



**AUDITOR GENERAL
SOUTH AFRICA**

23 APR 2021

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Nature of business and principal activities

Great Kei Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no. 117 of 1998)

The municipality's operations are governed by:

-Municipal Finance Management Act no. 56 of 2003

-Municipal Structures Act no.117 of 1998

-Municipal Systems Act no. 32 of 2000 and various other acts and regulations.

List of councillors

Mayor

Chief Whip

Councillors

Cllr N. Tekife

Cllr N Kantshashe

Cllr NP Mgema

Cllr Dyani

Cllr L Mhiontlo

Cllr Z Tshali

Cllr W Sinqana

Cllr Z Nzuzo

Cllr T Njekanye

Cllr B Wood

Cllr SM Jacobs

Cllr T. Ndolose

Cllr T Plika

Grading of local authority

Grade 2

Accounting Officer

L.N. Mambila

Registered office

17 Main Street

Komga

4950

Bankers

Standard Bank Limited

Auditors

Auditor General of South Africa

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
CIGFARO	Chartered Institute of Government, Finance, Audit and Risk Officers

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the year then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

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

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


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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and based on the financial recovery plan of the Municipality and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The annual financial statements set out on pages 4 to 64, which have been prepared on the going concern basis, were approved and signed by:



L.N. Mambila
Municipal Manager

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Statement of Financial Position as at 30 June 2020

Figures in Rand	Notes	2020	2019 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	3	33 050 123	32 302 445
Statutory receivables	4	15 373 209	14 070 834
Cash and cash equivalents	5	6 109 813	1 332 001
		<u>54 533 145</u>	<u>47 705 280</u>
Non-Current Assets			
Investment property	6	82 043 547	82 043 547
Property, plant and equipment	7	239 098 186	253 113 951
Intangible assets	8	-	1 113 012
Heritage assets	9	36 000	36 000
		<u>321 177 733</u>	<u>336 306 510</u>
Total Assets		<u>375 710 878</u>	<u>384 011 790</u>
Liabilities			
Current Liabilities			
Payables from exchange transactions	10	60 523 236	58 655 183
VAT payable	11	6 909 587	4 822 019
Employee benefit obligation	12	6 697 029	6 943 040
Unspent conditional grants and receipts	20&13	6 185 659	350 057
Provisions	14	721 391	520 809
		<u>81 036 902</u>	<u>71 291 108</u>
Non-Current Liabilities			
Employee benefit obligation	12	7 606 497	9 955 792
Provisions	14	15 923 532	15 603 305
		<u>23 530 029</u>	<u>25 559 097</u>
Total Liabilities		<u>104 566 931</u>	<u>96 850 205</u>
Net Assets		<u>271 143 947</u>	<u>287 161 585</u>
Accumulated surplus		<u>271 143 947</u>	<u>287 161 585</u>

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* See Note 34

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

Figures in Rand

	Notes	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	15	14 556 796	17 581 292
Rental of facilities and equipment	16	472 244	276 735
Agency services		90 329	329 252
Licences and permits		436 482	650 433
Other income	17	558 190	1 081 920
Interest received	18	3 155 896	5 765 010
Total revenue from exchange transactions		19 269 937	25 684 642
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	26 397 492	24 101 173
Interest received	18	2 387 408	2 602 641
Transfer revenue			
Government grants & subsidies	20	59 378 193	61 065 761
Public contributions and donations		436 000	-
Fines, Penalties and Forfeits		300	3 800
Total revenue from non-exchange transactions		88 599 393	87 773 375
Total revenue	21	107 869 330	113 458 017
Expenditure			
Employee related costs	22	(49 357 709)	(51 690 119)
Remuneration of councillors	23	(4 586 620)	(4 778 929)
Depreciation and amortisation	24	(21 703 632)	(19 763 140)
Finance costs	25	(2 987 596)	(1 877 090)
Lease rentals on operating lease		(185 411)	(297 759)
Debt Impairment	26	(20 223 831)	(153 872)
Bulk purchases	28	(9 575 380)	(6 376 023)
Contracted services		(8 538 399)	(6 198 950)
General Expenses	29	(12 466 186)	(21 726 866)
Total expenditure		(129 624 764)	(112 862 748)
Operating (deficit) surplus		(21 755 434)	595 269
Actuarial gains / (losses)		4 893 127	(1 009 893)
Gain on disposal of non-current assets		844 669	7 559 627
		5 737 796	6 549 734
(Deficit) surplus for the year		(16 017 638)	7 145 003

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* See Note 34

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	286 124 255	286 124 255
Adjustments		
Correction of errors	(6 107 673)	(6 107 673)
Balance at 01 July 2018 as restated*	280 016 582	280 016 582
Changes in net assets		
Surplus for the year	7 145 003	7 145 003
Total changes	7 145 003	7 145 003
Restated* Balance at 01 July 2019	287 161 585	287 161 585
Changes in net assets		
Deficit for the year	(16 017 638)	(16 017 638)
Total changes	(16 017 638)	(16 017 638)
Balance at 30 June 2020	271 143 947	271 143 947
Note	34	

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* See Note 34

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Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement

Figures in Rand	Notes	2020	2019
Cash flows from operating activities			
Receipts			
Other receipts		1 557 545	2 342 140
Rates and services		18 680 404	15 033 287
Grants		59 378 193	61 065 760
Interest income		5 543 304	8 367 651
		<u>85 159 446</u>	<u>86 808 838</u>
Payments			
Employee costs		(56 540 116)	(54 134 660)
Suppliers		(15 560 219)	(24 749 554)
Finance costs		(2 987 596)	(1 877 090)
		<u>(75 087 931)</u>	<u>(80 761 304)</u>
Net cash flows from operating activities	30	<u>10 071 515</u>	<u>6 047 534</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(6 138 855)	(12 194 518)
Proceeds on from insurance on damaged Buildings	7	-	7 759 549
Proceeds from sale of other assets	6	845 152	-
		<u>(5 293 703)</u>	<u>(4 434 969)</u>
Net cash flows from investing activities			
Cash flows from financing activities			
Movement in other financial liabilities		-	(846 997)
		<u>-</u>	<u>(846 997)</u>
Net cash flows from financing activities			
Net increase/(decrease) in cash and cash equivalents		<u>4 777 812</u>	<u>765 568</u>
Cash and cash equivalents at the beginning of the year		1 332 001	566 433
Cash and cash equivalents at the end of the year	5	<u>6 109 813</u>	<u>1 332 001</u>

