Mpofana Local Municipality
Annual Financial Statements
for the year ended 30 June 2020

## General Information

| | |
|---|---|
| **Legal form of entity** | Local Municipality |
| **Nature of business and principal activities** | Providing Municipal Services |
| **Members of Council** | |
| Mayor | XM Duma |
| Councillors | Z Ismail |
| | B Khumalo |
| | LQ Mkhize |
| | BF Madlala |
| | L Shabalala |
| | N Ndlovu |
| | M Magubane |
| | ME Majola |
| **Grading of local authority** | 2 |
| **Accounting Officer** | MR EH Dladla (Appointed 01 April 2020) |
| **Acting Chief Finance Officer (CFO)** | Mr P Molefe (Appointed 01 July 2020) |
| **Registered office** | 10 Claughton Terrace<br>Mooi River<br>3300 |
| **Municipal Contact Details** | 033 263 1221/7700 |
| **Postal Address** | P O Box 47<br>Mooi River<br>3300 |
| **Bankers** | First National Bank (FNB) |
| **Auditors** | Auditor General South Africa (AGSA) |

# Index

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



| | |
|---|---|
| GRAP | Generally Recognised Accounting Practice |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |
| AGSA | Auditor General of South Africa |
| COGTA | Department of Cooperative Governance and Traditional Affairs |
| FMG | Finance Management Grant |

# Accounting Officer's Responsibilities and Approval

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

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

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

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

The accounting officer 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.

In January 2018, the municipality was placed under Administration, in terms of Section 139(1)(b) of the Constitution which requires the Provincial government to assume responsibility because the municipality could not fulfil an obligation.
The following Administrators were appointed:

1. Mr M Sithole was appointed in January 2018 to March 2019
2. Mr K. Perumal was appointed in April 2019 to August 2019.
3. Mr M.E. Ngonyama was appointed in September 2020 and is the current Administrator.

Attention is drawn to the fact that as at 30 June 2020 :
a) The municipality has deficit of R24,08 million and that the municipality total current liabilities exceeded its current assets by R116,7 million.
b) The liquidity ratio of the municipality is below 1 which means that the municipality is not able to pay its creditors as they fall due. The cash coverage ratio is less than 1 month.
c) The unspent conditional grant funding has for several years not been cash backed.
The above implies that the municipality is not in a position to meet its short term obligations if they fall due at a specific point in time .
Refer to Note 43 of the AFS where the going concern principle is further explained.

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

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

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

The annual financial statements set out on pages 6 to 79, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on behalf of the municipality by:

## Accounting Officer's Responsibilities and Approval

**Accounting Officer**
**Mr. EH Dladla**

# Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2020.

**Audit committee members and attendance**

The audit committee consists of the members listed hereunder and should meet four(4) times per annum as per its approved terms of reference. During the current year four(4) meetings were held.

| Name of member | Number of meetings attended |
| --- | --- |
| Mr Z Zulu (Chairperson) | 4 |
| Prof B Stobie | 4 |
| Miss H Ndlela ( Resigned on the 19th May 2020) | 3 |

Subsequent to year end two additional audit committee members were appointed:-

Mr A Singh (Appointed 1 July 2020)

Ms S Keshav (Appointed 1 July 2020)

**Audit committee responsibility**

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

**The effectiveness of internal control**

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

**Evaluation of annual financial statements**

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the accounting officer;
- reviewed the municipality's compliance with legal and regulation;

These financial statements are prepared in accordance with the South African standards of Generally Recognised Accounting Practice (GRAP)and in the manner required by the Municipal Finance Management Act and Division of Revenue.

**Systems of Internal Control**

The systems of internal control is designed to provide reasonable assurance that the assets are safeguarded, the liabilities, working capital are effectively and efficiently managed. All of the above remains the Accounting Officers responsibility in line with legislative provision

Whilst the internal audit of the municipality wasnot fully functional, the audit committee had some difficulties in so far as the internal controls is concerned. Hence remarkable improvements were noted in the later part of the financial year

The Perfomance/Audit committee can conclude that the systems of internal control especially relating to Supply cjain management processes are working. However there is still room for improvement we note the limited resources that affect Mpofana Municipality and attempts to restructure the Supply Chain Management unit to comply with 2018/2019 Audit report, however management should give this special attention to ensure that there is adequate segregation of duties to minimise risks of fraud and corruption.

**Chairperson of the Audit Committee**

**Date:** ______________________

# Statement of Financial Position as at 30 June 2020

| Figures in Rand | Note(s) | 2020 | 2019 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Inventories | 3 | 35 635 957 | 35 737 613 |
| Receivables from non-exchange transactions | 4 | 29 832 839 | 17 950 656 |
| VAT receivable | 5 | 20 054 859 | 16 280 051 |
| Receivables from exchange transaction | 6 | 36 311 121 | 36 176 862 |
| Loan receivables | 7 | 399 638 | 399 638 |
| Cash and cash equivalents | 8 | 2 442 053 | 5 463 997 |
| | | **124 676 467** | **112 008 817** |
| **Non-Current Assets** | | | |
| Investment property | 9 | 2 100 001 | 2 100 001 |
| Property, plant and equipment | 10 | 201 360 482 | 196 166 638 |
| Intangible assets | 11 | 400 000 | 640 001 |
| Heritage assets | 12 | 150 100 | 127 600 |
| | | **204 010 583** | **199 034 240** |
| **Total Assets** | | **328 687 050** | **311 043 057** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Finance lease obligation | 13 | 3 823 855 | 4 990 651 |
| Payables from exchange transactions | 14 | 216 987 926 | 168 460 157 |
| Consumer deposits | 15 | 340 084 | 331 889 |
| Employee benefit obligation | 16 | 267 659 | 793 035 |
| Unspent conditional grants and receipts | 17 | 15 166 513 | 15 263 459 |
| Provisions | 18 | 4 838 275 | 4 811 368 |
| | | **241 424 312** | **194 650 559** |
| **Non-Current Liabilities** | | | |
| Finance lease obligation | 13 | 4 562 785 | 9 041 062 |
| Employee benefit obligation | 16 | 13 105 259 | 14 644 708 |
| Provisions | 18 | 10 374 650 | 9 428 335 |
| | | **28 042 694** | **33 114 105** |
| **Total Liabilities** | | **269 467 006** | **227 764 664** |
| **Net Assets** | | **59 220 044** | **83 278 393** |
| Accumulated surplus | | 59 220 044 | 83 278 393 |

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2020 | 2019 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 19 | 57 495 401 | 71 219 198 |
| Rental of facilities and equipment | 20 | 32 795 | 39 423 |
| Licences and permits | 21 | 2 318 868 | 2 878 607 |
| Other income | 22 | 3 647 869 | 3 643 591 |
| Interest received | 23 | 260 328 | 512 964 |
| Actuarial gains | | 3 760 853 | 242 257 |
| **Total revenue from exchange transactions** | | **67 516 114** | **78 536 040** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Property rates | 24 | 21 740 815 | 14 613 070 |
| **Transfer revenue** | | | |
| Government grants & subsidies | 26 | 58 252 946 | 59 529 950 |
| Public contributions and donations | 25 | 6 700 000 | - |
| Fines, Penalties and Forfeits | | 417 910 | 969 824 |
| **Total revenue from non-exchange transactions** | | **87 111 671** | **75 112 844** |
| **Total revenue** | | **154 627 785** | **153 648 884** |
| **Expenditure** | | | |
| Employee related costs | 27 | (45 499 832) | (44 669 988) |
| Remuneration of councillors | 28 | (2 721 233) | (2 702 235) |
| Depreciation and amortisation | 29 | (18 217 224) | (17 931 311) |
| Reversal of impairments | 30 | - | (308 840) |
| Finance costs | 31 | (19 038 789) | (14 243 825) |
| Debt Impairment | 32 | 616 129 | (14 451 773) |
| Bulk purchases | 33 | (64 329 315) | (64 644 137) |
| Contracted services | 34 | (2 352 579) | (4 439 964) |
| General Expenses | 35 | (27 165 790) | (22 728 766) |
| **Total expenditure** | | **(178 708 633)** | **(186 120 839)** |
| **Deficit for the year from continuing operations** | | **(24 080 848)** | **(32 471 955)** |
| Fair value adjustment | | 22 500 | 17 100 |
| **Deficit for the year** | | **(24 058 348)** | **(32 454 855)** |

* See Note 41

# Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| Opening balance as previously reported | 52 682 979 | 52 682 979 |
| Adjustments | | |
| Prior year adjustments | 63 050 269 | 63 050 269 |
| **Balance at 01 July 2018 as restated*** | **115 733 248** | **115 733 248** |
| Changes in net assets | | |
| Deficit for the year | (32 454 855) | (32 454 855) |
| Total changes | (32 454 855) | (32 454 855) |
| Opening balance as previously reported | 27 311 631 | 27 311 631 |
| Adjustments | | |
| Prior year adjustments | 55 966 761 | 55 966 761 |
| **Restated* Balance at 01 July 2019 as restated*** | **83 278 392** | **83 278 392** |
| Changes in net assets | | |
| Deficit for the year | (24 058 348) | (24 058 348) |
| Total changes | (24 058 348) | (24 058 348) |
| **Balance at 30 June 2020** | **59 220 044** | **59 220 044** |

* See Note 41

# Cash Flow Statement

| Figures in Rand | Note(s) | 2020 | 2019 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Taxation Revenue | | 9 605 738 | 23 014 436 |
| Services Charges | | 57 877 788 | 43 957 152 |
| Grants | | 63 156 000 | 65 152 972 |
| Interest income | | 260 328 | 512 964 |
| Other receipts | | 5 966 737 | 6 522 198 |
| | | 136 866 591 | 139 159 722 |
| **Payments** | | | |
| Employee costs | | (46 092 638) | (48 799 966) |
| Suppliers | | (69 216 385) | (59 069 604) |
| Finance costs | | (3 105 148) | (3 060 597) |
| | | (118 414 171) | (110 930 167) |
| **Net cash flows from operating activities** | 37 | **18 452 420** | **28 229 555** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 10 | (15 829 291) | (21 260 707) |
| **Cash flows from financing activities** | | | |
| Finance lease payments | | (5 645 073) | (4 024 477) |
| **Net increase/ (decrease) in cash and cash equivalents** | | **(3 021 944)** | **2 944 371** |
| Cash and cash equivalents at the beginning of the year | | 5 463 997 | 2 519 626 |
| **Cash and cash equivalents at the end of the year** | 8 | **2 442 053** | **5 463 997** |

