Dipaleseng Local Municipality
(Registration number MP306)
Annual Financial Statements
for the year ended 30 June 2020

General Information

Legal form of entity	Dipaleseng Local Municipality
Nature of business and principal activities	Service Delivery
The following is included in the scope of operation	Rates and waste management, Local Economic Development projects,Poverty alieviation,Planing and promotion of intergrated plan, Land , economic and environmental development. The manadate of the municipality is interms of section 152 of the Constitution of South Africa.
Executive Mayor	Councillor: ML Makhubu
Speaker	Councillor: KB Moeketsi
Councillors	Councillor: MD Khanye (Member of Mayoral Commitee)
	Councillor: ZS Ngwenya (Member of Mayoral Committee)
	Councillor: AK Nyamade (MPAC Chairperson)
	Councillor: PM Mokoena
	Councillor: LM Maruping
	Councillor: SME Nhlapho
	Councillor: TJ Mahlangu
	Councillor: WS Davel
	Councillor: MF Dlamini
	Councillor: BG Shongwe
Grading of local authority	Grade 2
Chief Financial Officer	Mr GC Letsoalo
Accounting Officers	Mr Johnny Mokgatsi - (Acting)
	Mr C Myeza (Acting)
	Ms NB Khanye (Acting)
	IP Mutshinyali (Acting)
Registered office	Cnr of Johnny Mokoena Drive and Themba Shozi Street Balfour Mpumalanga 2410
Postal address	Private Bag X1005 Balfour Mpumalanga 2410
Bankers	First National Bank Limited South Africa
Auditors	Auditor General South Africa Registered Auditors
Attorneys	Panel of 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
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

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

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

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

The accounting officers acknowledge that they are 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 officers 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 officers are 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 officers have 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, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The gazette **No. 43246** of 24 April 2020 relating to upper limits of the salaries, allowances and benefits of all municipal council members was used to pay the salaries and allowances to councilors in 2019/20 financial years.

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

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

The annual financial statements set out on page 4, 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:

Mr Johnny Mokgatsi - (Acting)
Accounting Officer (Acting)

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The municipality is engaged in service delivery and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 86 336 730 (2019: deficit R 20 285 051).

2. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 489 196 025 and that the municipality's total Assets exceed its liabilities by R 489 196 025.

There was an outbreak of Covid 19 during the year under review and the municipality was closed during the lockdown announced by the president of the republic. During the lock down, only essential service providers were working and this have affected municipal delivery of services and other revenue streams of the municipality. The effects of covid 19, in terms of municipal funding and expenditure management have been considered during evaluation of going concern.

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 accounting officers continue to procure funding for the ongoing operations for the municipality

3. Subsequent events

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

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name
Mr Johnny Mokgatsi - (Acting)
Mr C Myeza (Acting)
Ms NB Khanye (Acting)
IP Mutshinyali (Acting)

6. Auditors

Auditor General South Africa will continue in office for the next financial period.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the accounting officer on 30 June 2020 and were signed on its behalf by:

Accounting Officer's Report

Mr Johnny Mokgatsi - (Acting)
Accounting Officer (Acting)

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	8	126 653	108 047
Receivables from exchange transactions	9	31 678 329	37 844 660
Prepayments	6	26 492 283	-
Receivables from non-exchange transaction	10	17 451 516	2 419 699
Cash and cash equivalents	11	3 115 741	2 662 123
		78 864 522	**43 034 529**
Non-Current Assets			
Investment property	3	38 847 122	39 792 566
Property, plant and equipment	4	653 404 134	504 991 943
Intangible assets	5	98 163	104 379
		692 349 419	**544 888 888**
Total Assets		**771 213 941**	**587 923 417**
Liabilities			
Current Liabilities			
Payables from exchange transactions	14	151 473 636	135 705 987
VAT payable	15	22 276 213	18 977 075
Consumer deposits	16	1 614 857	1 527 949
Employee benefit obligation	6&7	606 379	357 879
Unspent conditional grants and receipts	12	61 378 351	1 523 387
		237 349 436	**158 092 277**
Non-Current Liabilities			
Employee benefit obligation	6&7	11 844 621	12 113 888
Provisions	13	32 823 860	34 659 522
		44 668 481	**46 773 410**
Total Liabilities		**282 017 917**	**204 865 687**
Net Assets		**489 196 024**	**383 057 730**
Accumulated surplus		489 196 025	383 057 727

* See Note 39

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	109 497 056	103 391 588
Rental of facilities and equipment	19	161 774	171 918
Licences and permits	21	4 769 157	4 211 372
Other income	23	272 246	68 136
Interest revenue	24	28 076 400	25 946 731
Total revenue from exchange transactions		**142 776 633**	**133 789 745**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	30 872 215	16 593 228
Transfer revenue			
Government grants & subsidies	26	220 618 646	109 455 613
Fines, Penalties and Forfeits	20	1 372 250	851 250
Public Contributions and donations		915 491	1 639 301
Total revenue from non-exchange transactions		**253 778 602**	**128 539 392**
Total revenue	17	**396 555 235**	**262 329 137**
Expenditure			
Employee related costs	27	(61 800 905)	(55 755 509)
Remuneration of councillors	28	(5 028 864)	(5 826 314)
Depreciation and amortisation	29	(25 084 157)	(25 552 966)
Finance costs	30	(10 381 570)	(7 368 009)
Lease rentals on operating lease	22	(464 472)	(904 626)
Debt Impairment		(87 493 965)	(64 281 398)
Bad debts written off		-	(810 577)
Bulk purchases	31	(68 692 031)	(70 106 231)
Contracted services	32	(16 732 883)	(33 594 951)
Transfers and subsidies		(5 287 264)	(4 638 983)
General Expenses	33	(27 540 739)	(12 392 171)
Total expenditure		**(308 506 850)**	**(281 231 735)**
Operating surplus (deficit)		**88 048 385**	**(18 902 598)**
Loss on disposal of assets and liabilities		(1 711 655)	(1 382 453)
Surplus (deficit) for the year		**86 336 730**	**(20 285 051)**

* See Note 39

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	354 284 114	354 284 114
Adjustments		
Prior year adjustments	49 058 664	49 058 664
Balance at 01 July 2018 as restated*	**403 342 778**	**403 342 778**
Changes in net assets		
Surplus for the year	(20 285 051)	(20 285 051)
Deficit	(20 285 051)	(20 285 051)
Opening balance as previously reported	383 057 727	383 057 727
Adjustments		
Prior year adjustments	19 801 568	19 801 568
Restated* Balance at 01 July 2019 as restated*	**402 859 295**	**402 859 295**
Changes in net assets		
Surplus for the year	86 336 730	86 336 730
Total changes	86 336 730	86 336 730
Balance at 30 June 2020	**489 196 025**	**489 196 025**

* See Note 39

Statement Of Financial Position

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Property rates		32 244 465	17 444 478
Sale of goods and services		5 203 177	4 451 426
Grants		220 618 646	109 455 613
Interest income		28 076 400	25 946 731
Servics charges		109 497 056	103 391 588
		395 639 744	260 689 836
Payments			
Employee costs		(66 591 396)	(60 362 969)
Suppliers		(139 418 939)	(147 913 119)
Finance costs		(10 381 570)	(7 368 009)
		(216 391 905)	(215 644 097)
Net cash flows from operating activities	34	**179 247 839**	**45 045 739**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(178 794 221)	(47 031 987)
Net increase/(decrease) in cash and cash equivalents		**453 618**	**(1 986 248)**
Cash and cash equivalents at the beginning of the year		2 662 123	4 648 371
Cash and cash equivalents at the end of the year	11	**3 115 741**	**2 662 123**