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* See Note 34

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	19 494 601	(172 930)	19 321 671	14 556 796	(4 764 875)	1
Rental of facilities and equipment	926 217	1 573 783	2 500 000	472 244	(2 027 756)	
Agency services	-	-	-	90 329	90 329	
Licences and permits	4 000 000	(2 000 000)	2 000 000	436 482	(1 563 518)	2
Other income	32 353 980	(295 847)	32 058 133	558 190	(31 499 943)	4
Interest received	5 026 000	(3 000 000)	2 026 000	3 155 896	1 129 896	5
Total revenue from exchange transactions	61 800 798	(3 894 994)	57 905 804	19 269 937	(38 635 867)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	29 000 000	(1 000 000)	28 000 000	26 397 492	(1 602 508)	6
Interest, Dividends and Rent on Land	-	-	-	2 387 408	2 387 408	
Transfer revenue						
Government grants & subsidies	64 326 001	416 996	64 742 997	59 378 193	(5 364 804)	7
Public contributions and donations	-	-	-	436 000	436 000	
Fines, Penalties and Forfeits	5 260	-	5 260	300	(4 960)	
Total revenue from non-exchange transactions	93 331 261	(583 004)	92 748 257	88 599 393	(4 148 864)	
Total revenue	155 132 059	(4 477 998)	150 654 061	107 869 330	(42 784 731)	
Expenditure						
Employee related costs	(55 557 686)	2 234 400	(53 323 286)	(49 357 709)	3 965 557	
Remuneration of councillors	(4 600 000)	45 922	(4 554 078)	(4 586 620)	(32 542)	
Depreciation and amortisation	(18 500 000)	-	(18 500 000)	(21 703 632)	(3 203 632)	
Finance costs	(736 400)	400	(736 000)	(2 987 596)	(2 251 596)	
Debt Impairment	(13 000 000)	-	(13 000 000)	(20 223 831)	(7 223 831)	
Bulk purchases	(11 595 019)	-	(11 595 019)	(9 575 380)	2 019 639	
Contracted Services	(14 997 312)	4 036 915	(10 960 397)	(8 538 399)	2 421 998	
General expenses	(36 687 577)	17 818 068	(18 869 509)	(12 651 597)	6 217 912	
Total expenditure	(155 673 974)	24 135 705	(131 538 269)	(129 624 764)	1 913 505	
Deficit before taxation	(541 915)	19 657 707	19 115 792	(21 755 434)	(40 871 226)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(541 915)	19 657 707	19 115 792	(21 755 434)	(40 871 226)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	(4 643 000)	(4 643 000)	-	4 643 000	1
Receivables from exchange transactions	28 403 000	-	28 403 000	33 050 123	4 647 123	2
Statutory receivables	-	-	-	15 373 209	15 373 209	3
Employee benefit asset	1 001 874	(1 001 874)	-	-	-	
Consumer debtors	-	-	-	-	-	4
Cash and cash equivalents	3 550 000	10 254 000	13 804 000	6 109 813	(7 694 187)	5
	32 954 874	4 609 126	37 564 000	54 533 145	16 969 145	
Non-Current Assets						
Investment property	71 544 000	-	71 544 000	82 043 547	10 499 547	
Property, plant and equipment	278 365 000	(300 000)	278 065 000	239 098 186	(38 966 814)	
Heritage assets	-	-	-	36 000	36 000	
	349 909 000	(300 000)	349 609 000	321 177 733	(28 431 267)	
Liabilities						
Current Liabilities						
Payables from exchange transactions	(15 871 000)	(19 129 000)	(35 000 000)	60 523 236	95 523 236	12
VAT payable	-	-	-	6 909 587	6 909 587	
Employee benefit obligation	-	-	-	6 697 029	6 697 029	13
Unspent conditional grants and receipts	-	-	-	6 185 659	6 185 659	
Provisions	(1 054 000)	-	(1 054 000)	721 391	1 775 391	14
Consumer deposits	-	-	-	-	-	15
	(16 925 000)	(19 129 000)	(36 054 000)	81 036 902	117 090 902	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	7 606 497	7 606 497	
Provisions	3 000 000	-	3 000 000	15 923 532	12 923 532	
	3 000 000	-	3 000 000	23 530 029	20 530 029	
Total Liabilities	(13 925 000)	(19 129 000)	(33 054 000)	104 566 931	137 620 931	
Net Assets	396 788 874	23 438 126	420 227 000	271 143 947	(149 083 053)	
Net Assets						
Accumulated surplus						
Reserves						
Accumulated surplus	396 788 874	23 438 126	420 227 000	271 143 947	(149 083 053)	

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (No. 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.

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 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.

Investment property is carried at cost less accumulated depreciation and any impairment losses.

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.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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.

1.2 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.

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Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.2 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Item	Average useful life
Land	Indefinite
Infrastructure	
• Tarred roads and paving	30 – 80 years
• Access roads	3 – 5 years
• Electricity	7 – 50 years
Other property, plant and equipment	
• Buildings and related items	5 - 80 years
• Recreational facilities and related items	5 - 80 years
• Halls and related items	5 - 50 years
• Parks and gardens and related items	5 - 30 years
• Plant, machinery and other equipment	5 - 25 years
• Furniture, fittings and office equipment	5 - 10 years
• Motor vehicles	5 - 10 years
Landfill sites	4 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.

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Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.2 Property, plant and equipment (continued)

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

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

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

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

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

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

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 7).

1.3 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.

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Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.3 Intangible assets (continued)

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.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software, other	3 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 7).

Intangible assets are derecognised:

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

1.4 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

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Accounting Policies

1.4 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.5 Financial instruments

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

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

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

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

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.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

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.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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.

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1.5 Financial Instruments (continued)

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.

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

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
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Employee benefit obligation	Financial liability measured at amortised cost
Provision for rehabilitation of landfill site	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at 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.

Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value.

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

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

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1.5 Financial instruments (continued)

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.

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.

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.

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 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 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:

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Accounting Policies

1.5 Financial instruments (continued)

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 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.

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

Financial liabilities

The 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.

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.

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.

1.6 Impairment of cash-generating assets

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

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

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

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Accounting Policies

1.6 Impairment of cash-generating assets (continued)

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.

1.7 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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:

1.8 Employee benefits

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

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Accounting Policies

1.8 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 measure 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.

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.

Great Kei Local Municipality

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Accounting Policies

1.8 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 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.

1.9 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.

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1.9 Provisions and contingencies (continued)

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

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 test 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 1.6 and 1.7.

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.

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

1.10 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.

1.11 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.

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.

Great Kei Local Municipality

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1.11 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 services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest 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 time apportionment basis taking into account the effective yield on the investment.

Service charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. The tariffs are determined per category of property usage and levied monthly based on the number of refuse containers on each property, regardless of whether or not the containers are emptied during the month.

1.12 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.

Great Kei Local Municipality

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1.12 Revenue from non-exchange transactions (continued)

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.

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Great Kei Local Municipality

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Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

Rates, including collection charges, penalties and interest

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

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

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

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

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

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

Transfers

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

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

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

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

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.

1.13 Investment income

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

1.14 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note to the financial statements.

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Accounting Policies

1.15 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.16 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.

1.17 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.

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.

1.18 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 an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

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.

Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates.

These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan.

The budget is approved on an accrual basis by nature classification. Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant note 43 to the Annual Financial Statements.

Comparative information is not required.

Great Kei Local Municipality

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Accounting Policies

1.19 Related parties

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

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

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

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

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

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

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

1.20 Events after reporting date

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

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

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

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

1.21 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.22 Statutory receivables

Identification

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

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

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

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

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.22 Statutory receivables (continued)

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

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated 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).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

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 are recognised in surplus or deficit.

Great Kei Local Municipality

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Accounting Policies

1.22 Statutory receivables (continued)

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.

1.23 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.24 Changes in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimates and errors, requirements except to the extent that it is impracticable to determine the period specific effects or accumulative effect of the change in policy. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective restatement is practicable. Details of the changes in accounting policy are disclosed in note to the annual financial statements.

Changes in accounting estimate are applied prospectively in accordance with GRAP 3 requirements. Details of changes in accounting estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in note to the financial statements.

1.25 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

Great Kei Local Municipality

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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:

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- Identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that 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. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that 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.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;

Great Kei Local Municipality

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2. New standards and interpretations (continued)

- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality has adopted the standard for the first time in the 2020/2020 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality has adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is not material.

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	The impact of the is not material.
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	The impact of the is not material.

2.3 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
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2099	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2099	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

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2. New standards and interpretations (continued)

- GRAP 110 (as amended 2016): Living and Non-living Resources

01 April 2020

Unlikely there will be a material impact

3. Receivables from exchange transactions

Trade debtors	74 323 803	65 781 245
Debt impairment	(41 416 200)	(33 621 320)
Sundry debtors	142 520	142 520
	33 050 123	32 302 445

Non-current assets

30 June 2020

Consumer debtors by debtor type	0-30 Days	60-90 Days	120 Days +	Total
Government	- 1 002 593	262 409	2 040 024	3 305 026
Residents and other	- 2 310 761	2 224 961	61 873 661	66 409 383
Industries	- 1 669 827	308 213	2 631 354	4 609 394
	4 983 181	2 795 583	66 545 039	74 323 803

Consumer debtors by revenue type	0-30 Days	60-90 Days	120 Days +	Total
Electricity	2 657 994	477 863	2 121 904	5 257 761
Refuse removal	1 959 368	1 905 603	38 112 508	41 977 479
Sundries	365 818	412 116	26 310 629	27 088 563
	4 983 180	2 795 582	66 545 041	74 323 803

30 June 2019

Consumer debtors by debtor type	0-30 Days	60-90 Days	120 Days +	Total
Government	271 849	241 371	991 771	1 504 991
Residents	1 769 637	2 858 710	52 913 657	57 340 004
Industries	334 932	507 521	6 093 797	6 938 250
	2 376 418	3 405 602	59 999 225	65 781 245

Consumer debtors by revenue type	0-30 Days	60-90 Days	120 Days +	Total
Electricity	505 740	641 794	5 528 409	6 675 943
Refuse removal	1 794 406	2 229 921	29 968 905	33 993 232
Sundry	76 273	533 886	24 501 911	25 112 070
	2 376 419	3 405 601	59 999 225	65 781 245

There were no trade and other receivables pledged as security.