* See Note 41

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 71 092 919 | 13 201 781 | **84 294 700** | 57 495 401 | **(26 799 299)** | (a) |
| Rental of facilities and equipment | 84 000 | (56 480) | **27 520** | 32 795 | **5 275** | (b) |
| Licences and permits | 3 195 000 | (262 000) | **2 933 000** | 2 318 868 | **(614 132)** | (c) |
| Other income | 4 144 741 | 1 230 201 | **5 374 942** | 3 647 869 | **(1 727 073)** | (d) |
| Interest received - investment | 186 000 | 72 354 | **258 354** | 260 328 | **1 974** | |
| **Total revenue from exchange transactions** | **78 702 660** | **14 185 856** | **92 888 516** | **63 755 261** | **(29 133 255)** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 28 213 155 | (7 570 027) | **20 643 128** | 21 740 815 | **1 097 687** | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 59 411 000 | 3 745 000 | **63 156 000** | 58 252 946 | **(4 903 054)** | (e) |
| Public contributions and donations | - | - | **-** | 6 700 000 | **6 700 000** | |
| Fines, Penalties and Forfeits | 16 256 000 | (12 079 032) | **4 176 968** | 417 910 | **(3 759 058)** | (f) |
| **Total revenue from non-exchange transactions** | **103 880 155** | **(15 904 059)** | **87 976 096** | **87 111 671** | **(864 425)** | |
| **Total revenue** | **182 582 815** | **(1 718 203)** | **180 864 612** | **150 866 932** | **(29 997 680)** | |
| **Expenditure** | | | | | | |
| Personnel | (39 834 082) | (3 464 000) | **(43 298 082)** | (45 499 832) | **(2 201 750)** | |
| Remuneration of councillors | (2 691 000) | - | **(2 691 000)** | (2 721 233) | **(30 233)** | |
| Depreciation and amortisation | (17 078 000) | - | **(17 078 000)** | (18 217 224) | **(1 139 224)** | (g) |
| Finance costs | - | (20 804 484) | **(20 804 484)** | (19 038 789) | **1 765 695** | (h) |
| Debt Impairment | (14 494 000) | (2 392 551) | **(16 886 551)** | 616 129 | **17 502 680** | (i) |
| Bulk purchases | (74 423 557) | 3 113 557 | **(71 310 000)** | (64 329 315) | **6 980 685** | (j) |
| Contracted Services | (9 789 854) | (4 000 614) | **(13 790 468)** | (2 352 579) | **11 437 889** | (k) |
| General Expenses | (14 199 800) | 1 333 187 | **(12 866 613)** | (27 165 790) | **(14 299 177)** | (l) |
| **Total expenditure** | **(172 510 293)** | **(26 214 905)** | **(198 725 198)** | **(178 708 633)** | **20 016 565** | |
| **Operating deficit** | **10 072 522** | **(27 933 108)** | **(17 860 586)** | **(27 841 701)** | **(9 981 115)** | |
| Actuarial gains/losses | - | - | **-** | 3 760 853 | **3 760 853** | |
| **Deficit before taxation** | **10 072 522** | **(27 933 108)** | **(17 860 586)** | **(24 080 848)** | **(6 220 262)** | |
| **Deficit for the year from continuing operations** | **10 072 522** | **(27 933 108)** | **(17 860 586)** | **(24 080 848)** | **(6 220 262)** | |
| Fair value adjustment | - | - | **-** | 22 500 | **22 500** | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **10 072 522** | **(27 933 108)** | **(17 860 586)** | **(24 058 348)** | **(6 197 762)** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | 200 000 | 67 413 | **267 413** | 35 635 957 | **35 368 544** | (e) |
| Receivables from non-exchange transactions | 2 816 000 | 12 171 563 | **14 987 563** | 29 832 839 | **14 845 276** | (d) |
| VAT receivable | - | - | **-** | 20 054 859 | **20 054 859** | (b) |
| Consumer debtors | 84 932 907 | (12 020 861) | **72 912 046** | 36 311 121 | **(36 600 925)** | (c) |
| Loan receivable | 497 000 | (97 362) | **399 638** | 399 638 | **-** | |
| Cash and cash equivalents | 2 037 000 | 1 500 000 | **3 537 000** | 2 442 053 | **(1 094 947)** | (a) |
| | **90 482 907** | **1 620 753** | **92 103 660** | **124 676 467** | **32 572 807** | |
| **Non-Current Assets** | | | | | | |
| Investment property | 18 122 000 | 4 823 000 | **22 945 000** | 2 100 001 | **(20 844 999)** | (f) |
| Property, plant and equipment | 133 376 253 | 17 244 928 | **150 621 181** | 201 360 482 | **50 739 301** | (g) |
| Intangible assets | 404 342 | - | **404 342** | 400 000 | **(4 342)** | |
| Heritage assets | 115 000 | - | **115 000** | 150 100 | **35 100** | (h) |
| | **152 017 595** | **22 067 928** | **174 085 523** | **204 010 583** | **29 925 060** | |
| **Total Assets** | **242 500 502** | **23 688 681** | **266 189 183** | **328 687 050** | **62 497 867** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Payables from exchange transactions | 116 252 220 | 38 690 710 | **154 942 930** | 216 987 926 | **62 044 996** | (i) |
| Consumer deposits | 266 000 | 72 224 | **338 224** | 340 084 | **1 860** | |
| Unspent conditional grants and receipts | - | - | **-** | 15 166 513 | **15 166 513** | (j) |
| Provisions | 2 934 226 | 659 243 | **3 593 469** | 4 838 275 | **1 244 806** | (k) |
| | **119 452 446** | **39 422 177** | **158 874 623** | **237 332 798** | **78 458 175** | |
| **Non-Current Liabilities** | | | | | | |
| Finance lease obligation | - | - | **-** | 8 386 634 | **8 386 634** | (l) |
| Employee benefit obligation | - | - | **-** | 13 372 918 | **13 372 918** | (m) |
| Provisions | 34 825 000 | (1 711 603) | **33 113 397** | 10 374 650 | **(22 738 747)** | (n) |
| | **34 825 000** | **(1 711 603)** | **33 113 397** | **32 134 202** | **(979 195)** | |
| **Total Liabilities** | **154 277 446** | **37 710 574** | **191 988 020** | **269 467 000** | **77 478 980** | |
| **Net Assets** | **88 223 056** | **(14 021 893)** | **74 201 163** | **59 220 050** | **(14 981 113)** | |
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | 88 223 056 | (14 021 893) | **74 201 163** | 59 220 044 | **(14 981 119)** | (o) |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Cash Flow Statement** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| **Receipts** | | | | | | |
| Service charges | 98 059 077 | 1 089 503 | **99 148 580** | 72 255 934 | **(26 892 646)** | (a)(b)(c) |
| Grants | 47 380 000 | 15 776 000 | **63 156 000** | 63 156 000 | **-** | |
| Interest income | 4 029 958 | (3 771 958) | **258 000** | 250 599 | **(7 401)** | |
| | **149 469 035** | **13 093 545** | **162 562 580** | **135 662 533** | **(26 900 047)** | |
| **Payments** | | | | | | |
| Suppliers and Employees | (149 449 597) | 24 556 597 | **(124 893 000)** | (115 700 941) | **9 192 059** | (d) |
| Finance costs | - | (21 003 996) | **(21 003 996)** | (1 510 024) | **19 493 972** | (e) |
| | **(149 449 597)** | **3 552 601** | **(145 896 996)** | **(117 210 965)** | **28 686 031** | |
| **Net cash flows from operating activities** | **19 438** | **16 646 146** | **16 665 584** | **18 451 568** | **1 785 984** | |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | (12 031 000) | (4 000 000) | **(16 031 000)** | (15 829 291) | **201 709** | |
| Proceeds from sale of property, plant and equipment | 12 031 000 | (12 031 000) | **-** | - | **-** | |
| **Net cash flows from investing activities** | **-** | **(16 031 000)** | **(16 031 000)** | **(15 829 291)** | **201 709** | |
| **Cash flows from financing activities** | | | | | | |
| Finance lease payments | - | (3 236 609) | **(3 236 609)** | (5 645 078) | **(2 408 469)** | (f) |
| Net increase/(decrease) in cash and cash equivalents | 19 438 | (2 621 463) | **(2 602 025)** | (3 022 801) | **(420 776)** | (g) |
| Cash and cash equivalents at the beginning of the year | 335 107 | 4 804 218 | **5 139 325** | 5 463 996 | **324 671** | (h) |
| **Cash and cash equivalents at the end of the year** | **354 545** | **2 182 755** | **2 537 300** | **2 441 195** | **(96 105)** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|

**Budget versus Actual explanations**

Variances greater than 5% is explained.

**Statement of Financial Performance:**

(a) The bulk customers were closed during the national lockdown period. Consequently revenue decreased in the 2019/20 financial year.

(b) The rent from facilities comprises of rental from investment properties and rental from market stalls. Two additional market stalls tenants entered into a lease agreement with the municipality for the 2019/20 financial year. In June 2020 a new lease agreement was entered into for the investment property premises.

(c ) The traffic and lisencing department was not operating during the period of March and June 2020 as results of COVID 19 lockdown. Hence a decrease in revenue from licenses and permits.

(d) The income from SANRAL for the weighbridge decreased as the weighbridge was not operational since the contract for the agent who was responsible for administration of the enforcement of the weighbridge, ended. This contributed to the decrease in revenue.

(e) The budget includes all the grants recognised as revenue, however with application of principles of GRAP 109, Principal, Agent Arrangements. Municipality is an agent to INEP arrangement and therefore no income or expenditure has been recognised from the arrangement.

(f) The application of principles of iGRAP 1 where the recovery rate has been used to determine the revenue from Traffic Fines. The recovery rate for the 2019/20 period is 10% of fines issued based on average history of recovery.

(g) The depreciation has been more than the budgeted amount because of the reclassification of some of the property, plant and equipment that was incorrectly classified as investment property in the prior period. The fixed assest that were reclassified from Investment Property were not depreciated under Investement Property as the policy of the municipality of account Investment Property at fair value. Property, Plant and Equipment is carried using cost model. Hence the reclassified assets were then depreciated.

(h) The amount of finance costs that has been budgeted includes the interest and penalties fro ESKOM that has been included as part of general expenses.

(i) The municipality's debtors balances have actually reduced from the prior to the current period. However when the budget was prepared based on the recent audited fingures and it was anticipated that debtors balance would increase. However the debtors balances decreased, hence the contribution to provision for doubtful debts decreased.

(j) There has been a decrease in the electricity costs as result of bulk customers not operating during the COVID 19 period. The decrease in the electricity costs is in line with the decrease in the electricity services and increase in the electricity material losses.

(k) The payments for the finance leases of motor vehicles and photocopy machines has been capitalised to finance leases. Decrease in the amount of contracted services.

(l) The interest and penalties from ESKOM that has increased significantly during the period. The debt collection costs has also increased significantly. There has been increase in the number of general expenses like Telephone, Technical Professional Fees, District Shared Services, Repairs and Maintenance and Membership and Subscription Fees. During the current financial period a insurance contract to insure municipal asset was obtained, hence the premiums in the current period.

**Statement of Financial Position:**

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
| --- | --- | --- | --- | --- | --- | --- |

(a) During the budget the municipality planned to collect more from receivables, however due to COVID and National Lockdown
the municipality could not meet its target of cash balances.

(b) VAT recevables was not budgeted.

(c) The rebates for property rates plus the interest on outstanding debtors was included into the budget.

(d) Due to National Lockdown the customers were not in a position to pay their accounts as expected.

(e) The increase is due to the RDP houses that were identified during the AFS preparation process and were brounght into inventories as the municipality is holding this RDP houses for distribution at no cost.

(f) There are assets that were reclassified to PPE as they do not meet the defination of Investment Property.

(g) Assets were reclassified from Investment Property to PPE as they do not meet the defination of investment property. There are other assets that are owned by the municipality that were identified in the current period that has been brought into account.

(h) The increase in the value of gold chain was under estimated.

(i) The municipality has not been in a position to pay its suppliers on time due to limited resources. This has been shown by the increase in the amount accounts payable from the prior year.

(j) Unspent conditional grants were not budgeted.

(k) The provision for leave pay was revised during the AFS preparation process and adjustments were made to correct the leave balances for all employees that were not included into VIP system.

(l) Finance lease obligations were included as part of provisions in the budget.

(m) Employee lease obligations were included as part of provisions in the budget.

(n) Due to the missmatching of the budgeted amount and actual expenditure of finance lease and employee benefits, the provisions budget.

(o) The decrease to accumulated surplus is due to the losses and the unfunded budget that was submitted for the 2019/20 financial period.

**Statement of Cash Flows:**

(a) The amount of property rates collected during the period has reduced due to the increased proposed rebates to property rates. The increase to rebates was to reduce the impact substantial increase to value of properties of the new valuation roll from 01 July 2019.

(b) The service charges collected were less that expected due to National Lockdown, where the main bulk customer was closed for the three months of the financial period.

(c) Revenue from SNRAL was reduced due to National Lockdown as the Weighbridge was not operational during the period.

(d) The municipality has not been in a position to pay its suppliers on time due to limited resources. This has been shown by the increase in the amount accounts payable from the prior year.

(e) The amount of finance costs that relates to Eskom was correctly budgeted in this accounts but were included as part of suppliers above.

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|

(f) The payments was for finance lease obligations, was reduced as some of the photocopying machines were coming to an end towards the end of the 2019/20 financial period.

(g) During the budget the municipality planned to collect more from receivables, however due to COVID and National Lockdown the municipality could not meet its target of cash balances.

(h) The budgeted cash balance was based on the cash balances that was available at the time and municipality planned to maintain the same balance towards the year end.

# Accounting Policies

### 1. Presentation of Annual Financial Statements

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

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

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

### 1.1 Presentation currency

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

### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### 1.3 Significant judgements and sources of estimation uncertainty

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

**Trade receivables and loans and receivables**

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

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

**Allowance for slow moving, damaged and obsolete stock**

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

**Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

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

### 1.3 Significant judgements and sources of estimation uncertainty (continued)

**Impairment testing**

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

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

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

**Useful lives of Property pland and equipment and  other assets**

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

**Post retirement benefits**

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 16.

**Effective interest rate**

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

**Allowance for doubtful debts**

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

### 1.4 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.

### 1.4 Investment property (continued)

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

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

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

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised. Compensation from third parties for investment property that was impaired ,lost or given up is recognised in surplus or deficit when the compensation becomes receivables.

**Subsequent measurement**

Investment Property is measured at fair value model and shall measure all of its property at fair value.

The fair value of investment property is the price at which property could be exchanged between knowledgeable willing parties in an arms length transaction. fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale
An entity determines fair value without any deductions for transaction costs it may incur on sale or other disposal

**Derecognition**

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.

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

### 1.5 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

# Accounting Policies

### 1.5 Property, plant and equipment (continued)

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

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

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

Major spare parts and standby equipments which are expected to be used for more than one period are included in the property, plant and equipment, In addition spare parts and standby equipments which can only be used in connection with an item of property , pland and equipment are accounted for as 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.

| Item | Depreciation method | Average useful life |
|---|---|---|
| Land | Not Applicable | Not Applicable |
| Buildings | Straight line | 5-25 years |
| Leased assets | Straight line | 3-5 years |
| Infrastructure | Straight line | 3-60 years |
| Other property, plant and equipment | Straight line | 3-10 years |

The residual value and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. if the expectations differ from previous estimates the change is accounted for as a change in accounting estimates

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation 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 assesses the probability of expected future economic benefit or service potential using reasonable and supportable assumptions that represents managements best estimates of the set of economic conditions that will exist over the useful life of the asset.

## Accounting Policies

### 1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

The municipality has a landfill site which is obligated to rehabilitate at the end of its useful life

### 1.7 Intangible assets

An asset is identifiable if it either:

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

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.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

### 1.7 Intangible assets (continued)

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.

When 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
An Intangible asset is regarded as as having an indefinite useful life when based on all relevant factors , there is no foreseeable limit to the amortisation method for intangible assets are viewed at each reporting date
Expenditure on research (or on the research phase of an internal project ) is recognised as an expense when it is incurred .

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 | Depreciation method | Average useful life |
|---|---|---|
| Computer software, internally generated | Straight line | 2-5 years |
| Computer software, other | Straight line | 2-5 years |

Intangible assets are initially recognised at cost, and are carried at cost less any accumulated amortisation and any impairments losses
An intangible asset is recognised when it is probable that the expected future economic benefit or service potential that attributable the asset to the municipality and cost can be measured reliable .