* See Note 39

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	40 489 164	73 322 252	**113 811 416**	109 497 056	**(4 314 360)**	Note 52
Rental of facilities and equipment	199 356	(8 484)	**190 872**	161 774	**(29 098)**	Note 52
Licences and permits	2 457 792	3 562 208	**6 020 000**	4 769 157	**(1 250 843)**	Note 52
Other income	576	194 976	**195 552**	272 246	**76 694**	Note 52
Interest revenue	21 138 408	6 202 668	**27 341 076**	28 076 400	**735 324**	Note 52
Total revenue from exchange transactions	**64 285 296**	**83 273 620**	**147 558 916**	**142 776 633**	**(4 782 283)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	31 206 024	1 401 212	**32 607 236**	30 872 215	**(1 735 021)**	Note 52
Transfer revenue						
Government grants & subsidies	96 372 960	126 604 040	**222 977 000**	220 618 646	**(2 358 354)**	Note 52
Fines, Penalties and Forfeits	1 053 996	177 004	**1 231 000**	1 372 250	**141 250**	Note 52
Transfers and grants	256 128	(244 132)	**11 996**	915 491	**903 495**	Note 52
Total revenue from non-exchange transactions	**128 889 108**	**127 938 124**	**256 827 232**	**253 778 602**	**(3 048 630)**	
Total revenue	**193 174 404**	**211 211 744**	**404 386 148**	**396 555 235**	**(7 830 913)**	
Expenditure						
Personnel	(51 048 384)	(12 215 800)	**(63 264 184)**	(61 800 905)	**1 463 279**	Note 52
Employee related costs	(5 907 744)	34 552	**(5 873 192)**	(5 028 864)	**844 328**	Note 52
Depreciation and amortisation	(18 972 000)	-	**(18 972 000)**	(25 084 157)	**(6 112 157)**	Note 52
Finance costs	-	(4 008 000)	**(4 008 000)**	(10 381 570)	**(6 373 570)**	Note 52
Lease rentals on operating lease	(231 876)	(347 348)	**(579 224)**	(464 472)	**114 752**	Note 52
Debt Impairment	(17 503 596)	(19 131 408)	**(36 635 004)**	(87 493 965)	**(50 858 961)**	
Bad debts written off	(6 450 480)	6 450 480	**-**	-	**-**	Note 52
Bulk purchases	(9 612 480)	(66 003 436)	**(75 615 916)**	(68 692 031)	**6 923 885**	Note 52
Contracted Services	(14 218 476)	(6 266 964)	**(20 485 440)**	(16 732 883)	**3 752 557**	Note 52
Transfers and Subsidies	-	(1 856 012)	**(1 856 012)**	-	**1 856 012**	Note 52
Transfers and subsidies	(4 273 980)	2 274 048	**(1 999 932)**	(5 287 264)	**(3 287 332)**	Note 52
General Expenses	(17 939 352)	(11 952 548)	**(29 891 900)**	(27 540 739)	**2 351 161**	Note 52
Total expenditure	**(146 158 368)**	**(113 022 436)**	**(259 180 804)**	**(308 506 850)**	**(49 326 046)**	
Operating surplus	**47 016 036**	**98 189 308**	**145 205 344**	**88 048 385**	**(57 156 959)**	
Loss on disposal of assets and liabilities	-	-	**-**	(1 711 655)	**(1 711 655)**	Note 52
Surplus before taxation	**47 016 036**	**98 189 308**	**145 205 344**	**86 336 730**	**(58 868 614)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**47 016 036**	**98 189 308**	**145 205 344**	**86 336 730**	**(58 868 614)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	108 048	(108 048)	**-**	126 653	**126 653**	Note 52
VAT receivable	-	-	**-**	54 948 784	**54 948 784**	Note 52
Prepayments	-	-	**-**	26 492 283	**26 492 283**	
Consumer debtors	2 372 417	(27 920 957)	**(25 548 540)**	17 451 516	**43 000 056**	Note 52
Cash and cash equivalents	(105 609 317)	44 875 141	**(60 734 176)**	3 115 741	**63 849 917**	Note 52
	(103 128 852)	**16 846 136**	**(86 282 716)**	**102 134 977**	**188 417 693**	
Non-Current Assets						
Investment property	39 937 259	(39 937 259)	**-**	38 847 122	**38 847 122**	Note 52
Property, plant and equipment	641 268 337	(495 393 137)	**145 875 200**	653 404 134	**507 528 934**	Note 52
Intangible assets	356 390	(356 390)	**-**	98 163	**98 163**	Note 52
	681 561 986	**(535 686 786)**	**145 875 200**	**692 349 419**	**546 474 219**	
Total Assets	**578 433 134**	**(518 840 650)**	**59 592 484**	**794 484 396**	**734 891 912**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	167 246 578	(161 373 378)	**5 873 200**	151 473 636	**145 600 436**	Note 52
VAT payable	37 090 475	(37 090 475)	**-**	77 224 997	**77 224 997**	Note 52
Consumer deposits	1 527 949	(1 527 949)	**-**	1 614 857	**1 614 857**	Note 52
Employee benefit obligation	357 879	(357 879)	**-**	606 379	**606 379**	Note 52
Unspent conditional grants and receipts	1 984 258	(1 984 258)	**-**	61 378 351	**61 378 351**	Note 52
	208 207 139	**(202 333 939)**	**5 873 200**	**292 298 220**	**286 425 020**	
Non-Current Liabilities						
Employee benefit obligation	46 773 500	(46 773 500)	**-**	11 844 621	**11 844 621**	Note 52
Provisions	-	-	**-**	32 823 860	**32 823 860**	Note 52
	46 773 500	**(46 773 500)**	**-**	**44 668 481**	**44 668 481**	
Total Liabilities	**254 980 639**	**(249 107 439)**	**5 873 200**	**336 966 701**	**331 093 501**	
Net Assets	**323 452 495**	**(269 733 211)**	**53 719 284**	**457 517 695**	**403 798 411**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	384 857 171	(239 651 827)	**145 205 344**	489 196 020	**343 990 676**	Note 52

Accounting Policies

Figures in Rand	Note(s)	2020	2019

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.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

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

Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

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 [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

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.

Useful lives of waste and water network and other assets

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

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.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Effective interest rate

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

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

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

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

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.

1.5 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.

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.

Accounting Policies

1.5 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

1.6 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for donation and other related assets which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	indefinite
Buildings	Straight line	0-100 years
Plant and machinery	Straight line	5-15 years
Furniture and fixtures	Straight line	3-10 years
Motor vehicles	Straight line	5-12 years
Office equipment	Straight line	3-7 years
IT equipment	Straight line	1-3 years
Computer software	Straight line	1-3 years
Infrastructure	Straight line	0-100 years
Community	Straight line	0-100 years
Other property, plant and equipment	Straight line	5-12 years
Specialised vehicles	Straight line	5-7 years
Tools and loose gear	Straight line	3-5 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.

Accounting Policies

1.6 Property, plant and equipment (continued)

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 use for delivery of services and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when they stop using them 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 statement of financial position.

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, its initial cost at the date of acquisition is measured at its fair value as at that date.

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

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

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

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

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

Accounting Policies

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	Depreciation method	Average useful life
Computer software, other	Straight line	3 years
Servitude	Straight line	indefinite

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements

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.

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)

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

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.

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

Classification

The entity 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
Receivable from Non-Exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalent	Financial asset measured at amortised cost

The entity 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
Consumer deposits	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

Subsequent measurement of financial assets and financial liabilities

The entity 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.

Accounting Policies

1.8 Financial instruments (continued)

Fair value measurement considerations

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

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

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

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

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

Gains and losses

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

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

Accounting Policies

1.8 Financial instruments (continued)

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.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, 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 entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of 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 recognise 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.

Accounting Policies

1.8 Financial instruments (continued)

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

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

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

Presentation

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

Dividends or similar distributions 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.

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

1.9 Statutory receivables

Identification

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

Examples of statutory recievables are VAT, property rate and traffic fines.

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 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 using the nominal interest rate.

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).

Accounting Policies

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.

1.10 VAT

Current tax assets and liabilities

The municipality is registered with the South African Revenue Services (SARS) for Value Added Tax (VAT) on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).t

1.11 Leases

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

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

Accounting Policies

1.11 Leases (continued)

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.

1.12 Inventories

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

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

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

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

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

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

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

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

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

1.13 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).

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

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.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

After the recognition of an impairment loss, 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.

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).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

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.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

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.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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.

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

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

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

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

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

1.14 Impairment of non-cash-generating assets

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

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

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

Accounting Policies

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

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

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

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

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

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

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

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

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

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.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

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 a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

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

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

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

Accounting Policies

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

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.15 Employee benefits

Employee benefits are all forms of consideration given by an entity 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 entity, 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 entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, 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 entity to reimburse it for employee benefits already paid.

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

- an entity'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.

