



AMATHOLE
DISTRICT MUNICIPALITY

**Annual Financial Statements
for the year ended 30 June 2020**

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Index

Index	Pages
Responsibilities and Approval	6
Statement of Financial Position	7
Statement of Financial Performance	8
Statement of Changes in Net Assets	9
Cash Flow Statement	10
Statement of Comparison of Budget and Actual Amounts	11 - 13
Significant Accounting Policies	14 - 34
Notes to the Annual Financial Statements	35 - 64
Appendices and annexures	65 - 79

Abbreviation

GRAP	Generally Recognised Accounting Practice
ADM	Amathole District Municipality
NT	National Treasury
PT	Eastern Cape Provincial Treasury
DWS	Department of Water and Sanitation
AEDA	Amathole Economic Development Agency SOC Limited t/a ASPIRE
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
WSIG	Water Services Infrastructure Grant
EPWP	Expanded Public Works Programme
NDPG	Neighbourhood Development Programme Grant
VAT	Value Added Taxation

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Mayoral Committee

Executive Mayor	Maneli, K
Deputy Executive Mayor	Nxawe, N. W
Speaker	Ndikinda, N
Chief Whip	Mgidlana. N.
Councillors	Ndwanyana, S.E (Corporate Services Human Resources and Admin) Skelenge, N (Land and Economic Development) Rulashe.N (Health and Safety) Namba, M. M (Strategic Planning) Kabane, Z (Community Safety) Jacobs, L. E. V (Budget and Treasury) Bonga, N. A (Legislative Support Services) Mnqwazi,Z (Engineering Infrastructure) Ganjana, B (Human Settlement)

Grading and Jurisdiction

Grade 6

- Integrated development planning for the District Municipality as a whole including a framework for all municipalities in the area
- Potable water supply system
- Domestic waste-water and sewerage disposal systems
- Solid waste disposal sites, in so far as it relates to :
 - determining a waste disposal strategy
 - regulation of waste disposal
- Municipal Health Services
- Fire fighting services serving the area
- Promotion of local tourism area
- The receipt and allocation of grants

The Amathole District Municipality is located in the mid-section of the Eastern Cape Province along the coastline of the Indian Ocean, encompassing the former homeland areas of the Ciskei and Transkei, as well as the former Cape.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Provincial Administration areas

The Amathole District Municipality's demarcated area is made up of six (6) local municipalities namely :

Amahlathi Municipality

Great Kei Municipality

Mbhashe Municipality

Mnquma Municipality

Ngqushwa Municipality

Raymond Mhlaba Municipality (formerly Nxuba and Nkonkobe municipalities)

LEGISLATION

The ADM complies with the following key and other related pieces of legislation :

Municipal Finance Management Act 56 of 2003

Municipal Demarcation Act 27 of 1998

Municipal Structures Act 117 of 1998

Laws Amendment Act 51 of 2002

Constitution of the Republic of South Africa Act No. 108 as amended

Municipal Systems Act 32 of 2000

Water Service Act 108 of 1997

Basic Conditions of Employment Act 75 of 1997

Labour Relations Act 66 of 1995

Remuneration of the Public Office Bearers Act 20 of 1998

Division of Revenue Act 3 of 2016

Housing Act 107 of 1997

Local government transitions Act 209 of 1993

Local government transitions Act Second 97 of 1996

Local government: Municipal Planning and Performance Management Regulations 2001

Local government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to Municipal Managers 2006

Supply Chain Management Regulations 2005

Value Added Tax Act 89 of 1991, and

Unemployment Insurance Act 30 of 1996

Municipal Manager

Dr T.T. Mnyimba

Office number

043 701 2257

Email

thandekilem@amathole.gov.za

Business address

Waverly Office Park
No 3 - 33 Phillip Frame Road
Chiselhurst
5247

Postal address

PO Box 320
East London
5200

Banker

Standard Bank
1 Epsom Road
Stirling Centre
Stirling
East London
5241

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Auditors

Auditor General of South Africa
69 Frere Road
Trust Building ,Vincent
East London
5217
Registered Auditors

Councillors

Baleni, X	Mbhashe Local Municipality
Tyodana, X	Mbhashe Local Municipality
Genyana, C	Mbhashe Local Municipality
Nqwena, N	Mbhashe Local Municipality
Msindwana, K	Mbhashe Local Municipality
Mafanya-Goniwe	Mbhashe Local Municipality
Mantshiyi, L	Mbhashe Local Municipality
Balindlela, T	Amahlathi Local Municipality
Siyo, Z	Mnquma Local Municipality
Tshona, N. R	Mnquma Local Municipality
Xhongwana, Z	Mnquma Local Municipality
Mnqokoyi, Z	Mnquma Local Municipality
Magwaca, K	Mnquma Local Municipality
Dywili, M. D	Raymond Mhlaba Local Municipality
Badi, X. C	Raymond Mhlaba Local Municipality
Ngaye, T	Raymond Mhlaba Local Municipality
Auld, C. A	Raymond Mhlaba Local Municipality
Maneli, S	Ngqushwa Local Municipality
Ncanywa, D	Ngqushwa Local Municipality
Siwisa, M. T	Ngqushwa Local Municipality
Mfecane, N	MPAC Chairperson
Rulashe, N	Proportional Representative
Lombard, J	Proportional Representative
Matshobeni, A	Proportional Representative
Sitole, P. S	Proportional Representative
Tolobisa, M. D	Proportional Representative
Goniwe, P. B	Proportional Representative

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

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 year and the results of its operations and cash flows for the year ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

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

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

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

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

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

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

Dr T.T Mnyimba
Municipal Manager

M.L. Mosala
Chief Financial Officer

Amathole District Municipality

Annual Financial Statements as at 30 June 2020

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated
Assets			
Current Assets			
Inventories	11	6 460 034	30 595 685
Receivables from exchange transactions	12	301 971 427	314 390 025
Receivables from non- exchange transactions	13	1 534 722	50 098 345
VAT receivable	14	-	-
Cash and cash equivalents	15	192 017 638	190 152 984
		501 983 821	585 237 039
Non - Current Assets			
Investment property	3	150 366 786	150 724 402
Property, plant and equipment	4	4 539 530 717	4 414 167 364
Intangible assets	5	6 300 422	26 521 361
Heritage assets	6	400 000	400 000
Investments in controlled entities	7	1 000	1 000
Non - current Investments	18	2 137 600	2 137 129
Non current receivables	8	1 710 803	1 710 803
		4 700 447 327	4 595 662 059
Total Assets		5 202 431 149	5 180 899 097
Liabilities			
Current Liabilities			
Finance lease obligation	16	295 495	4 160
Payables from exchange transactions	20	563 261 069	442 736 477
Taxes and transfers payable (non - exchange)	21	21 735 511	9 689 040
Vat Payable	55	93 288 305	119 515 397
Consumer deposits	22	3 175 041	3 056 332
Unspent conditional grants and receipts	17	33 713 686	109 809 339
Provisions	19	116 209 013	96 459 649
		831 678 119	781 270 394
Non- current Liabilities			
Finance lease obligation	16	159 156	-
Operating lease liability	9	1 784 354	2 530 491
Employee benefit obligation	10	151 050 936	169 562 863
		152 994 446	172 093 354
Total Liabilities		984 672 565	953 363 748
Net Assets		4 217 758 584	4 227 535 349
Reserves			
Accumulated surplus		4 217 758 573	4 227 535 349
Total Net Assets		4 217 758 583	4 227 535 349

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance for the year ended 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated
Revenue			
Revenue from exchange transaction			
Service charges	24	371 947 745	364 264 924
Rental of facilities and equipment	25	331 532	267 582
Interest earned outstanding receivables	51	93 348 771	65 599 065
Other income	26	2 973 006	3 564 061
Interest received - Investment	27	19 957 386	18 984 425
Total revenue from exchange transaction		488 558 440	452 680 058
Revenue from non - exchange transaction			
Transfer revenue			
Government grants & subsidies	28	1 489 936 783	1 409 868 259
Total revenue from non - exchange transaction		1 489 936 783	1 409 868 259
Total revenue	23	1 978 495 223	1 862 548 318
Expenditure			
Employee related costs	29	(760 797 396)	(699 907 505)
Remuneration of councillors	30	(15 014 844)	(15 242 419)
Depreciation, amortisation and impairment	31	(128 527 109)	(124 861 482)
Finance costs	32	(22 397 139)	(26 113 667)
Debt impairment	33	(391 412 776)	(246 777 489)
Collection costs		(1 274 938)	(802 159)
Repairs and maintenance	53	(89 307 612)	(18 271 067)
Bulk purchases	34	(114 749 762)	(104 449 062)
Contracted services	35	(68 650 972)	(62 804 291)
Transfers and grants expenditure	56	(18 355 784)	(24 817 376)
Inventory consumed	36	(257 665 282)	(146 204 416)
Operational costs	37	(158 589 256)	(211 597 958)
Total expenditure		(2 026 742 868)	(1 681 848 889)
Operating surplus		(48 247 645)	180 699 428
Loss on disposal of assets	52	(138 738)	(1 200 625)
Actuarial gains	10	38 609 615	117 848 731
(Deficit)/Surplus for the year		(9 776 769)	297 347 534

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

Figures in Rand	Accumulated Surplus	Total Net Assets
Opening balance as previously reported	4 082 432 209	4 082 432 209
Prior period errors (Note 44)	(152 244 393)	(152 244 393)
Balance at 01 July 2018 as restated	3 930 187 816	3 930 187 816
Changes in net assets		
Surplus for the 30 June 2019	297 347 534	297 347 534
Total changes	297 347 534	297 347 534
Balance at 01 July 2019 as restated	4 227 535 350	4 227 535 350
(Deficit)/Surplus for the year	(9 776 769)	(9 776 769)
Balance at 30 June 2020	4 217 758 581	4 217 758 580

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement for the year ended 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated
Cash flows from operating activities			
Receipts			
Service charges		131 921 194	36 602 337
Grants		1 469 625 600	1 409 868 259
Interest income		19 956 915	18 984 425
Other receipts		1 767 899	3 564 061
		1 623 271 608	1 469 019 082
Payments			
Employee costs		(759 824 215)	(769 213 524)
Suppliers		(669 492 304)	(366 564 264)
Finance costs		(4 229 002)	(1 810 171)
		(1 433 545 521)	(1 137 587 959)
Net cash flows from operating activities	39	189 726 088	331 431 123
Cash flow from investing activities			
Purchase of property, plant and equipment	4	(234 031 762)	(321 523 639)
Proceeds from sale of property, plant and equipment	4	581 118	146 096
Increase in current investment		-	-
Net cash flows from investing activities		(233 450 644)	(321 377 543)
Cash flow from financing activities			
Reserves		45 138 720	-
Finance lease payments		450 491	(144 261)
Net cash flows from financing activities		45 589 211	(144 261)
Net increase/(Decrease) in cash and cash equivalents		1 864 655	9 909 319
Cash and cash equivalent at the beginning of the year		190 152 984	180 243 676
Cash and cash equivalent at the end of the year	15	192 017 638	190 152 995

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

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 Note 60
Statement of Financial Performance						
Revenue						
Revenue from exchange transaction						
Service charges	540 903 577	35 431 968	576 335 545	371 947 745	(204 387 800)	1
Rental of facilities and equipment	2 180 377	(1 539 600)	640 777	331 532	(309 245)	2
Interest earned outstanding receivables	70 927 704	-	70 927 704	93 348 771	22 421 067	3
Other income	74 343 451	7 485 347	81 828 798	2 973 006	(78 855 792)	4
Interest received - Investment	5 073 193	15 082 314	20 155 507	19 957 386	(198 121)	5
Total revenue from exchange transaction	693 428 302	56 460 029	749 888 331	488 558 440	(261 329 891)	
Revenue from non - exchange transaction						
Transfer revenue						
Government grants & subsidies	1 402 296 148	123 650 468	1 525 946 616	1 489 936 783	(36 009 833)	6
Total revenue from non - exchange transaction	1 402 296 148	123 650 468	1 525 946 616	1 489 936 783	(36 009 833)	
Total revenue	2 095 724 450	180 110 497	2 275 834 947	1 978 495 223	(297 339 724)	
Expenditure						
Employee related costs	737 349 635	25 904 568	763 254 203	(760 797 396)	2 456 807	7
Remuneration of councillors	16 088 743	2 882 927	18 971 670	(15 014 844)	3 956 826	8
Depreciation and amortisation	162 566 655	6 622 014	169 188 669	(128 527 109)	40 661 561	9
Finance costs	26 354 647	(17 092 946)	9 261 701	(22 397 139)	(13 135 437)	10
Debt impairment	159 782 210	49 128 024	208 910 234	(391 412 776)	(182 502 542)	11
Collection costs	26 208 909	(24 647 830)	1 561 079	(1 274 938)	286 141	12
Repairs and maintenance	20 616 561	704 221	21 320 782	(89 307 612)	(67 986 830)	13
Bulk purchases	97 079 429	17 643 194	114 722 623	(114 749 762)	(27 140)	14
Contracted services	69 422 304	236 005 036	305 427 340	(68 650 972)	236 776 368	15
Inventory consumed	-	75 789 055	75 789 055	(257 665 282)	(181 876 227)	16
Transfers and grant expenditure	20 357 689	(1 621 627)	18 736 062	(18 355 784)	380 278	17
Operational costs	167 897 586	34 814 163	202 711 749	(158 589 256)	44 122 493	18
Total expenditure	1 503 724 368	406 130 800	1 909 855 168	(2 026 742 868)	(116 887 701)	
Operating surplus	592 000 082	(226 020 302)	365 979 780	(48 247 645)	(414 227 425)	
Actuarial gain	-	-	-	38 609 615	38 609 615	19
Loss on disposal of assets	-	-	-	(138 738)	(138 738)	20
(Deficit)/Surplus for the year	592 000 082	(226 020 302)	365 979 780	(9 776 769)	(375 756 548)	
Actual Amount on Comparable basis	592 000 082	(226 020 302)	365 979 780	(9 776 769)	(375 756 548)	

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Note 60
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	8 929 680	15 890 177	24 819 857	6 460 034	(18 359 822)	1
Receivables from exchange transactions	579 019 918	(7 767 907)	571 252 011	301 971 427	(269 280 584)	2
Receivables from non - exchange transactions	8 464 321	-	8 464 321	1 534 722	(6 929 599)	3
VAT receivable	-	-	-	-	-	4
Cash and cash equivalents	214 045 083	(118 802 354)	95 242 729	192 017 638	96 774 910	5
	810 459 001	(110 680 084)	699 778 917	501 983 821	(197 795 096)	
Non - Current Assets						
Investment property	172 734 625	(22 457 978)	150 276 647	150 366 786	90 138	6
Property, plant and equipment	6 329 907 151	(1 275 910 913)	5 053 996 238	4 539 530 717	(514 465 521)	7
Intangible assets	133 963 783	(94 831 331)	39 132 452	6 300 422	(32 832 030)	8
Heritage assets	349 300	50 700	400 000	400 000	-	
Non - current investments	2 000 000	137 129	2 137 129	2 137 600	471	9
Investments in controlled entities	-	-	1 000	1 000	-	
Non - current receivables	1 710 906	-	1 710 906	1 710 803	(103)	
	6 640 665 765	(1 393 012 393)	5 247 654 373	4 700 447 327	(547 207 045)	
Total Assets	7 451 124 766	(1 503 692 477)	5 947 433 290	5 202 431 149	(745 002 141)	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	-	295 495	295 495	10
Payables from exchange transactions	634 167 494	(293 160 000)	341 007 494	563 261 069	222 253 575	11
Taxes and transfers payable (non - exchange)	-	-	-	21 735 511	21 735 511	12
VAT payable	-	-	-	93 288 305	93 288 305	13
Consumer deposits	3 288 493	-	3 288 493	3 175 041	(113 452)	14
Unspent conditional grants and receipts	-	46 580 000	46 580 000	33 713 686	(12 866 314)	15
Provisions	75 284 849	95 706 586	170 991 435	116 209 013	(54 782 422)	16
	712 740 836	(150 873 414)	561 867 422	831 678 119	269 810 697	
Non - current Liabilities						
Finance lease obligation	-	-	-	159 156	159 156	17
Operating lease liability	327 921	2 202 569	2 530 491	1 784 354	(746 137)	18
Employee benefit obligation	378 913 730	(207 228 958)	171 684 772	151 050 936	(20 633 836)	19
	379 241 651	(205 026 389)	174 215 263	152 994 446	(21 220 817)	
Total Liabilities	1 091 982 487	(355 899 803)	736 082 684	984 672 565	248 589 881	
Net Assets	6 359 142 279	(1 147 792 674)	5 211 350 606	4 217 758 584	(993 592 022)	-
Net assets attributable to owners of controlling entity						
Reserves						
Accumulated surplus	6 359 142 279	(1 147 791 675)	5 211 350 605	4 217 758 573	(993 592 031)	
Total Net Assets	6 359 142 279	(1 147 791 675)	5 211 350 605	4 217 758 584	(993 592 021)	

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

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 Note 60
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Service charges	381 121 367	(97 291 731)	283 829 637	131 921 194	(151 908 443)	
Grants	1 402 296 148	123 650 382	1 525 946 530	1 469 625 600	(56 320 930)	
Interest income	76 000 897	(27 474 308)	48 526 589	19 956 915	(28 569 674)	
Other receipts	76 523 828	(286 752)	76 237 076	1 767 899	(74 469 177)	
	1 935 942 240	(1 402 409)	1 934 539 831	1 623 271 608	(311 268 223)	
Payments						
Employee costs	(1 134 663 167)	(436 806 099)	(1 571 469 266)	(759 824 215)	811 645 051	
Suppliers	(20 357 689)	703 472	(19 654 217)	(669 492 304)	(649 838 087)	
Finance costs	(26 354 647)	12 668 558	(13 686 089)	(4 229 002)	9 457 087	
Taxation	-	-	-	-	-	
	(1 181 375 503)	(423 434 069)	(1 604 809 572)	(1 433 545 521)	171 264 051	
Net cash flows from operating activities	754 566 737	(424 836 478)	329 730 259	189 726 088	(140 004 171)	1
Cash flow from investing activities						
Purchase of property, plant and equipment	(592 000 085)	167 359 571	(424 640 514)	(234 031 762)	190 608 752	
Proceeds from sale of property, plant and equipment	-	-	-	581 118	581 118	
Net cash flows from investing activities	(592 000 085)	167 359 571	(424 640 514)	(233 450 644)	191 189 870	2
Cash flow from financing activities						
Movement in interest bearing borrowings DBSA	-	-	-	-	-	
Proceeds from consumer deposits	-	-	-	-	-	
Movement in capital reserves	-	-	-	45 138 720	45 138 720	
Repayment of other financial liabilities	-	-	-	450 491	450 491	
Net cash flows from financing activities	-	-	-	45 589 211	45 589 211	3
Net increase/(Decrease) in cash and cash equivalents	162 566 652	(257 476 907)	(94 910 255)	1 864 655	96 774 910	
Cash and cash equivalent at the beginning of the year	51 478 431	138 674 553	190 152 984	190 152 984	0	
Cash and cash equivalent at the end of the year	214 045 083	(118 802 354)	95 242 729	192 017 639	96 774 910	

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

1. Basis of presentation

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

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

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

These accounting policies are consistent with the previous period, unless specified otherwise.

A summary of the significant accounting policies is discussed below.

1.1 Presentation currency

These annual financial statements in South African Rand, which is the functional currency of the municipality. The amounts in the annual financial statements are rounded to the nearest rand

1.2 Going concern assumption

These annual financial statements have been prepared 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

The preparation of the annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. In the process of applying the municipality's accounting policies, management has made significant accounting judgements, estimates and assumptions, which have significant effect on the amounts recognised in the financial statements. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively:

Pension and other post - employment benefits

The cost of defined benefit pension plans, other employment medical benefits and long service awards are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

For key actuarial assumptions, refer to note 10 " Employee Benefit obligations "

Useful lives (Depreciation and Amortisation)

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's condition, expected condition at the end of the period of use, its current use, expected future use and the municipality's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating how the condition

Impairment of property, plant and equipment

The calculation in respect of the impairment of property, plant and equipment (PPE) is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed across all classes of property, plant and equipment.

Residual value of property, plant and equipment

Management has determined that none of its infrastructural assets have any active market value, and the value of the amount at the end of their useful lives would therefore be insignificant.

Infrastructure assets

The determination of the fair value of the water infrastructure assets is based upon assumptions and professional judgement applied by consulting engineers using best engineering practice and industry norms and standards.

The following assumptions have been made in the compilation of the low data confidence infrastructure asset register:

- The construction year is estimated using sources in the following order of precedence : available technical records, interviewing of operations staff, comparison with adjacent infrastructure. When the date of acquisition is not known and the construction year is estimated, the acquisition date is assumed to be the 1st day of January in the year of construction.
- The consumption of the benefits of infrastructure assets are predominately uniform over the life of the assets.
- The depreciation is therefore assumed to be straight line for all infrastructure assets.
- The residual value of all civil infrastructure assets is negligible as there is no open market for the materials used in civil infrastructure and the realizable value is very small. The scrap value of mechanical and electrical plant is also negligible.
- The remaining Useful Life was estimated using a combination of visual inspection and information on asset performance provided by operations staff. For underground assets, such as pipes, the assessment is based on the age of the pipes and information on performance from the operations staff.

Impairment of Receivables

The measurement of receivables is derived after consideration of the impairment. Management makes certain assumptions regarding the categorisation of debtors into groups with risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this impairment the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

Inventory - Water Stock

The estimation of the water stock in the reservoirs and pipelines is based on an assumption of the network reticulation capacity at year end. Any existing drought conditions are also taken into consideration where applicable. The water stock on hand has been estimated using engineering best practice and industry norms and standards.

Impairments of non-financial assets

In testing for, and determining the value-in-use of non-financial assets, management is required to rely on the use of estimates about the asset's ability to continue to generate cash flows (in the case of cash-generating assets). For non-cash-generating assets, estimates are made regarding the depreciated replacement cost, restoration cost, or service units of the asset, depending on the nature of the impairment and availability of information.

Provisions and contingent liabilities

Management's judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amounts that will be required in future to settle the provision management considers the weighted average probability of the potential outcomes of the provisions raised. Provisions are discounted where the effect of discounting is material.

Useful lives of waste and water network and other assets

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

Operating leases - Municipality as lessor

The municipality has entered into commercial property leases on its investment property portfolio. The municipality has determined that it retains all the significant risks and rewards of ownership of these properties and thus accounts for them as operating leases. Payments received under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease.

Environmental rehabilitation provisions

The municipality operates a landfill site and has made critical assumptions for estimating the life expectancy and rehabilitation costs of the site.

1.4 Reserves

The Entity creates and maintains reserves in terms of specific requirements.

