
Cash flows from financing activities			
Movement in finance lease obligation		(115 843)	46 328
Net increase in cash and cash equivalents		**10 069 470**	**2 465 268**
Cash and cash equivalents at the beginning of the year		5 510 990	3 045 722
Cash and cash equivalents at the end of the year	7	**15 580 460**	**5 510 990**

* See Note 45

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	-	-	**-**	81 203	**81 203**	55
Service charges	2 354 000	-	**2 354 000**	2 061 654	**(292 346)**	55
Rendering of services	-	-	**-**	28 464	**28 464**	55
Rental of facilities and equipment	284 390	-	**284 390**	252 554	**(31 836)**	55
Interest received from debtors	3 870 000	-	**3 870 000**	-	**(3 870 000)**	55
Licences and permits	2 402 000	-	**2 402 000**	1 842 320	**(559 680)**	55
Recoveries	64 896	(64 896)	**-**	376 657	**376 657**	
Interest received - investment	900 000	300 000	**1 200 000**	1 592 393	**392 393**	55
Total revenue from exchange transactions	**9 875 286**	**235 104**	**10 110 390**	**6 235 245**	**(3 875 145)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	18 269 000	-	**18 269 000**	18 737 553	**468 553**	55
Transfer revenue						
Government grants & subsidies	138 018 000	4 115 000	**142 133 000**	178 783 584	**36 650 584**	55
Fines, penalties and forfeits	900 000	-	**900 000**	491 531	**(408 469)**	55
Other revenue	500 000	-	**500 000**	1 438 498	**938 498**	55
Total revenue from non-exchange transactions	**157 687 000**	**4 115 000**	**161 802 000**	**199 451 166**	**37 649 166**	
Total revenue	**167 562 286**	**4 350 104**	**171 912 390**	**205 686 411**	**33 774 021**	
Expenditure						
Employee related costs	(81 538 000)	-	**(81 538 000)**	(77 686 453)	**3 851 547**	55
Remuneration of councillors	(7 930 000)	-	**(7 930 000)**	(8 615 791)	**(685 791)**	55
Depreciation and amortisation	(7 014 000)	(18 486 000)	**(25 500 000)**	(19 126 090)	**6 373 910**	55
Impairment loss	-	-	**-**	(2 913 664)	**(2 913 664)**	55
Finance costs	(480 000)	-	**(480 000)**	(567 005)	**(87 005)**	55
Bad debts provision	(6 829 000)	(186 000)	**(7 015 000)**	(1 196 244)	**5 818 756**	55
Bad debts provision	-	-	**-**	(4 451 812)	**(4 451 812)**	867000055
Bad debts written off	-	-	**-**	(4 345 253)	**(4 345 253)**	55
Contracted services	(12 534 000)	(8 670 000)	**(21 204 000)**	(55 446 735)	**(34 242 735)**	55
Transfers and Subsidies	(1 300 000)	(300 000)	**(1 600 000)**	(2 578 536)	**(978 536)**	55
General expenses	(23 499 000)	599 000	**(22 900 000)**	(22 315 184)	**584 816**	55
Other materials	(5 500 000)	5 500 000	**-**	-	**-**	55
Total expenditure	**(146 624 000)**	**(21 543 000)**	**(168 167 000)**	**(199 242 767)**	**(31 075 767)**	
Operating surplus	**20 938 286**	**(17 192 896)**	**3 745 390**	**6 443 644**	**2 698 254**	
Scrapping allowance	-	-	**-**	(417 146)	**(417 146)**	55
Actuarial gains/losses	-	-	**-**	180 516	**180 516**	55
Inventories losses/write-downs	-	-	**-**	(7 016)	**(7 016)**	55
Gain on non-current assets held for sale	-	-	**-**	143 314	**143 314**	55

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
	-	**-**	**-**	**(100 332)**	**(100 332)**	
Deficit for the year	**20 938 286**	**(17 192 896)**	**3 745 390**	**6 343 312**	**2 597 922**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**20 938 286**	**(17 192 896)**	**3 745 390**	**6 343 312**	**2 597 922**	

Big 5 Hlabisa Local Municipality

(Registration number KZN276)
Annual Financial Statements for the year ended 30 June 2020

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						
Land held for sale	-	-	**-**	736 800	**736 800**	55
Inventory	3 000	-	**3 000**	-	**(3 000)**	55
Operating lease asset	-	-	**-**	18 692	**18 692**	55
Receivables from exchange transactions	-	-	**-**	5 517 921	**5 517 921**	55
Receivables from non-exchange transactions	31 337 000	-	**31 337 000**	16 124 111	**(15 212 889)**	55
Other debtors	434 000	-	**434 000**	-	**(434 000)**	55
Current portion of long term debtors	977 000	-	**977 000**	-	**(977 000)**	55
Cash and cash equivalents	7 930 000	(184 000)	**7 746 000**	15 580 460	**7 834 460**	55
	40 681 000	**(184 000)**	**40 497 000**	**37 977 984**	**(2 519 016)**	
Non-Current Assets						
Investment property	29 784 000	-	**29 784 000**	1 768 815	**(28 015 185)**	55
Property, plant and equipment	318 356 000	-	**318 356 000**	247 417 370	**(70 938 630)**	55
Intangible assets	757 120	-	**757 120**	1 210 306	**453 186**	55
Receivables from non-exchange transactions	-	-	**-**	235 506	**235 506**	55
	348 897 120	**-**	**348 897 120**	**250 631 997**	**(98 265 123)**	
Total Assets	**389 578 120**	**(184 000)**	**389 394 120**	**288 609 981**	**(100 784 139)**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	79 678	**79 678**	55
Payables from exchange transactions	11 695 905	-	**11 695 905**	31 725 953	**20 030 048**	55
VAT payable	-	-	**-**	1 029 154	**1 029 154**	55
Consumer deposits	-	-	**-**	9 189	**9 189**	55
Employee benefit obligation	-	-	**-**	121 357	**121 357**	55
Unspent conditional grants and receipts	-	-	**-**	3 572 086	**3 572 086**	55
	11 695 905	**-**	**11 695 905**	**36 537 417**	**24 841 512**	
Non-Current Liabilities						
Finance lease obligation	-	-	**-**	43 750	**43 750**	55
Employee benefit obligation	-	-	**-**	2 724 186	**2 724 186**	55
Provisions	5 758 500	-	**5 758 500**	10 398 232	**4 639 732**	55
	5 758 500	**-**	**5 758 500**	**13 166 168**	**7 407 668**	
Total Liabilities	**17 454 405**	**-**	**17 454 405**	**49 703 585**	**32 249 180**	
Net Assets	**372 123 715**	**(184 000)**	**371 939 715**	**238 906 396**	**(133 033 319)**	

Net Assets

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
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	372 123 715	(184 000)	**371 939 715**	238 906 396	**(133 033 319)**	55

Big 5 Hlabisa Local Municipality

(Registration number KZN276)
Annual Financial Statements for the year ended 30 June 2020

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
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property Rates	12 788 000	-	**12 788 000**	17 274 697	**4 486 697**	55
Sale of goods and services	1 648 000	-	**1 648 000**	1 648 000	**-**	55
Grants received	154 018 000	4 115 000	**158 133 000**	192 453 855	**34 320 855**	55
Interest income	900 000	300 000	**1 200 000**	1 592 393	**392 393**	55
Other receipts	3 456 000	302 000	**3 758 000**	10 120 972	**6 362 972**	55
	172 810 000	**4 717 000**	**177 527 000**	**223 089 917**	**45 562 917**	
Payments						
Employee costs	(129 623 000)	(9 255 000)	**(138 878 000)**	(84 579 310)	**54 298 690**	55
Suppliers	-	-	**-**	(49 856 865)	**(49 856 865)**	55
Finance costs	(480 000)	-	**(480 000)**	(597 005)	**(117 005)**	55
Transfers and Grants	(17 300 000)	(588 000)	**(17 888 000)**	(57 536 360)	**(39 648 360)**	55
	(147 403 000)	**(9 843 000)**	**(157 246 000)**	**(192 569 540)**	**(35 323 540)**	
Net cash flows from operating activities	**25 407 000**	**(5 126 000)**	**20 281 000**	**30 520 377**	**10 239 377**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(23 357 000)	(2 465 000)	**(25 822 000)**	(20 207 764)	**5 614 236**	55
Proceeds from sale of property, plant and equipment	3 300 000	-	**3 300 000**	-	**(3 300 000)**	55
Purchase of other intangible assets	-	-	**-**	(127 300)	**(127 300)**	55
Movement in non-current receivables	-	4 445 000	**4 445 000**	-	**(4 445 000)**	55
Net cash flows from investing activities	**(20 057 000)**	**1 980 000**	**(18 077 000)**	**(20 335 064)**	**(2 258 064)**	
Cash flows from financing activities						
Finance lease payments	-	-	**-**	(115 843)	**(115 843)**	55
Net increase/(decrease) in cash and cash equivalents	5 350 000	(3 146 000)	**2 204 000**	10 069 470	**7 865 470**	55
Cash and cash equivalents at the beginning of the year	2 579 000	2 931 000	**5 510 000**	5 510 990	**990**	55
Cash and cash equivalents at the end of the year	**7 929 000**	**(215 000)**	**7 714 000**	**15 580 460**	**7 866 460**	

The accounting policies on pages 14 to 40 and the notes on pages 41 to 88 form an integral part of the annual financial statements.

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.

The effects of covid 19 and difficulties experienced by customers to settle their accounts on time has been factored in when determining estimates used to calculate allowance for doubtful debts.

Impact of Covid-19

Municipal management considered uncertainty on service delivery which have been caused by the outbreak of covid 19 pandemic. Several sections of the financial statements such as traffic fines revenue, provision for bad debts calculations, licence and permits, leave pay provision, receivables collection rate, expenses and going concern have been affected by the effect of this pandemic. Management also understand that if the number of affected people increased drastically in the near future, then the nation will be taken back to lock down which will affect service delivery of the municipality.

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.

Accounting Policies

1.5 Property, plant and equipment (continued)

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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:		

Accounting Policies

1.5 Property, plant and equipment (continued)

• 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.

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 9).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

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.

Accounting Policies

1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:
(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 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.