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

Accounting Policies

1.15 Employee benefits (continued)

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 entity during a reporting period, the entity recognise 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 entity recognise 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 entity 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 recognise the expected cost of bonus, incentive and performance related payments when the entity 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 entity 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.

Insured benefits

Where the entity pays insurance premiums to fund a post-employment benefit plan, the entity treats such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation to either:
- pay the employee benefits directly when they fall due; or
- pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior reporting periods.

If the entity retains such a legal or constructive obligation, the entity treats the plan as a defined benefit plan.

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity 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 entity during a reporting period, the entity recognise 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, an entity recognise 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.

Accounting Policies

1.15 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 recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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 recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

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 return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

Accounting Policies

1.15 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets 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:

- 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.

Accounting Policies

1.15 Employee benefits (continued)

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.

Other post retirement obligations

The municipality provides post-retirement health care benefit upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits 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.

The entity shall recognise the net total of the following amounts as expense or revenue, 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 right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Accounting Policies

1.15 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.

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

Accounting Policies

1.16 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.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

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

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

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

Accounting Policies

1.16 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-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.

1.18 Revenue from exchange transactions

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

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

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

Measurement

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

Accounting Policies

1.18 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

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

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

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

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

Interest

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

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

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

1.19 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.

Accounting Policies

1.19 Provisions and contingencies (continued)

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.

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

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

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

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

Recognition

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

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

Measurement

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

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

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.

Accounting Policies

1.19 Provisions and contingencies (continued)

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.

Gifts and donations, including goods in-kind

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

1.20 Investment income

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

1.21 Borrowing costs

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

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

1.22 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Accounting Policies

1.22 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

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

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

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

Recognition

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

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

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

1.23 Comparative figures

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

1.24 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 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.

1.25 Fruitless and wasteful expenditure

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

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

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

Accounting Policies

1.26 Irregular expenditure (continued)

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

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

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

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

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

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

1.27 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.

1.28 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).

Accounting Policies

1.28 Related parties (continued)

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 those family members who may be expected to influence, or be influenced by that person 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.

1.29 Events after reporting date

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

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

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

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

Notes to the Annual Financial Statements

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 has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	01 April 2019	The impact of the standard is not material
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	The impact of the standard is not material
• 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 standard is not material
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	The impact of the interpretation is not material
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land		
• IGRAP 19: Liabilities to Pay Levies		

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:
• GRAP 104 (amended): Financial Instruments	01 April 2099	Unlikely there will be a material impact
• Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards	01 April 2021	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	Impact is currently being assessed
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2099	Unlikely there will be a material 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
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	01 April 2020	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2020	Impact is currently being assessed
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2020	Unlikely there will be a material impact

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

3. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	38 999 768	(152 646)	38 847 122	39 792 566	-	39 792 566

Reconciliation of investment property - 2020

	Opening balance	Fair value adjustments	Depreciation	Total
Land	39 792 566	(792 798)	(152 646)	38 847 122

Reconciliation of investment property - 2019

	Opening balance	Other changes, movements	Depreciation	Total
Land	40 783 750	(822 840)	(168 344)	39 792 566

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.

No investment property presented as collateral security for any liability.

The effective date of the valuations was 30 June 2020 . Revaluations were performed by an independent valuer, Zak Van der Merwe, of I@ Consulting. I@ Consulting is not connected to the municipality and has knowledge of the location and category of the investment property being valued. The valuation was based on open market values for existing use.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

4. Property, plant and equipment

	2020			2019		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Municipal Buildings	60 445 878	(52 366 587)	8 079 291	61 171 930	(52 025 671)	9 146 259
Plant and machinery	895 302	(677 725)	217 577	895 302	(602 935)	292 367
Furniture and fixtures	2 484 030	(1 886 633)	597 397	2 402 284	(1 711 015)	691 269
Motor vehicles	6 566 422	(4 921 991)	1 644 431	5 302 054	(4 901 441)	400 613
IT equipment	1 421 244	(971 152)	450 092	1 268 967	(807 473)	461 494
Infrastructure assets	839 070 779	(459 404 797)	379 665 982	840 935 444	(445 651 895)	395 283 549
Community assets	78 323 291	(45 628 176)	32 695 115	80 250 835	(45 755 253)	34 495 582
Capital Work in Progress	230 054 249	-	230 054 249	64 220 810	-	64 220 810
Total	**1 219 261 195**	**(565 857 061)**	**653 404 134**	**1 056 447 626**	**(551 455 683)**	**504 991 943**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers received	Transfers	Landfil site Movement	Depreciation	Impairment loss	Impairment reversal	Total
Municipal buildings	9 146 259	-	-	-	-	-	(1 071 959)	-	4 991	8 079 291
Plant and machinery	292 367	-	-	-	-	-	(74 790)	-	-	217 577
Furniture and fixtures	691 269	81 747	-	-	-	-	(175 619)	-	-	597 397
Motor vehicles	400 613	1 264 367	-	-	-	-	(281 717)	261 168	-	1 644 431
IT equipment	461 494	152 277	-	-	-	-	(163 679)	-	-	450 092
Infrastructure assets	395 283 549	-	(608 464)	11 462 391	-	(4 676 003)	(21 795 082)	(409)	-	379 665 982
Community assets	34 495 582	-	(275 515)	-	-	-	(1 523 152)	(1 800)	-	32 695 115
Capital Work in Progress	64 220 810	177 295 830	-	-	(11 462 391)	-	-	-	-	230 054 249
	504 991 943	**178 794 221**	**(883 979)**	**11 462 391**	**(11 462 391)**	**(4 676 003)**	**(25 085 998)**	**258 959**	**4 991**	**653 404 134**

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Transfers	Landfil site movement	Prior Period Adjustment	Depreciation	Impairment loss	Total
Municipal buildings	8 024 359	-	(3 085)	-	-	-	2 297 407	(1 172 422)	-	9 146 259
Plant and machinery	351 354	223 494	(164 753)	18 490	-	-	-	(136 218)	-	292 367
Furniture and fixtures	779 295	25 665	(86 783)	329 104	-	-	-	(353 831)	(2 181)	691 269
Motor vehicles	1 002 597	-	-	-	-	-	-	(340 817)	(261 167)	400 613
IT equipment	718 426	87 528	(100 993)	-	-	-	-	(243 065)	(402)	461 494
Infrastructure assets	381 878 781	1 025 000	-	37 516 903	-	251 549	(3 748 663)	(21 604 290)	(35 731)	395 283 549
Community assets	31 561 793	-	(201 417)	-	-	-	4 875 061	(1 678 150)	(61 705)	34 495 582
Capital Work in Progress	56 067 415	45 670 300	-	-	(37 516 905)	-	-	-	-	64 220 810
	480 384 020	**47 031 987**	**(557 031)**	**37 864 497**	**(37 516 905)**	**251 549**	**3 423 805**	**(25 528 793)**	**(361 186)**	**504 991 943**

Pledged as security

Carrying value of assets pledged as security:

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Total
Opening balance	56 448 981	7 771 830	64 220 811
Additions	48 525 395	5 017 481	53 542 876
Transferred to completed items	(10 552 507)	-	(10 552 507)
	94 421 869	**12 789 311**	**107 211 180**

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Total
Opening balance	56 067 415	-	56 067 415
Additions	36 515 882	7 771 830	44 287 712
Transferred to completed items	(36 134 316)	-	(36 134 316)
	56 448 981	**7 771 830**	**64 220 811**

Expenditure incurred to repair and maintain property, plant and equipment

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

5. Intangible assets

	2020			2019		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	161 673	(30 298)	131 375	161 673	(24 082)	137 591
Servitudes	(33 212)	-	(33 212)	(33 212)	-	(33 212)
Total	**128 461**	**(30 298)**	**98 163**	**128 461**	**(24 082)**	**104 379**

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software, other	137 591	(6 216)	131 375
Servitudes	(33 212)	-	(33 212)
	104 379	**(6 216)**	**98 163**

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software, other	161 573	(23 982)	137 591
Servitudes	350 084	(383 296)	(33 212)
	511 657	**(407 278)**	**104 379**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

5. Intangible assets (continued)

Pledged as security

None of the intangible assets presented above were pledged in current year.

6. Long Service Awards

We have applied the Projected Unit Credit Method to determine the liabilities. The projected liability is based on actuarial assumptions about the future. These assumptions are set to be realistic and individually justifiable. These variations emerge at each valuation as actuarial gains or losses.