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

The gain or loss is the difference between the net disposal proceeds , if any , and the carrying amount and is recognised in surplus or deficit when the asset is derecognised.

### 1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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.

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.
Heritage assets are considered to be indefinite assets and are therefore not depreciated

# Accounting Policies

### 1.8 Heritage assets (continued)

**Recognition**

The cost of an item of heritage asset is recognised as an asset if,and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the fair value of the item can be measured reliably
Heritage assets are initialy recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost , being the fair value on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition for it to be capable of operating in the manner intended by the municipality.
Trade discounts and rebates are deducted in arriving at the cost. The cost also include the necessary cost of dismantling and removing the asset and restoring the site on which it is located.
Where an asset is acquired by the municipality for no or nominal consideration (i.e non exchange transaction) the cost is deemed to be equal to the fair value of that asset on the date acquired
The cost of an item item of heritage assets acquired in exchange for a non monetary asset or monetary asset or a combination of monetary and non monetary assets, is measured at the fair value of the assets given up, unless the fair value of the asset received is more clearly evident
if the required item could not be measured at its fair value its costs is measured at the carrying amount of the asset given up.

**Subsequent measurement**

Subsequent expenditure relating to to heritage assets capitalised if its probable that future economic benefit or potential service delivery associated with the subsequent expenditure will flow to the municipality and the fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when its increases the capacity or future benefits associated with the asset. When the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component .

Subsequently all heritage assets are measured at fair value.

**Derecognition**

The carrying amount of an item of heritage assets is derecognised on disposal or when no future economic or service potential 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 derecognise. Gains are not classified as revenue. Gains or losses are calculated as the difference between the carrying value of assets and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of heritage assets.

### 1.9 Financial instruments

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

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

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

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

### 1.9 Financial instruments (continued)

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

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

A financial asset is:

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

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

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

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

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.

# Accounting Policies

### 1.9 Financial instruments (continued)

**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 |
| --- | --- |
| Cash and bank | Financial asset measured at fair value |
| Receivables from exchange and non exchange transactions | Financial asset measured at amortised cost |
| VAT receivables | Financial asset measured at amortised cost |
| Bank Investments | Financial asset measured at fair value |
| Loan receivables | Financial asset measured at amortised cost |

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

| | |
| --- | --- |
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Unspent grants and subsidies | Financial liability measured at amortised cost |
| Provisions | Financial liability measured at amortised cost |
| Finance lease | Financial liability measured at amortised cost |
| Consumer deposits | 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.

The entity recognises financial assets using trade date accounting.

**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.

### 1.9 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 amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

**Impairment and uncollectibility of financial assets**

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

# Accounting Policies

### 1.9 Financial instruments (continued)

**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.

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

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

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

**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.

**Presentation**

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

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

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

### 1.10 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.

### 1.10 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.

#### 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.

### 1.11 Leases

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

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

### 1.11 Leases (continued)

**Finance leases - lessee**

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

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

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

**Operating leases - lessor**

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

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

### 1.12 Inventories

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

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

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

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

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

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

### 1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. When an assets is deployed in a manner consistent with that adopted by a profit -oriented entity, it generates a commercial return .

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.

# Accounting Policies

### 1.13 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.

Criteria developed by the municipality to distinguish cash-generating assets from non cash generating assets are as follows:

**Identification**

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

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

**Value in use**

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

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

**Basis for estimates of future cash flows**

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows.

**Discount rate**

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

### 1.13 Impairment of cash-generating assets (continued)

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

#### Reversal of impairment loss

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

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

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

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

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

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit orientated entity.It generates a commercial return

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.

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.

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

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.

**Identification**

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

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

**Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

**Reversal of an impairment loss**

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

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

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

**Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.15 Employee benefits

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

**Retirement Funds**

The municipality provides retirements benefits for its employees and councillors. The contribution to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable.
The municipality contributes to defined contribution and defined benefit funds. These funds are multi employer funds..

# Accounting Policies

### 1.15 Employee benefits (continued)

**Post-employment benefits**

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

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

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

### 1.15 Employee benefits (continued)

**Post-employment benefits: Defined benefit plans**

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

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

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

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

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

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

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

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

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

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

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

The amount recognised as a defined benefit liability is the net total of the following amounts:

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

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

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

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

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

**1.15 Employee benefits (continued)**

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

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

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

**1.16 Provisions and contingencies**

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

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.

### 1.16 Provisions and contingencies (continued)

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.

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.

Contingent assets and contingent liabilities are not recognised.

**Long service allowance**

The municipality has the obligation to provide long service benefit to all its employees according the policy of the long service allowance scheme, which the municipality instituted and operates, an employee ( who is in the current conditions of service), is entitle to cash allowance calculated in terms of rules of the scheme after 10 years of continued service and every 5 years subsequently

The municipality liability is based on the actuarial valuations. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long term incentives are accounted for in surplus or deficit for the year

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### 1.17 Commitments

Commitment is referred to as the intention to commit to an outflow from the municipality's resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract similar documentation . Such a contract commitment would be accompanied by but not limited to actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g quote and condition to be satisfied to establish an obligation e.g delivery schedule.

Disclosures are required in respect of unrecognised contractual commitments.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.
A municipality may enter on or before the reporting date for expenditure over subsequent accounting periods e.g a contract for construction of infrastructure assets ,the purchase of major items of plant and equipment or significant consultancy contracts. In these events , a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.
Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
-Contracts should be non-cancelable at significant cost (for example, contracts for computers or building maintenance, services) and
-Contracts should relate to something other than the routine, steady, state business of the of the entity - therefore salary commitments relating to employment contracts or social security benefit commitment are excluded

### 1.18 Revenue from exchange transactions

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

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

### 1.18 Revenue from exchange transactions (continued)

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.

**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 received**

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

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

### 1.19 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue from non exchange transactions is generally recognised to the extent that the related receipt or receivables qualities for recognition as an assets and there is no liability to repay the amount.

**Measurement**

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

**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 condition or obligation have not been met a liability is recognised.

### 1.20 Investment income

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

### 1.21 Borrowing costs

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

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

### 1.22 Accounting by principals and agents

**Identification**

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

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

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

**Identifying whether an entity is a principal or an agent**

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

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

**Binding arrangement**

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

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

**Assessing which entity benefits from the transactions with third parties**

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

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

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

**Recognition**

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

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

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

# Accounting Policies

### 1.23 Comparative figures

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

# Accounting Policies

### 1.24 Unauthorised expenditure

Unauthorised expenditure means:

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

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance 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.

### 1.25 Fruitless and wasteful expenditure

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

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

### 1.26 Irregular expenditure

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

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

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

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

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

### 1.27 Investments

When the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

### 1.28 Budget information

Municipalities 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.

### 1.28 Budget information (continued)

The approved budget is prepared on a 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 budget for the economic entity includes all the entities approved budgets under its control.

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

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

### 1.29 Related parties

Individuals, including Councillors as well as the close family members, and/or entities related parties if one party has the ability, directly or indirectly to control or jointly control the other party in making financial and/or operating decisions
Key management personnel as defined as the Municipal manager, Chief financial officer and all other managers reporting directly to the Municipal manager or designated by the Municipal manager.

### 1.30 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.

### 1.31 Prior Period error accounting

Prior period errors are omission from, and misstatements in the municipality financial statements for one or more prior periods arising from failure to use, or misuse of available reliable information

Unless it is impracticable to determine the effects of the error, the municipality corrects material prior period retrospectively by restating the comparative amounts for the prior period

### 1.32 Use of estimates

The preparation of financial statements in conformity with standards of GRAP requires use of certain critical accounting estimates.
Sections of the financial statements. Although these estimates are based on managements best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates

### 1.33 Offsetting

Assets and liabilities, revenue and expenses should not be offset; these items should be reported separately. Offsetting is permitted only if it is required or permitted by other standards of GRAP (GRAP 25) , Legislation or where offsetting reflects the substance of the transaction or the event.

# Accounting Policies

### 1.34 Loan receivable

Loan and receivables are non- derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables are subsequently measured at amortized cost using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset and financial liability.

When calculating the effective interest rate, the municipality estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument ( or group of financial instruments) the municipality uses the contractual cash flows over the full contractual term of the financial instrument ( or group of financial instruments).

## Notes to the Annual Financial Statements

| | 2020 | 2019 Restated* |
|---|---|---|

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

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

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land | 01 April 2019 | Unlikely there will be a material impact |
| • IGRAP 19: Liabilities to Pay Levies | 01 April 2019 | Unlikely there will be a material impact |

#### 2.2 Standards and interpretations issued, but not yet effective

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

| | | |
|---|---|---|
| • GRAP 104 (amended): Financial Instruments | 01 April 2020 | Unlikely there will be a material impact |
| • Guideline: Guideline on Accounting for Landfill Sites | 01 April 2020 | Unlikely there will be a material impact |
| • Guideline: Guideline on the Application of Materiality to Financial Statements | 01 April 2020 | Unlikely there will be a material impact |
| • GRAP 34: Separate Financial Statements | 01 April 2020 | Unlikely there will be a material impact |
| • IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue | 01 April 2020 | Unlikely there will be a material impact |

### 3. Inventories

| | 2020 | 2019 |
|---|---|---|
| Maintenance materials | 175 957 | 277 613 |
| RDP Properties Held for Distribution | 35 460 000 | 35 460 000 |
| | **35 635 957** | **35 737 613** |

RDP Houses that are in the name of the Municipality and were not officially transferred to beneficiaries were identified during the 2019/20 financial year. These RDP housing stock was included in inventory as per GRAP 12 and prior inventory amounts were restated.

None of the inventory items are pledged as security

### 4. Receivables from non-exchange transactions

| | 2020 | 2019 |
|---|---|---|
| Property Rates | 43 716 826 | 31 581 749 |
| Fines | 40 347 402 | 40 732 575 |
| Sundry debtors | 352 841 | 352 841 |
| Provision for bad debt - Sundy debtors | (352 841) | (352 841) |
| Provision for bad debts - Rates | (16 852 306) | (16 984 585) |
| Provision for bad debts - Fines | (37 379 083) | (37 379 083) |
| | **29 832 839** | **17 950 656** |

| | 2020 | 2019 Restated* |
|---|---|---|

## 4. Receivables from non-exchange transactions (continued)

**Statutory receivables included in receivables from non-exchange transactions above are as follows:**

| | | |
|---|---|---|
| Property rates | 43 716 826 | 31 581 749 |
| Fines | 40 347 402 | 40 732 575 |
| | **84 064 228** | **72 314 324** |

**Other non-financial asset receivables included in receivables from non-exchange transactions above are as follows:**

| | | |
|---|---|---|
| Sundry receivables | 352 841 | 352 841 |
| **Financial asset receivables included in receivables from non-exchange transactions above** | **(54 584 230)** | **(54 716 509)** |
| **Total receivables from non-exchange transactions** | 29 832 839 | 17 950 656 |

**Statutory receivables general information**

**Transaction(s) arising from statute**

Property rates levied in terms of the Local Government: Municipal Property Rates Act No. 6 of 2004 (MPRA) with effect from 01 July 2007.

Traffic fines are issued in terms of the Administrative Adjudication of Road Traffic Offences (AARTO Act) by way of notices to offenders which specify the value of the fine that must be paid.

**Determination of transaction amount**

Adjustments to the valuation roll in terms of Section 78 of the MPRA (as amended) are effected on an on-going basis. The adjustments take into account consolidations and sub-divisions as well as property category changes. Thus interim valuations are processed on an annual basis.

Schedule 3 of the AARTO Regulations 2008 for charge codes and descriptions, penalties and their discounts, and demerit points.

**Interest or other charges levied/charged**

**Statutory receivables impaired**

As of 30 June 2020, Statutory receivables of R54 231 389 (2019: R54 363 668) were impaired and provided for.

The amount of the provision was R7 186 410 as of 30 June 2020 (2019: R4 743 922).

**Factors the entity considered in assessing statutory receivables impaired**

The Municipality accounts for traffic fines impairment in accoradance with iGRAP 1.

The Municipality assess the average collection rate of the traffic fines over the 5 years.

The municipality has assessed the recoverability of the property rates of for individual customer and determine as to recoverable on not and the provision for all the accounts that are doubtful.

| | 2020 | 2019 Restated* |
|---|---|---|

### 4. Receivables from non-exchange transactions (continued)

**Receivables from non-exchange transactions past due but not impaired**

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2020, R 30 436 223 (2019: R 18 471 031) were past due but not impaired.