Reconciliation of provision for impairment of trade and other receivables

Opening balance	33 621 319	39 826 558
Provision for impairment	7 794 880	(6 205 239)
	41 416 199	33 621 319

4. Statutory receivables

Fines	214 798	214 498
Consumer debtors - Rates	80 896 535	67 165 509
Debt impairment	(65 738 124)	(53 309 173)
	15 373 209	14 070 834

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4. Statutory receivables (continued)

Current assets 33 050 123 32 302 445

30 June 2020

Consumer debtors by debtor type	0-30 Days	90 Days	120 Days +	Total
Government	553 634	504 205	11 992 277	13 050 116
Residents and others	4 148 258	3 750 017	49 630 359	57 528 634
Industries	439 587	3 905 150	5 973 048	10 317 785
	<u>5 141 479</u>	<u>8 159 372</u>	<u>67 595 684</u>	<u>80 896 535</u>

30 June 2019

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	252 198	247 384	9 322 798	9 822 380
Residents	2 722 642	3 168 614	45 772 632	51 663 888
Industries	356 652	426 686	4 895 903	5 679 241
	<u>3 331 492</u>	<u>3 842 684</u>	<u>59 991 333</u>	<u>67 165 509</u>

Reconciliation of provision for impairment of statutory receivables

Opening balance	53 094 674	47 351 300
Provision for impairment	12 428 651	5 743 374
	<u>65 523 325</u>	<u>53 094 674</u>

5. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 246	4
Bank balances	140 874	138 373
Short-term deposits	5 967 693	1 193 624
	<u>6 109 813</u>	<u>1 332 001</u>

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

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5. 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
Standard Bank - Primary Bank - 280720963	201 028	141 876	696 075	140 874	138 373	555 574
Standard Bank - Call account - 285973452	85 648	7 510	49	85 648	7 510	49
Standard Bank - Call account - 388528672-004	141 002	5 402	724	141 002	5 402	724
Standard Bank - Call account - 388527544-402	6 993	13 767	-	6 993	13 767	-
Standard Bank - Call account - 388529768-402	3 598 850	813 582	491	3 598 850	813 582	491
Standard Bank - Call account - 388528672-002	62 693	353 151	8 617	62 693	353 151	8 617
Standard Bank - Call account - 388523786-002	2 033 325	213	977	2 033 326	213	977
FNB Fixed Maturity Notice	39 182	-	-	39 182	-	-
Total	6 168 721	1 335 501	706 933	6 108 588	1 331 998	566 432

6. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	82 043 547	-	82 043 547	82 043 547	-	82 043 547

Reconciliation of investment property - 2020

	Opening balance	Total
Investment property	82 043 547	82 043 547

Reconciliation of investment property - 2019

	Opening balance	Total
Investment property	82 043 547	82 043 547

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.

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7. Property, plant and equipment

	2020		2019			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	82 819 489	-	82 819 489	82 819 489	-	82 819 489
Buildings	144 780 542	(79 483 944)	65 296 598	144 780 541	(76 075 143)	68 705 398
Infrastructure	253 728 602	(181 903 863)	71 824 739	251 802 161	(166 226 317)	85 576 844
Other property, plant and equipment	12 403 617	(8 873 887)	3 529 730	11 954 139	(7 494 550)	4 459 589
Work in progress	13 306 717	-	13 306 717	9 107 782	-	9 107 782
Finance lease assets	1 443 220	(1 443 207)	13	1 443 220	(1 443 207)	13
Landfill site asset	9 521 013	(7 200 113)	2 320 900	9 521 012	(7 076 176)	2 444 836
Total	518 003 200	(278 905 014)	239 098 186	511 428 344	(258 314 393)	253 113 951

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7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Total
Land	82 819 489	-	-	-	-	82 819 489
Buildings	68 705 398	-	-	(3 327 691)	(81 109)	65 296 598
Infrastructure	85 576 844	-	1 926 442	(15 542 891)	(135 656)	71 824 739
Other property, plant and equipment	4 459 589	449 478	-	(1 017 146)	(362 191)	3 529 730
Work in progress	9 107 782	6 125 377	(1 926 442)	-	-	13 306 717
Finance lease asset	13	-	-	-	-	13
Landfill site asset	2 444 836	-	-	(83 603)	(40 333)	2 320 900
	253 113 951	6 574 855	-	(19 971 331)	(619 289)	239 098 186

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	82 819 489	-	-	-	-	82 819 489
Buildings	69 780 424	-	(11 200)	2 225 164	(3 288 990)	68 705 398
Infrastructure	88 353 453	-	(10 519)	10 084 119	(12 850 208)	85 576 844
Other property, plant and equipment	3 961 725	1 567 824	(206 273)	-	(863 687)	4 459 589
Work in progress	10 790 371	10 626 694	-	(12 308 283)	-	9 107 782
Finance lease assets	19 647	-	-	-	(19 634)	13
Landfill site asset	2 528 438	-	-	-	(83 603)	2 444 836
	258 253 548	12 194 518	(227 992)	-	(17 106 123)	253 113 951

Compensation received for losses on property, plant and equipment – included in operating profit.

Buildings	-	(8 912 282)
Other property, plant and equipment	971 925	-
	971 925	(8 912 282)

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7. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Finance lease assets	13	13
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Work-in-Progress

The Work in progress mentioned above comprises of the following class of assets:

- Buildings
- Infrastructure

The following projects have a taken a significantly longer period to complete than initially expected:

Project Name	Amount	Reason
1. Plangeni/Kwelera Sportsfield Phase 2	R 824 848	Projects halted/stopped as it is under investigation by SIU
2. Komga Sportsfield Phase 2	R1 523 723	Projects halted/stopped as it is under investigation by SIU
3. Chintsa Sportsfield Phase 2	R1 965 062	Projects halted/stopped as it is under investigation by SIU
4. Happy valley community hall	R1 136 439	Projects halted/stopped as it is under investigation by SIU
5. Sinolo Day Care Centre	R 523 094	Projects halted/stopped as it is under investigation by SIU

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.

8. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	8 175 455	(8 175 455)	-	8 175 455	(7 062 443)	1 113 012

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software	1 113 012	(1 113 012)	-

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	3 770 029	(2 657 017)	1 113 012

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9. Heritage assets

	2020		2019			
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	36 000	-	36 000	36 000	-	36 000

Reconciliation of heritage assets 2020

Art Collections, antiquities and exhibits	Opening balance	36 000	Total	36 000
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Reconciliation of heritage assets 2019

Art Collections, antiquities and exhibits	Opening balance	36 000	Total	36 000
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Details of the asset:

The municipality owns the following heritage asset:

- Mayoral Gold Palted Brass Chain.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
10. Payables from exchange transactions		
Trade payables	34 210 275	32 625 769
Payments received in advance	10 044 234	9 049 361
Deposits received	391 758	409 799
Salary suspense account	15 123 776	16 001 371
Retentions	753 193	568 883
	60 523 236	58 655 183

11. VAT payable

Tax refunds payables	6 909 587	4 822 019
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12. Employee benefit obligations

Bonuses

Bonuses are paid out to all employees, excluding some senior managers, in the month of their birthdays each year and are based on a 13th monthly basic.

Defined benefit plan

The obligation in respect of the long service awards is valued every year by Independent qualified actuaries. The last actuarial valuation was performed on 30 June 2020 by One Pangaea Financial using the projected unit credit method that is in line with GRAP 25.

Long service awards to eligible employees are paid for services rendered by employees of 5 years and longer in five year intervals. The service awards are paid as per the municipality's policy which complies with the minimum thresholds per the collective agreement signed by the Bargaining Council. The basis on which this was calculated is as follows:

- After 5 Conitnuous Years of Service - 2% of Basic Annual Salary and 5 days of accumulative leave
- After 10 Conitnuous Years of Service - 3% of Basic Annual Salary and 10 days of accumulative leave
- After 15 Conitnuous Years of Service - 4% of Basic Annual Salary and 15 days of accumulative leave
- After 20 Conitnuous Years of Service - 5% of Basic Annual Salary and 15 days of accumulative leave
- After 25 Conitnuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave
- After 30 Conitnuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave
- After 35 Conitnuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave
- After 40 Conitnuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave
- After 45 Conitnuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave

The estimated contribution for the next financial year.