	2020	2019
Discount Rate	7.52 %	8.22 %
Consumer Inflation Rate	4.08 %	5.59 %
Net Effective Discount Rate	3.31 %	2.49 %

The effect of a one percent increase and decrease in the salary inflation rates is as follows:

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

6. Long Service Awards (continued)

	-1% Decrease	Valuation basis	1% Increase
Employer	2 678 000	2 850 000	3 040 000
Current Service Cost	253 500	275 300	299 700
Interest Cost	192 600	206 000	221 400
	3 124 100	**3 331 300**	**3 561 100**

The table above indicates for 30 June 2020 financial year that if earnings inflation is 1% greater than the long-term assumption made, the accrued liability will increase by 7%. Similarly, a 1% decrease in the salary inflation assumption will result in a 6% decrease in the accrued liability.

The present value of the long service awards for the current and previous four years is as follows:

	2016	2017	2018	2019	2020
Long Service Awards	1 829 000	1 874 000	2 019 000	2 630 850	2 850 000

Changes in the present value of the long service awards are as follows:

	2020	2019
Opening Balance	2 630 850	2 019 311
Benefits Paid	(248 500)	(169 195)
Net Income/ (Expense) Recognised in statement of financial performance	467 650	780 734
	2 850 000	**2 630 850**

Net expense recognised in the statement of financial performance

	2020	2019
Opening balance	2 630 850	2 019 311
Current Service Costs	275 255	208 596
Interest Costs	206 244	166 729
Actuarial (Gain) Losses	(13 849)	405 409
Expected benefits vesting	(248 500)	(169 195)
	2 850 000	**2 630 850**

The net expense relating to employee benefit obligations recognised in the statement of financial performance is included within employee related costs.

7. Employee benefit obligations

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

Carrying value		
Present value of the defined benefit obligation - Post Retirement Medical Aid Plan	9 601 000	10 089 417
Non-current liabilities	(11 844 621)	(12 113 888)
Current liabilities	(606 379)	(357 879)
	(12 451 000)	**(12 471 767)**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

7. Employee benefit obligations (continued)

Key assumptions used: Post Retirement Medical Aid

Assumptions used at the reporting date:

Discount rates used	10.40 %	9.36 %
Healthcare costs inflation rate	6.49 %	6.84 %
Net of health care cost inflation discount rate	3.67 %	2.36 %
Maximum subsidy inflation rate	4.49 %	4.79 %
Net of maximum subsidy inflation discount rate	5.65 %	4.40 %

The basis used to determine the overall expected rate of return on assets is as follow.

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

Opening balance	10 089 417	12 659 725
Net expense recognised in the statement of financial performance	(488 417)	(2 570 308)
	9 601 000	**10 089 417**

Net expense recognised in the statement of financial performance

Current service cost	616 996	719 397
Interest cost	927 995	1 208 066
Actuarial (gains) losses	(1 675 529)	(4 182 780)
Expected Benefits paid	(357 879)	(314 991)
	(488 417)	**(2 570 308)**

8. Inventories

Maintenance materials	109 267	92 323
Water for distribution	17 386	15 724
	126 653	**108 047**

Inventory pledged as security

None of the inventory disclosed above has been pledged as security in current year.

9. Receivables from exchange transactions

Gross balances		
Consumer debtors - Electricity	54 187 139	38 876 938
Consumer debtors - Water	106 006 508	97 977 988
Consumer debtors - Waste water	113 694 050	94 827 497
Consumer debtors - Rental	1 250 772	1 043 036
Consumer debtors - Refuse	56 900 414	46 612 608
Consumer debtors - Other	(1 675 996)	5 960 181
	330 362 887	**285 298 248**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

9. Receivables from exchange transactions (continued)

Less: Allowance for impairment		
Consumer debtors - Electricity	(44 726 512)	(31 801 075)
Consumer debtors - Water	(92 643 280)	(82 963 674)
Consumer debtors - Waste water	(103 601 902)	(85 360 472)
Consumer debtors - Refuse	(57 712 864)	(47 328 367)
	(298 684 558)	**(247 453 588)**

Net balance		
Consumer debtors - Electricity	9 460 627	7 075 863
Consumer debtors - Water	13 363 228	15 014 314
Consumer debtors - Waste water	10 092 148	9 467 025
Consumer debtors - Rental	1 250 772	1 043 036
Consumer debtors - Refuse	(812 450)	(715 759)
Consumer debtors - Other	(1 675 996)	5 960 181
	31 678 329	**37 844 660**

There are no statutory receivables disclosed in the above receivables from exchange transactions.

Electricity		
Current (0 -30 days)	7 731 032	5 154 877
31 - 60 days	1 342 553	882 288
61 - 90 days	1 301 040	700 237
91 - 120 days	1 331 590	890 656
121 - 365 days	8 488 534	4 683 367
	20 194 749	**12 311 425**

Water		
Current (0 -30 days)	2 501 120	4 433 139
31 - 60 days	1 561 230	1 377 821
61 - 90 days	1 561 204	1 391 260
91 - 120 days	1 648 167	1 355 430
121 - 365 days	10 258 572	9 309 430
> 365 days	80 659 363	64 450 768
	98 189 656	**82 317 848**

Sewerage		
Current (0 -30 days)	2 416 954	2 436 006
31 - 60 days	1 767 527	1 665 173
61 - 90 days	1 726 780	1 614 520
91 - 120 days	1 733 968	1 607 137
121 - 365 days	11 785 266	10 747 390
> 365 days	90 114 618	72 738 145
	109 545 113	**90 808 371**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

9. Receivables from exchange transactions (continued)

Refuse		
Current (0 -30 days)	1 060 367	966 995
31 - 60 days	1 021 501	918 028
61 - 90 days	1 010 700	903 573
91 - 120 days	1 003 602	897 498
121 - 365 days	6 774 603	5 950 219
> 365 days	50 021 636	40 350 547
	60 892 409	**49 986 860**
Housing rental		
Current (0 -30 days)	-	20 985
31 - 60 days	-	10 548
61 - 90 days	-	28 548
91 - 120 days	-	2 682 618
	-	**2 742 699**
Business		
Current (0 -30 days)	375 015	592 018
31 - 60 days	377 510	333 535
61 - 90 days	344 434	315 681
91 - 120 days	341 342	359 533
121 - 365 days	2 367 072	2 287 515
> 365 days	92 893 735	87 772 961
	96 699 108	**91 661 243**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(249 199 321)	(285 699 910)
Contributions to allowance	(51 230 970)	36 500 589
	(300 430 291)	**(249 199 321)**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

9. Receivables from exchange transactions (continued)

Statutory receivables general information

Transaction(s) arising from statute

There are no statutory debtors disclosed under receivables from exchange transtions above.

Receivables from exchange transaction past due but not impaired

Receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2020, R25 002 008 (2019: R22 443 919) were past due but not impaired.

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

1 month past due	13 709 473	12 991 017
2 months past due	5 692 811	4 843 310
3 months past due	5 599 724	4 609 592

Receivables from exchange transaction impaired

As of 30 June 2020, receivables of R273 761 914 (2019: R157 691 733) were impaired and provided for.

The ageing of the amounts past due and impaired are as follows::

3 to 6 months	14 327 732	4 779 269
Over 6 months	259 434 182	152 912 484

10. Receivables from non-exchange transactions

Gross balances		
Property rates	71 407 670	47 860 603
Traffic fines	4 686 831	4 621 285
	76 094 501	**52 481 888**
Less: Allowance for impairment		
Property rates	(54 597 871)	(45 991 712)
Traffic fines	(4 045 114)	(4 070 477)
	(58 642 985)	**(50 062 189)**
Net balance		
Property rates	16 809 799	1 868 891
Traffic fines	641 717	550 808
	17 451 516	**2 419 699**
Statutory receivables included in receivables from non-exchange transactions above are as follows:		
Property rates	17 720 640	5 573 717
Traffic fines	641 717	550 808
	18 362 357	**6 124 525**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

10. Receivables from non-exchange transactions (continued)

Property rates		
Current (0 -30 days)	2 763 509	1 205 885
31 - 60 days	2 382 129	1 034 318
61 - 90 days	2 325 011	991 103
91 - 120 days	2 191 948	953 773
121 - 365 days	12 780 251	5 931 687
> 365 days	46 186 599	33 605 688
	68 629 447	**43 722 454**

Traffic fines		
> 365 days	641 717	550 808

Reconciliation of allowance for impairment		
Balance at beginning of the year	(50 062 189)	(41 622 540)
Contributions to allowance	(8 580 796)	(8 439 649)
	(58 642 985)	**(50 062 189)**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

10. Receivables from non-exchange transactions (continued)

Statutory receivables general information

Transaction(s) arising from statute

Property rates are governed by The Local Government: Municipal Property Rates Act 6 of 2004.