Capital Reserve

A reserve was created to set aside funds from a capital project on which claims were disputed, hence the funds were not spent. This reserve will be utilised in future to continue spending on the initial project.

The following guidelines are set for the creation and utilisation of the Capital Reserve (CR):

- The cash funds that back up the CR are invested until utilised.
- The CR may only be utilised for expenditure relating to the project.
- Whenever expenditure is made out of the CR, an amount equal to the cost price of the asset is transferred from the CR, and the accumulated surplus is credited by a corresponding amount.

1.5 Investment property

Investment property includes property (land or a building, or part of a building, or both land or buildings under a finance lease) held to earn rentals and /or for capital appreciation rather than held to meet service delivery objectives or sale in the ordinary course of business. Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. Investment property is initially derecognised when future benefits are probable and the cost or fair value can be determined reliably.

Recognition

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion. Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The cost of Day to Day servicing of investment property is recognised in the statement of Financial Performance as incurred.

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

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

Subsequent measurement - Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated. Investment properties are written down as a result of impairment, where considered necessary. Depreciation begins when the asset is available for use. Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. Investment property includes land held with an indefinite use. This land is recognised at fair value on the date of recognition

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life Property
Property - land	indefinite
Property - building	30 years

The investment property's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each financial year-end.

DE recognition/Disposal

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

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

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable. Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value [or carrying amount if cost model is used] at the date of change in use. If owner-occupied property becomes an investment property, the entity accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the financial statements (see **note 3**). The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see **note 3**).

Impairments

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an Investment Property 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.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

1.6 Property, plant and equipment

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

Recognition

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 or fair value 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 assets, or a combination of assets 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.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

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

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

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

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

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant 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.

Subsequent measurement

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. Land is not depreciated as it is regarded as having an unlimited life.

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

Item	Average useful life
Land	Indefinite Life
Buildings	30 years
Furniture and fixtures	7 to 10 years
Motor vehicles	
• Vehicle	5 years
• Specialised Vehicles	3 to 20 years
Office equipment	3 to 7 years
• IT equipment	
IT equipment	3 to 5 years
Infrastructure	
• Roads and paving's	10 to 30 years
• Sewerage Mains and Purification Works	4 to 55 years
• Water Supply and Reticulation	3 to 94 years
Community	
• Libraries	30 years
• Buildings	30 years
• Community Centres	20 years
• Recreational Facilities	30 years
Other property, plant and equipment	
• Specialised Plant and Equipment	5 to 15 years
• Emergency and Medical Equipment	5 to 15 years
Ancillary fleet equipment and security	
• Security Equipment	3 to 5 years
Bins and containers	5 to 10 years
• Other Items	2 to 5 years
Leased Assets	3 to 5 years

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

The municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing the assets for any economic gain, and thus no residual values are determined other than for motor vehicles.

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.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset. Depreciation of an asset commences when the asset is ready for its use as intended by management.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or where appropriate, the term of the relevant lease, and are recognised in the statement of financial performance.

Incomplete construction work (work in progress) is stated at historical cost.

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 or disposal 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.

The Municipality separately discloses expenditure and maintenance on Property Plant and Equipment in the notes to Financial Statements (see **note 4**). The Municipality discloses relevant information relating to assets under construction or development in the notes to the Financial Statements (see **note 4**).

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue. Gains or losses are calculated as the difference between the carrying values of assets.

Assets which the group 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.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

Site rehabilitation and restoration costs

Where the Municipality has an obligation to rehabilitate and restore items of property, plant and equipment such obligations are referred to as "rehabilitation provisions". The cost of an item of property, plant and equipment includes the initial estimate of the costs of rehabilitation and restoring the site on which it is located, the obligation for which the Municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period.

As 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 group 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.

Impairments

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), its written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance. Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

1.7 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets.

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.

Recognition

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses.

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

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.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

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

Subsequent Measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

The cost of an intangible asset is amortised over the useful life where that useful life is finite. The amortisation expense on intangible assets with finite lives is recognised in the statement of financial performance under expenses consistent with the function of the intangible asset.

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

Item	Useful life
Computer software	3 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance. Amortisation shall commence when the asset is available for the intended use.

Amortisation of the asset begins when the development is complete and the asset is available for use.

The amortisation period, the amortisation method and the residual value for intangible assets with finite useful lives are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The residual value of intangible assets is estimated to be nil.

The municipality discloses relevant information relating to assets under construction, in the notes to financial statements (see **note 5**).

Impairments

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset maybe impaired. An assessment of whether there is an indication of possible impairment is performed at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance. Where items of property, plant equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

Derecognition

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. It is recognised in surplus or deficit when the asset is derecognised.

1.8 Heritage assets

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.

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.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 6). The municipality discloses relevant information relating to assets under construction or development in the notes to the financial statements (see note 6).

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses. Heritage assets are not depreciated.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

Impairment

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

Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

1.9 Investments in controlled entities

Subsidiaries are all controlled entities over which the municipality has ownership control or effective control to govern the financial and operating policies of such control entities so as to benefit from its activities. Controlled entities are fully consolidated from the date on which control is transferred to the municipality, and are carried at cost. Investments in municipal entities under the ownership control of the municipality are carried at cost. Separate consolidated financial statements are prepared to account for the municipality's share of net assets and post acquisition results of these investments. The municipality commences accounting for an investment in a subsidiary from the date that control exists and discontinues the application when it no longer has control over the subsidiary.

1.10 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.

Financial instruments are classified into three categories namely, financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost. The Municipality determines the classification of its financial instruments at initial recognition.

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

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality 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 municipality 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 municipality 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.

Financial assets consist of cash and cash equivalents, deposits, receivables and investments.

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.

Financial liabilities consist of payables, interest bearing loans and bank overdrafts

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.

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

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

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

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

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.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

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

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

Classification

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

Class	Category
Non current receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables	Financial asset measured at amortised cost
Other receivables	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost

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

Class	Category
Trade payables	Financial liability measured at amortised cost
Other payables	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities.

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

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

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

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

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

Offsetting

The municipality does not offset a financial asset and a financial liability unless a legally enforceable rights to set off the recognised amounts, currently exist and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

Gains and losses

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

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

Impairment of financial assets

The municipality 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.

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting. The municipality derecognises a financial asset only when:

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

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

Financial liabilities

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

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

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

Presentation

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

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

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

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

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

Policies relating to specific financial instruments

Investment at amortised cost

Investments, which include [listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks are categorised as financial instruments at amortised cost and are subsequently measured at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

Investment at cost

Investment at cost, which represent investments in residual interest for which there is no quoted market price and for which fair value cannot be measured reliably, are subsequently measured at cost.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost.

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks.

Trade and other receivables

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade receivables are determined in accordance with the accounting policy for impairments. An estimate is made for impairment based on past default experience of all outstanding amounts at year end. Impairment adjustments are made through the use of an allowance account. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivables is impaired. Bad debts are written off in the year in which they are identified as irrecoverable, subject to the approval of the necessary delegated authority. Impairments are determined by discounting expected future cash flows to their present value. Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

Trade and other payables

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method

Borrowings and other financial liabilities

Borrowings are recognised initially at fair value, net of transaction cost incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction cost) and the redemption value is recognised in the statement of financial performance over the period of the borrowings using the effective interest method. Long term borrowings are non-derivative financial loans and the municipality does not hold financial loans for trading purposes. Long term borrowings are utilised solely for funding capital projects.

Loans and Receivables

Loans and Receivables are measured initially and subsequently at amortised cost any difference between the proceeds (net of transaction cost) and redemption value is recognised in the statement of financial performance. Loans and Receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

1.11 VAT

The municipality accounts for value added tax on the payments basis.

1.12 Leases

Finance leases -municipality as a lessee

Recognition

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality through the lease agreement. Assets subject to finance to finance leases are recognised in the Statement of Financial Position at the inception of the lease, as is the corresponding finance lease liability.

Assets subject to operating leases, i.e. those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position. The operating lease expense is recognised over the course of the lease arrangement.

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

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement

at inception date: namely whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Measurement

Assets subject to a finance lease, as recognised in the statement of financial position, are measured (at initial recognition) at the lower of the fair value of the assets and the present value of the of the future minimum lease payments. The finance lease liability recognised at initial recognition is measured at the present value of the future minimum lease payments. Subsequent to initial recognition this liability is carried at amortised cost, with the lease payments being set off against the capital and accrued interest. The allocation of the lease payments between the capital and interest portion of the liability is effected through the application of the effective interest method.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

The finance charges resulting from the finance lease are expensed, through the Statement of Financial Performance, as they accrue. The finance cost accrual is determined using the effective interest method.

The lease expense recognised for operating leases is charged to the Statement of Financial Performance on a straight - line basis over the term of the relevant lease. To the extent that the straight-lined lease payments differ from the actual lease payments the difference is recognised in the Statement of Financial Position as either lease payments in advance (operating lease asset) or lease payments payable (operating lease liability) as the case may be. This resulting asset and / or liability is measured as the undiscounted difference between the straight -line lease payments and the contractual lease payments.

Derecognition

The finance lease liabilities are derecognised when the municipality's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the municipality no longer expects any economic benefits or service potential to flow from the asset.

The operating lease liability is derecognised when the municipality's obligation to settle the liability is extinguished. The operating lease asset is derecognised when the municipality no longer anticipates economic benefits to flow from the asset.

Subsequent measurement

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases - municipality as a lessor

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

Recognition

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease. Lease payments received under an operating lease are recognised as income, in the Statement of Financial Performance, in the period that the income accrues.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Measurement

Rental Income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined lease payments and the contractual lease payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance (i.e. the straight-line lease payments are more than the contractual lease payments) The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

Derecognition

Operating lease liabilities are derecognised when the municipality's obligation to provide economic benefits or service potential under the lease agreement expires. Operating lease assets are derecognised when the municipality's right to the underlying cash flows expires or the municipality no longer expects economic benefits to flow from the operating lease asset.

Operating leases - municipality as a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. The liability or asset is not discounted. Any contingent rents are expensed in the period they are incurred.

1.13 Inventories

Initial recognition

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Subsequent measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost.

The basis of determining cost is the first-in-first-out (FIFO) method.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Housing inventory

Housing development inventory is measured at cost on the first-in, first-out basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs. The carrying amount of these inventories held for distribution is recognised as an expense when beneficiaries take occupation of the houses. Housing development funding received is recognised as revenue and expenditure on the Statement of Financial Performance to the extent that the municipality has complied with any of the criteria, obligations or conditions of the grant.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

Water inventory

Water is regarded as inventory when the Municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the Municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the Municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the Statement of Financial Position.

The basis of determining the cost of water purchased and not yet sold at Statement of Financial Position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates. Water is valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

The estimation of the water stock in the reservoirs and pipelines is based on an assumption of the water reticulation network capacity at year end.

VIP toilets inventory

VIP toilets inventory is measured at cost on the first-in-, first-out basis.

The carrying amount of these inventories held for distribution is recognised as an expense when the beneficiaries take occupation of the VIP structures. Grant funding received is recognised as in the Statement of Financial Performance to the extent that the municipality has complied with any of the criteria, obligations or conditions of the grant.

Derecognition

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.14 Impairment of cash-generating assets

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. A commercial return means that the return charged by the entity is commensurate with the risk associated with holding the asset and the asset is intended to generate positive cash inflows. All other assets are classified as non-cash generating assets.

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset in order to determine the extent of the impairment loss (if any).

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset.

If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit

as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

Identification

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

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.

This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life. When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

Basis for estimates of future cash flows

In measuring value in use the municipality:

- bases 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;
- bases cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimates cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Cash-generating units

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

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

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and zero.

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

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

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

Reversal of impairment loss

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

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

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

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

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

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

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

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

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 Impairment of non-cash-generating assets

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).

A cash-generating unit is the smallest identifiable group of assets held with the primary 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.

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

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.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a 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.

1.16 Environmental Rehabilitation Provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure are based on the Municipality's policy, taking into account current technological, environmental and regulatory requirements.

The provision for rehabilitation is recognised as and when the environmental liability arises. In so far as the obligations relate to assets, they are capitalised as part of the cost of those assets. Any unwinding of discount is charged to the statement of financial performance.

1.17 Employee benefits

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

The Municipality provides short term benefits, long term benefits and retirement benefits for its employees and councillors.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

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

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

Post-employment benefits

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

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

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

Multi-employer plans

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality accounts for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

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

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

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

Post-employment benefits : Defined benefits 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 municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

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

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement. Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits.

Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

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 municipality accounts 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 municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality'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 municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality 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 municipality 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.

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

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

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

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

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Medical Aid: Continued Members

The municipality provides post retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of such a medical aid fund, in which case the member is liable for 30% of the medical aid membership fee, and the municipality for the remaining 70%. Assumption about the medical costs take into account estimated future changes in cost medical services, resulting from both inflation and specific changes in medical costs.

Actuaries are used to determine the obligation on an annual basis. The actuarial gain or loss is recognised in surplus or deficit.

Other Long Term Employee Benefits

The municipality provides long-term incentives to eligible employees, payable on completion of years of employment. The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method has been used to value the obligation. Actuarial gains and losses on long term incentives are accounted for in surplus or deficit. The municipality offers employees long service awards for every five years of services completed, from five years of service to 45 years of service, inclusive.

1.18 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed unless the possibilities of outflow resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefit is probable.

1.19 Revenue from exchange transactions

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

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

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

Measurement

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

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

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

Rendering of Services

Service income is recognised on an invoice basis. Service charges relating to water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. The adjustments are recognised as revenue in the invoicing period.

Revenue arising from consumption of water and sanitation in the month of June is fully accounted for whether invoiced or not. Revenue arising from the application of the approved tariffs, fees and charges is generally recognised when the relevant service is rendered. Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from the council and are levied monthly.

Revenue arising from fire services is based on set basic tariffs.

Interest, rentals and agency services

Interest are recognised in the Statement of Financial Performance on a time proportionate basis, which takes into account the effective yield on the investment.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

1.20 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue 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 receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a liability is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Grants transferred and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is not a corresponding liability in respect of related conditions.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is probable.

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

Recognition

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

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

Measurement

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

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

Grants, transfers and donations

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria, conditions and obligations embodied in the agreement. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional and funds are invested until utilised. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder, it is recorded as part of the creditor. If it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Gifts and donations, including goods in-kind

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

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

1.21 Investment income

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

1.22 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.

1.23 Translation of foreign currencies

Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the rate of exchange ruling on the date of the transactions. Exchange differences arising on the settlement of creditors or on reporting of creditors at rates different from those at which they were initially recorded are expensed. Transactions in foreign currency are accounted for at the exchange ruling on the date of transaction.

Gains and losses arising on the translation are dealt with in the Statement of Financial Performance in the year in which they occur.

1.24 Surplus/deficit

Gains and Losses

Gains and losses arising from fair value adjustments on investments and loans, and from the disposal of assets, are presented separately from other revenue in the Statement of Financial Performance, income, expenditure, gains and losses are recognised in surplus or deficit except for the exceptional cases where recognition directly in the net assets is especially allowed by a Standard of GRAP.

1.25 Comparative figures

Comparative of actual information to budgeted information

Budget information in accordance with GRAP 1 and 24, has been provided as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanations and comments to material differences are provided in the notes to the annual financial statements. In addition a note has been added to the annual financial statements where the over and under spending are deemed material, for the current financial year only. The annual budget figures included in the annual financial statements are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan (IDP). The approved budget covers the fiscal period from 01/07/2019 to 30/06/2020.

In general, a difference of 10% or more is considered material, although the surrounding circumstances are taken into account if it could influence the decisions or assessments of the users of the financial statements in determining whether a difference between the budgeted and actual amount is material.

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. Comparative information is not required.

Current year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified and restated. The nature and reason for the reclassification and restatement are disclosed in the Notes to the annual Financial Statements. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

The presentation and classification of items in the current year is consistent with prior periods.

1.26 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003) Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.27 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.

1.28 Irregular expenditure

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), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of Municipality'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.

1.30 Investments

Where 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.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Significant Accounting Policies

1.31 Conditional grants and receipts

Government grants and other grants are recognised as revenue when:

- (a) it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- (b) the amount of the revenue can be measured reliably, and
- (c) to the extent that there has been compliance with any restrictions associated with the grant. Income received from conditional grants, donations and subsidies are recognised to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised and funds invested until it is utilised. Interest earned on the investment is treated in accordance with the grant conditions. If it is payable to the funder it is recorded as part of the creditor.

Income is transferred to the Statement of Financial Performance as revenue to the extent that the criteria, conditions or obligations have been met.

1.32 Related parties

The municipality has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party or vice versa, or an entity that is subject to common control, or jointly control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the municipality any one or more related parties, and those transactions were not within:

- normal supplier and/ or client/ recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual group or persons in the same circumstances and;
- terms and conditions within the normal operating parameters established by the reporting municipality's legal mandate;

Further details about those transactions are disclosed in the notes to the financial statements.

The municipality has a related party relationship with its subsidiary Amathole Economic Development Agency SOC Limited t/a ASPIRE. Subsidiaries are entities controlled by the municipality. The existence and effect of potential voting rights that are currently exercisable are convertible without restriction are considered when assessing whether the municipality controls the other entity. Subsidiaries are consolidated from the date that effective control is transferred to the municipality and are no longer consolidated from the date the effective control ceases. Related party transactions are conducted on arms length basis with terms comparable to transactions with third parties.

Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee Members, Municipal Manager and Executive Directors.

1.33 Commitments

A commitment is the municipality's intention to commit to an outflow of its resources embodying economic benefits. The municipality is committed under obligations for goods and services, which have been contracted for on or before the reporting date, but not yet received or completed at year end. Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes. Approved and contracted commitments represent expenditure that has been approved and the contract has been awarded at the reporting date.

1.34 Post balance sheet events

Events after the 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 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 amounts 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 an estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the annual Financial Statements

2020 **2019**
R Restated
R

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

Standard / Interpretation :	Effective date : Years beginning on or after	Expected impact :
GRAP 18 : Segment Reporting	01 April 2020	The Standard requires the identification and aggregation of the municipality into reportable segments. For each of the reportable segments identified details of the financial performance will be disclosed. The precise impact of this on the financial statements of the municipality is still being assessed but it is expected that this will only result in additional disclosures without affecting the underlying accounting.
GRAP 34: Separate Financial Statements GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	GRAP 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. It GRAP 36 prescribes the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This statement will not have an impact on the financial statements as the municipality does not have Associates or Joint Ventures.
GRAP 37: Joint Arrangements	01 April 2020	GRAP 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. This statement will not have an impact on the financial statements as the municipality does not have Joint Arrangements.
GRAP 38: Disclosures of interests in other Entities	01 April 2020	GRAP 38 requires an entity to disclose information that enables users of its financial statements to evaluate: (a) the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and (b) the effects of those interests on its financial position, financial performance and cash flows. It is expected that the application of this standard will not have a material impact on the financial statements of the municipality when effective.
GRAP 110: Living and non-Living Resources	01 April 2020	GRAP 110 prescribes the recognition, measurement, presentation and disclosure requirements for living resources as well as disclosure requirements for non-living resources. It is expected that the application of this standard will not have a material impact on the financial statements of the municipality when effective.

3. Investment property

	2020			2019		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	155 210 848	(4 844 062)	150 366 786	155 210 848	(4 486 446)	150 724 402

Reconciliation of Investment property - 2020

	Opening carrying value	Transfers In/ (Out)	Depreciation	Closing carrying value
Investment property	150 724 403	-	(357 617)	150 366 786

Reconciliation of Investment property - 2019

	Opening carrying value	Transfers In/ (Out)	Depreciation	Closing carrying value
Investment property	151 081 758	-	(357 356)	150 724 403

Pledged as security

There were no properties pledged as security.
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.

Rental income from investment property

331 532 267 582

Refer to **Note 41** for lease commitments

4. Property, plant and equipment

	2020			2019		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
	R	R	R	R	R	R
Land	5 325 092	-	5 325 092	5 325 092	-	5 325 092
Solid waste	3 957 980	(3 287 422)	670 558	3 957 980	(2 648 153)	1 309 827
Operational Buildings	15 827 408	(9 232 654)	6 594 754	15 827 408	(8 705 074)	7 122 334
Sanitation	261 594 749	(91 453 627)	170 141 122	233 850 377	(84 347 193)	149 503 184
Water supply	5 188 555 667	(947 929 978)	4 240 625 689	4 991 253 056	(850 065 645)	4 141 187 410
Finance leased assets	615 000	(160 804)	454 196	566 556	(566 556)	-
Community assets	3 740 178	(2 181 771)	1 558 408	3 740 178	(2 057 098)	1 683 080
Computer equipment	45 331 248	(15 755 911)	29 575 257	44 602 159	(13 722 049)	30 880 109
Furniture and office equipment	21 226 204	(8 937 846)	12 288 358	21 215 491	(8 147 112)	13 068 379
Machinery and equipment	6 958 646	(3 796 978)	3 161 668	6 865 473	(3 584 971)	3 280 501
Transport assets	113 675 316	(44 529 699)	69 145 617	100 964 220	(40 156 772)	60 807 448
	5 666 807 488	(1 127 276 771)	4 539 530 717	5 428 167 990	(1 014 000 626)	4 414 167 364

Reconciliation of property, plant and equipment - 2020

	Carrying Value Opening balance	Additions	Disposal	Transfers in / (out)	Under construction	Impairment	Depreciation	Carrying value Closing Balance
	R	R	R	R	R	R	R	R
Land	5 325 092	-	-	-	-	-	-	5 325 092
Solid waste	1 309 690	-	-	-	-	-	(639 195)	670 495
Operational Buildings	7 122 334	-	-	-	-	-	(527 580)	6 594 754
Sanitation	194 684 693	-	-	-	27 744 371	-	(7 106 434)	215 322 631
Water Supply	4 096 006 367	44 562 503	-	(47 952 252)	194 175 186	-	(91 357 232)	4 195 434 573
Community	1 683 080	-	-	-	-	-	(124 673)	1 558 407
Finance leased assets	-	615 000	-	-	-	-	(160 804)	454 196
Computer Equipment	30 880 109	738 019	(3 948)	-	-	-	(2 038 924)	29 575 256
Furniture and fittings	13 298 118	10 713	-	-	-	-	(790 734)	12 518 097
Machinery and equipment	3 273 188	93 174	-	-	-	-	(212 007)	3 154 355
Transport assets	60 584 693	13 463 869	(134 791)	-	-	-	(4 990 909)	68 922 862

Amathole District Municipality
Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

					2020	2019
					R	Restated R
4 414 167 364	59 483 277	(138 739)	(47 952 252)	221 919 557	-	(107 948 492)
						4 539 530 717

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R

Reconciliation of property, plant and equipment - 2019

	Carrying Value Opening balance	Additions	Disposal	Transfers in /(out)	Under construction	Impairment	Depreciation	Carrying value Closing Balance
	R	R	R	R	R	R	R	R
Land	5 325 092	-	-	-	-	-	-	5 325 092
Solid waste	1 507 454	-	-	-	-	-	(197 764)	1 309 690
Operational buildings	11 472 230	-	-	-	-	(3 822 701)	(527 195)	7 122 334
Sanitation	201 181 473	105 027	-	-	621 743	(233 382)	(6 990 168)	194 684 693
Water supply	3 842 543 261	108 942 179	-	(108 942 179)	337 554 500	(1 091 667)	(82 999 727)	4 096 006 367
Community	3 165 138	-	-	-	-	(1 357 476)	(124 582)	1 683 080
Finance leased assets	-	-	-	-	-	-	-	-
Computer Equipment	36 936 683	152 005	(69 913)	-	-	(2 039 845)	(4 098 821)	30 880 109
Furniture and fittings	15 804 447	-	(5 349)	-	-	(802 009)	(1 698 970)	13 298 118
Machinery and equipment	5 115 370	-	-	-	-	(1 323 720)	(518 462)	3 273 188
Transport assets	56 875 183	13 781 489	(1 125 363)	-	-	(89 361)	(8 857 255)	60 584 693
	4 179 926 331	122 980 700	(1 200 625)	(108 942 179)	338 176 243	(10 760 162)	(106 012 944)	4 414 167 364

The comparative amounts in the note has been restated by an amount of R277 076 170 refer to note 44.