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.

1.7 Intangible assets (continued)

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.

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.

Accounting Policies

1.8 Financial instruments (continued)

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.

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 cost
Receivables from exchange transaction	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 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.

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 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Accounting Policies

1.9 Statutory receivables (continued)

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated at a rate of 18% per annum..

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:
- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

1.9 Statutory receivables (continued)

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

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

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

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

1. Receivables from non-exchange transactions	Measured at cost
2. VAT Recivable/(Payable)	Measured at cost
3. Traffic fines	Measured at cost

1.10 Leases

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

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

Finance leases - lessor

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

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

Accounting Policies

1.10 Leases (continued)

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

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.

1.11 Land held for sale

Land held for sale are initially measured at cost except where land held for sale are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently land held for sale are measured at the lower of cost and net realisable value.

Land held for sale 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 land held for sale comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the land held for sale to their present location and condition.

When land held for sale are sold and transferred, the difference between cost and selling price of land held for sale is recorded as eirther gain or loss on disposal of non-current assets held for sale. If there is no related selling price, the loss on disposal of land held for sale are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of land held for sale to net realisable value or current replacement cost and all losses of land held for sale are recognised in the period the write-down or loss occurs. The amount of any reversal of any write-down of land held for sale, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of land held for sale recognised in the period in which the reversal occurs.

Accounting Policies

1.12 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.

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.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

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

1.12 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.

1.13 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.

Accounting Policies

1.13 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.

Accounting Policies

1.13 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.

Big Five Hlabisa offers long service awards for every 5 years of completed service from 10 years to 45 years, therefore employee obligation will be made up of long service award anticipated to be paid to qualifying employees.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity’s informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity’s informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

Accounting Policies

1.13 Employee benefits (continued)

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect 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 post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Accounting Policies

1.13 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit 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 benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.14 Provisions and contingencies

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

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

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

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

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

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.

1.14 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 43.

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.

1.15 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.

1.16 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.

Accounting Policies

1.16 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.

1.17 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.

1.17 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.

1.17 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.

1.18 Investment income

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

1.19 Borrowing costs

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

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

1.20 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

The assessment of whether 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.

1.20 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

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

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

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

1.21 Comparative figures

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

1.22 Unauthorised expenditure

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

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

1.23 Fruitless and wasteful expenditure

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

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

Accounting Policies

1.24 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.

1.25 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 2019/07/01 to 2020/06/30.

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

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

1.26 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.

1.27 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.

1.28 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

Figures in Rand	2020	2019

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality adopted the following new standard or interpretations that are effective for the current financial year and relevant to its operations:

• GRAP 20, Related Part Disclosure	01 April 2020	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	The impact of the is not material.
• GRAP 109: Accounting by Principals and Agents	01 April 2019	The impact of the is not material.
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	The impact of the is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:

Standard/ Interpretation:	**Effective date: Years beginning on or after**	**Expected impact:**
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

3. Land held for sale

Land held for sale	736 800	748 920

3.1 Reconciliation of land held for sale

Opening balance	760 380	1 918 145
Land classified as held for sale in current year	423 582	961 417
Investment Property classified as held for sale in current year	-	407 000
Land sold and transfered	(478 206)	(425 298)
Prior Period adjustment	-	(2 100 884)
Write off to net realisable value	(7 016)	-
	698 740	**760 380**

The performed an audit of all the sites classified as held for sale to determine which sites have been fully paid where risk and rewards have already transferred to the buyer. A number of sites were sold in prior year and fully paid for, however transfer with deeds office is delaying hence the sites are still in the name of the municipality. Further investigations confirmed that buyers have already build their homes on the sites soon after payment of the full amount. This confirmed that risk and rewards has already transferred to the buyer and the municipality has to de-recognised the sites from their books. A prior period adjustment of R 2 100 884 was processed to correct this omission.

Land held for sale pledged as security

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

4. Operating lease accrual

Current assets	18 692	39 254

Operating Lease assets arises from smoothing of lease payments for printers which are leased from Nashua.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

5. Receivables from exchange transactions

PAYE deductions-overpaid	493	-
Other employee deductions-overpaid	1 625	-
Skills control account-overpaid	19	-
Creditors with debit balances	17 894	4 367
Other receivables - housing grant	-	3 964 722
Consumer debtors - Refuse	14 348 142	13 640 879
Consumer debtors - Rental	22 164	22 276
Consumer debtors - Provision for bad debts rental and refuse	(8 972 078)	(7 422 396)
	5 418 259	**10 209 848**

Refuse		
Current (0-30 days)	369 637	363 583
31 - 60 days	173 003	162 446
61-90 days	170 945	161 212
91 -120 days	165 328	159 829
121 - 365 days	13 469 230	12 793 809
	14 348 143	**13 640 879**

Rentals		
121-365 days	22 164	22 276

Reconciliation for bad debts allowance:		
Openning balance	7 422 396	5 035 519
Provision for bad debts- Refuse	1 547 438	2 382 482
Provision for bad debts - rental	2 244	4 395
	8 972 078	**7 422 396**

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	369 637	363 583
2 months past due	173 003	162 446
3 months past due	170 945	161 212

Trade and other receivables impaired

The ageing of these receivables are as follows:

3 to 6 months	165 328	159 829
Over 6 months	13 491 394	12 816 085

Figures in Rand	2020	2019

5. Receivables from exchange transactions (continued)

Factors considered during calculation of Provision for bad debts.

During calculation of provision for bad debts, customers are assessed individually to determine if there is any indication for impairment. Customers are classified into different categories based on each customer's risk profile. Customers are grouped into three categories which are high risk, moderate risk and low risk. Below are the factors considered during assessment of bad debts impairment:
a. All customer accounts indicated as in-active and no current transaction on the system.
b.Customer accounts where the account holder has approached the municipality for settlement arrangement.
c. Accounts formally presented to management as invalid and non-existing
d. All customer accounts with balance older than 90 days.

6. Receivables from non-exchange transactions

Statutory debtors - traffic fines	17 949 337	17 548 501
Provision for bad debts - traffic fines	(17 316 162)	(17 115 744)
Staff debtors	439 755	470 072
Provision for bad debts - staff debtors	(204 249)	(204 249)
Statutory debtors - Property rates	28 861 413	29 760 786
Provision for bad debts - Property rates	(13 370 477)	(10 668 759)
	16 359 617	**19 790 607**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

6. Receivables from non-exchange transactions (continued)

Non-current assets	235 506	265 823
Current assets	16 124 111	19 524 784
	16 359 617	**19 790 607**

Included in receivables from non-exchange transactions are statutory debtors disclosed below:

Rates		
Current (0 -30 days)	1 167 165	1 244 874
31 - 60 days	507 233	436 435
61 -90 days	598 409	420 469
91 - 120 days	471 958	398 643
121 - 365 days	26 116 648	27 275 093
	28 861 413	**29 775 514**

Traffic fines:

Current (0 -30 days)	400	152 150
31 - 60 days	162 350	370 010
61 -90 days	350 760	161 650
91 - 120 days	193 680	214 388
121 - 365 days	17 242 147	16 650 303
	17 949 337	**17 548 501**

Reconciliation for bad debts - statutory debtors: (Property rates)		
Opening Balance	10 668 759	9 547 587
Bad debts expenses	2 701 719	1 121 172
	13 370 478	**10 668 759**

Reconciliation for bad debts - statutory debtors: (Traffic fines)		
Opening Balance	17 115 744	16 681 761
Bad debts expenses	200 418	433 983
	17 316 162	**17 115 744**

Property rates are governed by The Local Government: Municipal Property Rates Act 6 of 2004. Property rates values are calculated based on market value of properties as per applicable valuation roll. Provision for bad debts on statutory debtors is determined risk profile of each customer and default rate per risk profile as determined by the municipality. The main trigger for impairment loss on statutory debtors is late payment or non-payment of accounts by customers. Interest on statutory debtors is charged at 18 % per annum.

Traffic fines are governed by Administrative Adjudication of Road Traffic Offences Act, No. 46 of 1998 (AARTO) and National Road Traffic Act, No. 93 of 1996 of South Africa. Traffic fines charged are determined by The National Road Traffic Offence Charge Book. Due to high rate of default payments of traffic fines, the municipality has implements a policy to provide for bad debts at rate of 50% of the the outstanding balance.

Included in receivables from non-exchange transaction is an amount of R 235 506 owed by one employee to the municipality.The municipality agreed with the employee for the balance to be settled over a period of 10 years hence the remaining balance was presented as non-current asset. No provision for bad debt in current year due to the fact that the affected employee is abiding by the agreement and constant payments have been made on time.

Statutory debtors pledged as security

No statutory debtiors were pledged as security in current financial year.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

6. Receivables from non-exchange transactions (continued)

Statutory debtos past due but not impaired

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

1 month past due	1 167 365	1 320 949
2 months past due	588 408	621 440
3 months past due	773 789	501 294
3 to 6 months	96 840	107 194
Over 6 months	8 621 074	8 325 152

Statutory debtors impaired

The ageing of these receivables is as follows:

1 month past due	200	76 075
2 months past due	81 175	185 005
3 months past due	175 380	80 825
3 to 6 months	568 798	505 837
Over 6 months	34 737 722	35 600 245

Summary of receivables from exchange and non - exchange transactions:

Business and Commercial		
Current (0 -30 days)	504 555	587 710
31 - 60 days	210 072	188 328
61 - 90 days	189 942	184 128
91 - 120 days	183 810	178 827
121 - 365 days	8 059 355	6 044 217
	9 147 734	**7 183 210**

Residential		
Current (0 -30 days)	401 184	347 167
31 - 60 days	227 972	154 467
61 - 90 days	227 771	153 483
91 - 120 days	221 329	152 715
121 - 365 days	16 443 233	17 339 960
	17 521 489	**18 147 792**

Other debtors		
Current (0 -30 days)	18 803	20 650
31 - 60 days	9 454	10 365
61 - 90 days	(61 131)	10 365
91 - 120 days	9 454	10 365
121 - 365 days	1 505 013	2 059 425
	1 481 593	**2 111 170**