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.

Determination of transaction amount

Property rates values are calculated based on market value of properties as per applicable valuation roll.

Traffic fines charged are determined by The National Road Traffic Offence Charge Book.

Interest or other charges levied/charged

Interest is charged on long outstanding statutory debtors at a rate of **R 10%** per annum.

Basis used to assess and test whether a statutory receivable is impaired

All the customers with accounts having balances which are 90 days or old are considered for impairment.

Discount rate applied to the estimated future cash flows

No discount rate applied and no estimated future cash flows, the amounts presented on the debtors age analysis present values which have already factored in the time value of money.

Reconciliation of provision for impairment

Relating specifically to Statutory Receivables		
Opening balance	46 023 280	41 890 629
Provision for impairment	6 962 836	4 132 651
	52 986 116	**46 023 280**

Receivables past due but not impaired

Relating specifically to Statutory Receivables

Statutory receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2020, R7 470 649 (2019: R3 231 306) were past due but not impaired.

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

1 month past due	2 763 509	1 205 885
2 months past due	2 382 129	1 034 318
3 months past due	2 325 011	991 103

Receivables from non-exchange transaction impaired

As of 30 June 2020, receivables from non-exchange transaction of R 61 158 798 (2019: R 40 491 148) were impaired and provided for.

The ageing of the amounts is as follows:

3 to 6 months	2 191 948	953 773
Over 6 months	58 966 850	39 537 375

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

10. Receivables from non-exchange transactions (continued)

Summary of debtors by customer classificantion:

Business		
Current (0 -30 days)	534 729	-
31 - 60 days	479 131	-
61 - 90 days	507 332	-
91 - 120 days	400 835	-
121-365	14 902 408	-
	16 824 435	**-**
Government		
Current (0 -30 days)	339 606	100 868
31 - 60 days	340 206	101 807
61 - 90 days	256 298	101 440
91 - 120 days	353 256	109 183
121-365	9 373 039	7 571 758
	-	-
	10 662 405	**7 985 056**
Residential		
Current (0 -30 days)	488 904	395 583
31 - 60 days	482 942	325 809
61 - 90 days	454 852	314 301
91 - 120 days	322 173	324 961
121-365	15 215 962	13 108 501
	-	-
	16 964 833	**14 469 155**
Other		
Current (0 -30 days)	358 881	254 924
31 - 60 days	481 010	247 173
61 - 90 days	423 283	221 161
91 - 120 days	430 888	214 433
121-365	10 961 909	8 339 419
	12 655 971	**9 277 110**

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	3 115 741	2 662 123

Cash and cash equivalents pledged as collateral

None of the cash and cash equivalents has been pledged as collateral security in current year.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

11. Cash and cash equivalents (continued)

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
First National BANK - Cheque Account - 515-908-402-08	(39 389)	391 372	127 940	(39 389)	391 372	128 630
First National BANK - Current Account - 620-546-558-27	91 562	2 128 006	156 637	3 128 832	2 128 006	156 516
First National BANK - Call Account - 620-332-397-83	26 298	142 745	2 823 575	26 298	142 745	2 823 275
Total	**78 471**	**2 662 123**	**3 108 152**	**3 115 741**	**2 662 123**	**3 108 421**

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Regional Bulk Infrastructure Grant	61 378 351	-
Intergrated National Electrification program Grant	-	1 523 387
	61 378 351	**1 523 387**

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

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

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

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

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

13. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	34 659 522	(4 676 002)	2 840 340	32 823 860

Reconciliation of provisions - 2019

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	32 013 218	251 547	2 394 757	34 659 522

Environmental rehabilitation provision

The landfill rehabilitation is created for the rehabilitation of the current operational sites which are evaluated at each year-end toreflect the best estimate at reporting date. The sites under consideration are the Greylingstad, Siyathemba, and Grootvlei landfill sites.

The valuation for the landfill site was performed by Mr Seakle Godschalk Pr Sci Nat. from Environmental and Sustainability Solutions (ESS). Mr Godschalk is a registered professional environmental scientist with the South African Council for Natural Scientist Profession as well as the Southern African Institute of Ecologists and Environmental Scientists. Mr Godschalk is also a member of the Institute of Municipal Finance Officers and Institute of Directors.

Key financial assumptions used in this calculation were as follows:

	Greylingstad	Siyathemba	Grootvlei
CPI	2.41 %	2.41 %	2.41 %
Discount rate	7.41 %	7.41 %	7.41 %
Net Effective Discount rate	5.00 %	5.00 %	5.00 %
	14.82 %	**14.82 %**	**14.82 %**

	Greylingstad	Siyathemba	Grootvlei
Approximate size used (m^2)	9248	75585	21409
Remainign useful lives (Years)	7	12	9

14. Payables from exchange transactions

Trade payables	128 883 002	117 510 604
Retention	3 798 816	3 263 721
Accrued leave pay	9 836 321	7 174 953
Accrued bonus	1 396 224	1 043 351
Deposits received	7 559 273	6 713 358
	151 473 636	**135 705 987**

15. VAT payable

VAT payables	22 276 213	18 977 075

Vat returns were submitted on time and no interest or penalties for late submission has been incurred during current year.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

16. Consumer deposits

Electricity	1 614 857	1 527 949

17. Revenue

Service charges	109 497 056	103 391 588
Rental of facilities and equipment	161 774	171 918
Licences and permits	4 769 157	4 211 372
Other income	272 246	68 136
Interest revenue	28 076 400	25 946 731
Property rates	30 872 215	16 593 228
Government grants & subsidies	220 618 646	109 455 613
Fines, Penalties and Forfeits	1 372 250	851 250
Other revenue	915 491	1 639 301
	396 555 235	**262 329 137**

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

Service charges	109 497 056	103 391 588
Rental of facilities and equipment	161 774	171 918
Licences and permits	4 769 157	4 211 372
Other income	272 246	68 136
Interest received - investment	28 076 400	25 946 731
	142 776 633	**133 789 745**

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

Taxation revenue		
Property rates	30 872 215	16 593 228
Transfer revenue		
Government grants & subsidies	220 618 646	109 455 613
Fines, Penalties and Forfeits	1 372 250	851 250
Other revenue	915 491	1 639 301
	253 778 602	**128 539 392**

18. Service charges

Sale of electricity	62 718 445	56 555 905
Sale of water	20 544 619	21 815 420
Solid waste	7 164 139	6 825 434
Sewerage and sanitation charges	19 069 853	18 194 829
	109 497 056	**103 391 588**

19. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	161 774	171 918

20. Fines, Penalties and Forfeits

Municipal Traffic Fines	1 372 250	851 250

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

21. Licences and permits (exchange)

Trading	25 609	-
Road and Transport	4 743 548	4 211 372
	4 769 157	**4 211 372**

22. Lease rentals on operating lease

Equipment		
Contractual amounts	13 849	146 087
Plant and equipment		
Contractual amounts	450 623	758 539
	464 472	**904 626**

23. Other revenue

Other revenue	272 246	68 136

24. Investment revenue

Interest revenue		
Investment revenue	1 349 873	617 298
Interest from trade and other recievables	26 726 527	25 329 433
	28 076 400	**25 946 731**

The amount included in Investment revenue arising from exchange transactions amounted to R 28 076 400.

25. Property rates

Rates received

Property rates - residential	30 872 215	16 593 228

Valuations

Residential	1 270 130 100	897 328 100
Commercial	346 323 500	175 863 070
State	319 266 870	134 933 100
Mining	34 500 000	-
Vacant Land	44 948 000	-
Agriculture	2 103 866 000	1 451 235 000
Public Service Property	81 200 000	91 060 799
Place of worship	37 160 000	20 523 000
Multi purpose properties	2 560 000	-
	4 239 954 470	**2 770 943 069**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R 0.008631(2019: R0.08170 is applied to property valuations to determine assessment rates.