Projects taking longer to complete:

The implementation of the following projects have been delayed due to various reasons:

Project Name	Original Planned Completion Date	Anticipated Completion Date	Carrying Amount	Reasons for the delays
Ngqamakwe Regional Water Supply Scheme - Phase 3 Contract 2	04/06/2019	2020/12/01	R 87 216 802,00	Poor performance, reconstruction of reservoir, cash flow challenges. Covid 19 Lock down.
Nxaxo & Cebe Water Supply Scheme - Phase 1 Contract 1 Completion	20/03/2019	29/11/2020	R 103 472 452,00	Poor performance, Cash flow challenges and denied access by Community of Komikhulu Village to work at the boreholes due to the village demanding taps which were not part of this contract. Covid 19 Lockdown.
Fort Beaufort BWS- Contract 7	Jun-19	Jun-20	R 63 222 495,00	Contract terminated
Ekuphuleni and 9 Villages – Phase 5	Oct-17	Nov-20	R 89 566 756,00	Delayed from the start due to social matters and community unrest hence the contractor could not commence in time and lockdown.
Shixini Water Supply	2019/11/1	2020/11/1	R 19 160 870,00	Delays with cash flow problem,
Total			R 362 639 375,00	

Transfer of infrastructure

During the 2015/16 financial year, the Demarcation Board rezoned the Amathole District Municipality, (ADM) boundaries. The effect of the rezoning was a loss of some of the ADM villages to other municipalities. The assets, mainly water infrastructure assets, in the affected villages are to be transferred from ADM to the relevant municipalities as per the Demarcation Board's resolutions.

ADM is in an advanced stage of transferring the assets to the rightful municipalities. A list of assets to be transferred has been compiled and are mainly in the Buffalo City Metropolitan Municipality (BCMM) and Chris Hani District Municipality. The costing process of the affected assets is being finalised by ADM.

Expenditure Incurred to repair and maintain Property, Plant and Equipment

	R
Sanitation and water supply	3 000 540
Buildings	956 355
Vehicles	8 377 721
Office furniture and equipment	438 206
Computers	1 998
Total	12 774 820

Pledged as security

No assets pledged as security

Capitalised expenditure (excluding borrowing costs)

	Funding Source	2020	2019
Sanitation and Water Supply (Infrastructure)	Grant funding (MIG, RBIG and WSIG)	266 482 061	447 223 449
Community assets	Grant funding (MIG)	-	-
Other assets	Grant funding (WSIG)	14 295 061	13 933 494
		280 777 122	461 156 943

Compensation received for losses on property, plant and equipment - included in operating surplus

Motor vehicles	517 696	131 625
Office equipment	-	14 471
Computers	6 430	-
Buildings	56 694	-
Other Property ; plant and equipment	298	-
	581 118	146 096

Reconciliation of work - in - Progress - 2020

	Included within infrastructure	Included within buildings	Total
Opening balance	1 520 536 757	112 341	1 520 649 098
Additions/capital expenditure	221 919 557	-	221 919 557
Transferred to completed items	(47 952 252)	-	(47 952 252)
	1 694 504 062	112 341	1 694 616 403

Reconciliation of work - in - Progress - 2019

	Included within infrastructure	Included within buildings	Total
Opening balance	2 157 352 501	112 341	2 157 464 842
Additions/capital expenditure	(867 104 404)	-	(867 104 404)
Restatement	339 230 839	-	339 230 839
Transferred to completed items	(108 942 179)	-	(108 942 179)
	1 520 536 757	112 341	1 520 649 098

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

5. Intangible assets

2020

2019

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

				2020	2019	
				R	Restated R	
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, licences	62 779 423	(56 479 001)	6 300 422	62 779 423	(36 258 062)	26 521 361

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

						2020	2019
						R	Restated R
Reconciliation of intangible assets - 2020							
	Opening carrying value	Additions	Transfer In/(Out)	Impairment	Work in progress	Amortisation	Closing carrying value
Computer software, licences	26 521 361	-	-	-	-	(20 220 927)	6 300 434
Reconciliation of intangible assets - 2019							
	Opening carrying value	Additions	Transfer In/(Out)	Impairment	Work in progress	Amortisation	Closing carrying value
Computer software, licences	39 399 871	-	-	(111 065)	-	(12 767 445)	26 521 361
Pledged as security							
The carrying value of intangible assets is not pledged as security							
Restricted title							
Carrying value of intangible assets whole title is not restricted.							
The amortisation expense has been included in the line depreciation on the Statement of Financial Performance. A useful life of 3 years has been used in the calculation of amortisation.							
6. Heritage assets							
	Cost	2020 Accumulated impairment losses	Carrying value	Cost	2019 Accumulated impairment losses	Carrying value	
Collections of historical implements	400 000	-	400 000	400 000	-	400 000	
Reconciliation of heritage assets - 2020							
Collections of historical implements					Opening carrying value	Closing carrying value	
					400 000	400 000	
Reconciliation of heritage assets - 2019							
Collections of historical implements					Opening carrying value	Closing carrying value	
					400 000	400 000	
Pledged as security							
Carrying value of heritage assets is not pledged as security							
Method and assumption used							
Valuations were performed by independent valuer, Mrs Penelope Jean Lindstrom [Board Member of South African Institute of Valuers], and currently the chairman. Messrs Penny Lindstrom Valuations CC are not connected to the municipality and have recent experience in location and category of asset being valued. Effective date of valuation June 2015.							
7. Investment in controlled entities							
Name of Company	Held by		% holding annual	% holding 2019	Carrying amount 2020	Carrying amount 2019	
Amathole Economic Development Agency SOC Limited t/a ASPIRE	ADM		100%	100%	1 000	1 000	
Investment in Municipal entity							
Amathole Economic Development Agency SOC Limited t/a ASPIRE Issued share capital (1000 ordinary shares of R1,00 each) 100% owned by ADM council							
The Amathole Economic Development Agency was established 1 September 2005							
Place of incorporation : South Africa							
Principal activity : To promote local economic development in the Amathole Municipal District Area							
The municipal transfers funds to the entity for operating purposes. Refer Note 43 for related party transaction							
The ADM continues to provide support to ASPIRE in terms of operational funding as well as having seconded senior personnel to the agency on a temporary basis during the current financial year. In respect of the poor financial position that the entity finds itself in, certain initiatives were undertaken to, amongst other things, identify the root causes of this situation. An investigation was conducted. In addition a financial recovery plan was developed for the Board's consideration and implementation.							
8. Non current receivables							
Other long term receivables					1 710 803	1 710 803	
					1 710 803	1 710 803	
Non current receivables							
Deposits					1 710 803	1 710 803	
Subtotal					1 710 803	1 710 803	
Less: Current portion transferred to current receivables					-	-	
					1 710 803	1 710 803	
Deposits							
The deposits relate to the amounts paid when the municipality enters into leases for buildings and utilities.							
Non-current receivables are financial assets which are categorized at amortised cost.							
The fair values of the loans are estimated to approximate their carrying amounts							
9. Operating Lease Liability							
Non-Current Liabilities					1 784 354	2 530 491	
					1 784 354	2 530 491	
Operating lease income and expenditure have been recognized on a straight line basis over the lease term.							
The effect of accounting for operating leases on the straight line basis had the above effect.							
The municipality leases office equipment and premises from external parties.							
Refer to Note 41 for the terms and conditions of the operating leases.							
10. Employee benefit obligation							
Defined benefit plan							
Provision for post employment health care benefits					113 612 000	130 179 042	
Provision of ex-gratia benefits					40 936	89 211	
Provision for long service benefits					37 398 000	39 294 610	
					151 050 936	169 562 863	
Statement of Financial Performance							
Current service cost					14 858 067	22 487 331	
Interest cost					15 645 760	24 303 496	

Notes to the annual Financial Statements

	2020	2019
	R	Restated
	R	R
Benefits paid	(9 932 034)	(6 190 933)
Actuarial gain recognised	(38 609 615)	(117 848 731)
Actuarial loss recognised	-	8 018 213
	<u>(18 037 822)</u>	<u>(69 230 624)</u>

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019			
	R	Restated R			
Post retirement medical aid plan					
The Post Employment Health Care plan, of which members are made up as follows					
In service (employee) members	1 314	1 341			
Continuation (retiree, widow/er and orphan) members	96	89			
In service (employee) non- members	187	205			
	<u>1 597</u>	<u>1 635</u>			
The unfunded liability in respect of past services has been estimated to be as follows:					
In service (employee) members	76 967 000	91 913 482			
Continuation (retiree, widow/er and orphan) members	33 742 000	34 677 926			
In service (employee) non- members	2 903 000	3 587 634			
	<u>113 612 000</u>	<u>130 179 042</u>			
The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:					
Bonitas					
Hosmed					
Key health					
LA health					
Samwumed					
Gems					
On retirement of an employee council has post retirement obligation to contribute 70% to the medical cost of the employee					
Reconciliation of assets and liabilities recognised in the balance sheet					
Present value of fund obligations					
Fair value on plan assets					
Present value of unfunded obligations	<u>113 612 000</u>	<u>130 179 042</u>			
Present value of obligations in excess of plan assets					
Unrecognised past service cost	113 612 000	130 179 042			
Unrecognised actuarial (gains)/losses	-	-			
Unrecognised transitional liability	-	-			
Net liability in Balance Sheet	<u>113 612 000</u>	<u>130 179 042</u>			
The municipality has elected to recognise the full increase in this defined benefit liability immediately.					
Reconciliation of present value of fund obligation:					
Present value of fund obligation at the beginning of the year	130 179 042	211 029 035			
Current service costs	9 710 994	18 954 208			
Expected benefits paid	(4 008 396)	(3 549 440)			
Interest cost	12 242 173	21 593 970			
Past service costs	-	-			
Actuarial gain /losses	(34 511 813)	(117 848 731)			
Present value of fund obligation at the end of the year	<u>113 612 000</u>	<u>130 179 042</u>			
Total unfunded liability					
Reason for the movement in Liability					
The total liability has decreased by 13% (or R16,567 million) since the last valuation. The main reasons for the actual movement in the liability as a result of the following:					
The total in-service member liability has decreased by 16% since the last valuation due to increases in the net discount rates. This impact was partially offset by:					
• an increase in the average age which means members are closer to retirement (less discounting) and less likely to leave before retirement;					
• an increase in the average past service; and					
• an increase in the average post-employment subsidy					
The total in-service non-member liability has decreased by 19% due to the above, combined with a decrease in the number of in-service non-members					
The total continuation member liability has decreased by 3% since the last valuation due to increases in the net discount rates, and a decrease in the proportion of members with a spouse dependant.					
These impacts were partially offset by an increase in the average subsidy, and a decrease in the average age					
Actuarial Gains and Losses					
Actuarial (gain)/loss for the period	(34 511 813)	(117 848 731)			
Contributions to actuarial loss					
Basis changes: in net discount rate	(27 605 000)	(5 901 959)			
Increase in assumed retirement age	-	(32 076 227)			
Decrease in assumed membership continuation rate at retirement	-	(43 574 574)			
Decrease in assumed in-service non-member take-up rate	-	(8 491 852)			
Decrease in assumed spouse dependant proportion at retirement	-	(31 792 502)			
Application of revised withdrawal rates (see Table A4.2)	-	(6 538 490)			
Contributions increases higher than assumed	(1 409 000)	5 923 044			
Application of post-employment morality improvement	-	16 981 439			
Changes to membership profile different from assumed	(5 986 684)	(13 576 860)			
Actual benefits vesting, lower than expected	488 871	1 199 250			
Net liability in the Statement of Financial Position					
Opening balance	130 179 042	211 029 035			
Current service cost	9 710 994	18 954 208			
Interest cost	12 242 173	21 593 970			
Expected return on plan assets	-	-			
Transitional liability recognised	-	-			
Actuarial (gain)/losses	(34 511 813)	(117 848 731)			
Past service cost	-	-			
Net periodic cost recognised in surplus and deficit	(12 558 646)	(77 300 553)			
Expected employee benefit payments	(4 008 396)	(3 549 440)			
Transitional liability recognised outside surplus and deficit	-	-			
Closing balance	<u>113 612 000</u>	<u>130 179 042</u>			
Current portion of liability (due in next 12 months)	3 871 000	3 519 525			
Non- current portion of liability	109 741 000	126 659 517			
Closing balance	<u>113 612 000</u>	<u>130 179 042</u>			
Reconciliation of affair value of plans assets					
Fair value of plan assets at the beginning of the year	-	-			
Expected return on plan assets	-	-			
Contributions: Employer	-	-			
Contributions: Employee	-	-			
Benefits paid	-	-			
Closing balance	<u>-</u>	<u>-</u>			
Trend information					
Present value of obligation	129 036 000	113 612 000	130 179 042		
Fair value of plan assets	-	-	-		
	<u>129 036 000</u>	<u>113 612 000</u>	<u>130 179 042</u>		
Sensitivity results					
Results of the sensitivity analysis on the Accrued Liability (R millions)					
Assumption	Change	Eligible Employees	Continuation members	Total	Percentage change
Central Assumptions		79,870	33,742	113,612	

Amathole District Municipality
Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

				2020	2019
				R	Restated R
Health care inflation rate	+1%	87,628	34,934	122,562	8%
	-1%	69,988	32,285	102,273	-10%
Discount rate	+1%	67,239	31,432	98,671	-13%
	-1%	95,998	36,412	132,410	17%
Post-employment morality	-1 yr	78,097	32,581	110,678	-3%
	-1 yr	81,603	34,908	116,511	3%
Average retirement age	-1 yr	88,307	33,742	122,049	7%
Continuation of membership at retirement	-10%	67,709	33,742	101,451	-11%

The table above indicates for example that if medical inflation is 1% greater than the long-term assumption made, the liability will be 8% higher than shown.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020			2019
	R			Restated
	R			R
Sensitivity analysis on the current-service and interest cost for the year ending				
Assumption	Change	Current - Service Cost	Interest Cost	Total
Central Assumptions				% change
Healthcare inflation rate	+1%	9 711 000	12 242 200	21 953 200
	-1%	10 823 500	13 377 800	24 201 300
Discount rate	+1%	8 272 700	10 817 900	19 090 600
	-1%	7 983 800	11 533 200	19 517 000
Post-retirement mortality	-1 yr	11 972 700	13 029 500	25 002 200
Average retirement age	-1 yr	9 954 300	12 602 700	22 557 000
Continuation of membership at retirement	-10%	10 425 900	13 149 800	23 575 700
		8 266 500	10 858 300	19 124 800

Assumption	Value p.a.	Value p.a.
Discount rate	9,53%	9,53%
Health care cost inflation rate	6,98%	6,98%
Net discount rate - health care cost inflation	2,38%	2,38%
Maximum subsidy inflation rate	4,86%	4,86%

Assumption	Active employees	Pensioners
Normal retirement age	62	0
Employment age used for past service period	Actual service entry ages	Actual marital status
Proportion married at retirement	95%	PA (90) - 1
Mortality	SA 85- 90	PA (90) - 1

Withdrawal from service (sample annual rates)	Age	Withdrawal rates Female	Withdrawal rates Male
	20	9%	9%
	25	8%	8%
	30	6%	6%
	35	5%	5%
	40	5%	5%
	45	4%	4%
	50	3%	3%
	55+	0%	0%

Provision for retirement gratuity benefits

Employees of the Amathole District Municipality participated in the following benefit funds:

- Cape Joint Pension Fund (defined contribution)
- Eastern Cape Gratuity Fund (defined contribution)
- Eastern Cape Municipal Pension Fund (defined contribution)
- Cape Joint Retirement Fund (defined contribution)
- National Fund for Municipal Workers (defined contribution)
- South African Municipal Workers National Provident Fund (defined contribution)
- Government Employees Pension Fund (defined benefit)
- South African Local Authorities Pension Fund (defined contribution)

Impact of COVID-19

It is difficult to estimate what impact the pandemic is likely to have on the Municipality's liability at this early stage. There is much uncertainty as to how it will affect mortality, and whether (and when) a treatment or vaccine will become available. If the return to economic normalcy is extended, then the Municipality's experience regarding resignations and retrenchments may also be affected. Medical scheme contributions are also likely to increase by more than expected. 30 June 2020 long-term government bond yields (which drive the main figures in this report) increased dramatically since the early stages of the pandemic. This pushes up the net discount rate which in turn reduces the liability. It is impossible to say how long-lasting this volatility in the prescribed discount rate and its consequent impact on the liability is likely to be. The sensitivities above may be used to estimate the possible impact on the liability and expenses by an increase in the health care inflation rate, or an increase in the discount rate, or a reduction in longevity.

Multi - employer funds

The actuaries appointed to perform the valuation on the gratuity obligation were of the opinion that the Amathole District Municipality do not have an obligation for this post - employment benefits. Hence the liability is not recognised and disclosure was made to reflect information pertaining to multi-employer funds

The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of details.

Thus, some of the entities defined benefit plans are not treated as defined benefit plans as defined by GRAP 25, but are rather accounted for as defined contribution plans. These are listed under the defined contribution plan heading as a GRAP 25 Exception.

This is in line with the exemption in GRAP 25 which states that where information required for proper defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for a defined contribution plans.

The following table reflects information on the defined benefit retirement, pension and provident funds to which councillors and employees belong, and in respect of which there is not sufficient information available to make more detailed disclosures.

The Pension Funds Act requires every pension fund to complete a statutory valuation at least every three years .

Defined contribution (DC) Multi - employer plans

	Number of the Municipality's employees belonging to the plan	Amount of contributions paid by the Municipality for the year ending 30 June 2020	Number of the Municipality's employees belonging to the plan	Amount of contributions paid by the Municipality for the year ending 30 June 2017
Cape Retirement Fund (CRF)	1 355	70 785 046	1 496	55 213 992
SAMWU National Provident Fund (SNPF)	102	4 808 906	137	4 018 548
National Fund for Municipal Workers	21	24 329	9	231 804
Cape Joint Pension Fund	-	-	10	124 740
Eastern Cape Gratuity Fund	2	-	2	24 197
Eastern Cape Municipality Pension Fund	2	-	2	62 913
Local Authorities Pension Fund	8	409 098	-	-
Municipal Councillors Pension Fund	1	-	-	-

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

2020

2019

R

Restated
R

Defined benefits (DB) Multi - employer plans

Sufficient information is not available in respect of these multi-employer DB plans to enable full DB accounting disclosure because:

- Plan assets are held as one portfolio and not notionally allocated to each participating employer
- Similarly, the plan's financial statements are not constructed separately for each participating employer, but rather in respect of the whole plan including all the participating employers.
- Contribution rates do not usually vary by participating employer. The table below reflects the municipality's contributions to these Defined Benefit (DB) plans for the year

Multi - employer plan

	Number of the Municipality's employees belonging to the plan	Total number of active members per recent valuation report	Amount of contributions to be paid by the DM in respect of the year ending 30 June 2015 R	Date of most recently available actuarial valuation report	Funding Level
GEPF	27	1 281 823	1 096 154	31/03/2018	108,30%
SALA	0	16 357	77 531	01/07/2017	98,50%

Key Assumptions

	Net pre-ret discount rate	Salary Inflation	Net post - ret discount rate
GEPF	3,44%	9,30%	5,53%
SALA	1,84%	9,00%	6,00%

Further information for the plan follows below:

GEPF (Government Employees Pension Fund)

The funding level of the GEPF, excluding contingency reserves, decreased from 115.8% as at the 31 March 2016 to 108.3% as at 31 March 2018. The plan is holding reserves at 19.1% of what would be in line with the long term funding level per the Board of Trustees adopted GEPF Funding Policy, compared with 34.4% as at 31 March 2016.

This employer contribution rate remains at 16% in respect of the 'Services' employee category and 13% in respect of the 'Others' employee category

SALA PF (South African Local Authorities Pension Fund)

There is a defined contribution section in this Plan (35% of the active membership).

The valuation actuary recommended that the prevailing employer contribution rate at 1 July 2017, of 19.18% of pensionable salaries, be maintained. This implies a shortfall of 1.03% compared with the contribution rate required to fund the Attained Age Method future service benefits and associated costs. The valuation actuary suggested that the contribution reserve of R193.1m set up at the valuation date should, if the valuation assumptions are borne out in practice, be sufficient to subsidise the shortfall

Provision for ex - gratia benefits

Eligible employees

	Male	Total
Number of pensioners	3	3
Average annual pension	3 196	3196
Average age	89,0	89

Reconciliation of assets and liabilities recognised in the balance sheet

Total value of liabilities	40 936	89 211
Value of assets	-	-
Unfunded accrued liability	40 936	89 211
Unfunded accrued liability	89 211	89 211
Unrecognised actuarial gain	-	-
Unrecognised past service cost	-	-
Net liability in the Statement of Financial Position	89 211	89 211
Total unfunded liability	40 936	89 211
Average liability per retiree	13 645	22 303

Certain pensions are paid by the municipality from its own revenue and are therefore not funded by pension funds. These pensions are payable for life and increase annually but not by any inflationary factor.

The average liability has decreased by 39% due to a decrease in the average pension. This impact was partially offset by a decrease in the net discount rate and a decrease made for the expected improvement in post-employment morality. These impacts were partially offset by an increase in the average age.

The total liability has decreased by 54% (or R48 275) since the last valuation, due to the above, combined with the exit of one eligible pensioner.