Agriculture		
Current (0 -30 days)	574 720	649 781
31 - 60 days	189 919	215 020
61 - 90 days	218 132	215 802
91 - 120 days	208 278	200 733
121 - 365 days	9 603 174	7 862 930
	10 794 223	**9 144 266**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

. Consumer debtors (continued)

Government		
Current (0 -30 days)	(3 378)	(24 992)
31 - 60 days	(493 989)	(196)
61 - 90 days	(376 778)	14 834
91 - 120 days	(103 066)	14 834
121 - 365 days	1 337 489	6 805 463
	360 278	**6 809 943**

Other receivables from non - exchange transactions:

Staff Debtors		
> 365 days	454 914	470 072
	454 914	**470 072**

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5 148	601
Bank balances	15 575 312	5 510 389
	15 580 460	**5 510 990**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
ABSA Bank - 4053709558	6 866 322	3 288 879	3 255 171	6 866 322	3 288 879	3 255 171
FNB Bank-62641677466	3 626 237	584 869	38 862	3 626 237	584 869	38 862
FNB Bank -62641681251	123 366	118 806	41 352	123 366	118 806	41 352
Nedbank Bank-03/7165016708/000001	101 766	96 942	91 629	101 766	96 942	91 213
Mercantile - 4100167725	19 834	18 660	17 225	19 834	18 660	17 225
FNB Main Bank Account - 62632389450	2 125 552	739 807	(454 135)	2 125 552	739 807	(454 135)
FNB Main Bank Account-62022340385	302 678	94 962	3 297	302 678	94 962	3 297
FNB Bank-62641679123	2 304 579	379 987	30 606	2 304 579	379 987	30 606
FNB Call Account-62641675890	104 979	187 476	21 180	104 979	187 476	21 180
Petty Cash	-	-	-	5 148	601	536
Total	**15 575 313**	**5 510 388**	**3 045 187**	**15 580 461**	**5 510 989**	**3 045 307**

8. Investment property

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	1 960 397	(191 582)	1 768 815	1 960 397	(20 788)	1 939 609

Reconciliation of investment property - 2020

	Opening balance	**Depreciation**	**Total**
Investment property	1 939 609	(170 794)	1 768 815

Reconciliation of investment property - 2019

	Opening balance	**Newly Identified assets**	**Transfers**	**Wriet-off**	**Depreciation**	**Total**
Investment property	1 377 578	1 171 774	(407 000)	(192 725)	(10 018)	1 939 609

Pledged as security

None of the investment property has been pledged 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

	2020	2019
Rental revenue from Investment property	223 967	229 253

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	30 572 931	-	30 572 931	30 996 513	-	30 996 513
Buildings	34 915 524	(13 172 360)	21 743 164	29 216 447	(11 697 372)	17 519 075
Plant and machinery	2 473 341	(1 643 124)	830 217	2 637 123	(1 561 005)	1 076 118
Furniture and fixtures	2 617 872	(1 728 807)	889 065	2 298 303	(1 479 161)	819 142
Motor vehicles	6 073 444	(4 645 194)	1 428 250	6 073 444	(4 121 871)	1 951 573
Office equipment	2 144 840	(1 861 872)	282 968	2 722 037	(2 050 575)	671 462
IT equipment	1 839 869	(973 071)	866 798	2 286 920	(1 320 838)	966 082
Leased Assets	188 743	(101 755)	86 988	445 883	(190 909)	254 974
Infrastructure	119 227 905	(45 744 389)	73 483 516	116 007 338	(36 214 745)	79 792 593
Community	154 274 512	(41 326 142)	112 948 370	142 495 894	(34 709 658)	107 786 236
Landfill site asset	9 792 608	(5 507 505)	4 285 103	9 776 345	(3 413 087)	6 363 258
Total	**364 121 589**	**(116 704 219)**	**247 417 370**	**344 956 247**	**(96 759 221)**	**248 197 026**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Transfers received	Transfers	Landfil site movement	Donations received	Depreciation	Impairment loss	Write-off	Total
Land	30 996 513	-	-	(423 582)	-	-	-	-	-	30 572 931
Buildings	17 519 075	5 699 285	-	-	-	-	(1 475 185)	(11)	-	21 743 164
Plant and machinery	1 076 118	104 450	-	-	-	-	(313 429)	-	(36 922)	830 217
Furniture and fixtures	819 142	19 342	-	-	-	332 042	(273 329)	(1 814)	(6 318)	889 065
Motor vehicles	1 951 573	-	-	-	-	-	(523 323)	-	-	1 428 250
Office equipment	671 462	8 357	-	-	-	-	(227 970)	(79 091)	(89 790)	282 968
IT equipment	966 082	253 248	119 458	-	-	188 909	(376 783)	-	(284 116)	866 798
Leased assets	254 974	41 735	-	-	-	-	(209 721)	-	-	86 988
Infrastructure	79 792 593	3 220 567	-	-	-	-	(6 792 222)	(2 737 422)	-	73 483 516
Community	107 786 236	10 971 511	2 663 125	(2 663 125)	-	917 547	(6 631 598)	(95 326)	-	112 948 370
Landfill site asset	6 363 258	-	-	-	16 263	-	(2 094 418)	-	-	4 285 103
	248 197 026	**20 318 495**	**2 782 583**	**(3 086 707)**	**16 263**	**1 438 498**	**(18 917 978)**	**(2 913 664)**	**(417 146)**	**247 417 370**

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Transfers	Landfil site movement	Prior Period Adjustment	Classification	Depreciation	Impairment loss	Total
Land	54 336 516	-	-	-	-	-	(22 336 174)	(1 003 829)	-	-	30 996 51
Buildings	19 665 580	-	-	-	-	-	-	37 219	(1 830 064)	(353 660)	17 519 07
Plant and machinery	617 429	-	-	-	-	-	-	673 563	(214 874)	-	1 076 11
Furniture and fixtures	1 853 785	-	-	-	-	-	-	(953 917)	(80 726)	-	819 14
Motor vehicles	3 453 295	589 421	(1 104 995)	-	-	-	90 970	-	(1 077 118)	-	1 951 57
Office equipment	705 845	125 500	-	-	-	-	-	152 184	(312 067)	-	671 46
IT equipment	1 018 516	143 568	-	-	-	-	(6 370)	67 741	(257 373)	-	966 08
Leased assets	794 329	147 010	(180 180)	-	-	-	(323 691)	-	(182 494)	-	254 97
Infrastructure	79 120 067	11 551 974	-	17 203 130	(17 203 130)	-	(1 926 122)	-	(8 345 942)	(607 384)	79 792 59
Community	108 617 980	9 393 428	-	8 828 500	(8 828 500)	-	1 513 090	-	(7 598 430)	(4 139 832)	107 786 23
Landfill site asset	6 466 355	-	-	-	-	1 394 883	-	-	(1 497 980)	-	6 363 25
	276 649 697	**21 950 901**	**(1 285 175)**	**26 031 630**	**(26 031 630)**	**1 394 883**	**(22 988 297)**	**(1 027 039)**	**(21 397 068)**	**(5 100 876)**	**248 197 02**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

9. Property, plant and equipment (continued)

Pledged as security

Carrying value of assets pledged as security:

Assets subject to finance lease (Net carrying amount)

	2020	2019
Finance Lease Assets	86 988	254 974

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	1 121 574	8 145 025	-	9 266 599
Additions/capital expenditure	2 276 244	10 242 845	5 619 077	18 138 166
Transferred to completed items	-	(2 663 125)	-	(2 663 125)
	3 397 818	**15 724 745**	**5 619 077**	**24 741 640**

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	(17 203 130)	(8 828 500)	(26 031 630)
	1 121 574	**8 145 025**	**9 266 599**

Osakwini Causeway road project was not completed as at 30 June 2020. Construction process has been affected bad weather conditions and natural disaster events hence completion of this project was delayed. The carrying amount of the project as at 30 June 2020 is **R 2,693,141.87 (30 June 2019 - R 1,121,573.90)**

Ezibayeni Southfield project has been delayed due to challenges experienced by the contractor during the process which resulted to more time spent to complete the project than anticipated. The carrying amount of the project as at 30 June 2020 is **R 4,801,090.74, (30 June 2019 - R4,527,230.67).**

Jabhisa Southfield has been delayed due to poor performance by the service provider hence the contract was terminated. The project will be completed internally by the municipality. The carrying amount of the projects as at 30 June 2020 is **R1,756,581.00, (30 June 2019 - R 1,554,480.03).**

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	2020	2019
Furniture and Fittings	-	5 939
Motor vehicles	1 722 314	2 233 202
Land and Buildings	1 587 965	1 630 861
Labour costs - Technical Staff	4 073 646	3 834 020
	7 383 925	**7 704 022**

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	2020	2019

10. Employee benefit obligations

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

Carrying value		
Present value of the defined benefit obligation	(2 845 543)	(2 482 517)
Non-current liabilities	(2 724 186)	(2 431 282)
Current liabilities	(121 357)	(51 235)
	(2 845 543)	**(2 482 517)**

Employee benefit obligation relates to long service award extended to municipal staff who served on the payrol of the municipality for each five year interval completed as an employee.

The most recent actuarial valuations of present value of the defined benefit obligation were carried out as at 30 June 2020 by an expert who is a member of the Actuarial society of South Africa. The present value of the defined benefit obligation and the related current cost and past service costs, were measured using the projected Unit Credit Method.

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

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

Opening balance	2 482 917	2 021 400
Benefits paid	(51 235)	(97 534)
Net expense recognised in the statement of financial performance	414 261	559 051
	2 845 943	**2 482 917**

Net expense recognised in the statement of financial performance

Current service cost	369 479	296 424
Interest cost	225 298	187 381
Actuarial (gains) losses	(180 516)	75 246
	414 261	**559 051**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10.18 %	9.17 %
Expected increase in salaries	5.97 %	6.29 %
General Inflation	4.97 %	5.29 %
Net Discount Rates	3.97 %	2.71 %

Examples of Motality rates Used:

- Average retirement age 63 years
- Mortality during employement SA 85-90

The methodology for setting the financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2019 the duration of liabilities was 9.26 years. The duration is based on the weighted averages of the obligations of Big 5 False Bay and Hlabisa as at 30 June 2019. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2020 is 10.18% per annum, and the yield on inflation-linked bonds of a similar term was about 4.49% per annum. This implies an underlying expectation of inflation of 4.97% per annum ([1 + 10.18% - 0.5%] / [1 + 4.49%] - 1).