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

| | | |
|---|---|---|
| 1 month past due | 377 704 | 683 503 |
| 2 months past due | 1 123 161 | 803 425 |
| 3 months past due | 28 935 358 | 16 984 103 |

**Reconciliation of provision for impairment of receivables from non-exchange transactions**

| | | |
|---|---|---|
| Opening balance | (54 716 509) | (51 336 730) |
| Provision for impairment | - | (3 379 779) |
| Unused amounts reversed | 132 278 | - |
| | **(54 584 231)** | **(54 716 509)** |

| **Property Rates** | | |
|---|---|---|
| Current (0-30 days) | 377 704 | 683 503 |
| 31-60 days | 1 123 160 | 803 425 |
| 61-90 days | 1 741 169 | 874 163 |
| 91-120 days | 1 231 098 | 824 463 |
| 120+ days | 22 391 389 | 11 411 610 |
| | **26 864 520** | **14 597 164** |

### 5. VAT receivable

| | | |
|---|---|---|
| VAT | 20 054 859 | 16 280 051 |

VAT is payable on the payment basis. Once cash has been received from customers/receivables, vat is payable to SARS

### 6. Receivables from exchange transactions

| **Gross balances** | | |
|---|---|---|
| Electricity | 34 727 234 | 37 309 200 |
| Refuse | 26 554 030 | 22 793 695 |
| Sundry debtors | 36 672 592 | 38 200 553 |
| | **97 953 856** | **98 303 448** |

| **Less: Allowance for impairment** | | |
|---|---|---|
| Rates | - | - |
| Electricity | (8 634 455) | (8 702 229) |
| Refuse | (18 053 860) | (18 195 569) |
| Other (specify) | (34 954 420) | (35 228 788) |
| | **(61 642 735)** | **(62 126 586)** |

* See Note 41

| | 2020 | 2019 Restated* |
|---|---|---|

### 6. Receivables from exchange transactions (continued)

| | | |
|---|---|---|
| **Net balance** | | |
| Electricity | 26 092 779 | 28 606 971 |
| Refuse | 8 500 170 | 4 598 126 |
| Sundries | 1 718 172 | 2 971 765 |
| | **36 311 121** | **36 176 862** |

| | | |
|---|---|---|
| **Electricity** | | |
| Current (0 -30 days) | 3 232 504 | 294 702 |
| 31 - 60 days | 617 118 | 1 396 247 |
| 61 - 90 days | 1 308 719 | 3 688 445 |
| 91 - 120 days | 134 084 | 1 854 584 |
| 120+ days | 20 800 354 | 21 372 993 |
| | **26 092 779** | **28 606 971** |

| | | |
|---|---|---|
| **Refuse** | | |
| Current (0 -30 days) | 320 731 | 322 944 |
| 31 - 60 days | 199 022 | 339 441 |
| 61 - 90 days | 338 974 | 339 796 |
| 91 - 120 days | 317 163 | 338 156 |
| 120 + days | 7 324 280 | 3 257 789 |
| | **8 500 170** | **4 598 126** |

| | | |
|---|---|---|
| **Other** | | |
| 121+ days | 1 718 172 | 2 971 765 |

| | | |
|---|---|---|
| **Reconciliation of allowance for impairment** | | |
| Balance at beginning of the year | (62 126 586) | (51 054 591) |
| Contributions to allowance | - | (11 071 995) |
| Reversal of allowance | 483 851 | - |
| | **(61 642 735)** | **(62 126 586)** |

**Receivable from Exchange transactions pledged as security**

No receivables from exchange transactions has been pledged as collateral of liabilities of the municipality.

### 7. Loan receivables

| | | |
|---|---|---|
| Loan Receivable | 399 638 | 399 638 |

This loan pertains to Umgungundlovu District Municipality that owes Mpofana Municipality for the DBSA Loan that Mpofana Municipality paid for water and sanitation works in prior years. The water function was subsequently transfered to Umgungundlovu District Municipality thus Mpofana Municipality needed to be reimbursed from Umgungundlovu District Municipality with regards to the loan repayments. The loan is interest free and not secured by any liabilities.

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Bank balances | 2 442 053 | 5 463 997 |

* See Note 41

### 8. Cash and cash equivalents (continued)

**The municipality had the following bank accounts**

| **Account number / description** | **Bank statement balances** | | | **Cash book balances** | | |
|---|---|---|---|---|---|---|
| | **30 June 2020** | **30 June 2019** | **30 June 2018** | **30 June 2020** | **30 June 2019** | **30 June 2018** |
| First National Bank - Current Account - 53050399907 | 1 591 121 | 1 280 134 | 225 941 | 1 591 121 | 1 329 427 | 2 342 540 |
| First National Bank - Current Account - 62101108034 | 195 206 | 108 166 | 140 614 | 195 206 | 108 166 | 140 614 |
| First National Bank- Call Account -62187203957 | 32 026 | 2 658 242 | 433 | 32 026 | 2 658 242 | 433 |
| First National Bank- Call Account - 62237621760 | 17 530 | 3 922 | 1 941 | 17 530 | 3 922 | 1 941 |
| First National Bank- Call Account -62712488085 | - | 214 | 214 | - | 214 | 214 |
| First National Bank- Call Account -62141712001 | - | 376 | 376 | - | 376 | 376 |
| First National Bank- Call Account - 62134172890 | 97 329 | 345 | 345 | 97 329 | 345 | 345 |
| First National Bank- Call Account -62172498183 | - | 272 | 272 | - | 272 | 272 |
| First National Bank- Call Account -62172493935 | 178 578 | 22 158 | 181 | 178 578 | 22 158 | 181 |
| First National Bank- Call Account -62036716746 | - | 215 | 215 | - | 215 | 215 |
| First National Bank- Call Account -62173946040 | 330 262 | 1 306 438 | 306 | 330 262 | 1 306 438 | 306 |
| First National Bank- Call Account -62066847553 | - | 580 | 580 | - | 580 | 580 |
| First National Bank- Investment Account -74630870406 | - | 33 280 | 31 609 | - | 33 641 | 31 609 |
| **Total** | **2 442 052** | **5 414 342** | **403 027** | **2 442 052** | **5 463 996** | **2 519 626** |

* See Note 41

### 9. Investment property

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Investment property | 2 100 001 | - | 2 100 001 | 2 100 001 | - | 2 100 001 |

**Reconciliation of investment property - 2020**

| | **Opening balance** | **Total** |
|---|---|---|
| Investment property | 2 100 001 | 2 100 001 |

**Reconciliation of investment property - 2019**

| | **Opening balance** | **Total** |
|---|---|---|
| Investment property | 2 100 001 | 2 100 001 |

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

For 2019/20 financial year the analysis of the investment properties was undertaken in order to comply with GRAP 16. As a result a number of properties that were previously disclosed as investment properties did not meet the GRAP 16 requirements. These assets were subsequently reclassified as assets under Property, Plant and Equipment (PPE) in terms of GRAP 17.

GENIX Valuation Group assisted the Municipality with this task.

The municipality has the Woza Woza Tourism centre as investment property
The municipality uses fair value model to measure its investment property as at 30 June 2020 and (30 June 2019). Fair value assessment was undertaken by Genix Valuation Group.

The valuation methodology applied was based on the current market value of similar properties within the municipal region
Fair value adjustment has been effected in the financial statements valuation.

No investment properties has been pledged as collateral for liabilities of the municipality.

**Amounts recognised in surplus or deficit**

| | 2020 | 2019 |
|---|---|---|
| Rental revenue from Investment property | 5 621 | 15 162 |

The investment property lease agreement with Gateway/Harcourt Midlands expired in July 2019. A new five year lease agreement was entered with Woza Woza as from June 2020.

* See Note 41

### 10. 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 | 20 452 716 | - | 20 452 716 | 20 452 716 | - | 20 452 716 |
| Buildings | 49 529 392 | (9 753 863) | 39 775 529 | 42 829 392 | (7 836 064) | 34 993 328 |
| Infrastructure | 209 542 405 | (117 565 129) | 91 977 276 | 203 315 069 | (108 837 608) | 94 477 461 |
| Other property, plant and equipment | 17 715 764 | (11 489 729) | 6 226 035 | 17 221 963 | (9 527 205) | 7 694 758 |
| Work in progress | 32 305 595 | - | 32 305 595 | 23 197 443 | - | 23 197 443 |
| Leased assets | 27 095 971 | (19 558 141) | 7 537 830 | 27 095 971 | (14 797 580) | 12 298 391 |
| Landfil site | 11 304 653 | (8 219 152) | 3 085 501 | 10 662 873 | (7 610 332) | 3 052 541 |
| **Total** | **367 946 496** | **(166 586 014)** | **201 360 482** | **344 775 427** | **(148 608 789)** | **196 166 638** |

### 10. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2020**

| | Opening balance | Additions | Transfers received | Transfers | Additions through Donation | Increase/(Decrease) to restoration costs | Depreciation | Total |
|---|---|---|---|---|---|---|---|---|
| Land | 20 452 716 | - | - | - | - | - | - | 20 452 716 |
| Buildings | 34 993 328 | - | - | - | 6 700 000 | - | (1 917 799) | 39 775 529 |
| Infrastructure | 94 477 461 | - | 6 227 337 | - | - | - | (8 727 522) | 91 977 276 |
| Other property, plant and equipment | 7 694 758 | 493 802 | - | - | - | - | (1 962 525) | 6 226 035 |
| Work in progress | 23 197 443 | 15 335 489 | - | (6 227 337) | - | - | - | 32 305 595 |
| Leased assets | 12 298 391 | - | - | - | - | - | (4 760 561) | 7 537 830 |
| Landfil site | 3 052 541 | - | - | - | - | 641 780 | (608 820) | 3 085 501 |
| | **196 166 638** | **15 829 291** | **6 227 337** | **(6 227 337)** | **6 700 000** | **641 780** | **(17 977 227)** | **201 360 482** |

**Reconciliation of property, plant and equipment - 2019**

| | Opening balance | Additions | Transfers received | Transfers | Increase/(Decrease) to restoration costs | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|---|
| Land | 20 452 716 | - | - | - | - | - | - | 20 452 716 |
| Buildings | 36 816 986 | - | - | - | - | (1 823 658) | - | 34 993 328 |
| Infrastructure | 96 188 198 | - | 7 377 550 | - | - | (9 088 287) | - | 94 477 461 |
| Other property, plant and equipment | 2 300 033 | 6 788 513 | - | - | - | (1 393 788) | - | 7 694 758 |
| Capital Work in Progress | 16 102 799 | 14 472 194 | - | (7 377 550) | - | - | - | 23 197 443 |
| Finance lease assets | 17 582 126 | - | - | - | - | (4 974 895) | (308 840) | 12 298 391 |
| Landfill site | 1 430 257 | - | - | - | 2 032 098 | (409 814) | - | 3 052 541 |
| | **190 873 115** | **21 260 707** | **7 377 550** | **(7 377 550)** | **2 032 098** | **(17 690 442)** | **(308 840)** | **196 166 638** |

A number of assets that were in the name of the Municipality were not in the Municipality's assets register. In 2019/20 financial year amendments were made to fixed assets register and accounting records in order to account for these assets in terms of GRAP 17. Prior year comparison were restated. These additional assets were land, buildings and infrastructure.

No Property Plan and Equipment has been pledged as collateral of liabilities of the municipality.

| | 2020 | 2019 Restated* |
|---|---|---|

### 10. Property, plant and equipment (continued)

**Reconciliation of Work-in-Progress 2020**

| | Work in Progress-Infrastructure | Work in Progres-Buildings | Total |
|---|---|---|---|
| Opening balance | 21 063 688 | 2 133 755 | 23 197 443 |
| Additions/capital expenditure | 11 594 052 | 3 741 436 | 15 335 488 |
| Transferred to completed items | (6 227 337) | - | (6 227 337) |
| | **26 430 403** | **5 875 191** | **32 305 594** |

**Reconciliation of Work-in-Progress 2019**

| | Work in Progress-Infrastructure | Work in Progres-Buildings | Total |
|---|---|---|---|
| Opening balance | 14 836 599 | 1 266 200 | 16 102 799 |
| Additions/capital expenditure | 13 604 639 | 867 555 | 14 472 194 |
| Transferred to completed items | (7 377 550) | - | (7 377 550) |
| | **21 063 688** | **2 133 755** | **23 197 443** |

**Expenditure incurred to repair and maintain property, plant and equipment**

| **Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance** | 2020 | 2019 |
|---|---|---|
| Employee related costs | 361 000 | 198 267 |
| Contracted services | - | 169 725 |
| Inventory | 698 820 | 104 555 |
| General expenses | 238 373 | 180 401 |
| | **1 298 193** | **652 948** |

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.
There have been delays in the finalisation of some projects due to disputes with contractors/consultants. These projects amounts to R8,5 million
One project was halted due to Council's reprioritisation. This projects cost is R430 000.

## Notes to the Annual Financial Statements

Figures in Rand

### 11. Intangible assets

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** |
| Computer software, other | 1 272 258 | (872 258) | 400 000 | 1 272 258 | (632 257) | 640 001 |

**Reconciliation of intangible assets - 2020**

| | **Opening balance** | **Amortisation** | **Total** |
|---|---|---|---|
| Computer software, other | 640 001 | (240 001) | 400 000 |

**Reconciliation of intangible assets - 2019**

| | **Opening balance** | **Amortisation** | **Total** |
|---|---|---|---|
| Computer software, other | 880 868 | (240 867) | 640 001 |

### 12. Heritage assets

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** |
| Mayoral Chain | 150 100 | - | 150 100 | 127 600 | - | 127 600 |

**Reconciliation of heritage assets 2020**

Figures in Rand

**12. Heritage assets (continued)**

| | Opening balance | Revaluation increase/(decrease) | Total |
| --- | --- | --- | --- |
| Mayoral Chain | 127 600 | 22 500 | 150 100 |

**Reconciliation of heritage assets 2019**

| | Opening balance | Revaluation increase/(decrease) | Total |
| --- | --- | --- | --- |
| Mayoral Chain | 110 500 | 17 100 | 127 600 |

The Mayoral chain has been revalued as at 30 June 2020 by Afrokwazi
The effective date of the revaluation was 19 August 2020
The nature of material and the respective weight was utilised to determine the fair value based on the prevailing market prices of silver as at 30 June 2020
The Fair value as at 30 June 2020 was R150 100 (2019: R127 600)

# Notes to the Annual Financial Statements

| | 2020 | 2019 Restated* |
|---|---|---|

## 13. Finance lease obligation

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 6 196 140 | 6 196 140 |
| - in second to fifth year inclusive | 4 990 651 | 9 904 810 |
| | 11 186 791 | 16 100 950 |
| less: future finance charges | (2 800 156) | (2 069 237) |
| **Present value of minimum lease payments** | **8 386 635** | **14 031 713** |
| **Present value of minimum lease payments due** | | |
| - within one year | 3 823 850 | 4 990 651 |
| - in second to fifth year inclusive | 4 562 785 | 9 041 062 |
| | **8 386 635** | **14 031 713** |
| Finance lease obligation | 4 562 785 | 9 041 062 |
| Finance lease obligation | 3 823 855 | 4 990 651 |
| Non-current liabilities | 4 562 785 | 9 041 062 |
| Current liabilities | 3 823 850 | 4 990 651 |
| | **8 386 635** | **14 031 713** |

The municipality has entered into lease agreements with Scelo Business Consultants for use of vehicles and Nashua for use of photocopying machine and printers
The effective lease date for the leasing of vehicles was 1 April 2017 and lease period is 5 years
The lease period for printers and photocopying machines is also 5 years

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 10.