Analysis of the unexpected movement in the liability

Actuarial gain for the period	(44 267)	17 871
Contributions to actuarial loss:		
Basis changes : increase in net discount rate	3 231	917
Application of post-employment morality improvement	-	8 618
Changes to membership profile different from assumed	(27 518)	8 235
Actual benefits vesting, lower than expected	(19 980)	101

Trend information

	2021	2020	2019
Present value of obligations	33 111	40 936	89 211
Fair value of plan assets	-	-	-
	33 111	40 936	89 211

Experience adjustments

Actuarial Gain / Loss before in Assumptions

	2020	2019
In respect of Present Value of Obligations	(44 267)	17 693
In respect of Fair Value of Plan Assets	-	-
	(44 267)	17 693

Present value of fund obligation at the beginning of the year

Current service costs	89 211	94 555
Interest Cost	-	-
Actuarial (gain)/losses	5 580	6 354
Expected benefit payments	(44 267)	17 871
	(9 588)	(29 568)
	40 936	89 212

Reconciliation of fair value of plan assets:

Fair value of plan assets at the beginning of the year	-	-
Expected return on plan assets	-	-
Contributions: Employee	-	-
Past service costs	-	-
Actuarial (gain)/losses	-	-
Benefits paid	-	-
Fair value of plan assets at the end of the year	-	-

Current service costs and interest costs

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Total cost	5 580	6 354

There is no Current-service Cost as there are no in-service members eligible for ex-gratia pension benefits. The Interest Cost represents the accrual of interest on the Accrued Liability, allowing for benefit payments, over the corresponding year. This arises because all future ex-gratia benefits are one year closer to payment.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Net liability in the Statement of Financial Position		
Opening balance	89 211	94 554
Current service cost	-	-
Interest cost	5 580	6 354
Expected return on plan assets	-	-
Transitional liability recognised	-	-
Actuarial (gain)/losses	(44 267)	17 871
Net periodic cost recognised in surplus and deficit	(38 687)	24 225
Expected employee benefit payments	(29 568)	(29 568)
Transitional liability recognised outside surplus and deficit	-	-
Closing balance	20 956	89 211

Sensitivity analysis on the unfunded accrued liability

Assumption

Long term discount rate

Central assumptions
Discount rate

Post-retirement mortality

Change	Total Liability	% Change
	40 936	
+1%	39 622	-3%
-1%	42 351	3%
+1 yr	38 916	-5%
-1 yr	43 033	5%

Assumption

Interest cost

Central assumptions
Discount rate

Post-retirement mortality

Change	Interest cost	% Change
	5 580	
+1%	6 157	10%
-1%	4 970	-11%
-1 yr	5 919	6%

Key actuarial assumptions used

Assumption

Discount Rate
Mortality in retirement

Value p.a

7,47%
PA(90)-1

Value p.a

7,47%
PA(90)-1

Impact of COVID-19

It is difficult to estimate what impact the pandemic is likely to have on the Municipality's liability at this early stage. There is much uncertainty as to how it will affect mortality, and whether (and when) a treatment or vaccine will become available. 30 June 2020 long-term government bond yields (which drive the main figures in this report) changed dramatically since the early stages of the pandemic. It is impossible to say how long-lasting this volatility in the prescribed discount rate and its consequent impact on the liability is likely to be. The sensitivities in the tables above can be used to estimate the possible impact on the liability and expenses by changes in the discount rate or longevity.

Provision for long service benefits

An actuarial valuation has been performed of the municipality's liability for long service benefits relating to long service awards to which employees may become entitled to. The municipality offers employees long service awards for every five years of service completed, from five years of service to 45 years of service, inclusive. This provision is the present value of the total long service awards expected to become payable under the municipality's current arrangements and based on the actuarial assumptions made. The municipality has elected to recognise the provision in full.

Summary for eligible employees

Number of eligible employees
Average annual salary
Salary - weighted average age
Salary - weighted average past service

2020

1 501
277 537
44,3
10,7

2019

1 582
274 975
43,9
10,1

Long service awards for the levels of past service

Completed Service (in years)	Long Service Bonuses (% of annual Salary)	Description
5	3,9%	(5 /260 + 2%) x annual salary
10	6,8%	(10 /260 + 3%) x annual salary
15	9,8%	(15 /260 + 4%) x annual salary
20	10,8%	(15 /260 + 5%) x annual salary
25, 30, 35, 40, 45	11,8%	(15 /260 + 6%) x annual salary

A day of accumulated leave is worth 1/260 of the annual salary.

In the month that each " Completed Service " milestone is reached, the employee is granted a long service award.

Working days awarded are valued at 1/260 of annual salary per day ([Daily leave is valued as follows: annual basic salary / (12 months x 4.33 weeks per month x 5 days per week)]

Retirement gifts are awarded to all employees who retire at age 65. According to the Municipality, only 3% of employees are expected to receive the gift, since the majority retire before age 65.

The value of the retirement gift used in the last valuation was :

R 1 730 for employees with under twelve years of total service at retirement R3 240 for employees with twelve or more years of total service at retirement

These values have been assumed to increase by 7% since the last valuation. The value of the retirement gift is assumed to increase in line with CPI inflation in the future.

Employee related costs

Current service cost
Interest cost

2020

5 147 073
3 398 007

2019

3 533 123
2 703 172

(i) The Current- Service Cost reflects the additional liability that is expected to accrue in respect of in-service members over the corresponding year.

(ii) The Interest Cost represents the accrual of interest on the Accrued Liability, allowing for benefit vesting's, over the corresponding year. This arises because all future LSA benefits are one year closer to payment

Provision for long service award liability

Opening accrued liability
Current service cost
Interest cost
Benefit vesting's
Total annual expense
Actuarial loss / (Gain)
Closing Accrued Liability

44 643 505	33 018 793
5 147 073	3 533 123
3 398 007	2 703 172
(5 914 050)	(2 611 925)
2 631 030	3 624 370
(4 053 535)	8 000 342
43 221 000	44 643 505

Reconciliation of assets and liabilities recognised in the Statement of Financial Position

Present value of fund accrued liability
Fair value of plan assets

43 221 000

44 643 505

Unrecognised actuarial gain
Unrecognised transitional liability
Unrecognised past service cost

-
-
-

Net liability in the Statement of Financial Position

43 221 000

44 643 505

The average liability has increased by 38% due to; increases in the assumed average retirement ages; the application of revised withdrawal rates and an increase in the average earnings.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Net liability to reflect in the Statement of Financial Position		
Opening balance	44 643 505	33 018 793
Current service cost	5 147 073	3 533 123
Interest cost	3 398 007	2 703 172
Expected return on plan assets	-	-
Transitional liability recognised	-	-
Actuarial gains recognised in surplus and deficit	(4 053 535)	8 000 342
Past service cost	-	-
Effect of Curtailment / Settlement	-	-
Miscellaneous Item	-	-
Net Periodic Cost Recognised in profit and loss	-	14 236 637
Expected employer benefit vesting's	(5 914 050)	(2 611 925)
	43 221 000	44 643 505
Current portion of liability (due in the next 12 months) refer to Note 19	5 823 000	5 703 554
Non-current portion of the liability	37 398 000	38 939 951
Reconciliation of present value of accrued liability:		
Present value of accrued liability at the beginning of the year	44 643 505	33 018 793
Current service costs	5 147 073	3 533 123
Interest cost	3 398 007	2 703 172
Expected return on plan assets	-	-
Actuarial (gain)/losses	(4 053 535)	8 000 342
Expected employer benefit vesting's	(5 914 050)	(2 611 925)
Closing balance	43 221 000	44 643 505
Total unfunded liability	43 221 000	44 643 505
Average liability per member	28 795	27 626
Reconciliation of fair value of plan assets		
Fair value of plan assets at the beginning of the year	-	-
Expected return on plan assets	-	-
Contributions: Employee	-	-
Past service costs	-	-
Actuarial gains/(losses)	-	-
Benefits paid	-	-
Fair value of plan assets at the end of the year	-	-
Actuarial (gain)/loss for the period	(4 053 535)	8000342
Contribution to the actuarial loss:		
Increase in net discount rate	(1 806 000)	(310 108)
Increase in assumed average retirement age	-	7475237
Application of revised withdrawal rates	-	3863917
Earnings increases higher than assumed	(1 037 000)	4604915
Changes to employee profile different from assumed	(1 421 031)	(5 573 959)
Actual benefits vesting, lower than expected	210 496	(2 059 660)
Key actuarial assumptions used		
Financial assumptions		
Discount rate	2020	2019
General salary inflation (long-term)	7,21%	8,12%
Net effective discount rate	3,88%	5,54%
	3,21%	2,44%
Demographic Assumptions		
Average retirement age	59 for males	56 for females
Mortality during employment	SAB5-90	
Withdrawal form service (sample annual rates)		
	Age	Rate
	20	9%
	30	6%
	40	5%
	50	3%
	55	0%
	Female	Male
	9%	9%
	6%	6%
	5%	5%
	3%	3%
	0%	0%

	2020	2019
Discount rate	7,21%	8,12%
General salary inflation (long-term)	3,88%	5,54%
Net effective discount rate	3,21%	2,44%

	59 for males	56 for females
	Age	Rate
Withdrawal form service (sample annual rates)	20	9%
	30	6%
	40	5%
	50	3%
	55	0%
	Female	Male
	9%	9%
	6%	6%
	5%	5%
	3%	3%
	0%	0%

Sensitivity analysis assumption Accrued liability (R millions)				
Assumption	Change	Liability	% Change	
Central assumptions		43 221 000		
General salary inflation rate	+1%	45 823 000	6%	
	-1%	40 856 000	-5%	
Discount rate	+1%	40 771 000	-6%	
	-1%	45 966 000	6%	
Average retirement age	-2 yrs	46 559 000	8%	
	+2 yrs	39 637 000	-8%	
Withdrawal rates	200%	34 439 000	-20%	
	50%	49 204 000	14%	

The table above indicates, for example, that if earning inflation is 1% greater than the long-term assumption made, the liability will be 6% higher.

Sensitivity analysis on current service and interest costs					
Assumption	Change	Current service costs	Interest cost	Total	% Change
Central assumptions		5 147 100	3 398 000	8 545 100	
General earnings inflation rate	+1%	5 513 600	3 625 600	9 139 200	7%
	-1%	4 816 600	3 191 900	8 008 500	-6%
Discount rate	+1%	4 848 800	3 576 300	8 425 100	-1%
	-1%	5 482 900	3 190 400	8 673 300	2%
Average retirement age	-2 yrs	5 517 300	3 676 800	9 194 100	8%
	+2 yrs	4 769 400	3 108 600	7 878 000	-8%
Withdrawal rates	200%	6 071 200	3 943 700	10 014 900	17%

Impact of COVID-19

It is difficult to estimate what impact the pandemic is likely to have on the Municipality's liability at this early stage. There is much uncertainty as to how it will affect mortality, and whether (and when) a treatment or vaccine will become available. If the return to economic normalcy is extended, then the Municipality's experience regarding resignations and retrenchments may also be affected.

30 June 2020 long-term government bond yields (which drive the main figures in this report) increased dramatically since the early stages of the pandemic. This pushes up the net discount rate which in turn reduces the liability. It is impossible to say how long-lasting this volatility in the prescribed discount rate and its consequent impact on the liability is likely to be.

The sensitivities above may be used to estimate the possible impact on the liability and expenses by an increase in the general earnings inflation rate, or an increase in the discount rate, or an increase in the withdrawal rates.

11. Inventories

Housing projects	1 010 611	1 022 868
Consumable stores	2 152 408	1 929 385
Water	979 277	1 414 040
VIP toilets	2 317 738	26 229 392
	6 460 034	30 595 685

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

2020

2019

Restated

R

R

The comparative figure has been restated R5 775 828, Refer to **note 44**

Housing projects

The cost incurred on completed housing units that are occupied by beneficiaries has been transferred to the Statement of Financial Performance.
A stock count of inventory on hand was conducted at year end and these quantities have been costed.

VIP toilets

Raw materials on hand have been disclosed as part of the VIP toilet inventory, this raw material is used to construct the VIP units.
A stock count was conducted at year end and these quantities were costed.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R

Water inventory

Unsold purchased water has been disclosed. Correct meter readings at the beginning and end of the financial year could not be guaranteed. Engineers thus determined the water on hand for each scheme based on the capacity of reservoirs and pipelines.

Write down of inventory

Raw materials of R12 256 (2019: R8 532) on site for the housing projects were found to be damaged and were not suitable for construction.

No inventory pledged as a security.

12. Receivables from exchange transactions

Consumer receivables	286 586 643	294 267 167
Other receivables	15 384 784	20 122 858
	<u>301 971 427</u>	<u>314 390 025</u>

Consumer receivables

Balance as at 30 June 2020

	Gross balances	Allowance for impairment	Net balance
Water	839 302 620	(573 310 675)	265 991 945
Sanitation	409 878 118	(394 718 445)	15 159 673
Other	27 175 122	(21 740 098)	5 435 024
	<u>1 276 355 860</u>	<u>(989 769 218)</u>	<u>286 586 643</u>

Balance as at 30 June 2019

	Gross balances	Allowance for impairment	Net balance
Water	806 209 664	(579 390 391)	226 819 273
Sanitation	459 855 225	(414 667 261)	45 187 964
Other	22 259 929	-	22 259 929
	<u>1 288 324 818</u>	<u>(994 057 652)</u>	<u>294 267 167</u>

Water and sanitation - Debtors ageing

	2020	2019
Current (0-30 days)	81 744 650	159 930 858
30 - 60 days	43 816 269	34 192 945
60 - 90 days	46 678 957	29 156 735
90 - 120 days	43 027 778	37 285 791
120 - 330 days	323 338 854	218 536 920
330+ days	<u>737 749 353</u>	<u>809 221 570</u>
	<u>1 276 355 860</u>	<u>1 288 324 818</u>

Summary of debtors by customer classification - 2020

	Domestic	Industrial / Commercial	National and Provincial Government	Total
Current (0-30 days)	60 351 983	5 603 539	15 789 128	81 744 650
30 - 60 days	34 318 519	2 604 328	6 893 422	43 816 269
60 - 90 days	38 255 324	2 716 641	5 706 992	46 678 957
90 - 120 days	35 265 813	2 582 431	5 179 534	43 027 778
120 - 330 days	273 865 000	14 521 895	34 951 959	323 338 854
330+ days	565 371 333	43 068 540	129 309 480	737 749 353
Subtotal	1 007 427 972	71 097 374	197 830 515	1 276 355 860
Less: Allowance for impairment	(811 610 759)	(39 590 769)	(138 567 690)	(989 769 218)
	<u>195 817 213</u>	<u>31 506 605</u>	<u>59 262 824</u>	<u>286 586 643</u>

Summary of debtors by customer classification - 30 June 2019

	Domestic	Industrial / Commercial	National and Provincial Government	Total
Current (0-30 days)	109 789 925	20 662 458	29 478 474	159 930 858
30 - 60 days	27 154 415	1 791 210	5 247 320	34 192 945
60 - 90 days	23 805 204	1 592 800	3 758 731	29 156 735
90 - 120 days	31 945 783	1 603 621	3 736 387	37 285 791
120 - 330 days	185 822 158	9 434 278	23 280 483	218 536 920
330+ days	678 425 121	30 536 556	100 259 893	809 221 570
Subtotal	1 056 942 606	65 620 924	165 761 289	1 288 324 818
Less: Allowance for impairment	(815 127 274)	(39 762 306)	(139 168 071)	(994 057 651)
	<u>241 815 332</u>	<u>25 858 617</u>	<u>26 593 218</u>	<u>294 267 167</u>

The comparative figures for consumer receivables from exchange transactions have been restated by R13 237 650 : Refer **Note 44**

Credit quality of trade and other receivables

The following represents information on the credit quality of trade receivables that are neither past due nor impaired:

Trade receivables

Counterparties without external credit rating

A - Government	14	14
B - Businesses	4	4
C - Domestic and other	82	82
	<u>100</u>	<u>100</u>

A - The debtors are of good credit quality and default in payment is expected.

B - The debtors are usual good payers, but there is a possibility that the debtor may not be able to pay on time.

C - These debtors usually pay, but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

Method of determining credit quality of trade and other receivables from exchange transaction

The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services, without recourse to an assessment of creditworthiness. Consumer debtors with a demonstrative ability to pay are encouraged to apply for potential indigent status as an ongoing customer relationship strategy and also to enable the municipality to make adequate provision for such relief. The municipality has determined the above credit ratings internally through the consideration of previous payment trends per debtor type. Interest is raised at prime on overdue accounts.

Trade and other receivables past due but not impaired

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

1 month past due	49 046 790	95 958 515
2 months past due	8 763 254	6 838 589
3 months past due	9 335 791	5 831 347
4 months past due	8 605 556	7 457 158
greater than 4 months	<u>210 835 252</u>	<u>178 181 558</u>

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Trade and other receivables impaired		
The amount of the provision was (R989 796 218) as of 30 June 2020 (R994 057 652) as of 30 June 2019.		
The ageing of or these is as follows:		
1 to 3 months	32 697 860	63 972 343
3 to 6 months	35 053 015	27 354 356
6 to 9 months	37 343 165	23 325 388
more than 9 months past due	884 675 178	879 405 564
Reconciliation of provision for impairment of trade and other receivables including other receivables		
Opening balance	996 046 615	764 557 437
Provision for impairment	416 588 954	249 508 577
Amounts written off as uncollectable	(418 720 852)	(18 019 399)
Closing balance	993 914 717	996 046 615

The estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments (more than 30 days overdue) are considered indicators that the consumer debtor is impaired.

An amount of R101 716 421 pertaining to RDP housing debt, R82 939 126 for Indigent Debt and R234 065 305 for Estates were written off during the current year.

The estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments .

Other receivables

Goods not yet received	2 571 965	20 013 355
FICA: Property Rental	207 435	109 503
Salary control account	12 605 384	-
	15 384 784	20 122 858

Other receivables includes amounts relating to goods not yet delivered, rental debtors and the salary control account.

The comparative for other receivables was restated by an amount of R13 214 2812, Refer **Note 44**.

13. Receivables from non - exchange transactions

Total other debtors	1 534 722	50 098 345
Receivables from non - exchange transactions		
Sundry receivables	5 680 221	6 948 590
Sundry debtor: RBIG	-	45 138 719
Less: Allowance for doubtful debts	(4 145 499)	(1 988 964)
	1 534 722	50 098 345

The comparative for Receivables from non-exchange transactions was restated by an amount of R45 129 742, Refer **Note 44**.

In determining the recoverability of other receivables, the municipality considers any change in the credit quality of other receivables from the date on which the credit was initially granted up to the reporting date.

The fair value of other receivables approximates their carrying amounts.

The sundry debtor for RBIG relates to an amount that is receivable by the municipality in respect of funds that claimed but not yet received.

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, R1 534 722 (2019: R4 968 603) were past due but not impaired

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

3 months past due	1 534 722	50 098 345
-------------------	-----------	------------

Receivables from non - exchange transactions impaired

The amount of the provision was R4 145 499 as of 30 June 2020 (2019: R1 988 964)

Over 6 months	4 145 499	1 988 964
---------------	-----------	-----------

Reconciliation of provision for impairment of receivables from non - exchange transaction

Opening balance	1 988 964	2 066 103
Provision for impairment	2 156 535	5 711
Amounts written off as uncollectable	-	(82 849)
	4 145 499	1 988 964

14. VAT receivables

VAT	-	-
-----	---	---

VAT is on the payment basis. All VAT returns were submitted within the legislative timeframes until 30 June 2020.

15. Cash and cash equivalents

Cash on hand	9 000	9 000
Bank balances (current accounts)	163 717 767	162 813 272
Short - deposits (call accounts)	28 290 872	27 330 711
	192 017 638	190 152 984

An amount of R11 123 203 (2019 : R109 809 339) of the unspent conditional grants is included in cash and cash equivalents. Investments of R27 million have been included as short term deposits as this investment has been invested for less than three months .

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
ABSA BANK Account no - 406-309-3498	164 153	4 529 759	4 291 043	164 153	4 586 448	4 291 043
Standard Bank Account no - 081-109-3454 (primary account)	39 263 595	35 810 923	78 042 981	42 627 150	37 346 370	78 042 981
Standard Bank - Call no 088-643-816-001	-	1 000 000	1 000 000	-	1 005 308	1 000 000
Standard 443818 MIG	45 788 035	32 560 676	68 806 000	46 015 209	32 560 676	68 806 000
Standard Bank 516890 ES	-	-	-	-	-	-
Standard Bank 523534	16 138 086	1 430 701	-	16 149 920	1 430 701	-
Standard Bank 521402	14 182 083	84 290 167	-	14 269 558	84 290 167	-
Standard Bank 499334	38 524 401	1 174 957	985 836	38 539 542	1 174 957	985 836
Standard Bank 525638 RBIG	-	418 644	-	200 096	418 644	-
Standard Bank: 539906	203 000	-	-	203 626	-	-
Standard Bank - Call 532750	2 936 796	-	-	2 946 817	-	-
Standard Bank - Call 541677	2 593 038	-	-	2 601 696	-	-
ABSA -2059-800-124	-	-	-	-	-	-
Investec Bank	18 192 684	17 188 870	17 154 123	18 192 833	17 188 870	17 154 123
ABSA Bank	10 098 038	10 141 842	10 017 014	10 098 038	10 141 842	10 017 014
Petty cash	9 000	9 000	9 000	9 000	9 000	9 000
Total	188 092 909	188 555 539	180 305 997	192 017 638	190 152 984	180 305 998

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
<p>The difference between the cash book balance and the bank statement balance of the Standard Bank primary bank account is due to accrued interest of R12 454 and undeposited receipts at year end of R3 351 100. The difference between the cash book balance and the bank statement balance of the other grant account is due to accrued interest of R552 516 .</p>		
16. Finance lease obligation		
Minimum lease payment due		
within one year	327 660	4 267
in second to fifth year inclusive	<u>163 830</u>	<u>-</u>
	491 490	4 267
Less: future finance charges	<u>(36 839)</u>	<u>(107)</u>
Present value of minimum lease payments	<u>454 651</u>	<u>4 160</u>

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Present value of minimum lease payments		
within one year	295 495	4 160
in second to fifth year inclusive	159 156	-
	454 651	4 160
Current liabilities	295 495	4 160
Non - current liabilities	159 156	-
	454 651	4 160

It is the municipality policy to lease certain office equipment under leases. These leases have been classified as finance leases in accordance with GRAP standards on leases.

The average lease term was 3 years and the average effective borrowing rate was 10% (2019: 10.25 %). All leases have fixed repayment terms with no escalation rate, but varies with the changes in the prime interest rate.