11. Intangible assets

	2020			2019		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	3 465 909	(2 255 603)	1 210 306	3 338 609	(2 218 284)	1 120 325

Reconciliation of intangible assets - 2020

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	1 120 325	127 300	(37 319)	1 210 306

Reconciliation of intangible assets - 2019

	Opening balance	**Prior period Adjustment**	**Amortisation**	**Total**
Computer software, other	278 707	1 301 725	(460 107)	1 120 325

Pledged as security

None of the intangible assets has been pledged as security in current year.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

12. Finance lease obligation

	2020	2019
Minimum lease payments due		
- within one year	101 782	180 125
- in second to fifth year inclusive	52 586	91 336
	154 368	271 461
less: future finance charges	(30 940)	(32 190)
Present value of minimum lease payments	**123 428**	**239 271**
Present value of minimum lease payments due		
- within one year	79 678	157 950
- in second to fifth year inclusive	43 750	81 321
	123 428	**239 271**
Non-current liabilities	43 750	81 321
Current liabilities	79 678	157 950
	123 428	**239 271**

The average lease term was 3 years and the average effective borrowing rate was 16% (2019: 16%). The finance Lease relate to laptops acquired from Vodacom 4U Richardsbay and will be paid in monthly instalments over 3 years..

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

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 9.

13. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	10 057 124	16 263	324 845	10 398 232

Reconciliation of provisions - 2019

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	8 381 461	1 394 884	280 779	10 057 124

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 1998 and 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.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

14. Payables from exchange transactions

Trade payables	9 435 907	17 895 509
Accrued liabilites	6 160 476	5 240 935
Retention liability	3 347 603	3 021 277
Bonus accruals	1 919 023	1 840 577
Deposits received	177 746	75 045
Pension fund liability	-	1 923 154
PAYE deductions	-	862 052
Other employee deductions	-	181 679
Skills control account	-	53 998
Unemployment insurance fund payable	-	63 035
Payables -unions	1 903	53 256
Payables - medical aid	-	566 989
Deposit on sale of land	625 582	401 756
Leave pay provision	6 113 976	4 832 515
Debtors with credit balances	3 925 843	1 945 228
Creditors with debit balances	17 894	4 367
	31 725 953	**38 961 372**

15. 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	2 381	-
Municipal Infrastructure Grants	-	730 760
Massification Electrification Grant	-	188 798
Schemes Program Grant	522 570	750 000
Sport Grant	1 779 350	-
	3 572 086	**2 937 343**

Movement during the year

Balance at the beginning of the year	2 937 343	1 694 886
Additions during the year	93 114 312	55 074 875
Amount utilised during the year	(92 479 569)	(53 832 418)
	3 572 086	**2 937 343**

Municipal Infrastructure Grant has been fully spent and paid for during the year in accordance with the accrual concept, however one of the invoices was rejected by grant funders due to an incorrect proof of payment attached during submission. Upon re-submission of the correct proof of payment, the municipal infrastructure grant funders had already closed their system hence this is appearing as unspent on the municipal infrastructure grant reporting system. The invoice amounts to **R456,544.42** in total. The municipality will apply for a roll forward of the invoice in the following reporting period.

Housing grant was incorrectly accounted for in previous years. The correct accounting treatment was to apply GRAP 11 requirements based on the details of the agreement between the municipality and Human Settlement Department. Prior year amount has been restated to account for such error.

No movement in disaster management grant received in 2004/5 financial years. 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	2020	2019

15. Unspent conditional grants and receipts (continued)

Application of GRAP 109:

Big 5 Hlabisa Local Municipality entered into an agreement with department of energy to undertake rural electrification projects on behalf of the department. The municipality's responsibilities include appointment of the service provider, management of the project from the start to the end and paying amounts owed to the service providers. The municipality is required to submit monthly progress reports to the department of energy reflecting stage of completion.

The municipality assessed the terms of the agreement and some of the assumptions considered as listed below:
(a) Whether economic benefits will flow to the municipality upon completion of the project. Big 5 Hlabisa will not have any revenue in the form of electricity charged.
(b) Whether the municipality will have control over the completed projects upon completion. The municipality will transfer all the competed projects to department of energy. Further they have to submit progress reports to the department highlighting the extent of work done as well as amount paid up to that specific date.In this case Department of Energy still retain significant control over the project during and after completion.

Based on this assessment, it has been concluded that Big 5 Hlabisa Local Municipality is acting as an agent to the agreement.

Terms and conditions of the arrangement have not changed in current year and no significant risk identified. Application of the principle-agent relationship, Big 5 Hlabisa local Municipality did not record any revenue, expenditure, asset or liability in the statement of financial statements. An unspent conditional grant **R 2 381** as disclosed above will be rolled over to the next reporting period and used in the ongoing projects since affected projects are multi year projects.

Intergrated National Electrification Program Grant Reconciliation Statement:	**2020**	**2019**
Opening balance	-	396 506
Grant received during the year	16 000 000	-
Amount utilised during the year	(15 997 619)	(396 506)
	2 381	**-**

Massification Electrification Grant Reconciliation Statement:	**2020**	**2019**
Opening balance	188 798	-
Grant received during the year	-	5 800 000
Amount utilised during the year	(188 798)	(5 611 202)
	-	**188 798**

16. VAT payable

VAT payables	1 029 154	635 100

All VAT 201s for the current year were submitted on time, no interest of penalties arising from non-submission in current year.

17. Consumer deposits

Rates	9 189	10 542

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

18. Revenue

Sale of goods	81 203	113 740
Rendering of services	28 464	31 129
Service charges	2 061 654	2 077 273
Rental of facilities and equipment	252 554	264 562
Interest received from debtors	-	5 965 024
VAT recoveries	-	930 228
Licences and permits	1 842 320	2 334 099
Recoveries	376 657	3 707 795
Interest received - investment	1 592 393	1 239 337
Property rates	18 737 553	16 454 416
Government grants & subsidies	178 783 584	146 380 391
Fines, penalties and forfeits	491 531	1 035 750
Donations Received	1 438 498	1 171 775
	205 686 411	**181 705 519**

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

Sale of goods	81 203	113 740
Service charges	2 061 654	2 077 273
Rendering of services	28 464	31 129
Rental of facilities and equipment	252 554	264 562
Interest received from debtors	-	5 965 024
VAT recovery	-	930 228
Licences and permits	1 842 320	2 334 099
Other income	376 657	3 707 795
Interest received - investment	1 592 393	1 239 337
	6 235 245	**16 663 187**

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

Taxation revenue		
Property rates	18 737 553	16 454 416
Transfer revenue		
Government grants & subsidies	178 783 584	146 380 391
Fines, penalties and forfeits	491 531	1 035 750
Donation Received	1 438 498	1 171 775
	199 451 166	**165 042 332**

19. Service charges

Refuse removal	2 061 654	2 077 273

20. Rental of facilities and equipment

Premises		
Premises	12 000	12 174
Hall hire	16 587	23 135
	28 587	**35 309**
Facilities and equipment		
Rental of facilities	223 967	229 253
	252 554	**264 562**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

21. Fines, Penalties and Forfeits

Traffic fines and penalties	491 531	1 035 750

22. VAT recovery

Refund received from SARS-VAT	-	930 228

Recoveries relate to amounts re-couped from prior year invoices submitted and rejected by SARs, these invoices were re-submitted to SARs and the municipality received a refund. No funds were re-couped in current year.

23. Licences and permits (exchange)

Road and Transport	1 783 920	2 281 911
Motor licensing	58 400	52 188
	1 842 320	**2 334 099**

24. Lease rentals on operating lease

Equipment		
Contractual amounts	1 196 244	1 081 440

Big 5 Hlabisa had operating lease agreements with Nashua Zululand for a period of 36 month payable in arrear.

25. Interest income on receivbles

Interest - Receivables	7 009 525	5 965 024

Interest income arises from accounts receivables balance which are long outstanding and it is charged at a rate of 18 % compounded annually.

26. Other income

Business licenses	6 901	19 904
Insurance refunds	294 661	3 569 717
Sale of building plans	19 855	77 310
Commission received	55 240	40 864
	376 657	**3 707 795**

27. Investment revenue

Interest revenue		
Interest received from investments	1 592 393	1 239 337

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

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

28. Property rates

Rates

Residential	2 806 694	2 356 328
Business and commercial properties	3 361 762	3 143 842
Agriculture properties	4 930 620	3 765 835
Public Service Infrastructure	1 950	5 317
State Owned Properties	8 277 810	7 721 043
Less: Income forgone	(641 283)	(537 949)
	18 737 553	**16 454 416**

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.

29. Transfers and subsidies

Youth in action	-	23 996
IDP projects	-	500
Social relief	1 012 774	2 059 827
Disaster management costs	1 565 762	1 515
	2 578 536	**2 085 838**

Disaster management costs relates expenditure incurred by the municipality in response to the pandemic disease which affected peoples lives at large.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

30. Government grants and subsidies

Operating grants		
Equitable share	107 783 000	94 296 000
Extended Public Works Programme Intergrated Grant	2 506 000	1 826 000
Financial Management Grant	3 000 000	3 870 000
Construction, Education and Training SETA	454 808	171 909
Cogta Bylaws	-	3 000
Work Study Grant	-	27 595
Housing grant	37 016 936	23 290 648
Disaster Management Grant-Covid 19	1 460 000	-
Community Library Service Grant	2 777 000	2 625 999
Sport Grant	1 470 650	-
	156 468 394	**126 111 151**
Capital grants		
Schemes supporting programe	227 430	-
Municipal Infrastructure Grant	22 087 760	20 269 240
	22 315 190	**20 269 240**
	178 783 584	**146 380 391**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	70 990 584	52 084 391
Unconditional grants received	107 793 000	94 296 000
	178 783 584	**146 380 391**

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 15).

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.