Current service cost	979 769	922 437
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Other defined contribution pension funds

Great Kei Local Municipality

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Notes to the Annual Financial Statements

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12. Employee benefit obligations (continued)

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(8 854 004)	(12 324 918)
Leave pay accrual	(4 401 330)	(3 752 592)
Bonus accrual	(1 048 192)	(821 322)
Asset not recognised	-	-
	<u>(14 303 526)</u>	<u>(16 898 832)</u>
Retirement benefit asset	-	-
Retirement benefit obligation	6 697 029	6 943 040
	<u>(7 606 497)</u>	<u>(9 955 792)</u>
Non-current liabilities	(7 606 497)	(9 955 792)
Current liabilities	(6 697 029)	(6 943 040)
	<u>(14 303 526)</u>	<u>(16 898 832)</u>

Reconciliation of employee benefits - 2020	Opening balance	Additions	Utilised during the year (movement)	Total
Bonus accrual	821 321	1 048 193	(821 321)	1 048 193
leave pay accrual	4 254 676	4 401 330	(4 254 676)	4 401 330
	<u>5 075 997</u>	<u>5 449 523</u>	<u>(5 075 997)</u>	<u>5 449 523</u>

Reconciliation of employee benefits - 2019	Opening balance	Additions	Utilised during the year (movement)	Total
Bonus accrual	1 348 936	821 321	(1 348 936)	821 321
leave pay accrual	3 259 509	3 752 552	(3 259 509)	3 752 552
	<u>4 608 445</u>	<u>4 573 873</u>	<u>(4 608 445)</u>	<u>4 573 873</u>

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

Opening balance	12 324 918	9 956 000
Benefits paid	(348 540)	(444 504)
Net expense recognised in the statement of financial performance	(3 122 374)	2 813 422
	<u>8 854 004</u>	<u>12 324 918</u>

Net expense recognised in the statement of financial performance

Current service cost	979 769	922 437
Past service cost	1 085 053	881 092
Interest cost	(4 127 411)	597 005
Actuarial (gains) losses	(1 240 188)	(1 050 211)
Curtailment	200 334	200 203
Settlement	598 230	1 870 821
Assets not recognised	(618 161)	(607 925)
	<u>(3 122 374)</u>	<u>2 813 422</u>

Great Kei Local Municipality

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2020

2019

12. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rate	14,29 %	8,93 %
Consumer price inflation	9,06 %	- %
Health care cost inflation	10,06 %	- %
Net discount rate	3,84 %	- %

The long term discount rate was determined as the average of the BEASSA yield curve whilst the CPI was determined from the difference in averages in the Nominal and Real Bond.

Other assumptions

Mortality rate

The value of the liabilities is particularly sensitive to the assumed rate of healthcare cost inflation. The table below sets out the sensitivity of the valuation result due to higher and lower mortality rates by increasing and decreasing mortality rates by 20%. The effect is as follows:

	-20% Mortality rate	Valuation Assumption	+20% Mortality rate
Total Accrued Liability	5 835 089	6 207 680	6 665 136
Interest Cost	346 561	368 870	396 110
Service Cost	814 743	869 488	933 230
	-	-	-

Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

The effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows:

	-1% Medical aid inflation	Valuation assumption	+1% Medical aid inflation
Total Accrued Liability	5 368 450	6 207 680	7 244 668
Interest Cost	748 084	869 488	1 016 022
Service Cost	297 435	368 870	460 823
	-	-	-

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	1 476 845	1 045 519
Effect on defined benefit obligation	7 244 668	5 368 450

Long service award inflation:

	2020 R	2019 R	2018 R
Defined benefit obligation	8 854 004	12 324 918	9 955 824
Plan assets	-	-	-

Great Kei Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
13. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	4 028 672	314 619
Finance Management Grant	128 854	-
other	-	-
EPWP Grant	616	35 438
Integrated National electrification Programme (INEP)	2 027 517	-
	6 185 659	350 057
Movement during the year		
Balance at the beginning of the year	350 057	673 904
Additions during the year	21 257 000	16 699 000
Income recognition during the year	(15 071 335)	(17 022 847)
Surrendered to National Revenue Fund	(350 063)	-
	6 185 659	350 057

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

See note 20 for reconciliation of grants from National/Provincial Government.

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

14. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
Environmental rehabilitation	16 124 114	520 809	16 644 923

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	14 071 642	2 052 472	16 124 114
Non-current liabilities		15 923 532	15 603 305
Current liabilities		721 391	520 809
		16 644 923	16 124 114

Environmental rehabilitation provision

The obligation for the environmental rehabilitation results from the onus imposed by the Environmental Conservation Act No.73 of 1989 to rehabilitate landfill sites after use. The provision for the rehabilitation of the landfill sites relate to the obligation to rehabilitate the landfill site used for waste disposal.

The landfill sites are nearing the end of their useful lives and the Municipality is still using the existing landfill site for waste disposals because the planned arrangement of utilising the ADM's site which is in Butterworth did not continue for long as planned. However the Municipality had applied for the renewal of the licence for the existing landfill site from the Department of Economic Development and Environmental Affairs and Tourism to continue using it as a short-term measure, but that has not been granted yet due to long processes that are followed by the Department.

Great Kei Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
15. Service charges		
Sale of electricity	6 617 956	9 061 522
Refuse removal	7 938 840	8 519 770
	<u>14 556 796</u>	<u>17 581 292</u>
16. Rental of facilities and equipment		
Premises		
Premises	472 244	246 460
Facilities and equipment		
Rental of facilities	-	30 275
	<u>472 244</u>	<u>276 735</u>
17. Other income		
Handling / payroll commission	69 125	44 148
Building plan fees	255 595	624 492
Business licences	24 758	-
Clearance fees	834	33 410
Burial and cemetery fees	6 566	2 247
Tender documents	17 870	106 639
Skills levy refund	106 900	160 712
Connection fees - electricity	76 542	110 272
	<u>558 190</u>	<u>1 081 920</u>
18. Interest received		
Interest revenue		
Interest from non-exchanged transactions	2 387 408	2 602 641
Bank	455 531	281 199
Interest from exchanged transactions	2 700 365	5 483 811
	<u>5 543 304</u>	<u>8 367 651</u>

The amount included in interest revenue arising from exchange transactions amounted to R 3 155 896 (2019 R 5 765 010).

The amount included in interest revenue arising from non-exchange transactions amounted to R 2 387 408 (2019 R 2 602 641).

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
19. Property rates		
Rates revenue		
Property rates	26 397 492	24 101 173
Valuations		
Commercial	168 991 000	168 991 000
Industrial	530 000	530 000
Multipurpose	8 280 000	8 280 000
Residential	2 060 120 634	2 060 120 634
Municipal	76 560 051	76 560 051
Churches	880 000	880 000
Schools	27 100 000	27 100 000
Small holdings and farms	1 053 130 737	1 053 130 737
State	47 787 000	47 787 000
Public benefit organisation	32 468 000	32 468 000
Vacant	685 174 561	685 174 561
Public service infrastructure	233 471 496	233 471 496
	4 394 493 479	4 394 493 479

General valuations on land and buildings are performed every 4 years and supplementary valuations are performed annually. The last general valuation came into effect on 01 September 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis.

The new general valuation will be implemented on 01 Jul 2020.

20. Government grants and subsidies

Unconditional grants		
Equitable share	42 659 063	38 153 634
Cogta grant	-	1 148 000
Disaster management Grant (COVID relief)	417 000	-
1% Relief Grant - National Treasury on audit fees	1 230 795	1 935 219
	44 306 858	41 236 853
Capital grants		
Municipal Infrastructure Grant	7 224 322	10 803 452
Finance Management Grant	2 286 146	2 416 833
Expanded Public Works Programme	1 188 384	4 608 624
Intergrated Electrification Programme	4 372 483	1 999 999
	15 071 335	19 828 908
	59 378 193	61 065 761

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	15 488 335	19 828 908
Unconditional grants received	43 889 858	39 301 634
	59 378 193	59 130 542

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand

	2020	2019
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20. Government grants and subsidies (continued)

Municipal Infrastructure Grant

Balance unspent at beginning of year	314 619	2 070
Current-year receipts	11 253 000	11 116 000
Conditions met - transferred to revenue	(7 224 322)	(10 803 451)
Surrendered to National Revenue Fund	(314 625)	-
	<u>4 028 672</u>	<u>314 619</u>

Conditions still to be met - remain liabilities (see note 13).