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

17. Unspent conditional grants and receipts comprise of :

Total Unspent conditional grants and receipts	33 713 686	109 809 339
National government grants	3 694 004	65 202 614
Provincial government grants	29 133 523	43 041 681
Other grant providers	886 160	1 565 044
	33 713 686	109 809 339
Movement during the year		
Balance at the beginning of the year	109 809 340	64 351 231
Additions during the year	645 689 131	675 563 126
Income recognition during the year	(701 439 089)	(627 560 259)
Roll-overs returned	(20 345 696)	(2 544 758)
Balance at the end of the year	33 713 686	109 809 340

The unspent conditional grant funding is covered within the cash and cash equivalents and current investments. The comparative figure has been restated by an amount of R1 140 750, **Note 44**.

18. Investment

At amortised cost

Bank Investment	2 137 600	2 137 129
-----------------	-----------	-----------

The above fixed deposit accounts have been classified as financial assets at amortised cost in accordance with GRAP 104: Financial instruments. Maturity period is fixed at 3 years.

19. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Post employment benefit	5 703 554	119 446	-	-	5 823 000
Performance bonus	2 918 758	2 106 714	-	(830 796)	4 194 676
Leave provision	78 542 089	17 842 761	-	-	96 384 850
Provision for rehabilitation of landfill site	9 295 248	511 239	-	-	9 806 487
	96 459 649	2 226 160	-	(830 796)	116 209 013

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Post employment benefit	4 671 585	1 031 969	-	-	5 703 554
Performance bonus	4 134 713	830 796	-	(2 046 750)	2 918 758
Leave provision	98 674 820	12 357 685	-	(32 490 416)	78 542 089
Provision for rehabilitation of landfill site	8 331 643	963 605	-	-	9 295 248
	115 812 761	1 862 765	-	(34 537 166)	96 459 649

The comparative figure for Leave provision has been restated by a decrease of R32 487 813, refer to **Note 44**.

The comparative figure for Provision for rehabilitation of landfill site has been restated by an increase of R434 435, refer to **Note 44**.

Performance bonuses

The uncertainties noted for the provision for Performance Bonus are as follows: Performance bonuses are paid one year in arrears as the assessment of eligible employees had not taken place at the reporting date. The provision is calculated at 14% of the current total salary package of Section 57 employees for the 2019/20 financial year, however this is subject to change once the assessments have been finalised. The payment of the 2016/17 year has not been paid yet due to financial constraints being experienced by the municipality. No provision has been made for the 2017/18 or 2018/19 financial year as due to the financial situation of the municipality, Directors opted to forfeit the performance bonuses.

Employee benefit cost provision

The uncertainties noted for the current portion of the long service awards are as follows: The current portion of the long service award was calculated by independent actuaries that have performed a valuation for the long service award provision. Refer to **Note 10** for the assumptions used.

Provision for rehabilitation of landfill site

Provision is made in terms of the municipality's licensing stipulations on the waste landfill sites, for the estimated cost of rehabilitating waste sites.

The provision has been determined on the basis of a recent independent study. The cost factors derived from the study by a firm of consulting engineers have been applied and projected at an annual inflation rate of 5.5% and discounted to present value at the average borrowing cost. The payment dates of total closure and rehabilitation are uncertain, but are currently expected to be between 2012 and 2024.

Provision for leave

The obligation for leave pay is certain, on the basis that the municipality does not have an unconditional right to avoid settlement as the employee can carry over leave without restrictions. The timing for the leave provision is however uncertain.

20. Payables from exchange transactions

Trade payables	430 632 686	305 414 409
Other payables	60 145 582	56 579 162
Accruals	23 736 793	37 967 402
Accrued service bonus	15 622 109	14 679 794
Retention payable	33 123 898	28 095 710
Accrued Leave pay	-	-
	563 261 069	442 736 477

The comparative figure has been restated by an amount of R48 138 104, Refer to **Note 44**

Other payables include:

Debtors with credit balances	21 740 100	23 275 811
Unidentified receipts	3 634 155	2 540 954
Salary control account	-	10 896 685
Sundry payables	34 771 328	19 865 712
	60 145 583	56 579 162

Fair value of trade and other payables

Trade creditors are non-interest bearing and are normally settled on 30-day terms.

Retentions are non-interest bearing and are settled in terms of the contract agreement.

Management policies are in place to ensure that all payables are paid within a reasonable time frame.

Short term payables with no stated interest rate may be measured at the original invoice amount if the effect of discounting is immaterial. The carrying amount of trade payables approximates their fair value due.

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
The movement on the staff leave accrual balances as above for the year was as follows:		
Accrued leave pay		
Opening balance	-	325 825
Plus: contributions during the year	-	-
Amount transferred to provision	-	-
Unused amounts reversed	-	(325 825)
Closing balance	-	-

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
<p>The leave accrual is based on the total number of accrued days at the reporting date. The full amount of the leave liability is recognised as an accrual as the municipality does not have an unconditional right to defer settlement of its leave liabilities and its policies allow leave to be carried forward or paid out without any restrictions. Hence the timing and amount are certain.</p>		
<p>The movement on the service bonus accrual balances as above for the year was as follows:</p>		
Accrued service bonus		
Opening balance	14 679 794	14 140 238
Additional provision	942 315	539 556
Closing balance	<u>15 622 109</u>	<u>14 679 794</u>
<p>The accrual calculation is based on the portion of the thirteenth cheque payable that falls due within the current year. The municipality has an obligation to pay a service bonus in terms of its condition of employment.</p>		
<p>21. Taxes and transfers payable (non - exchange)</p>		
Other payables from non - exchange transactions	<u>21 735 511</u>	<u>9 689 040</u>
<p>This amount relates to the May 2020 and June 2020 PAYE, UIF and SDL that was paid during August 2020.</p>		
<p>22. Consumer deposits</p>		
Water and Sanitation	<u>3 175 041</u>	<u>3 056 332</u>
<p>The consumer deposits relate to the water and sanitation function. The municipality does not have an unconditional right to defer the payment of the consumer deposits. Deposits are released when an owner of the property terminates the contract with the municipality to supply water to the property.</p>		
<p>23. Revenue</p>		
Service charges	371 947 745	364 264 924
Rental of facilities and equipment	331 532	267 582
Interest earned outstanding receivables	93 348 771	65 599 065
Other income	2 973 006	3 564 061
Interest received - investments	19 957 386	18 984 425
Government grants & subsidies	<u>1 489 936 783</u>	<u>1 409 868 259</u>
	<u>1 978 495 223</u>	<u>1 862 548 318</u>
<p>The amount included in revenue arising from exchange of goods or services are as follows:</p>		
Service charges	371 947 745	364 264 924
Rental of facilities and equipment	331 532	267 582
Interest earned outstanding receivables	93 348 771	65 599 065
Other income	2 973 006	3 564 061
Interest received - investments	19 957 386	18 984 425
	<u>488 558 440</u>	<u>452 680 058</u>
<p>The amount included in revenue arising from Non exchange of goods or services are as follows:</p>		
Transfer revenue		
Government grants & subsidies	<u>1 489 936 783</u>	<u>1 409 868 259</u>
	<u>1 489 936 783</u>	<u>1 409 868 259</u>
24. Service charges		
Sale of water	268 237 437	254 598 658
Sewerage and sanitation charges	98 130 994	104 081 786
Other service charges	5 579 314	5 584 481
	<u>371 947 745</u>	<u>364 264 924</u>
<p>Service charges are reflected at an amount net of subsidy to indigents amounting to R12 780 367 (2019 : R11 462 600) for both water and sanitation and discounts of R5 286 461,17 from the incentive scheme during the 2019/20 financial year.</p>		
<p>25. Rental facilities and equipment</p>		
Facilities and equipment		
Premises and facilities	<u>331 532</u>	<u>267 582</u>
	<u>331 532</u>	<u>267 582</u>
26. Other income		
Commission	852 728	910 803
Connection fees	-	1 218
Sundry income	2 120 278	2 651 990
Illegal parking fines	-	50
	<u>2 973 006</u>	<u>3 564 061</u>
27. Interest received - investment		
Bank	17 797 278	17 042 176
Financial assets	2 160 109	1 942 249
	<u>19 957 386</u>	<u>18 984 425</u>
28. Government grants and subsidies		
Operating grants		
Other government grants and subsidies	11 371 630	6 430 648
Levy replacement grant	371 903 000	144 016 400
Equitable share	461 782 000	638 291 600
	<u>845 056 630</u>	<u>788 738 648</u>
Capital grants		
Neighbourhood development grant (NDPG)	-	8 000 000
Water services infrastructure grant (WSIG)	159 191 222	111 484 261
Rural bulk infrastructure grant (RBIG)	57 216 931	96 625 729
Municipal infrastructure grant (MIG)	428 472 000	405 019 621
	<u>644 880 153</u>	<u>621 129 611</u>
	<u>1 489 936 783</u>	<u>1 409 868 259</u>
<p>Within the grants and subsidies amounts above, as per Circular 48 ADM has recognised the following amounts as own revenue</p>		
Other grants	27 188 104	26 885 164
MIG	47 368 025	46 109 278
<p>Conditional and Unconditional</p>		
Unconditional		
Equitable share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigent receive a monthly subsidy of which is funded from the grant.		
Equitable share		
Current year receipts	461 782 000	638 291 600
Conditions met - transferred to revenue	<u>(461 782 000)</u>	<u>(638 291 600)</u>
	-	-
Levy grant replacement		
Current year receipts	371 903 000	144 016 400
Conditions met - transferred to revenue	<u>(371 903 000)</u>	<u>(144 016 400)</u>
	-	-

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
<hr/>		
Regional Services Council levies were abolished during 2006. This grant is used to subsidise the operations of the District Municipality due to the significant change in funding.		
Changes in levels of government grants		
Based on the allocations set out in the Division of Revenue Act, (Act 3 of 2016), no significant changes in the level of government grant funding are expected over the forthcoming three financial years.		
Conditional		
Municipal infrastructure grant (MIG)		
Balance unspent at beginning of year	28 665	5 816 286
Current year receipts	428 472 000	399 232 000
Conditions met - transferred to revenue	(428 472 000)	(405 019 621)
Unspent amount returned to funder	(28 665)	

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Conditions still to be met - remain liabilities (see note 17)	0	28 665
Regional bulk infrastructure (RBIG)		
Balance unspent at beginning of year	871 352	871 121
Current year receipts	101 484 297	96 625 639
Receipts from prior year	(45 138 719)	-
Conditions met - transferred to revenue	(57 216 931)	(96 625 408)
	0	871 352
Conditions still to be met - remain liabilities (see note 17)		
Expanded public works programme (EPWP)		
Balance unspent at beginning of year	10 030	(2 913)
Current year receipts	2 466 000	2 446 000
Conditions met - transferred to revenue	(2 463 087)	(2 433 057)
Unspent amount returned to funder	(12 943)	-
	(0)	10 030
Conditions still to be met - remain liabilities (see note 17)		
Financial Management (FMG)		
Balance unspent at beginning of year	(38 839)	(83 934)
Current year receipts	1 000 000	1 000 000
Condition met - transferred to revenue	(969 588)	(954 905)
Unspent amount returned to funder	(45 095)	-
	(53 522)	(38 839)
Conditions still to be met - remain liabilities (see note 17)		
Rural Roads Asset Management Grant (RAMS)		
Balance unspent at beginning of year	1 450 350	2 544 758
Current year receipts	3 113 000	2 939 000
Conditions met - transferred to revenue	(3 112 993)	(1 488 651)
Unspent amount returned to funder	(1 450 350)	(2 544 758)
	6	1 450 350
Conditions still to be met - remain liabilities (see note 17)		
Water Services Infrastructure Grant (WSIG)		
Balance unspent at beginning of year	3 808 644	8 570 298
Current year receipts	102 000 000	100 000 000
Conditions met - transferred to revenue	(101 831 544)	(104 761 654)
Unspent amount returned to funder	(3 808 644)	-
	168 456	3 808 644
Conditions still to be met - remain liabilities (see note 17)		
Water Services Infrastructure Grant - Drought Relief (WSIG)		
Balance unspent at beginning of year	57 365 420	-
Current year receipts	-	64 088 000
Conditions met - transferred to revenue	(57 359 677)	(6 722 580)
	5 743	57 365 420
Conditions still to be met - remain liabilities (see note 17)		
Neighbourhood Development Partnership Grant (NDPG)		
Balance unspent at beginning of year	-	-
Current year receipts	1 890 287	8 000 000
Conditions met - transferred to revenue	-	(8 000 000)
	1 890 287	-
Conditions still to be met - remain liabilities (see note 17)		
Municipal Disaster Grant		
Balance unspent at beginning of year	566 593	566 593
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
	566 593	566 593
Conditions still to be met - remain liabilities (see note 17)		
Municipal Disaster Relief Grant - COVID-19		
Balance unspent at beginning of year	-	-
Current year receipts	-	-
Conditions met - transferred to revenue	3 397 000	-
Unspent amount returned to funder	(2 280 531)	-
	-	-
Conditions still to be met - remain liabilities (see note 17)		
29. Employee related costs		
Employee related costs - Salaries and Wages	437 162 828	410 305 745
Bonus	38 460 075	32 448 064
Medical aid - company contributions	39 473 723	37 649 709
UIF	2 800 119	2 791 471
WCA	3 779 152	3 046 636
Leave pay provision charge	20 119 634	(17 770 457)
Contribution: Pension fund	78 473 361	70 394 164
Contribution: Group life	3 037 407	2 978 983
Bargaining council	182 176	165 216
Employee benefit contribution	7 936 623	29 222 349
Travel, motor car, accommodation, subsistence and other allowances	41 643 768	37 955 297
Overtime payments	32 679 363	35 571 199
Car allowance	23 221 043	17 825 835
Housing benefits and allowances	3 577 289	11 407 786
Allowance: cell phone	10 328 765	10 148 920
Allowance: shift	3 766 323	2 835 119
Allowance: Standby, Night and Sunday	14 155 749	12 931 469
	760 797 396	699 907 505
The comparative figure has been restated by an amount of R36 948 144, Refer Note 44		
Amounts expended in respect of retirement benefit plans		
Defined contribution funds	115 368 159	103 908 667
Defined benefits funds	2 378 692	2 573 177
	117 746 851	106 481 843
Remuneration of Municipal Manager		
Remuneration	2 436 617	2 436 616
Contribution to UIF	1 784	1 782
Cell phone allowance	13 200	13 200
	2 451 601	2 451 598
Remuneration of Chief Financial Officer		

Notes to the annual Financial Statements

	2020	2019
	R	Restated
	R	R
Remuneration	1 084 915	1 084 912
Contribution to UIF and Pension Funds	197 069	197 065
Travel allowance	168 000	168 000
Housing allowance	349 351	349 349
	1 799 335	1 799 327

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Remuneration of the Director: Engineering		
Remuneration	1 079 601	902 424
Leave encashment	-	207 775
Contribution to UIF	1 784	147 726
Travel allowance	300 000	205 000
Housing allowance	417 949	244 290
	1 799 334	1 707 216
The Director Engineering resigned with effect 31 March 2019. The new Director was appointed on 1 June 2019.		
Remuneration of the Director: Strategic Management		
Remuneration	1 557 552	1 557 549
Contribution to UIF	1 784	1 782
Travel allowance	240 000	240 000
	1 799 336	1 799 331
Remuneration of the Director: Corporate services		
Remuneration	996 453	996 451
Housing Allowance	346 785	382 784
Contribution to UIF, Medical and Pension Funds	230 562	231 758
Back pay of Remuneration	1 260	-
Travel Allowance	216 000	180 000
	1 791 060	1 790 994
Remuneration of the Director: Community Services		
Remuneration	1 278 364	1 278 363
Contribution to UIF and Pension Funds	262 677	251 062
Cell phone allowance	-	57 432
Travel, motor car, accommodation, subsistence and other allowance	96 314	275 812
Group Life	13 934	27 867
Housing allowance	133 180	278 158
Back pay	-	-
	1 784 469	2 168 695
Remuneration of the Director: Legislative Executive Support Services		
Remuneration	-	895 463
Contribution to UIF	-	1 038
Cell phone allowance	-	33 502
Travel allowance	-	151 669
Group Life	-	143 254
Housing allowance	-	23 411
Leave encashment	-	16 730
	-	1 265 068
The Director Legislative & Executive Services contract expired with effect 1 January 2019		
Remuneration of the Director: Land, Human Settlements and Economic Development		
Remuneration	1 066 329	1 066 327
Contribution to UIF and Pension Funds	193 724	193 718
Travel allowance	180 000	180 000
Housing allowance	359 282	359 282
	1 799 335	1 799 326
30. Remuneration of councillors		
Councillors 2020: (38) 2019: (39)		
Councillors allowance	13 011 237	13 173 685
	2 003 607	2 068 734
	15 014 844	15 242 419
In - kind benefits		
The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Executive Mayor and Deputy Executive Mayor has the use of a Council owned vehicle for official duties.		
The Executive Mayor and Deputy Executive Mayor has two full-time body guards.		
The salary allowances and benefits of the political office-bearers are within the upper limits of the framework prescribed by Sec 219 of Constitution.		
Executive Mayor: K.Maneli		
Salary	302 942	-
Cell phone Allowances	10 200	-
3G Allowance	1 105	-
Contribution to UIF, Medical and Pension Funds	-	-
	314 247	-
The Executive Mayor was sworn in on 25 March 2020.		
Deputy Executive Mayor: N.W Nxawe		
Salary	926 779	987 363
Cell phone Allowances	40 800	40 800
3G Allowance	2 995	3 600
	970 484	1 031 763
Speaker: N. Ndikinda		
Salary	789 893	789 888
Cell phone Allowances	40 800	40 800
3G Allowance	3 600	3 600
	834 293	834 288
Cllr L.E.V Jacobs		
Salary	555 394	555 391
Cell phone Allowances	40 800	40 800
Travel Allowance	185 131	185 127
3G Allowance	3 600	2 700
	784 925	784 018
Cllr N. Skelenge		
Salary	636 739	-
Cell phone Allowances	34 000	-
Travel Allowance	-	-
3G Allowance	3 491	-
Housing Allowance	-	-
Sitting Allowance	(331)	-
	673 899	-
Councillor: Skelenge was sworn in during the current year as a member of the Executive Council on 22 August 2019		
Cllr. N.V Mgidiana		
Salary	556 920	556 920
Cell phone Allowances	40 800	40 800
Housing Allowance	183 605	183 601
3G Allowance	3 600	3 600
	784 925	784 921
Cllr. S.M Zuka		
Salary	555 394	740 521
Cell phone Allowances	30 600	40 800
3G Allowance	2 700	3 600
	588 694	784 921

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated
	R	R
Councillor Zuka resigned as a councillor during the current year on the 25th March 2020.		
Cllr. B.M Ganjana		
Salary	680 525	740 521
Cell phone Allowances	40 800	40 800
3G Allowance	3 600	3 600
Travel allowance	45 000	-
	769 925	784 921

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Cllr. M.M Namba		
Salary	740 525	740 521
Cell phone Allowances	40 800	40 800
3G Allowance	3 600	3 600
	784 925	784 921
Cllr. Z Kabane		
Salary	655 364	655 357
Cell phone Allowances	40 800	40 800
Travel Allowance	85 161	85 155
3G Allowance	3 600	3 600
Contribution to UIF, Medical and Pension Funds	-	-
	784 925	784 912
Cllr. N.W Tekile		
Salary	-	53 295
Cell phone Allowances	-	6 800
3G Allowance	-	260
The position is currently vacant as at the end of June 2019	-	60 355
Cllr. N.A Bonga		
Salary	740 525	740 521
Cell phone Allowances	40 800	40 800
3G Allowance	3 600	3 600
	784 925	784 921
Cllr. N Plaatjie		
Salary	-	53 295
Cell phone Allowances	-	2 937
3G Allowance	-	260
The position is currently vacant as at the end of June 2019	-	56 492
Cllr. Z Mngwazi		
Salary	740 525	687 226
Cell phone Allowances	40 800	37 863
3G Allowance	3 600	3 340
	784 925	728 429
31. Depreciation, amortisation and impairment		
Depreciation and amortisation	128 527 109	124 861 482
Property, plant and equipment	107 948 565	106 012 944
Intangible assets	20 220 927	12 767 445
Investment property	357 617	357 617
Impairment	-	5 723 476
Property, plant and equipment	-	5 612 411
Intangible assets	-	111 065
The comparative figure for depreciation has been restated by R4 678 539, refer Note 44 .	128 527 109	124 861 482
The comparative figure for impairment has been restated by R78 436, refer Note 44 .		
32. Finance costs		
Total finance costs	22 397 139	26 113 667
Finance leases	61 880	7 832
Employee benefit obligation	15 645 760	24 303 496
VAT interest/SARS	1 107 459	-
Rehabilitation provision of solid waste side	511 239	1 074 591
Interest overdue accounts	3 435 487	727 747
Interest bank overdraft	1 635 315	-
	22 397 139	26 113 667
The comparative figure for impairment has been restated by R110 986, refer Note 44 .		
33. Debt impairment		
Contributions to debt impairment provision - other	2 156 535	-
Contributions to debt impairment provision - sewer	155 702 495	107 134 041
Contributions to debt impairment provision - water	233 553 746	139 643 448
	391 412 776	246 777 489
34. Bulk purchases		
Water	114 749 762	104 449 062
The comparative figure for bulk purchases has been restated by R602 455 . Refer note 44 .		
35. Contracted services		
Contractual amounts		
Office equipment	1 168 389	1 017 967
Accommodation Office Space and parking	33 945 052	34 298 295
Cleaning & hygiene	386 211	302 417
Sewerage	245 545	909 665
Security	32 905 774	26 275 947
	68 650 972	62 804 291
The comparative figure for contracted services has been restated by R207 103 . Refer note 44 .		
An amount of R26 203 474 for security has been reclassified from operational costs.		
36. Inventory consumed		
VIP toilet structures	257 665 282	146 204 416
The comparative figure for inventory consumed has been restated by R4 543 694. Refer Note 44 .		
The amount includes the value of completed structures that have been constructed and transferred to the beneficiaries.		