Disaster managment grant - Covid 19

Current-year receipts	1 460 000	-
Current expenditure incurred.	(1 460 000)	-
	-	-

Work/Study grant

Current-year receipts	-	27 595
Conditions met - transferred to revenue	-	(27 595)
	-	-

Figures in Rand	2020	2019

30. Government grants and subsidies (continued)

Municipal By laws Grant

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

Municipal Infrastructure Grant

Balance unspent at beginning of year	730 760	-
Current-year receipts	21 357 000	21 000 000
Conditions met - transferred to revenue	(22 087 760)	(20 269 240)
	-	**730 760**

Conditions still to be met - remain liabilities (see note 15).

Financial Management Grant

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

LG SETA

Current-year receipts	454 808	171 909
Conditions met - transferred to revenue	(454 808)	(171 909)
	-	**-**

Expanded Public Works Programme

Current-year receipts	2 506 000	1 826 000
Conditions met - transferred to revenue	(2 506 000)	(1 826 000)
	-	**-**

Communith library grant

Current-year receipts	2 777 000	2 626 000
Conditions met - transferred to revenue	(2 777 000)	(2 626 000)
	-	**-**

Housing grant

Current-year receipts	37 016 936	23 290 648
Conditions met - transferred to revenue	(37 019 936)	(23 290 648)
	-	**-**

Schemes program Grant

Balance unspent at beginning of year	750 000	-
Current-year receipts	-	750 000
Conditions met - transferred to revenue	(227 430)	-
	522 570	**750 000**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

30. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 15).

Sport Grant

Current-year receipts	3 250 000	-
Conditions met - transferred to revenue	(1 470 650)	-
	1 779 350	**-**

Conditions still to be met - remain liabilities (see note 15).

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

31. Employee related costs

Basic	51 748 875	50 788 919
Bonus	4 551 896	4 409 879
Medical aid - company contributions	4 183 395	3 680 690
UIF	373 984	394 520
Bargain Council	23 211	22 693
Leave pay provision charge	1 824 036	480 682
Defined contribution plans	8 056 330	7 423 039
Overtime payments	-	87 109
Long-service awards	343 673	87 516
Car allowance	5 759 455	5 379 690
Housing benefits and allowances	624 243	461 172
Cell phones allowances	154 607	101 129
Other allowances	42 748	96 568
	77 686 453	**73 413 606**

Remuneration of municipal manager

Annual remuneration	755 779	588 839
Back pay and other allowances	111 035	104 567
Contributions to UIF, medical and pension funds	1 785	1 785
Cellphone allowance	23 610	18 783
Housing allowance	153 380	122 088
Travel claim	310 923	243 236
	1 356 512	**1 079 298**

Remuneration of chief finance officer

Annual remuneration	632 939	486 110
Contributions to UIF, medical and pension funds	1 785	1 785
Housing allowance	110 024	86 307
Cellphone allowance	34 064	26 712
Back pay and other allowances	69 216	64 206
Travel allowances	259 009	202 984
	1 107 037	**868 104**

Remuneration of Director Corporate Service

Annual remuneration	719 836	631 869
Back pay and other allowances	47 395	71 155
Contributions to UIF, medical and pension funds	200 333	184 465
Cellphone allowance	16 546	15 223
Housing allowance	103 424	95 146
Travel claim	95 124	87 534
	1 182 658	**1 085 392**

Remuneration of Director Community Services

Annual remuneration	632 939	486 110
Back pay and other allowances	95 501	111 269
Contributions to UIF, medical and pension funds	1 785	1 785
Travel claim	259 009	199 710
Housing allowances	110 024	86 307
Cellphone allowance	34 064	26 712
	1 133 322	**911 893**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

31. Employee related costs (continued)

Remuneration of Director Planning and Infrastructure

Annual remuneration	632 939	238 780
Car allowance	45 588	-
Skills levy	10 012	2 430
Contributions to UIF, medical and pension funds	1 785	446
Housing allowance	110 024	22 216
Cellphone allowance	34 064	-
Travel and other allowances	259 009	11 020
	1 093 421	**274 892**

32. Remuneration of councilors

Mayor	868 549	1 033 946
Deputy mayor	410 221	541 217
EXCO members	1 147 362	1 011 369
Speaker	410 221	296 126
Councillors	5 402 467	4 193 082
MPAC	376 971	344 649
	8 615 791	**7 420 389**

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 two full-time bodyguards. The speaker have two full-time bodyguards.

The gazette **No.4**3246 of April 2020 relating to upper limits of salaries, allowances and benefits of the municipal council was used to pay the salaries and allowance for concillors in 2019/2020 financial years.

33. Depreciation and amortisation

Property, plant and equipment	18 917 978	21 397 067
Investment property	170 793	10 018
Intangible assets	37 319	460 107
	19 126 090	**21 867 192**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

34. Change in estimate

Property, plant and equipment

The municipality performed conditional assessment of municipal assets during the financial year under review. Estimated useful life of property plant and equipment items has been revised to match with the expected future economic benefits as per conditional assessment results. The effect of this revision has decreased the depreciation charges for the current financial year by R (2 704 879). The change in estimate has been applied prospectively. Amount of the effect in future periods is not disclosed because estimating it is impracticable. Below is the detailed breakdown of the change in estimate:

Asset category	**Change in Estimate**
Municipal offices	(351 434)
Plant & Machinery	98 551
Furniture & Fittings	145 168
Motor Vehicles	(67 083)
Office Equipment	(84 097)
IT Equipment	59 616
Leased assets	88 003
Infrastructure assets	(2 112 770)
Community assets	(1 077 271)
Landfill site assets	596 438
	(2 704 879)

35. Impairment of assets

	2020	2019
Impairments		
Property, plant and equipment	2 913 664	5 100 876

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 and not in use were impaired to nil value. 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.

36. Finance costs

	2020	2019
Late payment of tax	16 862	-
Interest expenses -provision for landfill Site	324 845	280 779
Interest on long service award obligation	225 298	187 381
	567 005	**468 160**

37. Bad debts expenses

	2020	2019
Traffic fines	200 412	433 983
Property rates	2 701 719	1 121 172
Refuse removal and rental	1 549 681	2 386 877
	4 451 812	**3 942 032**

38. Accounts recievables written-off

	2020	2019
Interest on debtors written-off	-	4 812 151
Old customers accounts written-off	4 345 253	-
	4 345 253	**4 812 151**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

38. Accounts recievables written-off (continued)

The municipality engaged in a thourough investigation of accounts recievables to ensure that all balances disclosed on the age analysis are valid and accurate. The process involves checking if the customer account is active or not, engaing with customers to confirm existance. During this accounts receivables cleaning process, revenue department noted that customer accounts worth **R 4,345,253** were invalid and irrecoverable. This was submitted to council who approved write-off of the the entire amount.

In prior year, transactions relating to bad debts provision as well as accounts write-off were processed in two account. This resulted to an amount of **R 267,925** relating to bad debts being disclosed as debt impairment. The error has been corrected and prior year amounts have been re-stated accordingly.

39. Contracted services

	2020	2019
Outsourced Services		
Catering Services	101 068	297 656
Cleaning Services	60 292	91 713
Hygiene Services	218 250	289 004
Internal Auditors	2 039 342	2 096 400
Professional Staff	-	908 459
Consultants and Professional Services		
Professional fees	3 857 261	4 419 299
Infrastructure and Planning	-	4 480
Legal Cost	120 061	171 315
Contractors		
Artists and Performers	17 823	430 085
Catering Services	15 284	13 476
Housing grant expenses	37 016 936	23 101 087
Event Promoters	1 433 719	2 379 155
Gardening Services	847	353 376
Interior Decorator	13 850	-
Maintenance of Buildings and Facilities	1 331 095	1 515 063
Maintenance of Equipment	1 722 314	2 243 202
Safeguard and Security	7 475 915	7 806 385
Stage and Sound Crew	22 678	-
	55 446 735	**46 120 155**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

40. General expenses

Advertising	460 167	1 351 518
Auditors remuneration	1 882 102	1 979 590
Bank charges	222 659	962 707
Consumables	-	500
Skills development levy expenses	780 726	847 311
Refreshments	5 000	137
Hire	221 218	48 788
Insurance	907 306	981 253
IT expenses	2 266 054	1 334 263
Fuel and oil	1 025 220	1 863 434
Printing and stationery	540 730	699 427
Protective clothing	252 897	98 233
Subscriptions and membership fees	2 664 760	684 365
Telephone and cellphone costs	2 903 257	3 216 071
Travel - local	1 754 508	2 963 395
Title deed search fees	814	-
Electricity	1 056 530	552 254
Driver's licenses and permits	82 062	33 918
Bursary non-employees	-	450 516
Learnership and Internship	2 461 698	2 209 190
Donation expenses	-	62 146
Remuneration of ward committees	2 827 476	2 281 704
	22 315 184	**22 620 720**

41. Cash generated from operations

Surplus (deficit)	6 343 312	(4 167 306)
Adjustments for:		
Depreciation and amortisation	19 126 090	21 867 192
Gain on sale of assets and liabilities	-	720 847
Loss on disposal of non-current assets held for sale	(143 314)	(4 035 033)
Scrapping allowance	417 146	179 206
Donations received	(1 438 498)	(1 171 775)
Finance costs	597 005	468 160
Impairment loss	2 913 664	5 100 876
Bad debts	4 451 812	3 942 032
Bad debts written off	4 345 253	4 812 151
Movements in operating lease assets	20 562	(56 260)
Movement in long service award obligation	363 026	461 117
Movements in provisions	341 108	1 675 663
Donation expenses	-	62 146
Write-down to net realisable value	7 016	-
Actuarial gain or loss	(180 516)	75 246
Other non-cash items	197 978	(361 377)
Changes in working capital:		
Land held for sale	12 120	1 169 225
Receivables from exchange transactions	4 791 589	(4 690 544)
Provision for bad debts and write-off	(8 797 065)	(8 754 183)
Receivables from non-exchange transactions	3 400 673	(1 047 929)
Prepayments	-	2 250 000
Payables from exchange transactions	(7 235 419)	3 474 951
VAT payable	394 054	635 100
Unspent conditional grants and receipts	634 743	1 242 457
Consumer deposits	(1 353)	1 250
Employee benefits obligations	70 122	(47 699)
	30 631 108	**23 805 513**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

42. Commitments

Authorised capital expenditure

Approved , Contracted and authorised by accounting officer:		
• Property, plant and equipment	3 930 176	2 822 635
Total capital commitments		
Already contracted for but not provided	3 930 176	2 822 635

Total commitments

Total commitments		
Authorised capital expenditure	3 930 176	2 822 635

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.