The grant is allocated for the construction of infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.

Integrated National Electrification Programme

Balance unspent at beginning of year	-	669 634
Current-year receipts	6 400 000	2 000 000
Conditions met - transferred to revenue	(4 372 483)	(2 000 000)
Surrendered to National Revenue Fund	-	(669 634)
	<u>2 027 517</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 13).

The Integrated National Electrification Programme Grant is provided by the Department of Energy to facilitate for the upgrading of electrical infrastructure within the municipality.

Financial Management Grant

Balance unspent at beginning of year	-	2 137
Current-year receipts	2 415 000	2 415 000
Conditions met - transferred to revenue	(2 286 146)	(2 417 137)
	<u>128 854</u>	<u>-</u>

Conditions met.

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

EPWP Grant

Balance unspent at beginning of year	35 438	62
Current-year receipts	1 189 000	1 168 000
Conditions met - transferred to revenue	(1 188 384)	(1 132 624)
Surrendered to National Revenue Fund	(35 438)	-
	<u>616</u>	<u>35 438</u>

Conditions met.

Cogta grant is a financial assistance grant received from the Provincial Department of Corporate Governance and Traditional Affairs. Cogta paid a portion of the municipality's Eskom debt.

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand

2020

2019

20. Government grants and subsidies (continued)

Cogta grant

Current-year receipts	-	1 148 000
Conditions met - transferred to revenue	-	(1 148 000)
	-	-

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Integrated National Electrification Grant (INEP)

Current-year receipts	6 400 000	-
Conditions met - transferred to revenue	(4 372 483)	-
	2 027 517	-

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

21. Revenue

Service charges	14 556 796	17 581 292
Rental of facilities and equipment	472 244	276 735
Agency services	90 329	329 252
Licences and permits	436 482	650 433
Other income	558 190	1 081 920
Interest received	3 155 896	5 765 010
Property rates	26 397 492	24 101 173
Interest, Dividends and Rent on Land	2 387 408	2 602 641
Government grants & subsidies	59 378 193	61 065 761
Public contributions and donations	436 000	-
Fines, Penalties and Forfeits	300	3 800
	107 869 330	113 458 017

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

Service charges	14 556 796	17 581 292
Rental of facilities and equipment	472 244	276 735
Agency services	90 329	329 252
Licences and permits	436 482	650 433
Other income	558 190	1 081 920
Interest received	3 155 896	5 765 010
	19 269 937	25 684 642

Great Kei Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
21. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	26 397 492	24 101 173
Interest, Dividends and Rent on Land	2 387 408	2 602 641
Transfer revenue		
Government grants & subsidies	59 378 193	61 065 761
Public contributions and donations	436 000	-
Fines, Penalties and Forfeits	300	3 800
	88 599 393	87 773 375

The donation above relates to service delivery motor vehicles donated by Buffalo City Metropolitan Municipality.

Great Kei Local Municipality

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Figures in Rand	2020	2019
22. Employee related costs		
Basic	33 345 893	34 924 732
Bonus	3 004 007	3 495 158
Medical aid - company contributions	2 856 193	2 320 827
UIF	220 114	228 970
SDL	290 927	464 201
Other payroll levies	13 347	34 318
Leave pay provision charge	1 151 059	962 256
Pension	4 942 246	4 821 051
Travel, motor car, accommodation, subsistence and other allowances	1 588 145	1 405 050
Overtime payments	907 395	864 670
Long-service awards	(270 474)	69 027
Acting allowances	35 096	631 248
Housing benefits and allowances	666 127	873 174
Post employment benefits expense	607 634	595 437
	49 357 709	51 690 119

Included in compensation for employees above is remuneration of senior management disclosed per individual portfolios below:

Remuneration of Municipal Manager - L.N. Mambila

Acting allowance	-	110 073
Annual Remuneration	739 532	123 255
Bonus provision	40 000	10 000
Housing subsidy	216 511	36 085
Travel Allowance	216 511	36 085
	1 212 554	315 498

Remuneration of Chief Financial Officer - A. Lwana

Annual Remuneration	461 431	-
Bonus provision	-	-
Housing allowance	67 461	-
Leave	-	-
Travel allowance	202 382	-
	731 274	-

Remuneration of Director: Strategic Services - M. Mtalo

Annual Remuneration	625 052	625 053
Housing allowance	156 029	156 029
Other	-	-
Bonus provision	65 000	60 000
Car Allowance	168 029	168 029
	1 014 110	1 009 111

Remuneration of Chief Financial Officer - S. Mini

Acting allowance	-	5 270
Annual remuneration	-	572 965
Bonus provision	64 000	44 000
Housing allowance	-	154 027
Contributions to UIF, Medical and Pension Funds	-	44 000
Travel allowance	-	15 407
Leave	71 122	-

Great Kei Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand

	2020	2019
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22. Employee related costs (continued)

	135 122	835 669
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The Chief Financial Officer was paid her terminal emoluments in July 2020.

Remuneration of Director: Technical and Community Services - O. Kwababana

Annual Remuneration	625 053	625 053
Housing allowance	168 029	168 029
Bonus provision	48 000	48 000
Travel allowance	168 029	168 029
	1 009 111	1 009 111

Remuneration of Director - Corporate Services - J.A. Gomomo

Annual Remuneration	-	572 965
Housing allowance	-	154 027
Leave	113 020	-
Bonus provision	65 000	44 000
Travel allowance	-	154 027
	178 020	925 019

The Corporate service director was paid his terminal emoluments in July 2020.

Great Kei Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
23. Remuneration of councillors		
Mayor/Speaker	789 653	1 190 968
Councillors	2 423 321	2 381 358
Councillors' allowances	1 340 580	1 206 603
	4 553 554	4 778 929
Remuneration of Mayor (Speaker) - N.W. Tekile		
Basic allowance	558 940	1 015 576
Other allowances	230 713	175 392
	789 653	1 190 968
Remuneration of Mayor (Speaker) - L.D. Tshetsha		
Basic allowance	-	121 036
Other allowances	-	43 859
	-	164 895
Remuneration of Chief Whip - L. Ndabambi-Gavumente		
Basic allowance	-	59 163
Other allowances	-	13 671
	-	72 834
Remuneration of Chief Whip - N. Kantshashe		
Basic allowance	227 002	189 168
Other allowances	120 067	100 056
	347 069	289 224
<p>The salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the constitution.</p> <p>The Mayor is a full-time councillor and is provided with an office and secretarial support. The Mayor also holds the position of the Council Speaker.</p>		
24. Depreciation and amortisation		
Property, plant and equipment	20 590 620	17 086 489
Intangible assets	1 113 012	2 676 651
	21 703 632	19 763 140
25. Finance costs		
Non-current borrowings	-	73 546
Bank overdraft	346 922	114 865
Provisions	520 809	471 400
Employment benefit obligations	1 085 053	881 092
Trade and Other Payables	1 034 812	336 187
	2 987 596	1 877 090
26. Debt impairment		
Bad debts written off	20 223 831	153 872

Great Kei Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

	2020	2019
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27. Repairs and Maintenance

Repairs and maintenance on different class of assets

Maintenance of equipment	183 969	16 097
Buildings	-	164 558
Other assets	168 044	496 417
	<u>352 013</u>	<u>677 072</u>

28. Bulk purchases

Electricity - Eskom	<u>9 575 380</u>	<u>6 376 023</u>
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The Municipality incurred distribution losses of 17% which is above the acceptable norm. The losses are due to penalties imposed by eskom for exceeding the maximum demand. The distribution losses are disclosed below:

Electricity losses

	Number 2020	Number 2019		
Units purchased	8 481 914	8 731 535	9 575 380	8 731 535
Units sold	(7 040 703)	(7 056 561)	(7 948 372)	(7 056 561)
Total loss	<u>1 441 211</u>	<u>1 674 974</u>	<u>1 627 008</u>	<u>1 674 974</u>
Comprising of:				
Technical losses	1 441 211	1 674 974	1 627 008	1 674 974
Percentage Loss:				
Technical losses	19 %	19 %	19 %	19 %