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
37. Operational costs		
Administration	217 142	340 395
Advertising and Communication	485 173	997 340
Audit committee meetings	861 696	682 000
Audit fees	5 134 375	6 798 878
Bank charges	1 623 723	648 641
Chemicals		
Cleaning materials	11 992 313	12 689 895
Community Based Organisation	-	862 727
Commission paid	3 115 343	7 353 851
Conference expenses	14 409 562	19 526 381
Legal fees and Litigation	1 113 166	1 090 344
Consultants	2 263 279	7 594 680
Database Expenditure	9 685 585	21 059 411
Municipal Utilities	66 847	76 567
Emergency provisions	28 875 340	41 467 452
Stipends	-	197 532
Entertainment expenses	-	115 865
Food and Beverages	6 250	511
Hiring costs	463 889	-
Inventory write down	10 518 238	1 474 802
Inventory movement: Water	-	6 282
Insurance Premium Cost	434 763	-
Licenses and subscription	4 124 799	4 668 292
Membership fees	518 358	758 046
Storage of Files	5 400 000	8 312 721
Postage	13 230	52 496
Printing and stationery	1 304 715	1 226 756
Protective clothing & uniforms	164 504	408 059
Refreshments and catering	4 741 445	432 256
Telephone and data expenses	384 846	1 014 808
Recruitment Expense	7 139 441	4 325 795
Sampling and Testing	-	2 950
Skill Development Levy	2 073 117	1 693 534
Software and Computer	6 216 967	5 770 044
Solid waste site eastern region costs	15 767 544	25 345 104
Special programmes	4 208 030	4 757 823
Subsistence and Travel	-	4 006 475
Transport	1 773 130	9 543 894
Water research levy	12 595 511	16 291 499
	896 934	3 852
The comparative figure for operational costs has been restated by an amount of R19 553 440. Refer Note 44. An amount of R26 203 474 for security was reclassified to contracted services.	158 589 256	211 597 958
38. Auditors' remuneration		
Fees paid	5 134 375	6 798 878
39. Net cash flows from operating activities		
(Loss)/Surplus	(9 776 769)	297 347 534
Adjustments for:		
Depreciation, amortisation and impairment	128 527 109	124 861 482
Gain/(loss) on sale of asset and liabilities	138 738	1 200 625
Contribution to debt impairment	391 412 776	246 777 489
Contribution to retirement benefit assets and liabilities	(18 511 927)	(69 907 934)
Movement in non current investment (accrued interest)	(471)	-
Actuarial gain and loss defined benefit	-	-
Movement in provisions	19 749 364	(18 918 677)
Changes in working capital:		
Decrease/(Increase) in inventories	24 135 651	(26 587 619)
(Increase)/decrease in receivables from exchange transactions	12 418 598	(403 665 968)
Contribution to debt impairment	(391 412 776)	-
Increase in consumer deposits	118 709	38 348
(Increase)/decrease in other receivables from non-exchange transactions	48 563 623	(1 325 867)
Increase/(decrease) in payables from exchange transactions	120 524 592	40 819 496
(Increase)/decrease in VAT payable	(26 227 091)	42 952 684
(Decrease)/increase in taxes and transfers payable (non exchange)	12 046 470	684 912
Increase/(decrease) in unspent conditional grants and receipts	(76 095 653)	45 458 108
Increase/(decrease) in operating lease liability	(746 137)	1 569 897
	234 864 807	281 304 509

The comparative figure for operational costs has been restated by an amount of R19 553 440. Refer Note 44.
An amount of R26 203 474 for security was reclassified to contracted services.

38. Auditors' remuneration

Fees paid	5 134 375	6 798 878
-----------	-----------	-----------

39. Net cash flows from operating activities

(Loss)/Surplus	(9 776 769)	297 347 534
Adjustments for:		
Depreciation, amortisation and impairment	128 527 109	124 861 482
Gain/(loss) on sale of asset and liabilities	138 738	1 200 625
Contribution to debt impairment	391 412 776	246 777 489
Contribution to retirement benefit assets and liabilities	(18 511 927)	(69 907 934)
Movement in non current investment (accrued interest)	(471)	-
Actuarial gain and loss defined benefit	-	-
Movement in provisions	19 749 364	(18 918 677)
Changes in working capital:		
Decrease/(Increase) in inventories	24 135 651	(26 587 619)
(Increase)/decrease in receivables from exchange transactions	12 418 598	(403 665 968)
Contribution to debt impairment	(391 412 776)	-
Increase in consumer deposits	118 709	38 348
(Increase)/decrease in other receivables from non-exchange transactions	48 563 623	(1 325 867)
Increase/(decrease) in payables from exchange transactions	120 524 592	40 819 496
(Increase)/decrease in VAT payable	(26 227 091)	42 952 684
(Decrease)/increase in taxes and transfers payable (non exchange)	12 046 470	684 912
Increase/(decrease) in unspent conditional grants and receipts	(76 095 653)	45 458 108
Increase/(decrease) in operating lease liability	(746 137)	1 569 897
	234 864 807	281 304 509

The cash flow figures have been restated due to the prior period errors. Refer Note 44.

40. Financial Instruments disclosure

Categories of financial instruments

	2020	
	At amortised cost	Total
Financial assets		
Non - current receivables	1 710 803	1 710 803
Trade and other receivables from exchange transactions	301 971 427	301 971 427
Other receivables from non-exchange transactions	1 534 722	1 534 722
Cash and cash equivalents	192 017 638	192 017 638
Non - current investment	2 137 600	2 137 600
	499 372 190	499 372 190
Financial liabilities		
Trade and other payables from exchange transactions	563 261 069	563 261 069
	563 261 069	563 261 069
	At amortised cost	Total
Financial assets		
Non - current receivables	1 710 803	1 710 803
Trade and other receivables from exchange transactions	314 390 025	314 390 025
Other receivables from non-exchange transactions	50 098 345	50 098 345
Cash and cash equivalents	190 152 984	190 152 984
Non - current investment	2 137 129	2 137 129
	558 489 285	558 489 285

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Financial liabilities	At amortised cost	Total
Trade and other payables from exchange transactions	442 736 477	442 736 477
	442 736 477	442 736 477
41. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Infrastructure	325 982 817	525 946 212
• Community	20 832 464	3 688 094
• Other - Land and Buildings	3 636 558	425 588
	350 451 839	530 059 894
This expenditure will be financed from		
• Government Grants	348 381 343	528 009 798
• Own Resources	2 070 596	2 050 096
	350 451 939	530 059 894
The comparative figures were restated refer to note 44		
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	21 075 228	29 876 118
- in second to fifth year inclusive	380 990	20 203 586
Total exclusive of VAT	21 456 218	50 079 804
Total inclusive of VAT	24 674 651	57 591 774
Operating lease payments represent rentals payable by the Municipality for certain of its office properties and equipment. Leases are negotiated for an average term of 2 years. No contingent rent is payable.		
Operating leases - as lessor (income)		
Minimum lease payments due		
- within one year	201 190	90 434
- in second to fifth year inclusive	543 190	102 334
- later than five years	-	-
	744 380	192 768
Operating Leases consists of the following: Operating lease payments represent rentals receivable by the Municipality for certain of its properties situated in Stutterheim, Komga and Cathcart. No contingent rent is payable.		
Leases are negotiated for an average of 7 years and rentals escalate by an average of 9% annually.		
42. Contingencies		
Contingent liabilities		
Legal claims		
The following claims submitted to the legal department of the municipality are in the process of being resolved. The estimated liability of such claims, should the claimant be successful is disclosed. The timing of the legal proceedings regulating the claims is uncertain.		
Legal disputes relate to:		
Compensation for goods delivered by suppliers		
The municipality is disputing claims by suppliers for goods delivered		
	351 918	351 918
The municipality has been sued in respect of a vehicle that was taken to the complainant to be repaired by Nkonkobe Local Municipality (now part of Raymond Mhlaba municipality) years ago and was never collected. There is uncertainty as to who actually owns the vehicle in question. The municipality is being sued for storage fees. Default judgement was granted against ADM and a Warrant of Execution was issued. ADM is not willing to pay for a vehicle it does not own.		
	19 094	19 094
Compensation for work performed by a contractor	1 323 586	1 323 586
The claim is in respect of services rendered in the amount of R 1 323 586. The entity performed poorly but were nonetheless paid proportionately in terms of the agreement. Exceptions have been raised. The matter is not progressing.		
Supply of toilets pursuant to a cession agreement		
Supply of toilets pursuant to a cession agreement with service provider. Discovery affidavits have been filed.		
	34 921 848	34 921 848
Supply of VIP toilets structures		
The service provider supplied VIP toilet structures to the ADM before its contract was terminated. It has claimed specific performance, alternatively damages for enrichment. ADM has filed its plea and the matter is pending.		
	64 493 632	64 493 632
Supply of water		
The Minister of Water and Sanitation has sued ADM for outstanding water use charges and water research levies. The claims date back to when ADM assumed the responsibilities of water service provider. ADM has brought an exception to the claim.		
	46 571 286	46 571 286
Compensation for services rendered		
The municipality is disputing claims by supplier for services rendered based on performance requirements.		
	35 522 212	35 522 212
Total contingent liabilities	183 203 575	183 203 575
Contingent assets		
The following contingent assets have been disclosed and not recognised as the outcome is dependent on a legal ruling.		
Non-performance on a contract	500 595	500 595
The municipality has instituted legal action against a contractor and its surety. The municipality and its lawyers are of the opinion that the litigation is likely to be in the municipality's favour. The timing of the legal proceeding regulating the above is uncertain.		
Compensation for work performed by contractor	4 866 641	4 866 641
The municipality has been settled the payment of outstanding amounts claimed in relation to the construction of RDP houses. The municipality expects the recovery of the amounts construction of RDP houses. The municipality expects the recovery of the amounts from the Eastern Cape Department of Human Settlements. ADM is awaiting a pre-trial date.		
Fraudulent fuel purchase	125 091	125 091
Claim for fraudulent fuel purchases. Application for Default Judgment has finally been granted by the clerk of court.		

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Cancellation of contract		
A WRIT to pursue the costs has been issued and sent to the Sheriff	1 400 000	1 400 000
Legal action to recover irregular expenditure		
The Municipality has instructed that the loss suffered due to the irregular and fraudulent procurement of uniform and trophies be recovered from the service providers concerned .	88 092	88 092

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Claims for RSC levies and Water and Sanitation		
	-	-
	35 169	35 169
	85 563	85 563
	80 646	80 646
	13 121	13 121
	100 828	100 828
	72 804	72 804
	388 131	388 131
Total contingent assets		
	7 368 549	7 368 549

43. Related parties

Relationships

Controlled entities Refer to note 7

Related party transactions

Shared internal audit services for ASPIRE

Acting Chief Financial Officer	209 208	580 902
Acting COO	632 604	330 456
	430 524	-

Fees paid to Audit Committee Members for ASPIRE

P. Zitumane	60 000	60 000
T. Maqwati	60 000	65 000
V. Hlehliso	65 000	65 000
V. Ntsodo	109 500	87 000
B. Bothma	60 000	40 000

Administration fees paid to (received from) related parties

Amathole Economic Development Agency SOC Limited t/a (ASPIRE)	18 780 812	17 854 669
---	------------	------------

Neighbourhood Development Programme Grant

NDPG	-	8 000 000
------	---	-----------

The Amathole Economic Development Agency was established 1 September 2005

Place of Incorporation: South Africa

Principal Activity: To promote local economic development in the Amathole Municipal District Area.

Key management information

Refer to Note 29

44. Prior period errors

Capital Commitments

The comparative figure for capital commitments was restated in the current year due to expenditure and variations being omitted for 2018/19 financial year. One 2018/19 project was removed from the register as it is not a capital project which was awarded 2018/19 financial year. The restatement only impacts disclosure and thus has no effect on the statement of Financial Position and Performance. The Capital commitment decreased by R625 173. Refer to note 48.

The figures have been restated as follows :

Decrease in Capital commitments - Infrastructure assets	633 732
Decrease in Capital commitments - Community	497 600
Decrease in Capital commitments - Other land buildings	2 710 450
	3 841 782

Irregular expenditure

The comparative figure for irregular expenditure was restated in the current year due to corrections to expenditure and recovery from responsible officials 2018/19 financial year. The restatement only impacts disclosure and thus has no effect on the statement of Financial Position and Performance. The irregular expenditure increased by R625 173. Refer to note 48.

Recovered R13 000 during 2018/2019 from the responsible official	13 000
Corrected a duplicate payment of R120 613,90	(120 614)
Additional payment to a service provider of R732 787	732 787
	625 173

Contracted services

Increase in contracted services	26 203 474
Decrease in operating costs	(26 203 474)

An amount of R26 203 474 for security was reclassified from operational costs to contracted services during the current year. This classification was corrected retrospectively.

Refer note 35 and 37

Unspent conditional grant

During 2016/17, the migration of opening balances was done but certain balances were omitted in the unspent conditional grant ledger account. This has understated unspent balances for 2016/17 overall by an amount of R 24 938.

During 2016/17, ACIP expenditure recognised in SAP was duplicated. This has overstated the unspent conditional grants and government grants and subsidies by R 457 165 and R26 398.

During 2016/17, transfers received for the ACIP grant were recognised in the legacy system, but were not migrated to SAP. This has understated the unspent conditional grants by R2 693 380.

During 2016/17, ACIP expenditure recorded on the legacy system was not migrated to SAP and has overstated the unspent conditional grants by R 1 863 870.

During 2016/17, expenditure on the Upgrade of Infrastructure reflected spending on the legacy system but was not migrated to SAP. This has overstated unspent conditional grants by R 147 386.

The total impact of the adjustment for the unspent conditional grants is R1 140 750 which is restated retrospectively in the prior periods for the 2016/17 financial year.

Refer Note 17.

Payables from exchange transactions

Payments of R19 507 175 relating to the 2018/19 financial year were paid during the 2019/20 financial year.

The trade and other payables from exchange was therefore understated. The payables for exchange transactions, contracted services, operational costs and employee costs were retrospectively corrected.

An amount of R21 088 542 was receipted on the system however the system reflected the amount as not being allocated hence the prior years was adjusted as this emanates when the legacy system was changed.

The debtors age analysis was not in alignment with the general ledger from the migration of the legacy system to the new financial system.

The reconciliation was performed from the date of migration from 2017 financial year and an error of R32 452.

Upon migration from the legacy system to the new financial system, the VAT was incorrectly configured to be on the invoice basis instead of the payment basis.

The monthly VAT returns were prepared and submitted to SARS however the reconciliation of the VAT 201 to general ledger could not be performed.

In the current year, a reconciliation was performed between the general ledger and VAT 201 from the date of migration.

An amount of R7 506 967 was recognised as a sundry payable emanating from the back pay of the 2018/19 financial year which was only paid during August 2020.

An error of R48 138 104 was adjusted retrospectively.

The error was identified in the current year and the correction has made retrospectively. Refer Note 20.

Provisions

The leave days due to staff for the 2018/19 financial year were incorrect. A reconciliation was performed and the balances were retrospectively corrected by an amount of R32 487 813.

Notes to the annual Financial Statements

2020	2019
R	Restated R

Consequently, the employee costs were corrected by the same amount.

The Provision for rehabilitation was adjusted retrospectively by R434 435 as a result of error in the assumptions used when estimating the provision.

Other receivables from exchange transactions

An error was identified in the goods received note account which resulted transactions being split. Therefore making it difficult to reconcile to the supporting documents.

The error identified for 2018/19 financial year amounted to R13 214 282. It was corrected retrospectively. Consequently, the operating costs were corrected by the same amount.

Refer **Note 12**.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Trade receivables from exchange transactions		
The debtors age analysis was not in alignment with the general ledger from the migration of the legacy system to the new financial system.		
The reconciliation was performed from the date of migration from 2017 financial year and an error of R13 237 650. The error was adjusted retrospectively. Refer Note 12 .		
Receivables from non-exchange transactions		
The debtors age analysis was not in alignment with the general ledger from the migration of the legacy system to the new financial system.		
The reconciliation was performed from the date of migration from 2017 financial year and an error of R8 977.		
An amount of R45 138 719 was receivable for RBIG due to invoices being claimed in 2017/18 and only received in the current year.		
The error was adjusted retrospectively. Refer Note 13.		
Vat payable		
Upon migration from the legacy system to the new financial system, the vat was incorrectly configured to be on the invoice basis instead of the payment basis.		
The monthly VAT returns were prepared and submitted to SARS however the reconciliation of the VAT 201 to general ledger could not be performed.		
In the current year, a reconciliation was performed between the general ledger and VAT 201 from the date of migration.		
An error of R40 664 750 was adjusted retrospectively.		
Although no impact on the overall VAT payable balance, corrections were made between the deferred VAT and actual VAT account. Refer Note 55 .		
Property, plant and equipment		
Property, plant and equipment - Accumulated Depreciation: Infrastructure Assets		
During the reconstruction of the WIP Register the accumulated depreciation of water infrastructure was increased by an amount of R6 517 100 which relates to projects that were completed in the previous years, but were never transferred out from the Work In Progress Register. Consequently the depreciation was corrected. The error was corrected in the current financial year and was adjusted retrospectively.		
This amount comprises of 2019: R2 263 213, 2018: R1 732 012 and 2017: R2 522 875.		
Property, plant and equipment - Accumulated Depreciation: Landfill Site		
During the current year the prior year accumulated depreciation on landfill site was increased by an amount of R1 263 267 based on the revised report provided by the expert.		
Furthermore the provision for rehabilitation and finance costs were increased by an amount of R110 986. The error was corrected in the current financial year and was adjusted retrospectively.		
The total adjustment of R1 263 267 is comprised of 2019: R243 470 2018: R243 470 and 2017: R776 236		
Property, plant and equipment - Work In Progress		
The Work In Progress was increased by R618 827 236 during reconstruction of WIP Register and breakdown per financial period was as follows: 2019: R36 303 074; 2018: R582 055 501 and 2017: R468 661.		
The comparative figure for Work In Progress (WIP) infrastructure assets was restated due to incorrect classification of VIP toilets and operational expenditures in prior periods. The restatement impacts the Statement of financial position and Statement of financial performance. The error was corrected in the current financial year and was adjusted retrospectively by a total amount of R870 654 695.		
The breakdown of R870 654 695 per financial years was as follows: 2019: R56 729 215; 2018: R223 642 182 and 2017: R590 283 297. The error was corrected in the current financial year and was adjusted retrospectively.		
During the current financial year the municipality reviewed useful lives at the reporting date. This resulted in a number of misstatements being identified and subsequently corrected retrospectively due to errors identified during the review process.		
The useful lives issue was identified as a finding in the previous year, the result of correcting this finding resulted in prior period error of R7 185 222. Consequently the depreciation and impairment were adjusted by the same amount.		
Refer to Note 4		
Inventories		
During the current year duplicate VIP toilet structures identified during the reconciliation of the these structures were corrected, consequently the inventory consumed was corrected.		
An error of R5 775 829 was identified and corrected retrospectively. This correction impacted the comparative figure. Refer Note 11 .		
Operational costs		
Operational costs of R11 959 172 relating to the 2018/19 financial year was paid during the 2019/20 financial year and recognised in the incorrect financial year.		
Consequently the payables from exchange transactions were corrected. The error was retrospectively adjusted. Refer Note 37 .		
Bulk purchases		
The bulk purchases of R602 456 relating to the 2018/19 financial year was paid during the 2019/20 financial year and recognised in the incorrect financial year.		
Consequently the payables from exchange transactions were corrected. The error was retrospectively adjusted. Refer Note 34 .		
Employee related costs		
The leave days due to staff for the 2018/19 financial year were incorrect. A reconciliation was performed and the balances were retrospectively corrected.		
The leave expense was therefore decreased and consequently the provision for leave was decreased by an amount of R32 487 813.		
The workman's compensation of R3 046 636 relating to the 2018/19 financial year was paid during the 2019/20 financial year and recognised in the incorrect financial year.		
Consequently the payables from exchange transactions were corrected. The error was retrospectively adjusted.		
An amount of R7 506 967 was recognised emanating from the back pay of the 2018/19 financial year which was only paid during August 2020. Consequently a payable was recognised for this amount.		
The overall impact on the employee related costs is decrease of R36 948 144 in 2018/19. Refer Note 29 .		
Contracted services		
Contracted services of R207 103 relating to the 2018/19 financial year was paid during the 2019/20 financial year and recognised in the incorrect financial year.		
Consequently the payables from exchange transactions were corrected. The error was retrospectively adjusted. Refer Note 35 .		
Depreciation and amortisation		
Depreciation was corrected by an amount of R4 678 539, as during the reconstruction of the WIP Register, the accumulated depreciation of water infrastructure was increased which relates to projects that were completed in the previous years. The useful lives of the assets were corrected during the current year. Hence depreciation was corrected retrospectively.		
Refer Note 31 .		
Finance charges		
During the current year the prior year accumulated depreciation on landfill site was increased by an amount of R1 263 267 based on the revised report provided by the expert.		
Furthermore the provision for rehabilitation was increased by an amount of R110 986 and consequently the finance charges were increased. The error was corrected in the current financial year and was adjusted retrospectively. Refer Note 32 .		
Inventory Consumed		
During the current year duplicate VIP toilet structures identified during the reconciliation of the these structures were corrected, consequently the inventory was corrected.		
An error of R4 543 694 was identified and corrected retrospectively. This correction impacted the comparative figure. Refer Note 36 .		
Statement of financial position		
Increase in the unspent conditional grant		(1 140 750)
Increase in the payables from exchange transactions		48 138 104
Decrease in provisions		32 053 378
Decrease in other receivables from exchange transactions		(13 214 282)

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated
	R	R
Increase in VAT payable		(40 664 750)
Increase in consumer receivables from exchange transactions		13 237 650
Increase in receivables from non-exchange		45 129 742
Increase in Property, Plant and Equipment: Accumulated Depreciation: Infrastructure Assets		(6 517 100)
Increase in Property, Plant and Equipment: Accumulated Depreciation: Landfill Site		(1 263 267)
Increase in Provision for Rehabilitation: Landfill Site		(110 986)
Decrease in Water and Sanitation (Infrastructure Assets): Work in Progress		(251 718 186)
Decrease in Property plant and equipment: accumulated depreciation		32 454 933
Decrease in accumulated impairment		78 436
Increase in inventory		5 775 829
Total	-	(137 761 249)

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Statement of financial performance		
Increase in operating costs		19 553 440
Increase in contracted services		207 103
Increase in bulk purchases		602 456
Decrease in depreciation		(4 678 539)
Increase in finance costs		110 986
Decrease in impairment		(78 436)
Increase in repairs and maintenance		2 204 297
Decrease in employee related costs		(36 948 144)
Decrease in inventory consumed		4 543 694
Total		(14 483 144)
	-	-
Net (increase)/decrease in the accumulated surplus		(152 244 393)
Cash flow		
Net increase in operating activities		9 412 072
Net decrease in investing activities		(9 412 072)

45. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Exposure to these risks arise in the normal course of the municipality's operations.

The Accounting Officer has the overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and reflect changes in the market conditions and the municipality's activities. Policies are approved by the Council. The Council has established a Risk Management Committee, which is responsible for developing and monitoring the municipality's risk management.

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they fall due.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

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

On average 22% (2019: 38%) of receivable (own billed) income is realised within 30 days after the due date and payables are settled within 30 days of receipt of the invoice. National and Provincial grant funding is received in terms of the Division of Revenue Act (Dora).