4. Prior year commitments was overstated by an amount of **R17 500 000** relating to projects that have an approved budget but not contracted to any service provider. The error has been corrected and prior period amounts have been re-stated accordingly.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	738 534	1 018 302
- in second to fifth year inclusive	-	738 534
	738 534	**1 756 836**

Operating lease payments represent rentals payable by the municipality printers. Leases are negotiated for an average term of three years. No contingent rent is payable.

Notes to the Annual Financial Statements

43. 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 R 8 000 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.Future anticipated legal costs amounts to **R15 000.**

43. 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.

XOLANI ERIC BUKHOSINI

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

DIPLOMATIC AND NETWORKING CENTRE

The case relate to dispute between Big 5 Hlabisa local Municipality and Diplomatic and Networking Centre. The Diplomatic and Networking Centre entered into an agreement to assist on the establishment of Hlabisa Mall of which they charged the municipality a total of R 3 million for designs and implementation of the designs. The Diplomatic And Networking were required to provide Breakdown of all the amounts that were paid in advance which they could not do. The municipality is claiming that the aforesaid involved part breach the clause No 7 of the service level agreement which affected 2019/19 audit report. The matter has been logged with municipal attorneys awaiting outcome. Legal costs expected to be incurred amounts to **R 150,000** in total.

Progress on the case subsequent to year end:

Municipal management and attorneys engaged with the executive director of Diplomatic and Networking Centre Dr Peter Verrijdt and discussed the matter in detail. The executive director confirmed that the company was closed and he has this far provided available information to management for consideration. Attorneys and management has to conclude whether the information submitted will be sufficient to close up the matter.

Municipal Vs COGTA

The matter relates to a dispute between COGTA and BIG 5 Hlabisa Local Municipality regarding properties. The expected legal cost amounts to R 23,000.00

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

43. Contingencies (continued)

Details of cases addressed by municipal legal department internally are detailed below:

Detail of the matter	Case Number	Respondent	Defendant		Status
Mrs SC Nzuza was charged on allegations of dishonest and contravention of the code of conduct for municipal staff members	1	Municipal staff - Mrs S.C Nzuza	Big 5 Hlabisa Local municipality	-	The matter was settled and Mrs SC Nzuza was re-stated
Mr P Hlabisa was charged on allegations of absenteeism and abscondment	2	Municipal Staff - Mr P Hlabisa	Big 5 Hlabisa Local municipality	-	He was found guilty and dismissed.
Mr PM Mazibuko was charged on allegations of absenteeism and abscondment	3	Municipal Staff - Mr MP Mazibuko	Big 5 Hlabisa Local municipality	-	Resolution was submitted to human resource department specifying the amount that needs to be deducted from his salary on a monthly basis
Mr BZ Buthelezi was charged on allegations of gross misconduct, extortion bribes community and promising them jobs that were not available at the municipality. Internal decliner hearing was conducted and the matter was discussed on 12 November. Evidence was gathered and he was found guilty and terminated on the 4th of March 2020. He decided to refer the matter to the bargain council.	4	Municipal Staff - Mr BZ Buthelezi	Big 5 Hlabisa Local municipality	-	Mr BZ Buthelezi was dismissed from his duties on the 4th of March 2020. He further took the matter to bargaining Council in Durban and it will be heard on 2nd of October 2020
Mr X.E Bukhosini was charged on allegations of insubordination, insolence and absenteeism	5	Municipal Staff - Mr X.E Bukhosini	Big 5 Hlabisa Local municipality	-	The matter is scheduled to be heard on the 15th of October 2020. The employee is under suspension.
Mr C.M Myeni was charged on allegations of negligence whilst driving the municipal vehicle which led to damages that where paid by the municipality	6	Mr C.M Myeni	Big 5 Hlabisa Local municipality	-	The matter was taken for disciplinary hearing on the 5th of March 2020, the employee pleaded guilty of the charges laid against him. The amount to be paid back and how it will be paid back will be determined in the next meeting.

Notes to the Annual Financial Statements

Figures in Rand			2020	2019

43. Contingencies (continued)

Mr MM Zungu was charged on allegations of negligence whilst driving municipal vehicle which led to damages that were paid by the municipality.	7	Municipal staff - Mr M.M Zungu	Big 5 Hlabisa Local municipality	- The matter is still at an infant stage as letter of intend to suspend was written to him and he was to make a representation as to why he should not be suspended. The matter is scheduled for 4th of October 2020
Mr S.N Gumede was c charged on allegations of abscondment	8	Mr S.N Gumede	Big 5 Hlabisa Local municipality	- The matter is still at an infant stage as letter of intend to suspend was written to him and he was to make a representation as to why he should not be suspended. The employee is nowhere to be found and the municipal manager is of the view that disciplinary hearing should take place.
Mr L.J Nxumalo was charged on allegations of abscondment	9	Municipal Staff - Mr L.J Nxumalo	Big 5 Hlabisa Local municipality	- he matter is still at an infant stage as letter of intend to suspend was written to him and he was to make a representation as to why he should not be suspended. The employee is nowhere to be found and the municipal manager is of the view that disciplinary hearing should take place.
	-			-
	-			-

Notes to the Annual Financial Statements

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44. Related parties

Relationships

Refer to note 26 for management remunerations	Refer to note 31
Refer to note 27 for remuneration of councilors	Refer to note 32

45. Prior-year adjustments

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

Statement of financial position

45. Prior-year adjustments (continued)

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Current Assets:		-	-	-	-
Receivables from exchange transactions		7 083 222	3 304 193	(177 567)	10 209 848
Operating Lease Assets		-	39 254	-	39 254
Land Held for sale		2 861 311	(2 100 931)	-	760 380
Receivables from non-exchange transactions		19 543 879	(14 728)	(4 367)	19 524 784
Non Current Assets:		-	-	-	-
Property Plant and Equipment		255 527 451	(7 330 422)	-	248 197 029
Investment Property		960 559	979 050	-	1 939 609
Intangible Assets		143 315	977 010	-	1 120 325
Current Liabilities:		-	-	-	-
Payables from exchange transactions		34 184 981	811 314	291	34 996 586
Finance Lease Obligation		139 486	18 464	-	157 950
VAT Payable		586 401	48 699	-	635 100
Employee benefits Obligations		98 934	(47 699)	-	51 235
Bank Overdraft		291	-	(291)	-
Unspent Conditional Grant		3 006 660	(69 317)	(181 934)	2 755 409
Non-Current Liabilities:		-	-	-	-
Provisions		12 538 641	-	(2 481 517)	10 057 124
Finance Lease Obligations		57 440	23 881	-	81 321
Employee Benefits Obligations		-	(50 235)	2 481 517	2 431 282
Equity:		-	-	-	-
Retained Surplus		262 972 147	(26 571 531)	-	236 400 616
		599 704 718	**(29 982 998)**	**(363 868)**	**569 357 852**

Receivables from exchange transaction have been restated by sundry debtors relating to Old Account balances which have been investigated and considered irrecoverable due to the fact that the figures could not be allocated to any specific customer or transaction. Included in the sundry debtors were amounts relating to creditors with debit balance for 2016/17 financial year end which was processed on the system and never reversed. Total of **R 601 767** has been adjusted to account for this prior period error.

Further creditors with debit balances were mapped to receivables from non-exchange transactions instead of exchange transaction. The account has been mapped to correctly receivable from exchange transaction in current year and total of **R 4 367** reclassified accordingly.

During prior year audit, a finding was raised where the debtors ledger account was not agreeing to debtors age analysis. The error was investigated in prior year, however correcting journal was processed in control, interference and clearing account instead of specific customer account. A journals was process to move the balance of **R 57 490** relating to agriculture customers was processed accordingly.

Housing grant received in 2018/19 financial year was less than the actual invoice incurred during that specific year. the difference between grant received and total expenditure has been accounted for as other receivables. A total of **R 3,964,786.70** has been processed to account for this error.

Operating Lease smoothing assets were omitted for the lease rental agreement for the printers rented from Nashua. Smoothing calculations have been performed and prior year amount restated by **R39,254** to correct the error identified.

Land Held for sale was disclosed as inventories in prior years. The land held for sale does not satisfy the definition of inventories therefore a proper description have been used in current year. Further some assets were sold and transferred in prior year, but never taken out of the land held for sale register. The error has been corrected and prior year audited amount adjusted by **R 19,736.**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

45. Prior-year adjustments (continued)

Property Plant and Equipment: Upon review of the municipal land register as well as the valuation roll as at 30 June 2020, the municipality identified that there were land sold and transferred in prior years but never taken out of the municipal land register. The land are no longer in the municipality's name and respective owners are paying for rates accordingly.
A total of **R 22 645 736.75** **(decrease)** has been adjusted against retained surplus to account for this error. Further prior year accumulated depreciation amount has been restated by an amount of **R15,522,817.14** decrease. The error arises from incorrect change in estimate amount processed in prior year, hence correction has been made in current year.

It was also identified that lot 339 was duplicated in the land register and lot 375 was completely omitted in the municipal records. An amount of **R 366 782.14 (decrease)** relating to lot 339 and **R 40 000 (increase)** relating 375 was adjusted to account for such error.

Prior year work in progress was overstated by a total of **R 4 536 647.61** relating to project completed in prior year but never capitalised to property plant and equipment. The projects were capitalised and prior year work in progress balance decreased accordingly. A total carrying amount of **R 3 897 737.22 (increase)** was capitalised to community assets and **R 212 066.47 (increase)** to infrastructure assets.

Leased assets with a carrying amount of **R 143 857.26** has expired in prior year, but never derecognised from the leased asset register. prior year leased asset balance was adjusted to account for such error and this result to a decrease in the balance.

Motor vehicle owned by the municipality and used by fire department was missing in the fixed asset register in prior years. A net carrying amount of **R 90 970** was processed to record the asset.