29. General expenses

Advertising	2 822	108 479
Auditors remuneration	2 728 824	4 219 285
Bank charges	348 960	434 638
Commission paid	135 102	30 724
Conferences and seminars	64 408	18 779
Electricity	188 276	-
Fuel and oil	1 403 379	859 825
Hire	-	14 490
Insurance	817 788	651 439
Electrical materials purchased	404 818	1 142 767
Life saving services	231 948	-
Motor vehicle expenses	114 509	55 915
Other expenses	-	1 016 091
Postage and courier	25 166	187 685
Delivery services	236 328	212 192
Protective clothing	201 517	209 949
Refuse-Lanfillsite expense	-	1 713 264
I.T related expenses	237 601	511 575
Subscriptions	746 486	1 153 381
Telephone costs	2 441 650	3 196 240
Training	-	-
Travel - local	53 952	191 235
Ward Committee expense	745 380	970 809
Water	1 337 272	4 828 004
	<u>12 466 186</u>	<u>21 726 866</u>

Great Kei Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
30. Cash generated from operations		
(Deficit) surplus	(16 017 638)	7 145 003
Adjustments for:		
Depreciation and amortisation	21 703 632	19 763 140
Actuarial gains / (losses)	(4 893 127)	1 009 893
Loss on sale of assets and liabilities	(844 869)	(7 559 627)
Debt impairment	20 223 831	153 872
Donations	(436 000)	-
Movements in employee benefit obligation	(2 595 306)	2 334 387
Movements in provisions	520 809	2 052 472
Changes in working capital:		
Receivables from exchange transactions	(16 078 863)	(24 657 673)
Other receivables from non-exchange transactions	(1 302 375)	(7 847 259)
Payables from exchange transactions	1 868 051	11 016 550
VAT	2 087 568	2 960 623
Unspent conditional grants and receipts	5 835 602	(323 847)
	10 071 515	6 047 534

31. Financial Instruments disclosure

Categories of financial Instruments

2020

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	33 050 123	33 050 123
Statutory receivables	15 373 209	15 373 209
Cash and cash equivalents	6 109 813	6 109 813
	54 533 145	54 533 145

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	60 523 236	60 523 236

2019

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	32 302 445	32 302 445
Statutory receivables	14 070 834	14 070 834
Cash and cash equivalents	1 332 001	1 332 001
	47 705 280	47 705 280

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	58 655 183	58 655 183

Great Kei Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
32. Commitments		
Authorised expenditure		
Already contracted for but not provided for		
• Construction Contracts	10 048 519	4 136 436
• Community Service Contracts	75 396	93 250
• Other	4 001 198	5 466 733
	<u>14 125 113</u>	<u>9 696 419</u>
Total capital commitments		
Already contracted for but not provided for	<u>14 125 113</u>	<u>9 696 419</u>
Total commitments		
Total commitments		
Authorised capital expenditure	<u>14 125 113</u>	<u>9 696 419</u>

This committed expenditure relates to plant and equipment and other expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated and grant funds.

Great Kei Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
33. Contingencies		
Contingent liabilities		
Pending legal claims	2 100 000	239 764

Pending legal claims

1. IODENE GEZA// GREAT KEI LOCAL MUNICIPALITY AND ANOTHER EC/EL/RC228/15C

An interdict application was brought against the municipality where a member of the Iodene Geza a member of the Public who opened a case of assault against a former GKM Traffic Officer (Mr Denzil Fillis) while he was an employee and he resigned in April 2016.

The municipality will incur approximately R400 000, 00 (Four Hundred Thousand Rand) on legal fees including fees of applicant's attorneys. The municipal legal expenses provided for under payables R 294 219, 44. The municipality has requested the Amathole District Municipality to assist on this matter due to financial constraints.

2. JETVEST // GREAT KEI MUNICIPALITY

This is an application that was brought by Jetvest where a defendant has lodged an amended claim against the municipality in reconviction.

The municipality will incur approximately R1 000 000 (One Million Rand) and the legal fees including fees of applicant's attorneys. The municipality has requested the Amathole District Municipality to assist on this matter due to financial constraints.

3. GREAT KEI LOCAL MUNICIPALITY // VAN DALEN MATTER

This is an application that was brought by a former employee of the Municipality Mr Van Dalen on unfair labour practice by the employer in relation to his dismissal.

The municipality will incur approximately R500 000 (Five Hundred Thousand Rand) and the legal fees including fees of applicant's attorneys. The municipal legal expenses provided for under payables R229 601, 19. The municipality has requested the Amathole District Municipality to assist on this matter due to financial constraints.

4. GREAT KEI MUNICIPALITY // MR MTALO

This is a disciplinary hearing between the municipality and a Director Strategic Services and the municipality will incur approximately R200 000 (Two Hundred Thousand Rand). The municipality has requested the Amathole District Municipality to assist on this matter due to financial constraints.

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34. Prior-year adjustments

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

Statement of financial position

2018

	Note	As previously reported	Correction of error	Restated
Cash and cash equivalents	5	550 317	16 116	566 433
Property plant and equipment	7	265 032 706	(6 779 158)	258 253 548
Payables from exchange transactions	10	52 073 447	442 060	52 515 507
Receivables from exchange transactions	3	7 889 446	213 309	8 102 755
Accumulated surplus		(286 124 255)	6 107 673	(280 016 582)
		39 421 661	-	39 421 661

The opening balances for 2018 have restated as follows:

1. The restatement is as a result of MVR Investment that was reconciled as from 30 June 2017 to 30 June 2020 and unknown transactions were reallocated. The restated also affected the Department of Transport payable account under payables from Additional text exchange transactions.
2. The restatement on Property, plant and equipment is a result of derecognition of electrification assets incorrectly capitalised on WIP and also the buildings for impairment, and movement between Infrastructure and landfill site.
3. The restatement on payables from exchange transactions is due to revision in the fixed asset register and retentions in relation to the assets
4. The restatement on receivables from exchange transactions is a result of prepaid electricity sales incorrectly recorded in 2018/19 and correctly recorded in the 2018 financial year.

2019

	Note	As previously reported	Correction of error	Reclassification	Restated
Receivables from exchange transactions	3	15 279 168	17 023 277	-	32 302 445
Statutory receivables	4	21 835 402	(7 764 568)	-	14 070 834
Cash and cash equivalents	5	13 804 453	(12 472 452)	-	1 332 001
Property Plant and Equipment	7	256 250 911	(3 136 960)	-	253 113 951
Investment properties	6	82 043 547	-	-	82 043 547
Intangible Assets	8	1 113 012	-	-	1 113 012
Heritage assets		36 000	-	-	36 000
Trade and other payables from exchange transaction	10	(60 294 048)	(2 935 049)	4 573 914	(58 655 183)
Vat payable		(282 261)	(4 539 758)	-	(4 822 019)
Unspent conditional grants	13	(35 375)	(314 682)	-	(350 057)
Provision for Landfill sites		(16 124 114)	-	-	(16 124 114)
Employee benefit obligation		(12 324 918)	-	(4 573 914)	(16 898 832)
Accumulated surplus		(301 301 777)	14 140 192	-	(287 161 585)
		-	-	-	-

Statement of financial performance

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34. Prior-year adjustments (continued)

2019

	Note	As previously reported	Correction of error	Reclassification	Restated
Service charges		(17 999 471)	4 18 179	-	(17 581 292)
Rental of facilities and equipment		(239 872)	(36 863)	-	(276 735)
Licences and permits		(740 320)	89 887	-	(650 433)
Other income		(993 917)	(88 003)	-	(1 081 920)
Interest received		(13 414 024)	5 046 373	-	(8 367 651)
Property rates		(18 228 973)	(5 872 200)	-	(24 101 173)
Government grants & subsidies		(69 878 527)	8 812 766	-	(61 065 761)
Commission received		(14 136)	(315 116)	-	(329 252)
Fines, penalties and forfeits		(186 988)	183 188	-	(3 800)
Employee related costs		51 750 420	(60 301)	-	51 690 119
Remuneration of councillors		2 024 012	2 754 917	-	4 778 929
Depreciation and amortisation		20 484 987	(721 847)	-	19 763 140
Finance costs		1 586 389	310 701	-	1 877 090
Lease rentals on operating lease		139 023	158 736	-	297 759
Debt Impairment		(1 221 136)	1 375 010	-	153 872
Bulk purchases		8 741 275	(2 365 252)	-	6 376 023
Contracted services		-	-	6 198 950	6 198 950
General Expenses		22 155 311	5 770 505	(6 198 950)	21 726 866
Gain or loss on sale of non-current assets		(178 982)	(7 380 645)	-	(7 559 627)
Actuarial gain or loss		1 009 893	-	-	1 009 893
Surplus for the year		(15 225 038)	8 080 035	-	(7 145 003)

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34. Prior-year adjustments (continued)

The comparative figures for 2019 have been restated as a result of:

STATEMENT OF FINANCIAL POSITION:

Receivables from exchange and Statutory receivables

The restatement was due to non-billing of debtors on the financial management system for the month of June 2019, The provision for impairment was also not recognised as at June 2019.