Rebates of R 15 000 (2019:R 15 000) are granted to residential and state owned properties.

The new general valuation has been implemented on 01 July 2019.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

26. Government grants and subsidies

Operating grants		
Equitable share	72 019 000	58 562 000
Financial Management Grant	2 752 609	1 970 000
Expanded Public Works Program Grant	1 655 500	1 537 000
Municipal Disaster Recovery Grant	179 000	-
	76 606 109	**62 069 000**
Capital grants		
Municipal Infrastructure Grant	18 816 000	35 480 000
Integrated National Electrification Programme	11 523 387	11 906 613
Regional Bulk Infrastructure Grant	113 673 150	-
	144 012 537	**47 386 613**
	220 618 646	**109 455 613**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	145 968 688	40 077 613
Unconditional grants received	72 019 000	58 562 000
	217 987 688	**98 639 613**

Equitable Share

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

Regional Bulk Infrastructure Grant

Current-year receipts	175 000 000	-
Conditions met - transferred to revenue	(113 673 150)	-
	61 326 850	**-**

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

Municipal Infrastructure Grant

Balance unspent at beginning of year	10 816 000	6 006 662
Current-year receipts	18 816 000	35 480 000
Conditions met - transferred to revenue	(18 816 000)	(24 664 000)
Grant amount withheld	-	(6 006 662)
	10 816 000	**10 816 000**

Extended Public Works Program Grant

Current-year receipts	1 707 000	1 537 000
Conditions met - transferred to revenue	(1 707 000)	(1 537 000)
	-	**-**

Financial Management Grant

Current-year receipts	2 435 000	1 970 000

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

26. Government grants and subsidies (continued)

Conditions met - transferred to revenue	(2 435 000)	(1 970 000)
	-	**-**

Intergrated National Electrification program Grant

Balance unspent at beginning of year	1 523 387	-
Current-year receipts	10 000 000	13 430 000
Conditions met - transferred to revenue	(11 523 387)	(11 906 613)
	-	**1 523 387**

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

27. Employee related costs

Basic	34 274 292	33 487 942
Bonus	2 316 903	2 345 722
Medical aid - company contributions	4 963 598	(93 666)
UIF	1 197 842	302 231
Leave pay provision charge	2 755 103	545 635
Defined contribution plans	2 464 053	6 584 991
Overtime payments	3 913 891	3 145 289
Long-service awards	563 416	871 367
Acting allowances	1 638 018	383 736
Car allowance	119 750	1 135 548
Housing benefits and allowances	487 400	432 429
Standby allowance	309 217	295 734
Bargain council	-	18 052
Cellphone allowance	885 345	806 676
	55 888 828	**50 261 686**

Remuneration of municipal manager

Annual Remuneration	783 063	797 132
Leave paidout	106 976	-
Backpay	21 961	36 025
Cellphone Allowance	-	9 000
	912 000	**842 157**

Mr PI Mutshinyali has since resigned.

Remuneration of chief finance officer

Annual Remuneration	1 016 714	661 699
Car Allowance	203 343	134 932
Housing Allowance	152 507	533 199
Cellphone Allowance	101 671	67 466
Backpay	40 733	34 965
	1 514 968	**1 432 261**

Mr GC Letsoalo

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

27. Employee related costs (continued)

Remuneration of Corporate Services Director

Annual Remuneration	817 231	787 189
Acting Allowance	2 373	10 129
Backpay	29 076	24 250
	848 680	**821 568**

Mr TP Mokoena was appointed Corporate Services Director on the 1 May 2018.

Remuneration of Community Services Director

Annual Remuneration	817 231	733 153
Acting Allowance	88 374	12 796
Backpay	29 076	16 519
	934 681	**762 468**

Mrs NB Khanye was appointed Community Services and Public Safety Director on the 1 July 2018

Remuneration of Technical Services Director

Annual Remuneration	997 480	905 044
Acting Allowance	789	5 421
Backpay	32 669	9 601
	1 030 938	**920 066**

Mr LM Msibi was appointed Technical Services Director on the 1 August 2017

Remuneration of Planning and Development

Annual Remuneration	422 612	787 189
Acting Allowance	71 581	51 490
Backpay	20 353	24 250
Leave Paidout	105 551	-
Travelling Allowance	50 714	-
	670 811	**862 929**

Mr TC Myeza was Director for Planning and Development until January 2020

28. Remuneration of councillors

Executive Major	824 326	815 208
Chief Whip	340 809	361 829
Mayoral Committee Members	1 258 896	1 282 142
Speaker	667 212	718 583
Councillors	2 542 314	2 647 144
	5 633 557	**5 824 906**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

28. Remuneration of councillors (continued)

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

.

The Executive Mayor has two full-time bodyguards.

29. Depreciation and amortisation

Property, plant and equipment	25 077 941	25 528 984
Intangible assets	6 216	23 982
	25 084 157	**25 552 966**

30. Finance costs

Interest paid	7 335 075	4 973 253
Interest Cost (Provisions)	3 046 495	2 394 756
	10 381 570	**7 368 009**

The interest incurred were due to late payment of Mainly eskom and other creditors.

31. Bulk purchases

Electricity - Eskom	59 746 389	60 407 930
Water	8 945 642	9 698 301
	68 692 031	**70 106 231**

32. Contracted services

Outsourced Services		
Burial Services	11 462	18 450
Business and Advisory	2 166 987	4 329 305
Medical Services	450	985
Security Services	6 311 028	6 370 734
Transport Services	3 733 758	3 856 020
Water Takers	-	(13 065)
Consultants and Professional Services		
Business and Advisory	-	128 803
Infrastructure and Planning	143 044	1 224 026
Legal Cost	2 037 501	1 854 926
Contractors		
Maintenance of Buildings and Facilities	1 063 520	548 787
Maintenance of Equipment	183 307	14 286 878
Prepaid Electricity Vendors	1 081 826	989 102
	16 732 883	**33 594 951**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

33. General expenses

Advertising	943 420	639 749
Auditors remuneration	6 008 781	3 557 170
Bank charges	556 686	562 431
Fines and penalties	117 614	-
Insurance	9 800 000	1 043 737
IT expenses	103 570	164 867
Protective clothing	208 820	345 013
Subscriptions and membership fees	191 167	600 222
Telephone and fax	5 026 029	1 314 220
Travel - local	2 309 571	1 405 938
Title deed search fees	6 343	11 626
Skills Development Levy	-	503 578
Drivers Licences and Permits	2 268 738	2 243 620
	27 540 739	**12 392 171**

34. Cash generated from operations

Surplus (deficit)	86 336 730	(20 285 051)
Adjustments for:		
Depreciation and amortisation	25 084 157	25 552 966
Gain on sale of assets and liabilities	1 711 655	1 382 453
Debt impairment	87 493 965	64 281 398
Bad debts written off	-	810 577
Movements in retirement benefit assets and liabilities	(20 767)	(2 038 074)
Movements in provisions	(1 835 662)	2 937 779
Public contribution and donations	(915 491)	(1 639 301)
Other non-cash items	(1 237 350)	(825 422)
Changes in working capital:		
Inventories	(18 606)	(23 969)
Receivables from exchange transactions	6 166 331	(27 575 801)
Consumer debtors	(102 525 782)	(26 708 859)
Payables from exchange transactions	15 767 649	35 973 955
VAT payable	3 299 138	(1 956 252)
Unspent conditional grants and receipts	59 854 964	(4 944 146)
Consumer deposits	86 908	103 486
	179 247 839	**45 045 739**

35. Auditors' remuneration

Fees	6 008 781	3 557 170

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

36. Commitments

Authorised capital and operating expenditure

Already contracted for but not provided for		
• Already contracted for but not provided for	10 865 938	4 081 259
• Approved and contracted for	40 141 362	12 867 696
	51 007 300	**16 948 955**

Total capital commitments		
Already contracted for but not provided for	51 007 300	45 470 620

Authorised operational expenditure

Already contracted for but not provided for		
• Already contracted for but not provided for	37 787 854	85 313 342

Total commitments

Total commitments		
Authorised capital expenditure	51 007 300	16 948 955
Authorised operational expenditure	37 787 854	85 313 342
	88 795 154	**102 262 297**

This committed expenditure relates to plant and equipment as well as operational costs which will be financed by available bank facilities, retained surpluses, grants and existing cash resources.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	119 496	297 444
- in second to fifth year inclusive	27 658	280 615
	147 154	**578 059**

Operating lease payments represent rentals payable by the Dipaleseng municipality for certain copy machines. Leases are negotiated for an average term of 3 years and rentals are fixed for an average of three years. No contingent rent is payable.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	53 261	53 261
- in second to fifth year inclusive	5 326	5 326
	58 587	**58 587**

All lease agreements are vaild for one year.