There has been significant change during the financial year, or since the end of the financial year, to the municipality's exposure to liquidity risk, the approach of measurement or the objectives, policies and processes for managing this risk.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The impact of discounting is not significant.

	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and later than five years	Total
At 30 June 2020					
Trade and other payables	454 369 479	-	108 891 590	-	563 261 069
Other	-	-	4 194 676	-	4 194 676
Gross finance leases	27 305,00	81 915	218 440	163 830	491 490
	454 396 784	81 915	113 304 706	163 830	567 947 235

	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and later than five years	Total
--	--------------------------	--	---	---	-------

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

			2020	2019
			R	Restated R
At 30 June 2019				
Trade and other payables	343 381 811	-	99 354 666	442 736 477
Other	-	-	2 918 758	2 918 758
Gross finance leases	356	1 067	2 845	4 267
	343 382 167	1 067	102 276 269	445 659 502

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality.

Financial assets that potentially subject the municipality to credit risk, consist primarily of cash deposits, cash equivalents, short term deposits, loans and receivables, investments and trade and other receivables.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis.

Investments and borrowing

To manage credit risk in borrowing and investing, the municipality's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions and by spreading its exposure over a range of such institutions in accordance with its investment policies approved by Council. The municipality determines concentrations of credit risk by reference to major counterparties. Counter-parties comprise larger South African banks with high quality credit ratings. Consequentially the municipality does not consider there to be any significant exposure to credit risk.

Cash and cash equivalents

The municipality limits its exposure to credit risk by investing with only reputable financial institutions that have a sound credit rating and within specific guidelines set in accordance with Council's approved investment policy. Consequently the municipality does not consider there to be any significant exposure to credit risk.

Receivables

Receivables are amounts owing by consumers and presented net of impairment losses. The municipality has a credit control and debt collection policy in place, and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services, without recourse to an assessment of creditworthiness. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review.

The municipality's strategy for managing its risk includes encouraging residents to install water management devices that control water flow to households. In certain instances, a deposit is required for new service connections, serving as a guarantee. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographic area. The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of receivables.

The average credit period on services rendered is 30 days from date of invoice. Interest is raised at prime on any unpaid accounts after the due dates. The municipality has provided fully for all receivables outstanding over 365 days. Receivables up to 365 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience. Additional information relating to the analysis of receivables is given in **Note 12**.

Consumer debtors with a demonstrative inability to pay are encouraged to apply for potential indigent status as an ongoing customer relationship strategy and also to enable the municipality to make provision for such relief.

Maximum exposure to credit risk

The carrying amount of financial asset, represent the municipality's exposure to credit risk in relation to these assets. The municipality's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions.

There has been no significant change during the financial year, or since the end of the financial year, to the municipality's exposure to credit risk, the approach of measurement or the objectives, policies and processes for managing this risk.

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

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Financial instrument		
Cash and cash equivalents	192 017 638	190 152 984
Receivables from exchange transactions	301 971 427	314 390 025
Receivables from non - exchange transactions	1 534 722	50 098 345
Other non- current financial assets	1 710 803	1 710 803
Non-current investments	2 137 600	2 137 129

Guarantees		
Guarantees in lieu of projects	79 896 920	66 976 844

Market risk

Interest rate risk

The municipality's activities expose it primarily to the risks of fluctuations in interest rate.

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

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.

Market risk exposures are measured using sensitivity analysis. A sensitivity analysis shows how surplus and/or net assets would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date.

At year end financial assets exposed to interest rate risk were as follows:

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

Investments at fixed interest rates.

Trade receivables in arrears are linked to the South African prime rate.

Loans granted are linked to a fixed rate of interest.

Surplus funds are invested with banks for fixed terms on fixed interest rates not exceeding one year. For details refer to **Note 18**.

At year end, financial liabilities exposed to interest rate risk were as follows:

Finance leases linked to the South African prime rate.

Management manages interest rate risk by negotiating beneficial rates.

Interest rate sensitivity analysis

Financial Assets

At 30 June 2020, if interest rates at that date had been 50 basis points higher, with all other variables constant, the effect on the statement of financial performance would have been R566 531 (2019: R422 917) with the opposite effect if the interest rate had been 50 basis points lower.

Financial liabilities

At 30 June 2020, if interest rates at that date had been 50 basis points higher, with all other variables constant, the effect on the statement of financial performance would have been R309 (2019: R39) with the opposite effect if the interest rate had been 50 basis points lower.

Foreign exchange risk

The municipality was not a direct party any outstanding forward exchange contract at the reporting date. The movement in the currency was not material to the municipality's procurement and, consequently, is not elaborated on any further.

46. Unauthorised expenditure

Opening balance	272 595 177	117 749 345
Current year unauthorised expenditure	202 602 443	154 845 832
Unauthorised expenditure written off	(272 595 177)	-
	202 602 443	272 595 177

An amount of R202 602 443 unauthorised expenditure has been incurred during the current year at vote level. R5 780 199 of this amount relates to amortisation, R143 974 377 relates to the top up on the provision for bad debts and R52 847 867 relates to VIP toilets that were completed and transferred to beneficiaries. This expenditure was investigated and subsequently written off by Council on 15 March 2021.

During the 2018/19 financial year, the budget was exceeded at a vote level with a total of unauthorised expenditure amounting to R154 848 832.

The unauthorised expenditure has arisen from the increase in the Bad debts provision and depreciation for the current financial year.

This was investigated and subsequently approved by Council.

During the 2017/18 financial year the budget was exceed at vote level by R50 777 541.

The budget at vote level was exceeded on the bad debts provision and leave provision increases in the current year.

This was investigated and subsequently approved by Council.

The budget of the 2016/17 financial year was exceeded by an overall amount of R59 935 836. This was on the depreciation, bulk purchases and finance costs.

SAP did not go live on 1 July as planned, resulting in 3 months expenditure being on Venus and next 9 months being on SAP. Problems were experienced in the migration of the Venus data into the SAP system.

Without the Venus expenditure on SAP, the budget controls on SAP were of no use as the expenditure was overstated. This has led to poor controls on budget vs actual and has resulted in unauthorised expenditure. This was investigated and subsequently approved by Council.

During the 2015/16 financial year, the operational budget was exceeded at vote level by R697 374 for Legislative and executive support services on employee costs and R5 172 132 for Corporate services due to an increase in depreciation charges at year end and rental payments, however the total budget at institutional level was not overspent. The capital budget was exceeded on MIG by R192 614, MWIG R677 144 and War on Leaks by R296 703. This was investigated and subsequently approved by Council.

47. Fruitless and wasteful expenditure

Opening balance	5 110 095	4 382 348
Fruitless and wasteful expenditure current year	1 949 987	727 747
Written off during the year	(3 793 446)	-
	3 266 636	5 110 095

Incident

During the current year the ADM incurred fruitless and wasteful expenditure of R1 949 987.

This amount is comprised of the interest being incurred on late payment due to insufficient cash:

Electricity R710 796, Traffic Fines R6 600, Fleet R135, Rental R2 896, Pension R20 091, Telephone R101 888, Sampling R122 and SARS: PAYE, UIF R1 107 459.

The incidents were investigated by MPAC and subsequently written off by Council on 15 March 2021.

During the 2018/19 financial year, the municipality incurred interest on overdue accounts. This was as a result of the cash flow constraints being experienced, hence accounts were paid late.

The interest on late payment of R727 715 is constituted of the following:

Licences R17 491, Telephone R58 844, Pension fund R521, Fleet R523 719, Electricity R103 982, Rates and utilities R12 732 and postage R10 458.

These matters were investigated and an amount of R355 645 was written off by Council on 28 August 2020. The remaining amount was subsequently written off on 15 March 2021.

During the 2017/18 financial year R51 034 was paid for interest on late payment of fleet. The late payment is as a result of the cash constraints being experienced by the municipality. The matter has been investigated and written off by Council on 28 August 2020.

An amount of R10 832 was incurred from the late payment of electricity.

Interest and penalties of R837 352 was incurred from the outcome of a VAT audit on the 2014 to 2017 financial year.

During 2017/18 an amount of R918 612 was incurred for the late filing of August 2018 PAYE. This amount was investigated and subsequently written off by Council on 31 March 2021.

An amount of R25 934 was incurred as interest on the late payment of audit fees. The late payment was as a result of the cash flow constraints. The matter was investigated and subsequently written off by Council on 31 March 2021.

LA Retirement Fund: Penalty Payment of R290 for third party payment for the month of December 2017. The payment was delayed as a result of budget errors that were only resolved in January 2018. ADM only re-opened its offices on 8 January 2018 which is after the payment due date of the 3rd.

LA Retirement Fund: Penalty Payment of R353 for third party payment for the month of November 2017. The payment was delayed as a result of budget errors that were only resolved in January 2018. ADM only re-opened its offices on 8 January 2018 which is after the payment due date of the 3rd.

Municipal Workers Retirement Fund: Penalty Payment of R4 547 for third party payment for the month of November 2017. The payment was delayed as a result of budget errors that were only resolved in January 2018. ADM only re-opened its offices on 8 January 2018 which is after the payment due date of the 3rd. The matters have been investigated and an amount of R904 408 was written off by Council on 28 August 2020. The remaining amount was subsequently written off by Council on 15 March 2021.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

2020

2019

Restated

R

R

During 2016/17 financial year an amount of R142 was incurred as interest on late payment of an invoice for catering.
During 2016/17 financial year an amount of R7 234 was incurred as interest on late payment of an invoice for Telkom.
During 2016/17 financial year an amount of R2 103 188 was incurred as interest of R402 441 and penalty VAT of R1 700 747.
During 2016/17 financial year an amount of R62 225 was incurred as interest for penalty charges.
During 2016/17 financial year an amount of R15 898 was incurred for Traffic Fines.
During 2016/17 financial year an amount of R43 487 was paid to Telkom for cables that were pulled up from the ground by an ADM TLB.
All of the matters for the 2016/17 financial year have been investigated and written off by Council on 28 August 2020.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R

During the 2015/16 financial year, interest was incurred for First Auto of R35 489.
 During the 2015/16 financial year, there was interest incurred for an amount R90 512 and R97 718 for late insurance payment. The matters were investigated and an amount of R223 720 was written off by Council.
 Subsequently the remaining amount has been written off by Council on 31 March 2021.
 During the 2014/15 financial year, there was incorrect payment made to the service provider for an amount of R27 500. The matters have been investigated and an amount of R27 500 written off by Council on 28 August 2020.

During the 2013/14 financial year, interest of R31 348 was incurred on the late payment of fleet costs. The matter was investigated and written off by Council.

During the 2012/13 financial year, there was interest on late payment to First Auto of R11 035.
 During the 2012/13 financial year, late payment incurring interest of R7 617 was incurred. All the matters have been investigated and written off by Council.

48. Irregular expenditure

Opening balance	243 909 197	118 080 376
Add: Irregular Expenditure during the current year	103 819 538	125 841 821
Less: Amounts written off by Council	(243 909 197)	-
Less: Amounts recovered	-	(13 000)
	103 819 538	243 909 197

Incident

During 2019/20 an amount of R17 173 514 was paid to a contractor. The contract was awarded to the second highest point scorer and the reasons were deemed not reasonable.
 During 2019/20 an amount of R12 249 090 was paid to a contractor. SCM Regulation 29 requires SCM to form part of the BAC, SCM was not part of the BAC and the tax matters were not declared to be in order by SARS.
 During 2019/20 an amount of R525 756 was paid to a contractor. The reason for deviation is not justifiable, non-compliance with the MFMA as the declaration for bidders past performance not obtained, declaration of interest not obtained, it could not be determined whether the goods/services were procured at a reasonable price, bidders tax matters not declared to be in order by SARS and the award was approved by an official that is not a senior manager as defined in the MFMA.
 During 2019/20 an amount of R5 625 was paid to a service provider. The reason for deviation is not justifiable, MDB 4 declaration of interest not obtained and the award was approved by an official that is not a senior manager as defined in the MFMA.
 During 2019/20 R300 000 was paid to a consultant. The bidders performance was not obtained, MDB 4 declaration of interest not obtained and the award was approved by an official that is not a senior manager as defined in the MFMA.
 During 2019/20 an amount of R166 397 was paid to a contractor. The award was approved by an official that is not a senior manager as defined in the MFMA.
 During 2018/19, an amount of R5 526 722 was paid deemed irregular as the award was approved by an official who is not a senior manager.
 During 2019/20 an amount of R762 652 was paid to a contractor. The supplier awarded the tender was above 15% associated with its grading.
 During 2019/20 an amount of R26 290 was paid to a service provider. The service provider was awarded incorrect BBBEE points.
 During 2019/20 an amount of R140 350 has been deemed irregular as the reason to deviate was not justifiable.
 During 2019/20 an amount of R464 469 was paid to a consultant. SCM Regulation 29 requires SCM to form part of the BAC, SCM was not part of the BAC.
 During 2019/20 an amount of R1 061 639 was deemed as irregular as the reason for deviation for refurbishment works was considered not justifiable.
 During 2019/20 a further payment of R9 582 296 was made which was deemed as irregular as the reason for deviation for refurbishment works was considered not justifiable.
 During 2019/20 a further payment of R3 535 951 was made which was deemed as irregular as the reason for deviation for engineering consulting services was considered not justifiable in the prior year.
 During 2018/19, the project was deemed irregular as the reasons to deviation were not justifiable. No payment was made during 2018/2019, however an amount of R39 231 501 was made during 2019/20.
 During 2018/19, an amount of R8 010 203 was deemed as irregular as payments were made after the expiry of the contract.
 During 2019/20 a further payment of R4 889 642 was made which was deemed as irregular as the tender was advertised for less than the prescribed 30 days in the prior year.
 These matters were investigated and subsequently Council has written off the amounts on 15 March 2021.

During 2018/19, an amount of R45 158 was deemed as irregular as three quotations were not obtained.
 During 2018/19, an amount of R21 378 was deemed as irregular as three quotations were not obtained.
 During 2018/19, an amount of R30 276 was deemed as irregular as three quotations were not obtained.
 During 2018/19, an amount of R22 716 was deemed as irregular as three quotations were not obtained.
 During 2018/19, an amount of R10 000 was deemed as irregular as three quotations were not obtained.
 During 2018/19, an amount of R18 906 was deemed as irregular as three quotations were not obtained.
 During 2018/19, an amount of R20 017 was deemed as irregular as three quotations were not obtained.
 During 2018/19, an amount of R55 036 496 was paid to a contractor. The contract was awarded to the second highest point scorer and the reasons were deemed not reasonable.
 During 2018/19, an amount of R8 836 402 was paid to a contractor. SCM Regulation 29 requires SCM to form part of the BAC, SCM was not part of the BAC and the tax matters were not declared to be in order by SARS.
 During 2018/19, an amount of R1 441 252 was paid to a contractor. The reason for deviation is not justifiable, non-compliance with the MFMA as the declaration for bidders past performance not obtained, declaration of interest not obtained, it could not be determined whether the goods/services were procured at a reasonable price, bidders tax matters not declared to be in order by SARS and the award was approved by an official that is not a senior manager as defined in the MFMA.
 During 2018/19, an amount of R1 358 568 was paid to a contractor. The reason for deviation is not justifiable, bidders tax matters not declared to be in order by SARS and the award was approved by an official that is not a senior manager as defined in the MFMA.
 During 2018/19, an amount of R9 101 was paid to a service provider. The reason for deviation is not justifiable, MDB 4 declaration of interest not obtained and the award was approved by an official that is not a senior manager as defined in the MFMA.
 During 2018/19, an amount of R2 149 093 was paid to a consultant. The bidders performance was not obtained, MDB 4 declaration of interest not obtained and the award was approved by an official that is not a senior manager as defined in the MFMA.
 During 2018/19, an amount of R983 645 was paid to a contractor. The award was approved by an official that is not a senior manager as defined in the MFMA.
 During 2018/19, an amount of R1 346 578 was paid to a contractor. The supplier awarded the tender was above 15% associated with its grading.
 During 2018/19, an amount of R57 838 was paid to a service provider. The service provider was awarded incorrect BBBEE points.
 During 2018/19, an amount of R299 786 was paid to a consultant. SCM Regulation 29 requires SCM to form part of the BAC, SCM was not part of the BAC.
 During 2018/19, an amount of R84 132 was paid to a consultant. The reason for deviation is not justifiable.
 During 2018/19, an amount of R29 868 466 was paid to numerous contractors for the construction of VIP toilets. The reason for deviation is not justifiable.
 During 2018/19, an amount of R25 162 was deemed as irregular as no declaration of interest was submitted by the bidder for the supply and delivery of goods.
 During 2018/19, an amount of R79 000 was deemed as irregular as no declaration of interest was submitted by the bidder for the provision of security services.
 During 2018/19, an amount of R27 986 was deemed as irregular as no declaration of interest was submitted by the bidder for the supply and delivery of goods.
 During 2018/19, an amount of R24 148 was deemed as irregular as no declaration of interest was submitted by the bidder for the supply and delivery of cleaning materials.
 During 2018/19, an amount of R2 810 403 was deemed as irregular as the reason for deviation for refurbishment works was considered not justifiable.
 During 2018/19, an amount of R7 798 578 was deemed as irregular as the reason for deviation for refurbishment works was considered not justifiable.
 During 2018/19, an amount of R283 703 was deemed as irregular as the reason for deviation for engineering consulting services was considered not justifiable.
 During 2018/19, an amount of R15 720 was deemed as irregular as less than three quotations were obtained and no approval was obtained for catering services.
 During 2018/19, an amount of R33 715 was deemed as irregular as less than three quotations were obtained and no approval was obtained for stationery.
 During 2018/19, an amount of R29 897 was deemed as irregular as less than three quotations were obtained and no approval was obtained for stationery.
 During 2018/19, an amount of R30 000 was deemed as irregular as less than three quotations were obtained and no approval was obtained for catering services.
 During 2018/19, an amount of R6 160 166 was deemed as irregular as it was overpaid for consulting engineer services.
 During 2018/19, an amount of R1 271 233 was deemed as irregular as the tender was advertised for less than the prescribed 30 days.
 During 2018/19, an amount of R573 894 was deemed as irregular as the tender was not awarded to the highest point scorer and there was no evidence that the Accounting Officer was notified.
 Council has investigated and approved all the expenditure incurred for 2018/19 on 28 August 2020.

An amount of R26 016 555 was certified as irrecoverable and written off by Council on 30 August 2019.
 During 2017/2018, an amount of R61 940 was deemed as irregular as the project was advertised for less than the required number of days per the SCM regulation.
 The project was advertised for 6 days instead of 7 days.
 During 2017/2018, this contract has been deemed to be irregular as the reasons were not considered to be justifiable. The contract was awarded to the second highest scorer. An amount of R54 072 437 was paid to the contractor.
 During 2017/2018 an amount of R23 199 090 was deemed as irregular as the competitive bidding process as per the SCM regulations was not followed as the initial process of getting the suppliers listed on the municipality's database was not finalised. The criteria as per the municipality's Contractor Incubator Programme Policy were not applied when the bid was awarded.
 The municipality paid an amount of R7 580 985 during 2017/18. Tax matters were deemed not to be in order and no SCM official was part of the BAC as required by the SCM Regulations.
 During 2017/18 an amount of R303 372 was incurred to a service provider appointed. The awarded bidder failed to comply with Regulation 9 of the Preferential Procurement Regulations. No further payment has been made as the contract has been cancelled.
 During 2017/18 an amount of R125 843 was incurred to a service provider appointed. The awarded bidder failed to comply with Regulation 9 of the Preferential Procurement Regulations. No further payment has been made as the contract has been cancelled.
 During 2017/18 an amount of R664 100 was incurred to a service provider appointed. The pre-qualification re-assessment by the BEC was not undertaken for all bidders. Further payments were made during the 2018/2019 financial year.
 During 2017/2018 deemed award to be irregular as the reason for deviation was not justifiable. To date an amount of R281 643 was paid.
 The AG during the 2017/2018 audit deemed the award to be irregular as the reason for deviation is invalid; non compliance with MFMA as the Declaration about the bidders past SCM performance history (MBD 8) was not obtained; MBD 4 Declaration of Interest also not obtained; AG could not determine whether the goods / services were procured at a reasonable price; the bidders tax matters were not declared to be in order by SARS; the award was approved by an official who is not a senior manager as defined in the MFMA and MSA (556). To date an amount of R930 994 was paid.
 The AG during the 2017/2018 audit deemed the award to be irregular as the reason for deviation is invalid; the bidders tax matters were not declared to be in order by SARS;

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

2020

2019

R

Restated

R

the award was approved by an official who is not a senior manager as defined in the MFMA and MSA (S56). To date an amount of R2 652 349 was paid. The AG during the 2017/2018 audit deemed this award to be irregular as the reason for deviation is not justifiable and the MBD 4 Declaration of Interest was not obtained; the award was approved by an official who is not a senior manager as defined in the MFMA and MSA (S56). To date an amount of R4 414 was paid. During 2017/2018 the award was deemed to be irregular due to non compliance with MFMA as the Declaration about the bidders past SCM performance history (MBD 8) was not obtained as well as the MBD 4 Declaration of Interest; the bidders tax matters were not declared to be in order by SARS. To date an amount of R5 047 022 was paid. The AG during the 2017/2018 audit deemed an award to be irregular as the award was approved by an official who is not a senior manager as defined in the MFMA and MSA (S56). To date an amount of R4 727 695 was paid. Council is still to consider this matter. During the 2017/2018 an amount paid of R630 017 was deemed as irregular due to SCM Regulation 29(2)(ii) not being complied with. This regulation requires SCM to form part of the Bid Adjudication Committee. This contract was awarded when SCM was not in attendance at the meeting. Council is still to consider this matter. During 2017/18, an amount of R116 000 was paid to a service provider. The reason for deviation is not justifiable. This has been deemed to be irregular.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R

Council has investigated and written off all the 2017/18 items on 28 August 2020.
An amount of R72 020 297 was certified as irrecoverable and written off by Council on 30 August 2019.