## 14. Payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 202 763 696 | 156 687 783 |
| Retentions | 4 610 904 | 3 776 488 |
| Debtor payments received in advance | 8 879 425 | 5 400 059 |
| Unallocated receipts | 512 911 | 70 220 |
| Salary suspense | (740 357) | 1 661 567 |
| 13th Cheque Accrual | 1 039 945 | 870 390 |
| Receipting errors | (78 598) | (6 350) |
| | **216 987 926** | **168 460 157** |

## 15. Consumer deposits

| | | |
|---|---|---|
| Electricity | 336 976 | 328 781 |
| Other | 3 108 | 3 108 |
| | **340 084** | **331 889** |

* See Note 41

| | 2020 | 2019 Restated* |
|---|---|---|

## 16. Employee benefit obligations

**Defined contribution plan**

**Post retirement medical aid plan**

| **Post retirement medical aid** | | |
|---|---|---|
| Balance at the beginning of period | 12 858 665 | 11 720 000 |
| Contribution to provision | 2 006 173 | 1 842 000 |
| Balance at the end of period | 14 864 838 | 13 562 000 |
| Transfer of current liabilities | (530 131) | (459 000) |
| Actuarial Loss/(Gain) | (3 405 357) | (244 335) |
| | **10 929 350** | **12 858 665** |

The municipality has a post-employment health care liability consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary pensioner

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2020 by Mr DT Mureriwa, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

| **The members of the post-employment health care are made up as follow:** | | |
|---|---|---|
| In-service members (Employees) | 86 | 82 |
| Continuation members | 9 | 9 |
| | **95** | **91** |

| **The unfunded liability in respect of past service has been estimated as follows** | | |
|---|---|---|
| In service members | 6 205 217 | 6 934 344 |
| Continuation members | 4 724 133 | 5 924 321 |
| | **10 929 350** | **12 858 665** |

The current-service cost for the year ending 30 June 2020 is estimated to be R627 174, whereas the cost for the ensuing year is estimated to be R531 166 ( 30 June 2019: R683 000 and 627 174 respectively).

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

| **Carrying value** | | |
|---|---|---|
| Present value of the defined benefit obligation-wholly unfunded | (10 929 350) | (12 858 665) |
| Present value of the defined benefit obligation-partly or wholly funded | (2 443 568) | (2 579 078) |
| | **(13 372 918)** | **(15 437 743)** |
| Employee benefit obligation | 13 105 259 | 14 644 708 |
| | **13 105 259** | **14 644 708** |
| Retirement benefit obligation | 267 659 | 793 035 |
| | **267 659** | **793 035** |
| Non-current liabilities | (13 105 259) | (14 644 708) |
| Current liabilities | (267 659) | (793 035) |
| | **(13 372 918)** | **(15 437 743)** |

* See Note 41

| | 2020 | 2019 Restated* |
|---|---|---|

### 16. Employee benefit obligations (continued)

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

| | | |
|---|---|---|
| Opening balance | 1 597 665 | - |
| Net expense recognised in the statement of financial performance | (1 399 184) | 1 597 665 |
| | **198 481** | **1 597 665** |

**Net expense recognised in the statement of financial performance**

| | | |
|---|---|---|
| Current service cost | 627 174 | 683 000 |
| Interest cost | 1 378 999 | 1 159 000 |
| Actuarial (gains) losses | (3 405 357) | (244 335) |
| | **(1 399 184)** | **1 597 665** |

**Changes in the fair value of plan assets are as follows:**

| | | |
|---|---|---|
| Opening balance | 12 858 665 | 11 720 000 |
| Current services costs | 627 174 | 683 000 |
| Actuarial gains (losses) | (3 405 357) | (244 335) |
| Interest paid | 1 378 999 | 1 159 000 |
| Benefits paid | (530 131) | (459 000) |
| | **10 929 350** | **12 858 665** |

**Key assumptions used**

The principal assumptions used for the actuarial valuations was as follows

| | | |
|---|---|---|
| Discount rates used | 13.88 % | 10.95 % |
| Consumer Price inflation | 8.13 % | 6.78 % |
| Health care cost inflation rate | 9.63 % | 8.28 % |
| Net effective discount rate | 3.88 % | 2.47 % |

**Other assumptions**

The effect of a 1% movement in the assume rate of health care costs inflation is as follows:

| | **One percentage point increase** | **One percentage point decrease** |
|---|---|---|
| Effect on the aggregate of the current service cost | 133 323 | (101 471) |
| Effect on the aggregate of interest costs | 239 485 | (191 880) |
| Effect on defined benefit obligation | 1 726 611 | (1 383 643) |

The municipality expects to make contribution of R2,011 million (2019: R2,006 million) to the defined plan during the next financial year:

## 16. Employee benefit obligations (continued)

### Defined contribution plan

Certain councillors and certain employees belong to the defined benefit plan of the Natal Joint Superannuation and retirements funds, and the Municipal Councillors Pension Fund. Employees of Mpofana make up less than 1% of the total members of the funds. Mpofana's liability in these funds could not be determined owing mainly to the assets not being allocated to each municipality and one set of financial being prepared for each fund and not per municipality. These funds are subject to triennial actuarial valuations. The last statutory valuations was performed in March 2015 on the retirement and provident funds and in March 2014 on the Superannuation Fund. An interim valuation of the Superannuation fund was done in March 2015

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

### Superannuation Fund

The actuarial value of total assets was R10 113 227 million at the actuarial date
1.surplus of R0.00 in respect of pensioners (Funding level 100%)
2.surplus of R0.00 in respect of members (Funding level 100%)
3. the fund was thus 100% funded
4. the fund did not hold any an investment reserve.
5.the total contribution rate payable, including the surcharge by and on behalf of members, exceeded that required for future
services by 1.41% of members pensionable emoluments.
6. An additional contribution by the way of surcharge amounting to 9.5% of salaries is currently in place to fund the deficit. The surcharge will build up the Solvency Reserve

### Retirement Fund

The actuarial value of total assets was R3 650 776 million at the actuarial valuation date .
1. surplus of R0.00 in respect of pensioners ( funding level 100%)
2. deficit of R148 694 million in respect of members (funding level 91.1%)
3. the fund was thus 96.1% funded
4.the fund did not hold an investment reserve
5. the total contribution rate payable will include a surcharge of 17.5% payable to reduce the deficit in the fund]
Provident Fund
The actuarial value of the total assets was R2 636 064 million at the actuarial valuation date
1. surplus/deficit of R0.00 and the funding levels is 107.4%
2. the fund was thus 107.4 funded
3. the fund did not hold an investment reserve.

### Defined benefit plan

| | 2020 | 2019 Restated* |
|---|---|---|
| **Long service awards** | | |
| **Long term service** | | |
| Balance at the beginning | 2 579 078 | 2 290 000 |
| Contribution to provision | 127 394 | 473 078 |
| Subtotal | 2 706 472 | 2 763 078 |
| Transfer to current provision | (262 904) | (184 000) |
| | **2 443 568** | **2 579 078** |

* See Note 41

# Notes to the Annual Financial Statements

| | 2020 | 2019 Restated* |
|---|---|---|

### 17. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | 2020 | 2019 Restated* |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| Craigburn Housing Project Grant | 5 840 388 | 5 840 388 |
| Municipal Assistance Grant- Small Town grant | 625 585 | 722 531 |
| Townview Housing Project Grant | 8 168 481 | 8 168 481 |
| Title Deeds Grant | 532 059 | 532 059 |
| | **15 166 513** | **15 263 459** |

### 18. Provisions

**Reconciliation of provisions - 2020**

| | Opening Balance | Additions | Finance cost | Increase/(decrease) in future cost | Total |
|---|---|---|---|---|---|
| Provision for landfill site | 9 428 335 | - | 304 535 | 641 780 | 10 374 650 |
| Provision for leave pay | 4 811 368 | 26 907 | - | - | 4 838 275 |
| | **14 239 703** | **26 907** | **304 535** | **641 780** | **15 212 925** |

**Reconciliation of provisions - 2019**

| | Opening Balance | Additions | Finance cost | Increase/(decrease) in future cost | Total |
|---|---|---|---|---|---|
| Provision for landfill site | 7 156 494 | - | 239 743 | 2 032 098 | 9 428 335 |
| Provision for leave pay | 3 551 354 | 1 260 014 | - | - | 4 811 368 |
| | **10 707 848** | **1 260 014** | **239 743** | **2 032 098** | **14 239 703** |

| | 2020 | 2019 Restated* |
|---|---|---|
| Non-current liabilities | 10 374 650 | 9 428 335 |
| Current liabilities | 4 838 275 | 4 811 368 |
| | **15 212 925** | **14 239 703** |

The landfill site provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life.

A discount factor was applied, based on prime interest and adjustment for municipal specific risk.

The leave provision is for the obligation for leave due to staff members at year end based on staff salaries and days leave due.
The timing or amounts of any resulting outflows of economic benefit cannot be estimated.

### 19. Service charges

| | 2020 | 2019 Restated* |
|---|---|---|
| Sale of electricity | 53 700 783 | 67 658 849 |
| Refuse removal | 3 794 618 | 3 560 349 |
| | **57 495 401** | **71 219 198** |

* See Note 41

# Notes to the Annual Financial Statements

| | 2020 | 2019 Restated* |
|---|---|---|

## 20. Rental of facilities and equipment

| | | |
|---|---|---|
| Rental of facilities | 32 795 | 39 423 |

## 21. Licences and permits (exchange)

| | | |
|---|---|---|
| Road and Transport | 2 318 868 | 2 878 607 |

## 22. Other income

| | | |
|---|---|---|
| Tender Documents | 4 500 | 25 219 |
| Income from N3 TC | 840 877 | 733 959 |
| Sundry Income | 75 380 | 64 685 |
| Cemetery fees | 38 786 | 33 312 |
| Town Hall Hire | 3 770 | 5 736 |
| Valuation roll objection fee | 1 019 | 22 620 |
| Rates Clearance | 16 113 | 88 707 |
| Business Licences | 261 | 2 348 |
| Building Plans | 19 413 | 19 255 |
| Income from Sanral | 2 647 750 | 2 647 750 |
| | **3 647 869** | **3 643 591** |

## 23. Investment revenue

| | | |
|---|---|---|
| **Interest revenue** | | |
| Bank | 260 328 | 512 964 |

The amount included in Investment revenue comprises of exchange transactions.

| | 2020 | 2019 Restated* |
|---|---|---|

### 24. Property rates

**Rates received**

| | | |
|---|---|---|
| Residential | 14 381 888 | 8 633 352 |
| Commercial | 9 370 782 | 3 009 350 |
| State | 814 857 | 319 644 |
| Municipal | 10 587 919 | 8 182 815 |
| Communal Property Land | - | 572 588 |
| PSI: Public Benefit Organisation | 1 749 298 | 899 879 |
| Less: Income forgone | (15 163 929) | (7 004 558) |
| | **21 740 815** | **14 613 070** |

**Valuations**

| | | |
|---|---|---|
| Agricultural | 2 894 855 000 | 1 998 392 000 |
| Commercial | 438 080 000 | 195 835 000 |
| Residential | 1 179 930 500 | 923 660 700 |
| Municipal | 82 640 000 | 14 504 000 |
| Industrial | 73 260 000 | 2 260 000 |
| State owned | - | 74 767 000 |
| Place of worship | 26 170 000 | 24 850 000 |
| Public benefit organisation | 126 540 000 | 121 945 000 |
| Public service infrastructure | 15 710 000 | 25 994 000 |
| Other | 228 299 000 | 285 719 000 |
| | **5 065 484 500** | **3 667 926 700** |

Property rates levied in terms of the Local Government: Municipal Property Rates Act No. 6 of 2004 (MPRA) with effect from 01 July 2007.

Valuations on Land and Buildings are performed every 5 years.

The last general valuation came into effect on 01 July 2019.