Some of the municipality's Properties are held to generate rental income. Rental of Properties is expected to generate rental on an ongoing basis.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

37. Contingent liabilities

Figures in Rand	2020	2019
Smart and safer solution claims for a breach of contract, the Municipality is disputing the claim as it does not have a contract with this company	25 200 000	25 200 000
TMN Kgomo and Associates issued an notice to institutes legal action against Dipaleseng LM for unpaid invoices.	207 644	-
Department of Water and Sanitation (DWS) is claiming payment in respect of water consumption from April 2013 until 31 August 2016, The Municipality is defending the matter in court	19 668 311	19 668 311
Eskom issued provisional summons to the municipality due to default on the signed repayment plan. The Municipality is defending the matter in court.	10 121 277	10 121 277
Subtotal	55 197 232	54 989 588
	55 197 232	**54 989 588**

38. Related parties

Relationships

Accounting Officers	Refer to accounting officers' report note
Key Management	Refer to employee related costs note Note 27

Remuneration of management

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

39. Prior period errors

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

Statement of financial position	1	-

Current Assets	Audited 2019	Prior Prior Error	Reclassification	Restated
Receivable from Non-Exchange Transactions	2 372 417	-	7 676 354	10 048 771
Consumer debtors	42 196 601	-	(42 196 601)	-
Receivable from Exchange Transactions	-	-	34 737 063	34 737 063
Total Current Assets	44 569 018	-	216 816	44 785 834
	44 569 018	**-**	**216 816**	**44 785 834**

	-	-

Non Current Assets	Audited 2019	Prior Period Error	Reclassification	Restated
Other Financial Assets	216 815	-	(216 815)	-
Investment Property	39 937 259	23 651	-	39 960 910
Property, Plant and Equipment	495 393 145	13 862 299	-	509 255 444
Total Non Current Assets	535 547 219	13 885 950	(216 815)	549 216 354
	535 547 219	**13 885 950**	**(216 815)**	**549 216 354**

Current Liabilities	Audited 2019	Prior Period Error	Reclassification	Restated
Trade and other payables from Exchange Transactions	137 775 491	(2 069 504)	-	135 705 987
Consumer Deposits	1 527 949	-	-	1 527 949
VAT Payable	18 545 237	(12 341 983)	-	6 203 254
Provisions	19 892 111	-	(12 275 961)	7 616 150
VAT Payable	18 545 237	431 838	-	18 977 075
Retirement Benefit obligations	357 879	-	-	357 879
Subtotal	38 795 227	431 838	(12 275 961)	26 951 104
	196 643 904	**(13 979 649)**	**(12 275 961)**	**170 388 294**

Non Current Liabilities	Audited 2019	Prior Period Error	Reclassification	Restated
Provisions	37 041 962	(17 149 851)	12 275 961	32 168 072
Retirement benefit Obligation	9 731 538	2 382 350	-	12 113 888
Subtotal	46 773 500	(14 767 501)	12 275 961	44 281 960
	46 773 500	**(14 767 501)**	**12 275 961**	**44 281 960**

Net Assets	Audited 2019	Prior Period Error	Reclassifications	Restated
Accumulated Surplus/ Deficit	337 841 136	56 913 283	-	394 754 419
Subtotal	337 841 136	56 913 283	-	394 754 419
	337 841 136	**56 913 283**	**-**	**394 754 419**

Statement of financial Position	**Audited 2019**	**Prior period Error**	**Re-classification**	**Restated balance**

Notes to the Annual Financial Statements

Figures in Rand			2020	2019
39. Unauthorised expenditure (continued)				
Service charges	103 428 643	(37 055)	-	103 391 588
Other income	1 422 648	(1 354 512)	-	68 136
Government grants and subsidies	109 455 613	(10 816 000)	-	98 639 613
Public contributions and donations	1 193 490	547	-	1 194 037
Employee related costs	56 259 085	(503 577)	-	55 755 508
Impairment loss	358 603	-	59 401 354	59 759 957
Debt impairment	60 211 898	-	(59 401 354)	810 544
Transfers and subsidies	1 241 021	3 397 962	-	4 638 983
Contracted services	-	-	33 585 322	33 585 322
General expenses	50 112 611	21 193 151	(33 585 322)	37 720 440
	383 683 612	**11 880 516**	**-**	**395 564 128**

Impairment loss was incorrectly classified under debt impairment in prior year. Prior year figures have been restated to correct the error.

General expenses were disclosed including contracted services in prior year. mSCOA requires separate presentation of contracted services and general expenses. This error has been corrected and prior year amounts restated accordingly.

Consumer debtors were disclosed including exchange and non-exchange transactions in prior year. Consumer debtors have been split between exchange and non-exchange transaction for fair presentation as required by GRAP standard.

An amount of R 12 275 961 relating to provision was incorrectly disclosed as current liability in prior year instead of being disclosed as non-current liability. This resulted to overstatement of current liabilities and under statement of non-current liability. The amount has since been classified to non-current liabilities to correct the error and prior year amounts have been restated accordingly

An error occurred in prior year where an amount of R 216 816 was presented as other financial assets instead of receivables from non-exchange transaction. This has been corrected and prior year figures restated accordingly to reflect such reclassification.L

Investment property was overstated by R 23 651. Fixed asset register amount agrees to the audited financial statements since the journal to write off asset written off was processed on case ware and not on the system hence the system trial balance was not agreeing to financial statements The error has been corrected and prior year amounts restated accordingly to reflects such adjustment.

Property plant and equipment was understated due to some completed projects which were not capitalised. They have since been capitalised and prior year amounts restated accordingly

Trade payables ledger account were not agreeing to age analysis and general ledger hence the adjustment was made to correct the mismatch.

Unspent government grants and receipts was overstated incorrect trial balance used to prepare financial statements in prior year that did not balance to the general ledger.

Other revenue was restated to align the general ledger/trial balance to the financial statements. The trial balance used in prior year to prepare financial statements did not agree to the system trial balance.

Revenue from public contributions and donations was misstated to due incorrect supporting schedules used during preparation of financial statement in prior year and some figures disclosed can not be justified.

Inventory and consumables were omitted in prior year by error. The error has been corrected and prior year figures restated accordingly.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

40. 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.

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.

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

Financial instrument	2020	2019
Cash and cash equivalents	3 115 741	2 662 123
Receivable from Exchange Transactions	29 114 167	34 737 063
Receivable from Non-Exchange Transactions	23 195 922	10 048 771

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. The municipality does not have borrowings.

41. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 489 196 025 and that the municipality's total assets exceed its liabilities by R 489 196 025.

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.

During the financial year ending 30 June 2020, the world experience a pandemic disease called Covid-19 of which Dipaleseng 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

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

41. Going concern (continued)

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.t

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.

42. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:
- nature of the event.
- estimation of its financial effect or a statement that such an estimation cannot be made.