During 2016/17 a service provider was appointed for an amount of R9 228 to supply fittings without the departmental delegated authority's approval.
During the 2016/2017 Audit an amount of R329 000 was deemed irregular as the reason cited use of Single Source specialised nature did not seem appropriate.
During the 2016/2017 Audit an amount of R377 295 was deemed irregular as the reason cited use of Multi Source specialised nature did not seem appropriate.
During the 2016/2017 Audit an amount of R455 746 was deemed irregular as the reason cited use of Multi Source specialised nature did not seem appropriate.
During the 2016/2017 Audit an amount of R416 000 was deemed irregular as the reason cited use of Multi Source specialised nature did not seem appropriate.
During the 2016/17 an amount of R1 426 371 is for a service provider that was appointed under contract 8/2/17/2016-2017. The reason for deviation is not justifiable.
During the 2016/17 financial year the service provider was paid an amount of R389 356. The reason for deviation is not justifiable.
During the 2016/17 financial year the service provider was paid an amount of R1 704 425. The reason for deviation is not justifiable.
During the 2016/17 financial year the service provider was paid an amount of R4 189. The reason for deviation is not justifiable.
During the 2016/17 financial year the service provider was paid an amount of R29 500. The reason for deviation is not justifiable.
During the 2016/17 financial year the service provider was paid an amount of R22 732. The reason for deviation is not justifiable.
During the 2016/17 financial year the service provider was appointed under emergency procurement of R42 000 per month. An amount of R504 000 has been paid.
During the 2016/17 financial year the service provider was appointed for an amount of R5 550 under emergency services to remove and reinstall outdoor ADM Branded Over Head Signage.
The reason for the breach was not provided as per Regulation 36 of the SCM Regulations.
During the 2016/17 financial year the service provider was paid an amount of R9 974 000. The reason for deviation is not justifiable.
During the 2016/17 a service provider was appointed for an amount of R402 649. The prequalification re-assessment by BEC was not undertaken for all bidders.
Council has investigated and approved all the expenditure incurred for 2016/17 on 28 August 2020.
An amount of R16 050 040 was certified as irrecoverable and written off by Council on 30 August 2019.

During the 2015/16 an amount R28 932 and R29 500 relate to the service providers not registered. Council still to consider these matters.
During the 2015/16 an amount of R1 327 748 was overpaid. Council still to consider this overpayment.
An amount of R1 386 180 was certified as irrecoverable and written off by Council on 30 August 2019.

During the 2014/15 financial year, procurement amounting to R205 568 (7 incidents) were deemed irregular by ADM as procurement processes were split to avoid the SCM processes.
Disciplinary action has been taken against the official and R26 000 has been recovered up to the 30 June 2020.
During the 2014/15 financial year Audit, an amount of R3 532 and R7 293 was deemed irregular as there was no evidence provided that the procurement process of requesting three quotations was followed to procure catering services.
During 2014/15 financial year Audit, an amount of R29 862 (R2 232, R7 732, and R19 898) were deemed irregular as it was noted that quotations were obtained from service providers which were not listed on ADM's supplier database and it could not be ascertained whether they met the listing requirements as their application documentation could not be obtained from ADM during 14/15 Audit.
Council has investigated and written off these items incurred for 2014/15 on 28 August 2020.
An amount of R246 254 was certified as irrecoverable and written off by Council on 30 August 2019.

The comparative figure has been restated Refer **Note 44**

49. Additional disclosure in terms of Municipal Finance Management Act

Audit fees	2020	2019
Opening balance	2 541 364	1 420 890
Current year fee	5 134 375	8 520 184
Amount paid - current year	(4 169 936)	(6 798 878)
Amount unpaid at year end	<u>3 505 803</u>	<u>2 541 364</u>

PAYE and UIF	2020	2019
Opening balance	9 689 040	9 101 730
Current year subscription / fee	131 882 145	99 518 665
Amount paid - current year	(120 136 806)	(98 931 355)
The balance represents PAYE and UIF from the May 2020 and June 2020 payroll. The amount due was paid during August 2020 and has been included in current liabilities.	<u>21 434 380</u>	<u>9 689 040</u>

Pension and Medical Aid Deductions	2020	2019
Opening balance	(14 481 831)	14 481 831
Current year subscription / fee	185 390 205	155 099 089
Amount paid - current year	(170 908 374)	(169 580 920)
	<u>-</u>	<u>(14 481 831)</u>

Councillors' arrear consumer accounts

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

- Councillor B.M Ganjiana
- Councillor CA Auld
- Councillor N. Ntshona
- Councillor S&SE Ndwananya
- Councillor S Zuka

Outstanding more than 90 days	Total	
R	R	R
	30 415	30 415
	19 985	19 985
	13 600	13 600
	1 111	1 111
	5 371	5 371
	<u>70 482</u>	<u>70 482</u>

30 June 2019

- Councillor B.M Ganjiana
- Councillor N. Ntshona
- Councillor S Zuka
- Councillor LD Penisi
- Councillor XC Badi
- Councillor CA Auld

Outstanding more than 90 days	Total	
R	R	R
	18 804	18 804
	10 828	10 828
	6 929	6 929
	23 483	23 483
	28 193	28 193
	21 600	21 600
	<u>109 837</u>	<u>109 837</u>

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

30 June 2020

- Councillor B.M Ganjiana
- Councillor CA Auld
- Councillor N. Ntshona
- Councillor S Zuka
- Councillor S&SE Ndwananya

Highest outstanding amount	Aging (in days)
30 415	90
19 985	90
13 600	90
5 371	90
1 111	90
<u>70 482</u>	

30 June 2019

- Councillor XC Badi
- Councillor LD Penisi
- Councillor CA Auld
- Councillor B.M Ganjiana
- Councillor N. Ntshona
- Councillor S Zuka

Highest outstanding amount	Aging (in days)
28 193	90
23 483	90
21 600	90
18 804	90
10 828	90
6 929	90
<u>109 837</u>	

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

2020

2019

Restated

R

R

Supply chain management regulations

The following deviations and ratifications of minor breaches of procurement are reported in Council in terms of paragraph 36(2) of the SCM policy:

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
Types of deviation:		
Sole Supplier	627 084	29 141 807
Emergency	108 748 184	42 048 464
Emergency - COVID	2 228 370	-
Acquisition of special works of art or historical objects where specifications are difficult to compile.	-	-
Exceptional case and it is impractical to follow official procurement process	5 124 535	131 882 039
Expansions and variations	1 971 147	7 887 874
	118 699 320	210 960 184
Breaches	28 245	1 726 578
Total	118 727 565	212 686 762

The above-mentioned deviations and deviations from the Supply Chain Management processes has been condoned in terms of the approved Supply Chain Management policy.

Bids awarded to family of employees in service of the state

In terms of the SCM regulations, any award above R2000 to family members of employees in the service of the State must be disclosed in the annual financial statements. The following is a list as recorded on the declaration of interest form.

Connected Person and Position Held

T. Madikida - Area Manager	-	1 155 958
T. Mbali - Senior Manager: Disaster Management Officer	-	9 500
A. Dyantyi -	215 620	-
B. Cook - Engineering	-	6 600
T. Mgayi- Asset clerk	51 087	-
	266 707	1 172 058

Default and breaches

Although the average creditors payment days ratio was at 67.8% at 30 June 2020 due to the cash flow constraints, from time to time the municipality had challenges in meeting the 30 days legislated timeframe for payments of invoices. These challenges were as a result of cash flow constraints. This resulted in an aggregate of 32% of invoices processed and not paid within 30 days during quarter 3 of 1920 financial year. The municipality has exercised reasonable steps to ensure that invoices are paid within 30 days of receipt.

Total Value of invoices processed	R 910 371 314
Value of invoices processed and paid within 30 days	616 790 903
Value of invoices processed but not paid within 30 days	293 580 411
Percentage	32%

50. Grant performance narrations

Refer to Annexure 1 for further detail on grants

National Government Grants

1. Financial Management Grant (FMG)

Funds were used for salaries of five (5) interns. In addition to interns salaries, the funds were also utilised for work resources for Budget and Treasury office to ensure business continuity during lockdown for State of Disaster Covid-19 Pandemic.

2. Extended Public Works Programme (EPWP)

Unskilled Contract workers have been appointed throughout the district for various projects utilising the EPWP funding. The grant was fully spent.

3. Municipal Infrastructure Grant (MIG)

The MIG funds were used for water and sanitation projects. The grant was fully spent.

4. Water Services Infrastructure Grant (WSIG)

The funds were utilised for various water and sanitation related projects within the District, an amount of R168 456 remains unspent.

5. Road Asset Management System (RAMS)

The fund is used to put in place a roads management system for the LM's within the District. The grant is fully spent.

6. Neighbourhood Development Partnership Grant (NDPG)

This fund is transferred to ASPIRE for implementation. There was no allocation for 19/20. Roll over to be transferred to Funder.

7. Regional Bulk Infrastructure (RBIG)

Being a grant in kind. ADM undertakes the work, then submits the invoice to DWS immediately. Only upon receipt of the funding is the payment process effected to pay the actual service provider.

8. Mnquma War on Leaks

Project Complete.

9. ACIP - WW Infrastructure refurbish R3 5M

Funds utilised for refurbishment of waste water infrastructure.

10. Victoria

This is a multiyear project.

An application for roll-over was made by the project Manager to the funder.

11. Teko Springs/ Ndlovini

This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.

12. Needs Camp

This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.

13. Hogsback

This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.

14. Haga Haga

This is a multiyear project. The balance is expected to be utilised in the next financial year. The application for roll-over was approved by the funder. The project status awaiting acceptance of the offer to acquire the land from the land downer. Keep and use the funds.

15. Willowvale

This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.

16. Elliotdale

This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.

17. Ndevana

This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.

18. Msobomvu

This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.

19. Hertzog

This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
20. Great Kei Planning Funds This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.		
21. Mquma Planning Funds This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.		
22. Ngushwa Planning Funds This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.		
23. Nkonkobe Planning Funds This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.		
24. Mquma Survey This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.		
25. Survey Interest and Contribution This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.		
26. Ngushwa Survey Funds This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.		
27. Nkonkobe Survey This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.		
28. Lewis Survey This is a multiyear project. The application for roll-over was made by the project Manager to the funder. The project status is awaiting approval of the layout plan by COGTA.		
29. Prudoe Engineering Design Project complete.		
30. Dongwe Engineering Design Project complete.		
31. Kubusie Establishment Grant Project complete.		
32. Ndlovini Establishment Grant Project complete.		
33. Ducats Establishment Grant Project complete.		
34. Maceantown Establishment Grant Project complete.		
35. Prudoe Establishment Grant Project complete.		
36. Dongwe Establishment Grant Project complete.		
37. Teko Spring Establishment Grant Project complete.		
38. Needs Camp Establishment Grant Project complete.		
39. Teko Spring Top Structure Project complete.		
40. Prudoe Top Structure Project complete.		
41. Dongwe Top Structure Project complete.		
42. Needscamp Top Structure Project complete.		
43. Ducats Top Structure Subsidy Project complete.		
44. Kubusi Top Structure Project complete.		
45. Lilyvale Kaysers Beach Establishment Grant Project complete.		
46. Kaysers Beach Housing Project Project complete.		
47. Lillyvale Eng Designs Project complete.		

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
48. Planning Grant DLA		
This is a multiyear project. The project is progressing. The balance will be sent to the funder as per Court Order and Council Resolution. These will be expended on 2020/21 financial year.		
49. Restitutional Award (DLA)		
This is a multiyear project. The project is progressing. The balance will be sent to the funder as per the Court Order and Council Resolution. These will be expended in 2020/21 financial year.		
50. Beneficiary Administration (Breaking new ground)		
This is a multiyear project. The project is progressing. The balance is expected to be utilised in the next financial years. The application for the roll over was made by the project manager to the funder.		
51. Environmental Impact Assessment		
This is a multiyear project. The project is progressing. The balance is expected to be utilised in the next financial years. The application for the roll over was made by the project manager to the funder.		
52. Geo Hydrology		
Project complete.		
53. Bawa Falls Led		
Project will be complete.		
54. Elliotdale Brick Making		
Project complete.		
55. EC Information Initiative Support		
Project complete.		
56.ECDDOT: Butterworth Interchange		
Project complete.		
57. Roof Top Rain Water Harvesting		
Project complete.		
58. Ngqusi Rain Water Harvesting		
Project complete.		
59. Water service support		
Project complete, the balance remaining is savings.		
60. Free Basic Services Strategy Development		
Project complete, the balance remaining is savings.		
61. Silwindlala Women's Project		
Project complete.		
62. Balfour Sawmills		
Project complete.		
63. Highlands Resorts		
Project complete.		
64. Peddie Brick Making		
Project complete.		
65. Inkuthalo Hydroponics		
Project complete.		
66. Capacity Building for LM's		
Project complete.		
67. Led Capacity Building - Ngqushwa		
Project complete.		
68. Upgrade Infrastructure Sanitation (Consolidated of Accounts)		
Recently consolidated funds. Will be utilised		
69. Water Conservation and Demand		
Project complete.		
70. Chatha Development		
This is a multi-year project. The project is progressing. The balance is expected to be utilised in the next financial years .		
71. Fingoland and Regional Authority		
This is a multi-year project. The project is progressing. The balance is expected to be utilised in the next financial years .		
72. Dwesa Cwebe Restitutional		
This is a multi-year project. The project is progressing. The balance is expected to be utilised in the next financial years .		
73. Co-operative specialist		
Project complete.		
74. Tourism Survey		
Project complete.		
75. Nxuba Dam Chalets Development		
Project complete.		
76. SETA Implementation		
Interns have been appointed in the institution and study subsidies given to staff. Funds have been utilised for interns and training programs for ADM staff and political principals. Roll over for 2020/21 has been approved by the funder.		
77. Ploughing Contactors-ward 10		
Project complete.		

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
78. Ploughing Contactor- NGXAKAXA Project complete.		
79. Ploughing Contactor- Ward 15 Project complete.		

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
80. Vuna Awards		
Balance remaining from Vuna awards received in prior years, can be utilised for operating expenditure.		
81. Public Awareness Savings		
Technical Assistance to Develop District Dec Profile The application for rollover has been done to COGTA.		
82. Shixhini Water Supply		
The remaining amount is savings		
83. Communal Water Stations		
Project complete.		
84. Technical Assistance to Develop District Development Profile		
Project complete.		
85. Municipal Disaster Grant: Drill borehole Dutywa		
Fund used for drilling borehole in Nqabarna and Dwesa		
86. Municipal Disaster Grant: Drill borehole Nqabane		
Fund used for drilling borehole in Nqabarna and Dwesa		
87. Municipal Disaster Grant: Drill borehole Dwesa Region		
Fund used for drilling borehole in Nqabarna and Dwesa		
51. Interest earned - outstanding receivables		
Receivables - service charges: Water	66 241 782	43 327 118
Receivables - service charges: Sanitation	27 106 989	22 271 947
	93 348 771	65 599 065
52. Gain/(Loss) on disposal of assets		
	(138 738)	(1 200 625)
The loss relates to other assets such as furniture and fittings, buildings and motor vehicles.		
53. Repairs and maintenance		
Water and sanitation	74 545 264	16 397 902
Buildings	135 908	52 387
Computer :software	-1,85	-
Office furniture and equipment	453 214	20 777
Buildings	14 173 228	1 800 001
	89 307 612	18 271 067
Comparative figure has been restated by an amount of R2 204 297, refer Note 44 .		
54. Water distribution losses		
Water distribution losses	9 198 852	27 263 000
Percentage water losses	15%	18%
The amount recorded as distribution losses emanates from the provision of water to free basic services beneficiaries through communal standpipes and also network/distribution losses due to burst pipe and other leakages.		
55. Vat Payable		
VAT	93 288 305	119 515 397
VAT is on the payment basis. All returns were submitted on time during the year.		
The comparative figure vat payable has been restated by an amount of R40 664 750. Refer Note 44 .		
56. Transfers and grant expenditure		
Conditional grant expenditure	18 355 784	24 817 376
Comprised of:		
Internships	2 024 643	8 903 074
Assets: Sanitation	-	918 827
Assets: Water	-	(530 323)
Project Management	-	-
Amathole Economic Development Agency contribution	16 331 141	15 525 799
This expenditure relates to non capital items.		
57. Financial sustainability		
The municipality is facing a number of financial risks that cast doubt on its ability to sustain its current level of operations in the near future. The key financial risks identified include:		
<ul style="list-style-type: none"> - inability to pay creditors within due dates - inability to collect revenue billed - net current liability position 		
Management has planned to reduce expenditure and improve the financial sustainability of the municipality through the implementation of austerity measures to reduce the administrative costs, revenue enhancement strategies and rebuilding of reserves. Management plans include the review of the adopted policies, long-term financial forecasts, asset management plans, contractually committed fixed costs such as rentals and the existing organogram with a view to reduce financial liability and costs.		
58. Events after reporting date		
Council approved the write off of irregular expenditure of R103 819 538 and fruitless and wasteful expenditure of R3 266 636 on 31 March 2021. Council approved the write off of Unauthorised expenditure of R202 602 443 on 31 March 2021.		
A decision was taken by the Eastern Cape Executive Council in its sitting on 20 January 2021 to invoke the provisions of Sec 139(5)(a) of the Constitution of the Republic of South Africa at the municipality being a Mandatory Provincial Intervention - Financial Recovery Plan.		
Correspondence to this effect, dated 26 February 2021, was received from the MEC.		
59. Services received in kind		
The following were services received in kind by the municipality during the year: The municipality has partnered with GIZ again during the current year. GIZ have provided the services of consultants to assist with asset management.		
60. Budget differences		
Material differences between budget and actual amounts		
The excess of actual expenditure over the final budget of 10% are explained below:		
Statement of Financial Performance		
1. Service charges		
The actual service charges are net of the indigent support being R12 780 36 and discounts of R5 286 461 as required by GRAP 9. In addition an amount to balance the provision for bad debts has been added to service charges.		

Notes to the annual Financial Statements

2020	2019
R	Restated R

Hence the actual service charges are less than the budget service charges figures.

2. Rentals
The actual rental was less than anticipated as 40 Cambridge Street was not leased as anticipated.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

	2020	2019
	R	Restated R
3. Interest earned - outstanding receivables		
The budget amount is based on what is realistically collectable as per Sec 18 of the MFMA, while the actual amount is based on accrued billing for interest charges. Hence the difference between the actual and budget figures as the billed interest amount exceeds the amount received.		
4. Other income		
The actual amount is comprised of commission, disconnection fees, removal of waste water, tender document sales and staff recoveries. The budget includes an amount of R75 599 200 pertaining to VAT refunds from the grant expenditure that can be recognised as own revenue, while the actual amount is disclosed as part of the grant income.		
5. Interest on external investments		
The actual figures are less than the planned figures as a result of the call accounts interest decreasing to 4,25% after the COVID 19 pandemic.		
6. Government grants		
Income is recognised once spending takes place and conditions are met.		
Expenditure		
7. Employee related costs		
The actual employee costs are less than the budget due to the implementation of strategies by management to reduce the cost of employment.		
8. Remuneration of councillors		
The actual remuneration is less than the planned expenditure as the annual budget included a 6,5% increase however Council resolved a 4% annual adjustment for salaries and benefits for the Councillors for 2019/2020 financial year.		
9. Depreciation		
The actual depreciation is less than the budget as fewer projects were capitalised than anticipated.		
10. Finance costs		
The anticipated finance costs were more than budgeted due to the actuarial valuation of the employee benefits being greater than anticipated. The actuarial valuation report is received at year end from the actuary.		
11. Debt impairment		
Almost 80% of the debt due is provided for. The actual amount exceeds the budget due to the increase in the bad debt provision. The debtors amount owed to the municipality was more than anticipated due to low collection, which was aggravated by the National lockdown which saw collections dropping to 9%.		
13. Repairs and maintenance		
Repairs and maintenance votes are used on an adhoc basis and only used if and when needed, hence the actual expenditure was less than the budget.		
14. Bulk services		
The purchase of bulk water was more than anticipated due to increased demand. In addition during the National lockdown, all restrictions and disconnections were uplifted. This was to ensure that all communities had adequate water to practice good health habits.		
15. Contracted services		
Contracted Services relates to expenditure incurred on the leasing of property plant and equipment, leases for buildings, photocopiers and security.		
16. Inventory consumed		
This amount relates to VIP toilets that have been expensed upon the beneficiary taking ownership.		
17. Transfers and grant expenditure		
The transfers and grant expenditure includes non capital expenditure such as feasibility studies, stipends and the allocation to ASPIRE, the municipal entity.		
18. Operational Costs		
The municipality has implemented austerity measures to assist in the reduction of expenditure, hence the actual expenditure is less than the budget.		
19. Actuarial gains		
Actuarial gains and losses on the actuarial valuations for the employee benefits are not budgeted for due to the level of uncertainty. The municipality does not budget for gains and losses.		
20. Loss on sale of assets		
Gain/loss on the disposal of assets is not budgeted for due its ad hoc nature and level of uncertainty.		
Statement of Financial Position		
1. Inventory		
The increase is due to VIP toilets on hand at year end which is more than planned.		
2. Receivables from exchange transactions		
The provision for bad debts is around 80% of the outstanding debt. Collections have been lower than anticipated particularly in the last quarter due to the National Lockdown.		
3. Receivables from non-exchange transactions		
The receivables for non-exchange transactions were less than anticipated.		
5. Cash and cash equivalents		
The cash and cash equivalents were greater than anticipated.		
6. Investment Property		
Investment property consists mainly of vacant land.		
7. Property, plant and equipment		
The property, plant and equipment decreased during the current year as a result of VIP toilets that have been reclassified from work in progress.		
8. Intangible assets		
The decrease is due to amortisation of intangible assets during the year.		
10. Finance lease obligation (current)		
The increase is due to new contracts being classified as finance leases instead of operating leases in terms of GRAP.		
11. Payables from exchange transactions		
The increase is due to an increase in trade creditors.		
12. Taxes and transfers payable (non exchange)		
The PAYE and UIF for May 2020 and June 2020 were only paid over during August 2020.		
13. VAT payable		
The municipality is on the payments basis, hence the VAT payable relates to output VAT not yet declared as payment has not been received from the consumers.		
14. Unspent conditional grants and receipts		
The actual unspent conditional grants are less at year end than planned as R15 million of balances was returned from the restitutional awards.		
16. Provisions		
The provisions were less than anticipated.		
18. Operating lease liability		
The actual figure is less than the budget figure for the operating lease liability as certain leases were classified as finance leases instead of operating leases. in accordance with GRAP 13.		

Notes to the annual Financial Statements

2020	2019
R	Restated R

19. Employee benefit obligation
The employee benefit obligation is based upon the report obtained from the actuaries. The reports obtained reflected a decrease in the Post Employment Medical Aid obligation.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the annual Financial Statements

2020

2019

R

Restated

R

Cash flow statement

3. Operating activities

The net cash from operating activities variance is due to the service charges being less than the budget amount as well as the actual payments to employees and suppliers being less than the budget.

2. Investing activities

The net cash flow from investing activities variance is as a consequence of WIP infrastructure capitalisation.

3. Financing activities

The net cash flow from investing activities variance is as a result of a capital reserve being created.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters as well as an adjustment to the budget.

Amathole District Municipality

Annual Financial Statements for the year ended 30 June 2020

Appendix A - Schedule of External Loans

EXTERNAL LOANS	Loan number	Interest Rate	Redeemable Date	Received during the period	Redeemed / written off during the period	Balance at 30 June 2020
				R	R	R
CURRENT PORTION						
				-	-	-
				-	-	-
				-	-	-
Total long-term loans				-	-	-

The loan was settled during the 2016/17 financial year