Adjustments to the valuation roll in terms of Section 78 of the MPRA (as amended) are effected on an on-going basis. The adjustments take into account consolidations and sub-divisions as well as property category changes. Thus interim valuations are processed on an annual basis.

| **Assessment Rates: Cents per Rand on market valuations are as follow** | Tariff 2019/20 | Tariff 2018/19 |
|---|---|---|
| Agriculture | 0.33395 | 0.37105 |
| Business and commercial | 1.61301 | 1.79223 |
| Industrial | 2.11186 | 2.34651 |
| Municipal | 0.00 | 0.00 |
| Place of worship | 0.15075 | 1.67498 |
| Protected area | 0.00 | 0.00 |
| Public benefit organisation | 0.77135 | 0.85706 |
| Public service infrastructure | 0.39900 | 0.44333 |
| Public service purpose | 1.61301 | 1.69353 |
| Residential | 1.33577 | 1.48419 |
| Vacant land | 1.33577 | 0.00 |

For the calculation of rates, residential properties are subject to an exemption of R90 000 ( 2019 : R15 000) of the valuation of the properties

| | 2020 | 2019 Restated* |
|---|---|---|

### 24. Property rates (continued)

| **Rebates % applicable are as follows:** | Tariff 2019/20 Rural | Tariff 2019/20 Urban | Tariff 2018/19 |
|---|---|---|---|
| Agriculture | 60 % | - % | 45 % |
| Business and commercial | 50 % | 22 % | - % |
| Industrial | 50 % | 22 % | - % |
| Municipal | 100 % | 100 % | 100 % |
| Place of worship | 100 % | 100 % | 100 % |
| Protected area | 100 % | 100 % | 100 % |
| Public benefit organisation | 65 % | 65 % | 15 % |
| Public service infrastructure | 100 % | 100 % | 80 % |
| Public service purpose | 50 % | - % | 15 % |
| Residential | 65 % | 30 % | 30 % |
| Vacant Land | 70 % | 30 % | - % |
| | | | |
| Pensioners rebate: Older than 65 years | | 35% | 35% |

Rates are levied on an annual basis for government entities. Rates are levied on a monthly basis for all other customers.

On a monthly basis, the final dates of payment being the last working day of the month from July 2019 to June 2020.

### 25. Public contributions and donations

| | 2020 | 2019 |
|---|---|---|
| Public contributions and donations | 6 700 000 | - |

The Municipality received a donation of an asset, being the Public Library at Bruntville from KZN Department of Arts and Culture as at 28 August 2019. This property's fair value was R6 700 000 (2019: R0) on the receipt of this donation.

| | 2020 | 2019 Restated* |
|---|---|---|

### 26. Government grants and subsidies

| | | |
|---|---|---|
| **Operating grants** | | |
| Equitable Share | 35 624 000 | 32 002 535 |
| Massification Grant | - | 7 000 000 |
| Provincial Library subsidy | 1 971 000 | 1 930 037 |
| Sports & Recreation Grant | - | 50 000 |
| Museum grant | 202 000 | 192 000 |
| Finance management grant (FMG) | 2 435 000 | 1 970 000 |
| Environmental Affairs subsidy | - | 146 400 |
| Disaster Relief Grant | 745 000 | - |
| Extended Public Works Program | 1 148 000 | 1 000 000 |
| | **42 125 000** | **44 290 972** |

| | | |
|---|---|---|
| **Capital grants** | | |
| Municipal Infrastructure grant | 16 031 000 | 13 878 000 |
| Municipal assistance small town grant | 96 946 | 1 360 978 |
| | **16 127 946** | **15 238 978** |
| | **58 252 946** | **59 529 950** |

**Equitable Share**

| | | |
|---|---|---|
| Current-year receipts | 35 624 000 | 32 002 535 |
| Conditions met - transferred to revenue | (35 624 000) | (32 002 535) |
| | - | - |

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

**Municipal Infrastructure Grant**

| | | |
|---|---|---|
| Current-year receipts | 16 031 000 | 13 878 000 |
| Conditions met - transferred to revenue | (16 031 000) | (13 878 000) |
| | - | - |

This grant was used to address backlogs in municipal infrastructure required for the provision of basic services.

**Craigburn Housing Project Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 5 840 388 | 5 840 388 |

Conditions still to be met - remain liabilities (see note 17).

The grant is provided by Provincial Department of Human Settlement to deliver the service of housing infrastructure.

**Municipal Assistance Grant - Small Town Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 722 531 | 2 083 509 |
| Conditions met - transferred to revenue | (96 946) | (1 360 978) |
| | **625 585** | **722 531** |

Conditions still to be met - remain liabilities (see note 17).

| | 2020 | 2019 Restated* |
|---|---|---|

### 26. Government grants and subsidies (continued)

This subsidy is provided by the Department of Cooperative Governance and Traditional Affairs to perform feasibility studies with a view to developing the town by improving its economic state and attracting investment.

**Financial Management Grant**

| | 2020 | 2019 |
|---|---|---|
| Current-year receipts | 2 435 000 | 1 970 000 |
| Conditions met - transferred to revenue | (2 435 000) | (1 970 000) |
| | - | - |

To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA)

**Townview Housing Project Grant**

| | 2020 | 2019 |
|---|---|---|
| Balance unspent at beginning of year | 8 168 481 | 8 168 481 |

Conditions still to be met - remain liabilities (see note 17).

The grant is from Provincial Department of Human Settlements to provide service of housing infrastructure.

**Massification Grant**

| | 2020 | 2019 |
|---|---|---|
| Current-year receipts | - | 7 000 000 |
| Conditions met - transferred to revenue | - | (7 000 000) |
| | - | - |

**Museum Grant**

| | 2020 | 2019 |
|---|---|---|
| Current-year receipts | 202 000 | 192 000 |
| Conditions met - transferred to revenue | (202 000) | (192 000) |
| | - | - |

This subsidy was granted to the municipality for operational upkeep of the museum..

**Expanded Public Works Programme Grant**

| | 2020 | 2019 |
|---|---|---|
| Current-year receipts | 1 148 000 | 1 000 000 |
| Conditions met - transferred to revenue | (1 148 000) | (1 000 000) |
| | - | - |

This subsidy was provided by Department of Public Works to assist with the alleviation of poverty in the municipal area by providing temporary employment for the unemployed.

**Library Grant**

| | 2020 | 2019 |
|---|---|---|
| Balance unspent at beginning of year | - | 57 036 |
| Current-year receipts | 1 971 000 | 1 873 000 |
| Conditions met - transferred to revenue | (1 971 000) | (1 930 036) |
| | - | - |

* See Note 41

# Notes to the Annual Financial Statements

| | 2020 | 2019 Restated* |
|---|---|---|

### 26. Government grants and subsidies (continued)

The library subsidy was provided by Department of Arts and Culture in order to assist municipalities to deliver on the unfunded mandate of the provision of library services in their respective arears

**Sports and Recreation Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 50 000 |
| Conditions met - transferred to revenue | - | (50 000) |
| | - | - |

**Integrated National Electrification Programme**

| | | |
|---|---|---|
| Current-year receipts | 5 000 000 | 6 984 000 |
| Conditions met - funds utilised | (5 000 000) | (6 984 000) |
| | - | - |

To implement the INEP to address capital backlog of all existing and planned residential dwelling and installation of bulk infrastructure.

This projects has been accounted for interms of GRAP 109.

**Disaster Relief Grant**

| | | |
|---|---|---|
| Current-year receipts | 745 000 | - |
| Conditions met - transferred to revenue | (745 000) | - |
| | - | - |

The grant was provided by Provincial COGTA to prevent and combat the spread of the Covid 19 outbreak.

**Title Deeds Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 532 059 | - |
| Current-year receipts | - | 678 459 |
| Conditions met - transferred to revenue | - | (146 400) |
| | **532 059** | **532 059** |

Conditions still to be met - remain liabilities (see note 17).

The grant is provided by Department of Human Settlements to accelerate the transfer of ownership to qualifying occupants.

* See Note 41

| | 2020 | 2019 Restated* |
|---|---|---|

### 27. Employee related costs

| | | |
|---|---|---|
| Basic | 28 775 676 | 27 885 971 |
| Bonus | 2 000 248 | 1 581 417 |
| Medical aid - company contributions | 2 180 043 | 2 068 057 |
| UIF | 237 243 | 283 812 |
| SDL | 392 179 | 372 550 |
| Other allowances | 681 622 | 218 656 |
| Leave pay provision charge | 90 511 | 1 262 159 |
| Defined contribution plans | 5 910 157 | 5 608 196 |
| Travel, motor car, accommodation, subsistence and other allowances | 1 898 814 | 1 681 969 |
| Overtime payments | 1 895 541 | 1 784 941 |
| Long-service awards | 3 861 | 81 000 |
| 13th Cheques | 353 754 | 337 163 |
| Acting allowances | 415 755 | 854 894 |
| Housing benefits and allowances | 575 132 | 125 212 |
| Redemption of Leave | 73 669 | 499 991 |
| Other payroll levies | 15 627 | 24 000 |
| | **45 499 832** | **44 669 988** |

**Remuneration of Municipal Manager**

| **Mr JM Mokgatsi** | | |
|---|---|---|
| Annual Remuneration | 255 854 | 254 914 |
| Car Allowance | 77 035 | 63 249 |
| Cellphone Allowance | 6 000 | - |
| | **338 889** | **318 163** |

Mr JM Mokgatsi was seconded by Cogta in December 2019 as Acting CFO and was subsequently appointed as an Acting Municipal Manager from January 2019. He resigned from the municipality on 30 September 2019.

| **Mr EH Dladla** | | |
|---|---|---|
| Annual Remuneration | 537 904 | - |
| Car Allowance | 89 651 | - |
| Contribution to UIF, Medical and Pension funds | 10 372 | - |
| Cellphone Allowance | 10 372 | - |
| Housing Allowance | 269 940 | - |
| | **918 239** | **-** |

Mr EH Dladla was appointed in October 2019 as Director Social Services and Acting Municipal Manager. He was then appointed as Municipal Manager in April 2020

**Remuneration of Chief Finance Officer**

| **Miss NK Sibobi** | | |
|---|---|---|
| Annual Remuneration | 175 142 | 29 146 |
| Car Allowance | 83 182 | 46 077 |
| Cellphone | 18 328 | - |
| Other | 166 641 | - |
| | **443 293** | **75 223** |

The Acting CFO was appointed on 05 June 2019 and left the Municipality on 31 December 2019. KZN Cogta appointed and paid for Acting CFO Ms P Bosman till June 2020.

| | 2020 | 2019 Restated* |
|---|---|---|

### 27. Employee related costs (continued)

**Remuneration of Director Corporate Services**

| **Mr ME Ngonyama** | | |
|---|---|---|
| Annual Remuneration | - | 468 190 |
| Other Allowances | - | 63 249 |
| | **-** | **531 439** |

Mr ME Ngonyama started acting on 1 September 2018 to 31 March 2019 as Director Cooperate Services. From July 2019 to May 2020 no appointment was made for this position.

| **Mr S Nyuswa** | | |
|---|---|---|
| Annual Remuneration | 26 049 | - |
| Car Allowance | 16 280 | - |
| Housing Allowances | 22 792 | - |
| | **65 121** | **-** |

Mr S Nyuswa was appointed as Acting Director in June 2020.

**Remuneration of Director Technical Services**

| **Mr NSF Zulu** | | |
|---|---|---|
| Annual Remuneration | 328 391 | 463 829 |
| Car Allowance | 109 466 | 133 501 |
| Cellphone | 5 192 | - |
| | **443 049** | **597 330** |

Mr NSF Zulu left the municipality in December 2019.

KZN Cogta seconded and paid for Mr Khumalo to act in this position from 15 April 2020 to 30 September 2020.

**Remuneration of Director Social Services**

| **Mr SCM Mkhize** | | |
|---|---|---|
| Annual Remuneration | 50 364 | - |
| Acting Allowance | 14 757 | - |
| | **65 121** | **-** |

From July 2019 to May 2020 no appointment/no secondment was made was made the position of Director Social Services. The Acting Municipal Manager also acted as the Director of Social Services. Mr SCM Mkhize started Acting in this position as from June 2020.

### 28. Remuneration of councillors

| | | |
|---|---|---|
| Mayor | 804 133 | 802 251 |
| Councillors | 1 225 102 | 1 225 371 |
| Councillors pension contribution | 90 823 | 90 823 |
| Councillors' allowances | 601 175 | 583 790 |
| | **2 721 233** | **2 702 235** |

* See Note 41

| | 2020 | 2019 Restated* |
|---|---|---|

### 28. Remuneration of councillors (continued)

**In-kind benefits**

The Mayor, is full-time. The Mayor is provided with an office and secretarial support at the cost of the Council.

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

The Mayor has three bodyguards. .

**Arrears owed by Councillors**

There were no councillors in arrears as at 30 June 2020

### 29. Depreciation and amortisation

| | 2020 | 2019 |
|---|---|---|
| Property, plant and equipment | 17 977 224 | 17 690 443 |
| Intangible assets | 240 000 | 240 868 |
| | **18 217 224** | **17 931 311** |

### 30. Impairment of assets

| | 2020 | 2019 |
|---|---|---|
| **Impairments** | | |
| Property, plant and equipment | - | 308 840 |
| The impairment of assets relates to the motor vehicle that was involved in an accident in June 2019. The motor vehicle was written-off as it damage in that accident. As at the time of the write-off the value of motor vehicle was R308 840. | | |

### 31. Finance costs

| | 2020 | 2019 |
|---|---|---|
| Interest and penalties | 15 933 641 | 11 183 228 |
| Interest on finance leases | 3 105 148 | 3 060 597 |
| | **19 038 789** | **14 243 825** |

### 32. Debt impairment

| | 2020 | 2019 |
|---|---|---|
| Contributions to debt impairment provision | (616 129) | 14 451 773 |

### 33. Bulk purchases

| | 2020 | 2019 |
|---|---|---|
| Electricity - Eskom | 64 329 315 | 64 644 137 |

Bulk purchases are the cost of energy which the municipality distributes in the municipal area for resale to the customers. The electricity is purchased from Eskom.