Cash and cash equivalents

During the 2019 financial year the municipality changed financial management systems from Venus to SEBATA EMS, as a result the transactions from the previous system were not migrated to the new system. A reconciliation of bank transactions had to be effected and misstatements were rectified.

Property, Plant and Equipment

The restatement was due to the Additions for 2019 that were understated by R4 798 589 and depreciation and impairment was understated by R669 617.

Trade and other payables from exchange transactions

During the 2019 financial year the municipality changed financial management systems from Venus to SEBATA EMS, as a result the transactions from the previous system were not migrated to the new system. Transactions in relation to employee related costs and remunerations of councillors were not migrated for January and June 2019 and thus affected the Salary Control Account. A reconciliation of creditors transactions had to be effected and misstatements were rectified.

VAT

During the 2019 financial year the municipality changed financial management systems from Venus to SEBATA EMS, as a result the transactions from the previous system were not migrated to the new system. Transactions in relation to payables from exchange transactions and also receivables from exchange transactions were migrated and VAT Output and Input had to be reconciled and misstatements corrected.

Defined benefit obligation

The restatement is due to leave pay and bonus accrual reclassification from payables from exchange transactions to defined benefit obligation as per GRAP 25.

Unspent conditional grants

The restated amount is the unspent portion of MIG grant, the reconciliation for 2019 year could not be reconciled as transactions could not be extracted from the system. This was rectified and reconciliation was performed.

STATEMENT OF FINANCIAL PERFORMANCE:

Service charges

The restatement was due to non-billing of debtors on the financial management system for the month of June 2019, The provision for impairment was also not recognised as at June 2019

Rental of facilities and equipment

The restatement was due to non-billing of debtors on the financial management system for the month of June 2019, The provision for impairment was also not recognised as at June 2019
Other income

During the current financial year the municipality identified that there was an invoice relating to WIP that was disputed due to the amount not reflective of the work done. The invoice was erroneously not recorded at year end and it has subsequently been corrected

Interest received - investment

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34. Prior-year adjustments (continued)

This is due to a restatement of insurance proceeds for the damaged municipal offices which was incorrectly allocated to interest and has since been rectified.

Property rates

The restatement was due to non-billing of debtors on the financial management system for the month of June 2019. The provision for impairment was also not recognised as at June 2019.

Government grants & subsidies

The restated amount is the revenue recognition transactions in relation to the unspent portion of MIG grant. The reconciliations for 2019 year could not be reconciled as transactions could not be extracted from the system as well as missing grants receipts on the ledger. This was rectified and reconciliation was performed.

Employee related costs

During the 2019 financial year the municipality changed financial management systems from Venus to SEBATA EMS, as a result the transactions from the previous system were not migrated to the new system. Transactions in relation to employee related costs and remunerations of councillors were not migrated for January and June 2019 and thus affected the Salary Control Account.

Remuneration of councillors

During the 2019 financial year the municipality changed financial management systems from Venus to SEBATA EMS, as a result the transactions from the previous system were not migrated to the new system. Transactions in relation to employee related costs and remunerations of councillors were not migrated for January and June 2019 and thus affected the Salary Control Account. The remuneration for councillors was incorrectly mapped to the Employee related cost and this has been correctly classified.

Debt impairment

This was due to non-recognition of provision for impairment for Trade and other receivables from exchange transactions and receivables from non-exchange transactions as at June 2019.

General expenses and contracted services

During the 2019 financial year the municipality changed financial management systems from Venus to SEBATA EMS, as a result the transactions from the previous system were not migrated to the new system. Transactions were incorrectly classified and in order to comply with the disclosure requirements of the current period, these expenditures have been reclassified.

Contracted services have been reclassified from general expenses.

Accumulated surplus

Accumulated surplus balance has been restated due to corrections done in the prior year balances.

CASH FLOW STATEMENT

As a result of the errors noted above the cashflow from operating, investing and financing activities had been revised.

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35. Related parties

Relationships

Accounting Officer

Mayor

Chief Whip

Councillors

Refer to accounting officer's report note

Cllr N.W.Tekile (Speaker)

Cllr N. Kantshashe

Cllr N. P. Mgema

Cllr N.Dyani

Cllr L.Plika

Cllr L.Mhlontlo

Cllr B.Wood

Cllr S.Jacoba

Cllr T.Ndolose

Cllr Z.Nzuzo

Cllr W.Sinqana

Cllr Z.Tshali

Cllr M.Njekanye

Members of key management

Chief Financial Officer

Ms S.Mini

Mr A.Lwana

Director Technical and Community Services

Ms O.Kwababana

Director Strategic Services

Mr M.Mtalo

Director Corporate Services

Mr JA Gomomo

Councillors and executive management received salaries for services rendered relating to their employment within the Municipality. Refer to notes 22 and 23. No other related party transactions took place during the year.

Remuneration of management

36. Unauthorised expenditure

Opening balance as previously reported	17 876 691	57 041 535
Opening balance as restated	17 876 691	57 041 535
Add: Unauthorised Expenditure - current period	9 398 468	7 789 127
Less: Amount written off - current	-	(46 953 971)
Closing balance	27 275 159	17 876 691

Incident - The remaining prior year expenditure has been submitted to council for investigation in terms of s32 of the MFMA. The current year unauthorised expenditure relates mainly to under estimation on non-cash items i.e. depreciation and amortization on assets, debt impairment etc.

.Prior year unauthorised is a result of non-cash item (Depreciation) as a result of restatements implemented on upate of GRAP fixed asset register.

37. Fruitless and wasteful expenditure

Opening balance as previously reported	1 063 420	2 473 878
Opening balance as restated	1 063 420	2 473 878
Less: Amount written off - current	-	(3 172 995)
Expenditure incurred in the current year	1 118 314	1 762 537
Closing balance	2 181 734	1 063 420

Incident - Fruitless and Wasteful expenditure incurred is mainly due to interest and penalties charged because of late payments of suppliers. The late payment of suppliers is as a result of the municipality currently facing financial constraints.

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38. Irregular expenditure		
Opening balance as previously reported	10 841 979	16 692 776
Add: Irregular Expenditure - current year	670 767	77 000
Less: Amounts recovered /transferred to receivables for recovery	11 512 746	16 769 776
Add: Irregular Expenditure - current	-	-
Add: Irregular Expenditure - prior period	-	-
Less: Amount written off - current	-	(5 927 797)
Closing balance	11 512 746	10 841 979

Particulars that lead to the incurrence of irregular expenditure

The Irregular expenditure amount for prior year was reported to council for a re-investigation as the write off process was not in accordance to s32 of the MFMA and National Treasury Circulars, a council committee was appointed and thus Municipal Public Accounts Committee (MPAC) was appointed to re-investigate the causes of the expenditure and the recoverability. The committee has not yet concluded with the investigations.

The current year irregular expenditure R670 767 was incurred due to non-compliance with Supply Chain Management principles:

- R 223 355 - due expenditure incurred on prior year contracts appointed through SCM regulation 32
- R 66 247 - due to non-compliance of s116 of MFMA on appointed prior year contracts.
- R 381 165 - result of non-compliance with SCM regulation 3.

Cases under investigation

Non compliance with MFMA	-	75 267
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Awards to close family members of persons in the service of the state

Part of the prior year irregular expenditure incurred, the municipality made awards to close family members of persons in the service of the state. The wife of the director of PLM Quantity Surveyors is employed by Amathole District Municipality.

Employee in service of the state

Mrs Z Poto - Amathole District Municipality (Technician)	-	603 369
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39. 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.

The Accounting Officer has not deviated with supply chain management regulations.

40. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by the finance department with the assistance of operating divisions, under policies approved by the accounting officer.