Investment Property: Parkhomes opposite Hlabisa Municipal office were received from department of transport in previous year but never capitalised into the books. The municipality have confirmed that the Parkhomes will be rented out to any stakeholders who want to use the at an agreed rental fees therefore investment property balance have been adjusted to account for this development. Investment property cost increased by **R 1 171 774.75** due to this donation received.

Further some parkhormes were included as investment property in prior year, upon physical verification of assets, it was noted that no such parkhomes existed before. The cost of ivestment property and accumulated depreciation was adjusted by **R 314 682 (decrease)** and **R 121 956,73 (decrease)** respectively giving a net adjustment of **R 192 725 (decrease).**

Intangible assets have been adjusted by mSCOA as GIS system software which were omitted in prior years. A total of **R 977 010** has been adjusted to account for the error.

45. Prior-year adjustments (continued)

Payables from exchange transactions

Big 5 Hlabisa have not paid amount dues to SALGA as per the statement obtained from SALGA. The total amount estimated to be paid amounts to **R 5 200 765.56 (increase**) as per the SALGA statement. The council took a resolution to request SALGA to write-off the dues that arises before the merger of the two municipalities of which the discussions were still in progress as at 30 June 2020. An accrual has been raised and prior period amount restated accordingly.

An additional accrual of **R 40 169 (increase)** relate to MIG invoice which was received in current year, however services were delivered in prior year.

Further there were accruals from 2016/17 financial year end which have never been reversed in the subsequent prior. The total amount adjusted is equal to **R 1 102 846 (decrease).**

During preparation of financial statements, it was identified that retention liability disclosed in prior year does not agrees to the last payments certificates from each respective project. An adjustment of **R 1 051 045 (decrease)** has been made to correct this error and this has resulted to a decrease in the payables from exchange transactions.

An investigation was made on deposits received, it was noted that included in the deposit received is an amount of **R 217 614** relating to deposits on sale of land. This amount was reclassified to deposit on sale of land within current liabilities.

An amount of **R 14 492 (increase)** relating to deposit on sale of land was received in 2018/19 financial year, however it was omitted in the prior year deposit on sale of land register and ledger.

An adjustment was made on old account balance which were written off in prior year, however incorrect vote number used. Trade payables age analysis was not agreeing to ledger by such error made in prior years. The total adjustment is **R 16 236 (decrease).**

Employee related cost suspense accounts balances on the system were not agreeing to the declarations made to SARs. Suspense reconciliation statements were prepared and noted that variance were coming from prior years before 30 June 2018. The total of **R 20 416 (decrease**) in payables was written off to retained surplus.

Deposit on hall hire was cleared against retained surplus because it relates to amount withheld in 2015/16 financial year from customers who were using municipal facilities. The amount was utilised to fix the facilities after use, however no journals was processed to clear the balance from payables. A total of **R 7 838 (decrease**) in payables was adjusted.

Finance Lease Obligation has been adjusted to account for finance costs relating to these leases which was omitted in prior year as per amortisation schedules and agreements available. A totals of **R18 646** have been adjusted to account for such error.

VAT Payable amount has been adjusted by VAT relating to retention and accruals balances written-off. The accruals were processed inclusive of VAT in prior years therefore reversals had to affect VAT account as well. A total of **R 237 656** have been processed to account for such errors. An amount of R 189,561 relating to VAT on housing grant was omitted in prior year. The error has been corrected resulting to a decrease in the amount payable to SARs.

Employee obligation balance have been restated to agree the amount per the expert report to the ledger account. Total adjustment amounts to **R 97 934** was made to account for the error. Further employee obligations were disclosed under provisions in prior year. The have been reclassified to employee obligation line items for fair presentation purposes.

Unspent conditional Grant was adjusted due to VAT input emanating from retention adjustment as discussed in payables above. A total of **R 69 317** has been processed to account for the error. Further there was an amount relating to housing grant which was previously disclosed under receivables from exchange transaction instead of unspent conditional grant. This has been adjusted and prior year figures restated accordingly. Net amount of the adjustment is equal to **R 181,934** decrease.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

45. Prior-year adjustments (continued)

Retained surplus balance has been restated by the value of **R 22 645 737** relating to land that was sold and transferred in prior years but never taken out from the property plant and equipment hence assets were overstated. Further prior year accruals were understated by **R 5 200 000** and this error has been corrected in current year. In addition, prior year accruals amounting to **R 1 100 000** was written-ff to clear the balance since no one is owed by municipality for those accruals. Debtors with credit balance for 2016/17 financial year were presented as sundry debtors in prior years. This was supposed to be reversed in subsequent year but never reversed, therefore written of to retained surplus to clear the balance.

Statement of financial performance

45. Prior-year adjustments (continued)

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Commission Received		-	-	40 864	40 864
Donations Received		-	1 171 775	-	1 171 775
Government grant and subsidies		123 089 743	23 290 648	-	146 380 391
Insurance Refund		3 610 581	-	(40 864)	3 569 717
Employee related costs		(73 774 167)	285 315	75 246	(73 413 606)
General expenditure		(21 291 081)	(693 599)	(635 904)	(22 620 584)
Finance Cost		(1 127 121)	(209 991)	868 952	(468 160)
Lease rentals on operating lease		(1 120 694)	39 254	-	(1 081 440)
Contracted Services		(22 786 019)	(23 101 088)	(233 048)	(46 120 155)
Scrapping Allowances		-	(179 206)	-	(179 206)
Depreciation and amortisation		(37 197 455)	15 330 263	-	(21 867 192)
Acturial gains/losses		-	-	(75 246)	(75 246)
Loss on disposal of assets		(720 676)	-	-	(720 676)
Impairment loss		(5 109 620)	8 744	-	(5 100 876)
Gain of Loss on non-current assets held for sale		2 445 171	1 589 862	-	4 035 033
Surplus for the year		**(33 981 338)**	**17 531 977**	**-**	**(16 449 361)**

Commission Received was included in the insurance refunds in prior year, and has been mapped separately in current year. A total **increase of R 40 864** was processed to restated prior year audited amounts.

Actuarial gains were included in employee related costs in prior year, however it has been classified to its line items on the face of income statement. A total of **R 75 246** has been reclassified between employee related costs and actuarial gain line items in prior year.

Employee Related costs
In previous years, long service awards were mapped under bonus expanses line item. This has been re-mapped to its own line item and prior year bonus expenses have been reduced by **R 173,180.** Further actuarial gain or loss have been presented separately and a total of **R 75,246** has been classified on the income statement. An account relating to Long service award was mapped under other allowance by error in prior years. This has been re-mapped to the correct line item and a total of R **274,924** has been moved accordingly.

Donations Received relate to Land and Park Homes received from department of transport in prior year. The donation have been recorded at fair value. A total **increased of R 1 171 775** has been processed to restated prior year audited amount.

Contracted Services: An amount of R 3 000 relating to travelling costs was incorrectly mapped to repairs and maintenance under contracted services. Further an error was identified were transaction relating to events promoters and well as security costs were mapped under general expenses in prior year. A total of **R 233 049** was re-mapped to contracted services to correct this error.

Housing grant:
Housing grant agreements were incorrectly accounted for in prior years by applying GRAP 109 principles instead of GRAP 11. The error has been corrected in prior year and prior year amounts restated accordingly. This result to an increase in contracted service expenses and government grant and subsidies revenue by **R 23 29 0648** and **R 23 101 088** respectively

General expenses have been adjusted by subscription and membership fees raised on SALGA accruals raised . A total **increase of R 673 865** has been processed to restate prior year audited amount.

Finance cost were disclosed including bank charges. A total of **R 658 961** has been reclassified to restated prior year audited amount.

Notes to the Annual Financial Statements

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45. Prior-year adjustments (continued)

Scrapping allowances relate to non-existing investment property in prior year fixed asset register which were written-off.

Depreciation and amortisation expenses:
Prior year depreciation amount has been restated by an amount of **R 15 330 263** decrease. The error arises from incorrect change in estimate amount processed in prior year, hence correction has been made in current year.

46. Comparative figures

Certain comparative figures have been reclassified and restated..

47. Risk management

Financial risk management

Liquidity risk

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

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

	30 June 2020	30 June 2019
Finance Lease Obligations	79 678	157 950
Trade and other payables	33 480 954	37 241 969
Unspent conditional grant	3 572 086	2 937 343
VAT payable	1 211 789	824 057
Consumer deposits	9 189	10 542
Employee Benefits Obligations	121 357	51 235

Maturity analysis - Trade and other payables:	2020 Less than 1 year	2020 Between 1 and 2 years	2019 Between 2 and 5 years	2019 Over 5 years
Trade and other payables	33 480 954	-	37 241 969	-

All trade and other payables are less than one year old.

47. Risk management (continued)

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	**2020**	**2019**
Bank	15 580 460	5 510 990
Receivables from exchange transactions	5 517 921	6 427 060
Receivables from non-exchange transactions	235 506	265 823

Statutory receivables	**2020**	**2019**
Property Rates	15 625 893	19 092 027
Traffic fines	633 175	432 757
	16 259 068	**19 524 784**

Market risk

Interest rate risk

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

48. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 238 806 734 and that the municipality's total assets exceed its liabilities by R 238 806 734.

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.

Notes to the Annual Financial Statements

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48. Going concern (continued)

During the financial year ending 30 June 2020, the world experience a pandemic disease called Covid-19 of which Big 5 Hlabisa Local Municipality had to comply with the disaster management preventive measures and procedures as addressed by the president of the republic of South Africa on the 25th of March 2020.This result to the closure of the municipality for a prescribed period and only essential service providers were working.

The wide-ranging effects of the virus and the restrictions imposed were taken into account including the possible impact on service delivery, purchasing of goods and services required to enable service delivery. The working capital cycle impact which may severely affect the entity's ability to settle its debts as they become due as well as default on payments on supliers..

Revenue fines, penalties,service charges, licenses and permits are some of the income streams which were hit hardly by the effects of this pandemic and the municipality figures are below anticipated amounts. Uncertainty on when this pandemic will come to an end affected the budget of the municipality since additional costs has been incurred which were not budgeted for therefore some vote numbers will be over-spent leading to unauthorised expenditure.