### 34. Contracted services

| | 2020 | 2019 |
|---|---|---|
| **Outsourced Services** | | |
| Hygiene Services | 214 628 | 104 712 |
| Security Services | 2 137 951 | 4 027 513 |
| **Contractors** | | |
| Maintenance of Equipment | - | 307 739 |

* See Note 41

| | 2020 | 2019 Restated* |
|---|---|---|

### 34. Contracted services (continued)

| | | |
|---|---|---|
| | **2 352 579** | **4 439 964** |

### 35. General expenses

| | | |
|---|---|---|
| Advertising | 187 013 | 261 542 |
| Auditors remuneration | 2 189 224 | 1 760 033 |
| Bank charges | 181 738 | 192 540 |
| Cleaning | 22 500 | 6 027 |
| Consulting and professional fees | 2 896 219 | 1 944 028 |
| Consumables | 438 611 | 97 899 |
| Entertainment | - | 3 500 |
| Service connections | 136 681 | - |
| Hire | 3 232 533 | 3 833 770 |
| Insurance | 412 919 | - |
| Conferences and seminars | 2 816 | 12 991 |
| Motor vehicle expenses | 60 654 | 329 606 |
| Fuel and oil | 1 085 380 | 2 382 649 |
| Postage and courier | 101 882 | 97 017 |
| Printing and stationery | 213 784 | 161 751 |
| Electricity Maintenance ( Materials and Supplies) | 2 291 288 | 1 130 094 |
| EPWP casuals | 1 037 476 | 1 061 118 |
| Repairs and maintenance | 1 562 364 | 815 097 |
| Software expenses | 1 062 321 | 1 645 625 |
| Water expenses | 1 106 075 | 1 446 067 |
| Telephone and fax | 686 788 | 876 721 |
| Training | 452 897 | 21 009 |
| Title Deed Search Fees | 250 553 | 1 449 062 |
| Assets expensed | 418 351 | 410 627 |
| Uniforms | 216 537 | 316 727 |
| Sundry costs | 8 340 | 101 189 |
| Ward committee support | 126 500 | 184 500 |
| Legal expenses | 4 080 149 | 1 057 102 |
| Debt collection | 2 171 526 | 997 466 |
| Accommodation | - | 9 309 |
| Other expenses | 85 000 | 123 700 |
| District shared service | 447 671 | - |
| | **27 165 790** | **22 728 766** |

### 36. Auditors' remuneration

| | | |
|---|---|---|
| Audit committee | 59 662 | 58 832 |
| Auditor General | 2 129 562 | 1 701 201 |
| | **2 189 224** | **1 760 033** |

## Notes to the Annual Financial Statements

| | 2020 | 2019 Restated* |
|---|---|---|

### 37. Cash generated from operations

| | | |
|---|---|---|
| Deficit | (24 058 348) | (32 454 855) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 18 217 224 | 17 931 311 |
| Impairment loss on assets | - | 308 840 |
| Debt impairment | (616 129) | 14 451 773 |
| Movements in retirement benefit assets and liabilities | (2 064 825) | 1 427 743 |
| Movements in provisions | 973 222 | 3 531 855 |
| Fair Value adjustment heritage asset | (22 500) | (17 100) |
| Donation from Arts culture | (6 700 000) | - |
| **Changes in working capital:** | | |
| Inventories | 101 656 | (35 377 763) |
| Consumer debtors | 481 870 | (30 681 247) |
| Other receivables from non-exchange transactions | (11 882 183) | 11 191 941 |
| Payables from exchange transactions | 47 885 992 | 88 915 175 |
| VAT | (3 774 808) | (9 636 967) |
| Unspent conditional grants and receipts | (96 946) | (1 360 492) |
| Consumer deposits | 8 195 | (659) |
| | **18 452 420** | **28 229 555** |

### 38. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Approved and contracted** | | |
| • Mgqula gravel road | - | 1 069 029 |
| • Rehabillitation of upper town | 18 424 891 | 6 583 211 |
| • Bhumaneni Creche | 456 313 | 2 907 036 |
| • Rehabilitation of Phumlasi road | 618 727 | 3 780 719 |
| • Construction of high over access road | 1 114 857 | 3 668 240 |
| • Rondebosch community hall | 1 931 631 | 3 783 560 |
| • Rehabillitation of bruntville access road | 4 068 052 | 3 653 680 |
| | **26 614 471** | **25 445 475** |

**Authorised operational expenditure**

| | | |
|---|---|---|
| • Approved and contracted | 888 160 | 1 884 405 |

Operating commitments is made up of Cleaning Services, Cash Management Services, Cellphone contracts and valuation roll services.

* See Note 41

### 39. Contingencies

**Contingent liabilities**

- Mpofana v L Sithole & Others – Eviction of occupiers from the town hall. Matter was finalised in December 2017. Judgement was against Mpofana Municipality. Mpofana Municipality had to find alternative accommodation for the occupants. This has not been done and presently the Municipality is in contempt of the court order. There is uncertainty with regard to cost and the municipality is seeking assistance from other Public entities to comply with the judgement.

- Mills Fitchet (Pty) Ltd v Mpofana Municipality - Service provider claiming for the monies due. Matter is being defended in the High Court - awaiting for trial date. The amount claimed by the service provider is R1,2 million.

- Kenneth Murdoch v Mpofana Municipality - Claim against the municipality for medical expenses and damages arising from the motor vehicle accident caused by potholes. The amount claimed is R3,150 million.

- The anticipated legal fees for the above cases and recovery of debts/assets is R1,240 million.

**Contingent Assets**

- Mpofana Municipality v Big 5 Municipality / JM Bird – Property transfer dispute. Property erroneously transferred to the Big 5 Municipality and subsequent intent to transfer to third party JM Bird. A High Court application is made to reverse the transfer of the property to Big 5 Municipality. The sale of the property to be made by Mpofana Municipality to the third party (JM Bird). The proceeds from the sale of the property is R250 000.The anticipated net proceeds from the sale of property is R200 000.

### 40. Related parties

| | |
|---|---|
| Accounting Officer | Refer to accounting officer's report note |
| Chief Financial Officer | Refer to note 27 |
| Director Community Services | Refer to note 27 |
| Director Cooperate Services | Refer to note 27 |
| Directors Technical Services | Refer to note 27 |
| Councillors | Refer to note 28 |

Remuneration of key management personnel and Councillors is set out in note 27 and 28 respectively

There were no awards to close family members of persons in the service of the municipality

### 41. Prior period errors

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

**41. Prior period errors (continued)**

| Statement of Financial Position | Amount previously Reported | Reclassification | Restatement | Restated Amount |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets** | | | | |
| Inventories | 267 413 | - | 35 470 200 | 35 737 613 |
| Receivables from exchange transactions | 44 143 222 | - | (7 966 360) | 36 176 862 |
| Receivables from non-exchange transactions | 28 768 822 | - | (10 818 166) | 17 950 656 |
| VAT receivables | 14 987 563 | - | 1 292 488 | 16 280 051 |
| Cash and cash equivalents | 5 139 325 | - | 324 672 | 5 463 997 |
| **Non-Current Assets** | | | | |
| Property Plant and Equipment | 150 444 746 | 22 877 098 | 22 844 794 | 196 166 638 |
| Investment Property | 22 945 001 | (20 845 000) | - | 2 100 001 |
| | **266 696 092** | **2 032 098** | **41 147 628** | **309 875 818** |
| **Liabilities** | | | | |
| **Current Liabilities** | | | | |
| Payables from exchange transaction | 182 458 981 | - | (13 998 824) | 168 460 157 |
| Consumer Deposits | 338 224 | - | (6 336) | 331 888 |
| Provisions | 3 593 243 | - | 1 218 125 | 4 811 368 |
| | **186 390 448** | **-** | **(12 787 035)** | **173 603 413** |
| **Net Assets** | | | | |
| Accumulated surplus | 27 311 632 | 2 032 098 | 53 934 663 | 83 278 393 |

Inventory -There were electricity fuses that were received before the year ended 30 June 2019 but not recorded. The amount of invoice was R10,200. An accrual for the invoice amount has been raised. There were RDP houses that are in the name of the Municipality that are in the processes of being transferred to respective occupants.

Receivables from exchange and non-exchange transactions has been adjusted with the receipts that were previously recorded in a suspense account.

VAT has been revised to ensure the reconciliation between the SARS statements and trial balance. Adjustments results from accruals that were not taken into account.

These were receipts for Traffic Fines that was not recorded. The movement was to record the receipts for traffic fines.

The increase in the land-fill site restoration costs that was missallocated into employee costs as previously reported. Depreciation adjustment after the previously reported depreciation has been revised. Impairment of the motor vehicles that was involve in an accident. There were new and found assets that were never recognised and reclassification of PPE that was incorrectly classified as Investment Property.

Municipality had incorrectly classified PP&E as investment property in the prior years. The property that has been identified as investment property was Wozawoza Tourism Centre with the fair value of R2,1 million.

The reversal of the prior 2017/18 debtors with credit balances that was not reversed in the 2018/19 period. Accruals for that were not previously recorded.
Refund of electricity deposit for conventional customer.

The leave pay provision has been revised, hence the adjustment. The leave pay provision was misstated as the number of leave days cannot be verified.

### 41. Prior period errors (continued)

**Statement of Financial Performance**

| | Amount Previously Reported | Reclassification | Restatement | Restated amount |
|---|---|---|---|---|
| **Revenue** | | | | |
| Service Charges | 76 049 108 | - | (4 829 911) | 71 219 197 |
| Rental of facilities and Equipment | 49 886 | - | (10 463) | 39 423 |
| Other income | 2 360 123 | - | 1 283 468 | 3 643 591 |
| Interest received | 509 212 | - | 3 752 | 512 964 |
| Government grants and subsidies | 66 513 950 | - | (6 984 000) | 59 529 950 |
| Fines, Penalties and Forfeits | 25 535 | - | 944 289 | 969 824 |
| Actuarial gain | - | 242 257 | - | 242 257 |
| | **145 507 814** | **242 257** | **(9 592 865)** | **136 157 206** |
| **Expenditure** | | | | |
| Employee related costs | 46 763 362 | (2 274 355) | 178 836 | 44 667 843 |
| Depreciation and amortisation | 16 587 139 | - | 1 344 172 | 17 931 311 |
| Impairment loss/ Reversal of impairment | 4 746 067 | (4 746 067) | 308 840 | 308 840 |
| Finance costs | 1 695 597 | 1 365 000 | - | 3 060 597 |
| Debt impairment | 17 352 422 | 4 746 067 | (7 646 716) | 14 451 773 |
| General expenses | 41 296 386 | - | (7 382 247) | 33 914 139 |
| Fair value adjustment | (646 300) | - | 663 400 | 17 100 |
| | **127 794 673** | **(909 355)** | **(12 533 715)** | **114 351 603** |

### 41. Prior period errors (continued)

The income from SANRAL and N3TC was not complete. Only receipts from SANRAL and N3TC was recorded as income earned. The monthly invoices for the period of 2018/19 has been included with the corresponding receivable.

Interest received from Traffic Fines bank account that was not taken into consideration.

The effect of application of GRAP 109 arrangement of principal and agent. Municipality is an agent therefore to INEP arrangement therefore no income and expenditure that was previously recognised has been derecognised.

The fines and penalties income recognition was not reported.

The actuarial gains was incorrectly missallocated to employee related costs.

The amount of R 2032 098 was an increase the provision for land-fill site restoration costs. The account for contributions to landfill site was incorrectly allocated as part of employee costs. The account was then correctly reclassified as general expenses. However the increase in the Land-fill Site provision other the than interest has been capitalised to PPE as part of Landfill Site cost in terms of GRAP 2.

Depreciation was revised as there was overstatement that was noted from the previously reported amount of depreciation. Depreciation on increase in land-fill site restoration costs for the 2017/18. There were new or found assets that has been capitalised and depreciated.

This was to write-off the motor vehicle that was involved in a car accident during the month of June 2019. The car was written off hence the impairment of R308 840 which was the carrying amount as at 30 June 2020.

The finance costs for employee benefits obligation was missallocated to employee related costs.

The provision for doubtful debts for the period has reduced as proper allocation of receipts from receivables results to less provision.

The actuarial gains and losses has been previously reported as part of general expenses. The balance has been reported as a separate line because when there are actuarial gains, it would off-set with expenditure which is not in line with accounting policy.

The effect of application of GRAP 109 arrangement of principal and agent. Municipality is an agent therefore to INEP arrangement therefore no income and expenditure that was previously recognised has been derecognised.