43. Unauthorised expenditure

Opening balance as previously reported	202 752 310	170 443 720
Amount incurred in current year	14 364 650	32 308 590
Opening balance as restated	**217 116 960**	**202 752 310**
Closing balance	**217 116 960**	**202 752 310**

44. Fruitless and wasteful expenditure

Opening balance as previously reported	14 848 014	9 874 761
Amount incurred current period	7 453 207	4 973 253
Opening balance as restated	**22 301 221**	**14 848 014**
Closing balance	**22 301 221**	**14 848 014**

45. Irregular expenditure

Opening balance	133 884 222	117 785 780
Opening balance as restated	**133 884 222**	**117 785 780**
Add Irregular Expenditure - current period (Declaration of interest not completed)	692 937	16 098 422
Add Irregular Expenditure - current period (Not advertised)	1 178 789	-
Add irregular expenditure - prior year - (Composition of committes incomplete)	24 833 424	-
Add Irregular Expenditure - (Three quotes not sourced)	74 680	-
Closing balance	**160 664 052**	**133 884 202**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

46. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

Opening balance	-	4 860
Current year membership fee	588 670	571 090
Amount paid - current year	(588 670)	(575 950)
Amount already paid for 2021	(588 314)	-
	(588 314)	**-**

Material distribution losses

Distribution loss -Water	12 488 785	10 542 694
Distribution loss- electricity	9 299 003	7 399 002
	21 787 788	**17 941 696**

Electricity distribution losses for the current year increased to R9 299 003 (2019: R7 399 002). These electricity distribution losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network and non-technical losses being theft, faults etc. Attempts are currently being made to reduce these non-technical losses.

Water distribution losses comprises of non-billed water, and for the current year was 74%, amounting to R 12 488 785 (2019: 74% amounting to R10 542 694). These water distribution losses cannot be accounted for mainly due to theft, faultly pipes, spillages etc. This problem is currently being addressed by installing additional meters and a data cleansing process will be initiated to address the losses. For water, the Municipality purifies its own water except for the water supplied by Eskom to Grootvlei (ward 5) residents

Audit fees

Opening balance	2 386 953	2 998 390
Current year fee	6 008 891	4 131 310
Amount paid - current year	(4 502 311)	(4 742 747)
	3 893 533	**2 386 953**

PAYE and UIF

Opening balance	742 964	3 400 784
Current year fee	10 001 675	8 148 658
Amount paid - current year	(7 395 646)	(10 806 478)
	3 348 993	**742 964**

Pension and Medical Aid Deductions

Opening balance	1 345 205	3 795 980
Current year fee	17 073 299	7 330 312
Amount paid - current year	(11 487 288)	(9 781 253)
	6 931 216	**1 345 039**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

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

VAT

VAT receivable	54 948 784	29 025 633
VAT payable	(77 224 997)	(48 002 708)
	(22 276 213)	**(18 977 075)**

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

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

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr AK Nyamade	3 360	132 353	135 713
Cllr Z& H Nkosi	3 630	32 325	35 955
Cllr ML Makhubu	1 216	13 779	14 995
Cllr BK Nkosi/Moeketsi	2 606	9 773	12 379
Cllr MF Dlamini	1 334	4 548	5 882
Cllr LR Ngwenya	1 215	810	2 025
Cllr MD Khanye	1 630	239	1 869
Cllr SME Nhlapho	871	894	1 765
	15 862	**194 721**	**210 583**

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr AK Nyamade	3 211	120 145	123 356
Cllr KB Nkosi/Moeketsi	803	3 331	4 134
Cllr MF Dlamini	1 290	972	2 262
Cllr MD Khanye	1 101	504	1 605
Cllr SME Nhlapho	1 079	451	1 530
Cllr WS Davel	502	-	502
	7 986	**125 403**	**133 389**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2020	Highest outstanding amount	Aging (in days)
Cllr AK Nyamade	135 713	1 430
Cllr Z& H Nkosi	35 955	1 095
Cllr ML Makhubu	14 995	365
Cllr Nkosi/Moeketsi	12 379	791
Cllr MF Dlamini	5 882	365
Cllr LR Ngwenya	2 025	120
Cllr MD Khanye	1 869	90
Cllr SME Nhlapho	1 765	150
	210 583	**4 406**

30 June 2019	Highest outstanding amount	Aging (in days)
Cllr AK Nyamade	123 356	1 065
Cllr Nkosi/Moeketsi	4 143	426
Cllr MF Dlamini	2 262	1 065
Cllr MD Khanye	1 605	334
Cllr SME Nhlapho	1 530	242
Cllr W Davel	502	30
	133 398	**3 162**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

47. 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.

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

Class	2020	2019
Emergency	14 736 415	14 588 407
Sole Provider/Accredited Agents	52 173	67 482
Impractical or Impossible to follow the process	56 677	242 738
Minor Breaches	3 584 508	9 988
	18 429 773	**14 908 615**

48. Accounting by principals and agents

The Municiaplity is a party to a principal-agent arrangement(s).

Entity as agent

Resources held on behalf of the principal(s), but recognised in the entity's own financial statements

The municipality has R5 449707.72 payable to the Department of Community Safety, Security and Liaison.

The expected timing of remittance of resources from the prinicpal is on a monthly basis

Revenue recognised

The aggregate amount of revenue that the Municipality recognised as compensation for the transactions carried out on behalf of the principal is R4 743 548 (2019: R4 211 372).

Dipaleseng Local Municipality entered into transaction with the Department of Community Safety, Security and Liaison through the Licencing operations which run through the financial year where the Municipality earns a commission of 20% and payment over 80% to the Department.

Entity as principal

Resources (including assets and liabilities) of the entity under the custodianship of the agent

The municipality has R2 949 459.99 as a recievable from Conlog Pty (Ltd) for vending of prepaid electricity.

The expected timing of remittance of resources by the agent to the Municipality is on a monthly basis.

Fee paid

Fee paid as compensation to the agent	1 081 826	989 102

Resource and/or cost implications for the Muncipality if the principal-agent arrangement is terminated

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

48. Accounting by principals and agents (continued)

This Agreement may be terminated by either party prior to the Expiry Date, on the provision of 60 (sixty) days written notice detailing their intention to terminate this Agreement. Conlog reserves its right to claim for damages as a result of such premature termination without prejudice to any other rights or remedies which it may have under this Agreement or in law.

49. Prepayments RBIG and SALGA

Gert Sibande District Municipality was appointed as implementiong agent for Regional Bulk Iinfrastructure Grant (RBIG) Projects. As at 30 June 2020, A total of R139,576,763 had been transferred to the district municipality and R113,673,150 was capitalised to Work in Progress (WIP) and the balance of R25,903,613 had not yet been capitalised.

Annual membership fees of R588,670 for 2020/21 financial year was paid to SALGA in June 2020.r

50. Budget differences

Material differences between budget and actual amounts

Material variances between budget and actual figures are discussed below:

Revenue:
1. Service charges - Due to Covid-19 Lockdown regulations, collections payment rate decreased.
2. Rental of facilities- Less rental income from letting of community halls.
3. Licences and permits – Due to Covid-19 Lockdown regulations, licenses and permits department was not operational.
4. Interest revenue – Increase due to investment account which had favourable balance for the major part of the year and accumulated interest income more than what was expected.
5. Property rates – Due to Covid-19 Lockdown regulations, collection payment rate decreased.
6. Fines, Penalties and Forfeits – It is very difficult to accurately anticipate the amount of fines that will be expected during the year. In current year, the municipality issued more traffic fines hence we have a favourable variance.

Expenditure:
1. Finance costs – Due to late payment of major creditors especially Eskom as a result of non-payment of consumer debtors within 30 days.
2. Lease rentals on operating lease – Less frequent servicing was required
3. Bulk purchases- Due to Covid-19 Lockdown, businesses were shutdown.
4. Contracted Services – The municipality incurred more cost on maintenance of aged infrastructure and equipment than budgeted amount.
5. Transfers and Subsidies – Transfers and subsidies decreased due to decrease in registered indigents for the year.
6. General Expenses – Due to Covid-19 Lockdown, the municipality wasn't't operating on full capacity.

Current Assets:
1. Inventories – Inventories increased due to higher volume of materials for maintenance acquired during the year.
2. Receivables from exchange and non-exchange transactions – Receivables from exchange transaction decreased drastically due to increase in the provision of doubtful debts due to non-payment of services by consumers.
3. Prepayments – Gert Sibande District Municipality was appointed as implementing agent for Regional Bulk Infrastructure Grant (RBIG) Projects. As at 30 June 2020, A total of R139 576 763 had been transferred to the district municipality and R113,673,150 was capitalized to Work in Progress (WIP) and the balance of R25,903,613 had not yet been capitalized. Annual membership fees of R588 670 for 2020/21 financial year was paid to SALGA in June 2020.

Non-Current assets:
1. Intangible assets- The municipality acquire softwares for computers and no enough budget was allocated during budgeting process.

Current liabilities
1.Employee benefit obligation – Increased due to discounted rates on Actuarial valuations on post-retirement benefits