The pandemic has affected all customers of the municipality since operations were stopped during lock down period and there is uncertainty on whether the customers will be able to settle their accounts on time. The effects of the pandemic were factored in the calculations of provision for bad debts as required by GRAP 104. Management is also aware that if the rate of people affected by covid-19 increases in near future, the nation can be taken back to lock down which will affect service deliver.

In respond to this, the government of south africa, has increased funding support in terms of grants and equitable share which will be used by the municipality to overcome the negative impact of covid 19 on the municipal operations. As an additional measure, the municipality has implemented a policy to write-off all interest accrued to customer accounts in order to motivate them to pay on time off which this has shown positive results since the collection rate has increased in current year. This means that the municipality will have sufficient cashflow to fund service delivery in future.

Management has also embarked on some cost cutting measures such as reduction inn travel and other claims, as well as spending only on items that have been budgeted for to ensure that there is always funds to fund additional operations as the need arises. This result to increase in cash and cash equivalent balance available at the end of the year that has been transferred to investment account and generate additional funds in the form of interest income.

Based on the above discussion, the financial statement have been prepared on a going concern as the effect of the pandemic is going down and the municipality will continue receive funding support from the government.

49. Events after the reporting date

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

50. Unauthorised expenditure

Opening balance as previously reported	141 010 340	69 656 718
Over Expenditure-operational	39 197 423	71 353 622
Opening balance as restated	**180 207 763**	**141 010 340**
Closing balance	**180 207 763**	**141 010 340**

Housing grant was incorrectly accounted for in prior year and an adjustment has been made to correct the error. No budget was allocated to the housing grant hence unauthorised expenditure in prior year has been restated to account for the error.

Analysed as follows: non-cash

Depreciation and impairment	-	29 097 455
Provision for bad debts and write-off	1 782 065	2 138 183
Loss on disposal of property, plant and equipment	7 016	720 676
Impairment loss	-	5 109 620
Scrapping allowance	417 146	-
	2 206 227	**37 065 934**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

50. Unauthorised expenditure (continued)

Analysed as follows: cash

Remuneration of councillors	685 676	9 389
Contracted services	35 239 797	30 436 317
Employee related costs	-	2 034 167
Finance Cost	87 005	687 121
Transfers and subsidies	978 536	-
Operating lease rental	-	1 120 694
	36 991 014	**34 287 688**

Unauthorised expenditure under investigation

Opening balance	141 010 340	69 656 718
Remuneration of councillors	685 676	9 389
Contracted Services	35 239 979	30 436 317
Employee related cost	-	2 034 167
Finance cost	87 005	687 121
Transfers and subsidies	978 536	-
Depreciation and impairment	-	29 097 455
Provision for bad debts and write - off	1 782 065	2 138 183
Loss on disposal of property plant and equipment	7 016	720 676
Impairment loss	-	5 109 620
Scrapping allowance	417 146	-
Operating lease rentals	-	1 120 694
	180 207 763	**141 010 340**

51. Fruitless and wasteful expenditure

Opening balance as previously reported	3 291 990	2 908 480
Interest on late payments of 3rd parties accounts	16 862	383 510
Opening balance as restated	**3 308 852**	**3 291 990**
Closing balance	**3 308 852**	**3 291 990**

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

Total of R 3,308,852 for current and prior years is still uder investigation.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

52. Irregular expenditure

Opening balance as previously reported	181 345 263	168 218 015
Irregular expenditure - Bid Adjudication committee not properly constituted	14 157 566	-
Irregular expenditure due to one quotation obtained	96 773	32 340
Irregular expenditure - No relevant documents available	-	619 340
Irregular Expenditure - CIDB required lower than required	-	1 371 371
Irregular expenditure - Bidder did not score position 1	232 416	578 048
Irregular expenditure - Regulation 32 not followed	1 010 310	6 855 242
Irregular expenditure - No Purchase Order, invoice and appointment letter	-	155 707
Irregular Expenditure- No Tax clearance certificate	179 300	515 200
Opening balance as restated	**197 021 628**	**178 345 263**
Add: Irregular Expenditure - prior period	-	3 000 000
Less: Amount written off - current	(1 147 910)	-
Less: Amount written off - prior period	(9 379 874)	-
Closing balance	**186 493 844**	**181 345 263**

Irregular expenditure arises mainly from non-compliance with supplier chain as well as incomplete supporting documentation submitted by the appointed supplier. The investigation of irregular expenditure is still underway and part of the irregular expenditure have been finalised. A recommendation was made and approved by council to write-off the finalised items as presented above.

Notes to the Annual Financial Statements

Figures in Rand		2020	2019

52. Irregular expenditure (continued)

Irregular expenditure recommended for descplinary action:

Non-compliance with section 28 of supplier chain management regulation	Bid process for Manqoba Community Hall	3 557 578	-
Non-compliance with section 28 of supplier chain management regulation	Bid Process for Jabhisa Sport Field	1 822 118	-
		5 379 696	**-**

Cases under investigation

A total of R 3,730,297.64 for prior years and R 363,688.62 for current year are still under investigation. The remaining balance will be considered for investigations in subsequent period.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

52. Irregular expenditure (continued)

Amounts recoverable

There is no amount recovered during the year relating to irregular expenditure.

53. Additional disclosure in terms of Municipal Finance Management Act

SALGA fees

Opening balance	6 051 566	5 377 701
Accrued Fees	924 974	673 865
	6 976 540	**6 051 566**

No Payment have been made to SALGA in current year.

Skills Development Levy

Current year subscription / fee	701 662	798 713
Amount paid - current year	(703 287)	(661 646)
	(1 625)	**137 067**

Audit fees

Current year subscription / fee	1 868 427	1 979 590
Amount paid - current year	(1 868 427)	(1 979 590)
	-	-

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

PAYE and UIF

Opening balance	(12 253)	-
Current year subscription / fee	11 516 285	10 882 435
Amount paid - current year	(11 504 032)	(10 894 688)
	-	**(12 253)**

Pension and Medical Aid Deductions

Current year subscription / fee	11 971 450	10 948 329
Amount paid - current year	(11 971 450)	(8 432 287)
	-	**2 516 042**

VAT

VAT input receivable	788 462	1 145 841
VAT payable	(712 517)	(729 243)
VAT control account	(1 294 660)	(1 240 834)
	(1 218 715)	**(824 236)**

VAT output payables and VAT input receivables are shown in note 16.

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

54. 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:	**2020**	**2019**
Current Year Deviation	107 254	2 228 444
Approved by council	(107 254)	(2 228 444)
	-	-

55. Budget differences

Material differences between budget and actual amounts

55. Budget differences (continued)

Interest received from debtors is nil, however the municipality has budgeted for R3,870,000. The variance is due to the resolution taken by council not to charge interest to customers so as to increase collection rate of the amount owed to the municipality.

License and permits received are below budget due to the fact that the municipality was closed down during lock down hence no collections received from this line of revenue during lock down.

Interest from investment also reflect a favourable balance due to the fact that the municipal investment accounts had huge favourable bank balance for the major part of the year.

Property rates billed for the year are more than the budget due to addition land sold and transferred to buyers therefore billing resumes in current year.

Donations received during the year, the municipality received donations from medical research council, department of arts and culture and Afrimart, this was not budgeted for during original and adjusted budget..

Revenue from fines and penalties is below budget due to the fact that the municipality did not receive revenue from this revenue stream during lock down.

Depreciation and amortisation - In prior year, the municipality incurred higher cost on depreciation and amortisation. Budget department used prior year as basis to determine the current year budget, however extensive verification was performed in prior year and useful life revised which led to such higher cost. In current year. Further there were more assets and newly identified assets capitalised in prior year compared to current year therefore current year amount is lower than anticipated.

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 reflects a favourable balance due to the fact that municipality was closed during lock down and there were no much activities contacted in terms of service delivery since employees were working from home and majority of the economy was closed except for essential services as defined.

Transfers and subsidies incurred during the year are more than budgeted figures due to excessive demand for the municipality to assist the community during the state lookdown period.

General expenses reflect a favourable balance because of lack of much activities during the period when the president of the republic announced closure of the country and allow essential service providers such as disaster management department only to engage with community and assist to relief the pressure arising from the effects of the pandemic.

55. Budget differences (continued)

Bad debts provision incurred during the year is more than budget due to the increase in debtors balance as a result of customers taking longer than anticipated to settle their accounts.

Receivables from exchange and non exchange transactions were budgeted together as consumer debtors hence there is no balance in the final budget column of receivables from exchange transactions.

No budget was allocated to land held for sale.

Cash and cash equivalents shows a favourable position due to the fact that the municipal activities were not too much in current year due to the lock down and closure of the municipality.

Property plant and equipment amount is more than budgeted amount due to newly identified assets as well as less impairment during the year which were not properly budgeted for.

Payables from exchange transactions balance is more than budget due to accrued liability raised as well as debtors with credit balance which were not considered during budget process.

Employee related costs reflects a favourable balance compared to the budget due to the fact that the employees were not coming to work for approximately three months hence some employee related costs such as travel and subsistence allowance were reduced. Further the municipal management has tighten controls in claims made by employees as a measure to reduce employee costs.

Remuneration of councilors is unfavourable due to increase in travelling costs to attend council meetings either in Hluhluwe or Hlabisa each time when there is a meeting to be held.

No budget was allocated to unspent condition al grant due to the fact that the municipality anticipated to engage all the budged activities to the fullest and complete all the projects which was not the case due to national lock down during the year.

Property rates anticipated receipts are less than actual as disclosed on cash flow due to a positive response from customers after an agreement was reached to write-off interest on their accounts in a bid to motivate settling of accounts. Collection rate increased and this works to the advantage of the municipality.

Grants received shows a favourable position as disclosed on cash flow statement due to additional grant allocation received for covid 19 pandemic. Further housing grant was not budgeted for.

Other receipts budgeted for are less than actual amounts as disclosed on the cash flow due to the fact that the municipality received more Vat refunds during the year and they had not budgeted for such.

Employee related costs paid as disclosed on the cash flow statement was budgeted including payments to suppliers therefore the two line items has to be combined.

Grants and Transfers paid reflect an unfavourable balance in cash flow statement due to the fact that expenditure relating to housing and integrated national electrification grants were not budgeted for.