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40. Risk management (continued)

Liquidity risk

The Municipality's risk relates to funds available for future commitments. The Municipality manages liquidity risk through ongoing review of future commitments, projected grant receipts and cash forecasting. Cash flow forecasts are prepared and borrowing facilities are monitored.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis and the impact of Covid-19 pandemic has negatively affected the municipal cashflows i.e. low levels of collection from customers in relation to debt owed from receivables from exchange and non exchange transactions. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

The carrying amount of financial assets represent the Municipality's maximum exposure to credit risk in relation to these assets.

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

Financial instrument	2020	2019
Receivables from exchange transactions	33 050 123	32 302 445
Receivables from non exchange transactions	15 373 209	14 070 834
Short term deposits	5 967 693	1 193 624

Market risk

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.

Interest rate risk

The municipality has no significant interest bearing assets. The municipality's income and operating cashflows are substantially independent of changes in market interest rates.

Balances with banks, deposits, call accounts and current accounts attract interest at rates that vary with the South African prime rate. The Municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the statement of financial performance.

Trade debtors in arrears are charged interest at a rate of Prime plus 1% per month.

Surplus funds are invested with banks in interest bearing accounts refer note 5 to the annual financial statements.

Price risk

The municipality is not exposed to commodity price risk, as it does not hold commodities on an open market platform.

41. Auditors' remuneration

Fees	2 728 824	4 219 285
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42. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	1 832 770	667 440
Current year subscription / fee	627 630	1 165 330
	2 460 400	1 832 770
Audit fees		
Opening balance	3 290 558	519 034
Current year subscription / fee	3 555 193	4 706 773
Amount paid - previous years	(1 876 560)	(1 935 219)
	4 969 191	3 290 588
PAYE and UIF		
Opening balance	12 996 596	7 483 187
Current year subscription / fee	8 238 824	8 072 541
Amount paid - current year	(9 307 838)	(2 559 132)
	11 927 582	12 996 596
Pension and Medical Aid Deductions		
Opening balance	1 599 294	3 571 459
Current year subscription / fee	12 339 793	11 608 661
Amount paid - current year	(12 282 073)	(13 580 826)
	1 657 014	1 599 294
VAT		
VAT payable	6 909 587	4 822 019

The municipality is on a cash or payment basis for VAT purposes and is classified as Category C.

43. Budget differences

Material differences between budget and actual amounts

Statement of Financial Performance

Revenue from exchange transactions

1. Service Charges – are lower than they were anticipated due to increase in indigent subsidy granted.
2. Licenses and permits are budgeted for at R1 488 350, the actual received for this service is less than it was budgeted to be received. This is due to reduction of classes for drivers licence testing and learners testing.
3. Rental of Facilities and equipment – difference is caused by the fact that during the year the municipality entered into a new lease rental for one of its properties that was not budgeted for.
4. Other income received is below what was budgeted due to over budgeting on some of items under this vote i.e sale of municipal residential plots and bad debts recovered had no or minimal movement during the year.
5. Interest received – Interest has been over budgeted but could not be realised due to financial constraints as the municipality did not have surplus funds to invest.

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43. Budget differences (continued)

Revenue from non-exchange transactions

6. Property rates are over budget and this will be rectified to equal total billed for the year in 2018/19 FY

7. Government Grants and subsidies, under budgeted due to grants that are not gazetted e. g Treasury payment toward AG debt on behalf of the municipality.

Expenditure

8. Personnel costs are below budget due to the higher than expected vacancy rate during the period. There were also vacant funded positions that were not filled during this period due to cash flow constraints..

9. Remuneration of councillors is over budget, the variance is only less than 10% of the budgeted amount..

10. Depreciation and amortisation was under budgeted.

11. Finance costs are under budget, this is due to finance charges on fair value adjustments and finance leases

12. Debt impairment is under budget, municipality has anticipated less on this item due to high rate of non-payment o creditors.

13. Bulk electricity is over budget, this is due to lower than expected usage of electricity during the year.

14. General Expenses are below budget, due to a lower than expected expenditure during the year caused by cash flow problems, but the increase is due to accruals raised at year end.

15. Loss on disposal of assets and liabilities is over budget, this item has not been budgeted for.

16. Actuarial gains/losses are over budget by they were not provided for in the budget

Statement of Financial Position

Assets

1. Inventories – is under budget because the municipality has written off the stores balance due to cash flow constraints.

2. Receivables from exchange transactions – are below budget due to debt impairment caused by low collection rate.

3. Receivables from non-exchange transactions - are below budget due to increase in debt impairment caused by low collection rate.

4. VAT receivable is under budget due to refunds previously claimed that have been disallowed by SARS.

5. Cash and cash equivalent is over budget by due to cash flow constraints.

6. Investment properties – The municipality updated its asset register and there were no movements in investment properties.

7. Property, Plant & Equipment – These were over budgeted due to intangible assets over budgeted.

Liabilities

Current Liabilities

10. Other Financial Liabilities (actual is over budget) due to write off of long term portion to short term portion.

11. Finance lease obligation – there was no budget for leases.

12. Payable from exchange transactions underbudgeted - Payable from exchange increased because the municipality cannot meet its obligations on time due to cash flow problems.

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43. Budget differences (continued)

13. Employee benefit obligation – underbudgeted – not budgeted for during budget not budgeted for.

14. Provisions over budgeted , there are no movements .

15.VAT payable – underbudgeted by as the municipality did not anticipate the raised assessment from VAT audit .

Non-Current Liabilities

16. Other financial liabilities – over budgeted as there was no movement ,the balance was transferred to short term portion of loan. Provisions for longterm was underbudgeted due to increase in provision for landfill site rehabilitation .

17. Finance lease obligation and employee benefit obligation underbudgeted – not provided for during budget process

Unspent Conditional grants is underbudgeted due to Energy grant not fully spent.

Cash Flow Statement

1. Sale of goods and services – actual is less than budget, there is a high rate of non – payments of municipal accounts by customers.

2. Grants - were received in full during the year, however the difference is due to subsidy from Treasury.

3.Employee costs – is over budget due non – filling of funded vacant posts which are as a result of cash flow constraints.

4. Suppliers – Actual is lower than budget because of cash flow constraints.

5. Finance costs – Actual is over budget due to finance costs charged on late payment of DBSA loan.

6. Purchase of Property Plant and Equipment – Actual is less than budget due to financial constraints the municipality experienced during the year..

8. Repayment of other financial liabilities – actual was lower than budget.

44. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 271 143 947 and that the municipality's total assets exceed its liabilities by R 271 143 947.

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.

However the municipality has noted that it is unable to meet its obligations on time due to cash flow constraints. The management of the municipality has assessed the financial status of the municipality and are confident that the municipal will continue with the operations in the foreseeable future, given the above, and that we are a government institution with legislated funding that enable us to provide services to the communities.

Below are the Short term measures / plans that will be undertaken in the next twelve months:

Equitable Share; conditional grants; vat refunds from SARS and collection of rates and other services will be utilized to fund the current operations of the municipality.

The municipality has plans in place to fund specifically the outstanding creditors as at the end of June 2020 and the source of funding is the sale of vacant residential plots

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44. Going concern (continued)

The implementation of cost containment measures is also an enabler for the municipality to ensure spending within the municipality is limited.

Impact of COVID-19 Pandemic

On the 23rd of March 2020, his Excellency President Cyril Ramaphosa pronounced a national lockdown due to the Covid-19 pandemic. On 30th March 2020 the Minister of Finance issued a conditional Exemption Notice in terms of section 177(1)(b) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) (MFMA), in order to facilitate and enable the performance of legislative responsibilities by municipalities and municipal entities during the national state of disaster.

Thus, there will not be any prior year information regarding expenditure in lieu of Covid-19.

Covid-19 had a significant impact on the amounts as disclosed on the Annual Financial Statements. The affected areas were mainly debtors, cash and cash equivalents, debtor's impairment and spending particularly on capital grants which the municipality under performed and resulted to unspent conditional grants. The municipality has applied for roll over to National Treasury.

No material information has come to the attention of management to suggest that there is a going concern issue. The financial statements for the year ended 30 June 2020 have been prepared under the going concern assumption.

45. Events after the reporting date

There was a significant event that occurred after the reporting date, where a burglary took place at the municipal traffic department (station) on the 23rd July 2020 and a safe that kept money was allegedly stolen with an undisclosed amount of money.