**Statement of Cash Flows**
**Cash Flow from Operating Activities**

| **Receipts** | Amount previously reported | Reclassification | Restatement | Restated amount |
| --- | --- | --- | --- | --- |
| Service charges | 81 831 504 | - | (3 495 792) | 78 335 712 |
| Grants and subsidies received | 65 153 458 | - | (486) | 65 152 972 |
| Interest income | 509 212 | - | 3 752 | 512 964 |
| **Payments** | | | | |
| Employee related costs | (49 465 597) | - | 869 416 | (48 596 181) |
| Suppliers | (67 670 922) | - | 3 555 607 | (64 115 315) |
| Finance costs | (1 695 597) | - | (1 365 000) | (3 060 597) |
| | **28 662 058** | **-** | **(432 503)** | **28 229 555** |

| **Cash Flow from investing activities** | | | | Total |
| --- | --- | --- | --- | --- |
| Purchase of Property Plant and Equipment | 21 260 706 | - | - | 21 260 706 |

| **Cash Flow from Financing Activities** | | | | |
| --- | --- | --- | --- | --- |
| Finance Lease payments | 4 674 257 | - | (649 780) | 4 024 477 |

### 41. Prior period errors (continued)

| | | | | Total |
| --- | --- | --- | --- | --- |
| Net Increase/(Decrease) in cash and cash equivalents | 2 727 095 | - | 217 275 | 2 944 370 |
| Cash and Cash Equivalents | 2 412 230 | - | 107 397 | 2 519 627 |
| | **5 139 325** | **-** | **324 672** | **5 463 997** |

**Unauthorised expenditure**

| | | |
| --- | --- | --- |
| Opening balance | - | 117 491 599 |
| Adjustments made | - | 15 678 216 |
| **Restated opening balance** | **-** | **133 169 815** |

**Fruitless and wasteful expenditure**

| | | |
| --- | --- | --- |
| Opening balance | - | 2 694 878 |
| Adjustments made | - | 2 261 301 |
| **Restated opening balance** | **-** | **4 956 179** |

**Irregular expenditure**

| | | |
| --- | --- | --- |
| Opening balance | - | 52 702 121 |
| Adjustments made | - | 3 578 100 |
| **Restated opening balance** | **-** | **56 280 221** |

**Capital Commitments**

| | | |
| --- | --- | --- |
| Opening balance | - | 34 372 350 |
| Adjustments made | - | (8 926 875) |
| **Restated opening balance** | **-** | **25 445 475** |

**Operating Commitments**

| | | |
| --- | --- | --- |
| Opening balance | - | 38 425 222 |
| Adjustments made | - | (36 540 817) |
| **Restated opening balance** | **-** | **1 884 405** |

**Material Losses**

| | | |
| --- | --- | --- |
| Opening balance | - | 8 933 430 |
| Adjustments made | - | 9 658 844 |
| **Restated opening balance** | **-** | **18 592 274** |

### 42. Risk management

**Liquidity risk**

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

The current year liquidity ratio is 0,52 : 1 for current assets to current liabilities.

**Credit risk**

Credit risk consists mainly of cash deposits, 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 counter-party.

**Market risk**

**Interest rate risk**

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

### 43. Going concern

We draw attention to the fact that the municipality has unspent conditional grants liabilities that are not fully cash backed.

The municipality has a deficit of R24,08 million in the current year. The current liabilities exceeded the current assets by R116,7 million and the available cash resource did not cover the commitment for unspent conditional grants with an amount of R15,1 million being recovered
There has been major challenges with the debtors system over several years. This has affected the municipality's collections and revenue stream. In the prior year a decision was taken by Council to suspend the charging of interest on overdue debt accounts whilst management addresses the debtors system challenges. Whilst progress has been noted in some aspects of the debtors system, this process is still ongoing.

During 19/20 , there was an outbreak of the COVID-19 pandemic which resulted in a national lockdown over several months . This impacted on the municipalities revenue as the demand for electricity decreased and the anticipated revenue was likewise affected.

The liquidity ratio of the municipality is below 1 which means that the municipality is not able to pay its creditors as they fall due . This is evident in the increase on the trade payables that is disclosed at +R202mil ( 2018/2019: R156 mil ) .

Despite the adverse liquidity position of the municipality , the following should be noted:

1. The municipality is in a net asset position of R59,2 million.

2. With the national lockdown move to level 1 , commercial businesses / industries and schools have returned to work , thus increasing the demand for electricity . A review of the recent months billings reveals that revenue has increased for electricity.

3. The Municipality is to consider payments plans for some customers to improve collections.

4. Municipality has also taken legal action against some customers that have large unpaid accounts.

5.Debtor collectors are assisting the municipality with recovery of debts that are over 90 days.

6.With the municipality trying to resolve its debtor's system issues, interest will be charges on overdue accounts , thus increasing revenuet

7. Other forms of income streams and prevention of electricity losses can be considered by the municipality with the assistance of Municipal Infrastructure Support Agent (MISA)

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

### 43. Going concern (continued)

Based on the above , the municipality is deemed to be a going concern entity.
The financial statements have been prepared on the basis of accounting policies applicable to a going concern
This basis presumes that both Provincial and National Government have neither the intention nor need to liquidate or curtail materially the scale of funding of the municipality. The ability of the municipality to continue is dependent on the number of factors which includes the assets and liabilities of the municipality.

### 44. Events after the reporting date

At the time of completion of the financial statements there were no events after the reporting date affecting these financial statements

### 45. Unauthorised expenditure

| | 2020 | 2019 |
|---|---|---|
| Opening balance as previously reported | 144 204 892 | 117 491 599 |
| Correction of prior period error | - | 15 678 216 |
| **Opening balance as restated** | **144 204 892** | **133 169 815** |
| Add: Expenditure identified - current | 33 794 095 | 11 035 077 |
| **Closing balance** | **177 998 987** | **144 204 892** |

| | 2020 | 2019 |
|---|---|---|
| **Incident** | | |
| **Budgeted amounts exceeded** | | |
| Personnel | 2 201 750 | 1 292 396 |
| Remuneration of councillors | 30 233 | 33 480 |
| Depreciation and amortisation | 1 139 224 | 2 649 999 |
| Impairment loss / reversal of impairment | - | 4 746 067 |
| Finance costs | - | 1 695 597 |
| Contracted services | - | 617 538 |
| General expenses | 30 232 818 | - |
| Capital expenditure | 190 070 | - |
| | **33 794 095** | **11 035 077** |

Disciplinary steps/ criminal proceedings: Investigation are being conducted by MPAC.

### 46. Fruitless and wasteful expenditure

| | 2020 | 2019 |
|---|---|---|
| Opening balance as previously reported | 16 308 666 | 2 694 878 |
| Correction of prior period error | - | 2 261 301 |
| **Opening balance as restated** | **16 308 666** | **4 956 179** |
| Add: Expenditure identified - current | 15 792 373 | 11 352 487 |
| **Closing balance** | **32 101 039** | **16 308 666** |

| | 2020 | 2019 |
|---|---|---|
| **Analysis of fruitless and wasteful expenditure** | | |
| Interest expense | 15 791 956 | 11 196 947 |
| Penalties | - | 151 700 |
| Payment for services not utilised | 417 | 3 840 |
| | **15 792 373** | **11 352 487** |

Interest charged on the Eskom account for the financial year is R15,3 million (2019: R10,9 million).

R29,8 million fruitless and wasteful expenditure for prior and current years was reported to Council during the 2020/21 financial year.

* See Note 41

### 47. Irregular expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 91 513 590 | 52 702 121 |
| Adjustments for prior year errors | - | 3 578 100 |
| **Opening balance as restated** | **91 513 590** | **56 280 221** |
| Add: Irregular Expenditure - current year | 2 335 362 | 22 892 472 |
| Add: Irregular Expenditure - prior period identified in the current period | 21 020 613 | 12 340 897 |
| Less: Amounts recovered | - | - |
| Less: Amounts condoned | - | - |
| Less: Amount written off | - | - |
| **Closing balance** | **114 869 565** | **91 513 590** |

The municipality did not have any irregular expenditure that had been written-off, recovered nor condoned during the current and prior financial period. The MPAC has refered the matter to Council.

### 47. Irregular expenditure (continued)

**Incidents/cases identified in the current year include those listed below:**

| | Disciplinary steps taken/criminal proceedings | | |
|---|---|---|---|
| Reasons for deviation not sufficient | The incidents has been reported to Council and MPAC is dealing with the matter. | 931 610 | 143 795 |
| SCM process not followed - quotations were not obtained. | The incidents has been reported to Council and MPAC is dealing with the matter. | 3 206 681 | 5 838 177 |
| Continued working with the services provider that was previously contracted on the project. | The incidents has been reported to Council and MPAC is dealing with the matter. | - | 11 556 487 |
| BAC not in accordance with MSCM regulation 29(2). | The incidents has been reported to Council and MPAC is dealing with the matter. | 5 250 000 | 6 984 000 |
| Contract was extended or modified without the approval of delegated official. | The incidents has been reported to Council and MPAC is dealing with the matter. | - | 568 350 |
| Deviation not approved. | The incidents has been reported to Council and MPAC is dealing with the matter. | - | 2 412 |
| Quotations was not assessed for local content. | The incidents has been reported to Council and MPAC is dealing with the matter. | - | 666 974 |
| BAC was not constituted | The incidents has been reported to Council and MPAC is dealing with the matter. | 2 590 485 | 2 365 960 |
| Tender was not advertised for required time | The incidents has been reported to Council and MPAC is dealing with the matter. | 10 422 297 | 7 107 214 |
| Supplier in service of the state | The incident to be reported to council | 954 901 | - |
| | | **23 355 974** | **35 233 369** |

## Notes to the Annual Financial Statements

| | 2020 | 2019 Restated* |
|---|---|---|

### 48. Deviation from supply chain management regulations

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by council, any deviations from the Supply Chain management Policy needs to be approved / condoned by the Municipal Manager and noted by Council The municipality incurred deviations in terms of section 36(2) of the Municipal Supply Chain Regulations and noted by Council.

| **Total Section 36 Deviations for the financial year** | | |
|---|---|---|
| Emergencies | 1 245 214 | 32 408 |
| Sole provider | - | 221 305 |
| Section 36 Deviations transferred to Irregular Expenditure | (931 610) | - |
| | **313 604** | **253 713** |

### 49. Material Losses

| | | |
|---|---|---|
| Electricity distribution losses | 29 980 555 | 18 392 275 |

Electricity losses of 20 404 439 kWh as at June 2020 (June 2019: 14 631 075 kWh) occurred during the year which resulted in revenue loss amounting to R29 980 555 (June 2019: R18 392 275).

The National norm for electricity losses range from 6% to 12 % . The energy loss incurred by the municipality as at June 2020 was 35,63% ( June 2019 : 21,37% ) and was mainly due to transmission / distribution losses and illegal connections.

### 50. Additional disclosure in terms of Municipal Finance Management Act

**Audit fees**

| | | |
|---|---|---|
| Opening balance | 2 382 459 | 2 123 431 |
| Current year subscription / fee | 2 129 562 | 1 701 201 |
| Amount paid - previous years | (2 051 930) | (1 442 173) |
| | **2 460 091** | **2 382 459** |

**PAYE and UIF**

| | | |
|---|---|---|
| Opening balance | 2 852 403 | 4 832 083 |
| Current year subscription / fee | 6 087 808 | 4 539 005 |
| Amount paid - current year | (6 087 808) | (1 686 602) |
| Amount paid - previous years | (2 852 403) | (4 832 083) |
| | **-** | **2 852 403** |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Opening balance | 8 306 406 | 9 828 088 |
| Current year subscription / fee | 12 464 922 | 10 654 178 |
| Amount paid - current year | (5 880 780) | (2 347 772) |
| Amount paid - previous years | (8 306 406) | (9 828 088) |
| | **6 584 142** | **8 306 406** |

* See Note 41

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

**VAT**

| | | |
|---|---|---|
| VAT receivable | 34 749 223 | 29 917 190 |
| VAT payable | (14 694 364) | (13 637 139) |
| | **20 054 859** | **16 280 051** |

VAT output payables and VAT input receivables are shown in note 5.

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

**Councillors' arrear consumer accounts**

The municipal councillors do not hold any account either for electricity, refuse or rates with the municipality hence there are no account balances receivable from councillors as at 30 June 2020:
It has been noted that some councillor have prepaid meters and some councillors are living in residences where ownership is not in their names, some councillors are living in the rural arears where Eskom supplies electricity directly.

**Non-payment of creditors within 30 days**

Due to severe financial constraints , the municipality has not complied with the regulation of paying creditor within 30 days in terms of the MFMA and Treasury Regulation 8.2.3.

### 51. Impact of COVID 19

Towards the end of 2019 year , the outbreak of the Coronavirus Disease 2019 ( Covid -19) has had a major impact on the economy globally. South Africa has been on a lockdown from March 2020. Consequentially the virus has taken a toll on human life and in- addition business and financial markets. The extent of which is currently indeterminate.

In compiling the 19/20 AFS , we have noted the impact of COVID-19 on the following:

- Conditional Grant :
  A grant of R745 000 was received from COGTA on the 08 May 2020 for the prevention and combat of the COVID 19 outbreak. The funds from this grant was utilised to purchase sanitisers , masks , disinfection walk throughs and other prevention goods / supplies such as regular sanitisation of municipal offices. As at 30 June 2020 , the entire grant was utilised. Refer to note 26 of the AFS

- Revenue :
  Due to the level 5 lockdown enforced by National Government in March 2020, majority of the commercial businesses / industries and all schools had to be shut down for a number of weeks (even months ) and this effected the municipality 19/20 electricity revenue. Refer to note 19 of the AFS. There is a possibility that the property values are likely to be reduced and this will indeed impact on the properties rates revenue. The impact of the above has not been assessed by the municipality.

- Accounts Receivable:
  Recoverability of trade receivables can be a major issue. There is an increased risk of default from customers such some companies are likely going to struggle to survive this period of uncertainty . Individuals who are residential customers also have increased risk of unemployment and these may affect the municipality cashflows collections . The impact of the above has been considered in the provision for the 19/20 Trade receivables impairment and Provision for doubtful debts. Refer to notes 4 and 6.

- Leave balances:
  As from March 2020 when the national lockdown was implemented , revised working times were implemented for all officials in government entities ,including municipalities. Officials were rotated on a daily / weekly basis and consequentially no officials had taken annual leave from the end of March 2020 to 30 June 2020. This has impact on the leave provision for the 19/20 financial year end. Refer to note 18.

- National Government has given an extension to all municipalities till the 31 October 2020 for the submission of the 2019/2020 annual financial statements.