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

General Information

Nature of business and principal activities	District municipality
Mayoral committee from August 2016	
Executive Mayor	Cllr S Ngangelizwe
Speaker	Cllr PP Maleka
Councillors	Cllr ML Tlhone - MMC Health Service and Disaster Management
	Cllr MS Sehloho - MMC LED, Tourism, Agriculture, Youth and SMME
	Cllr MJ Pereko - MM Community Services
	Cllr MH Ntsebeng - MMC Infrastructure
	Cllr MMT Matlabe - MMC Coroprate Services
	Cllr MJ Meli - MMC IDP, PMS, Policy Development and Monitoring
	Cllr JS Mabitla - MMC Finance
Municipal demarcation code	DC
Capacity of local authority	Low capacity
Grading of local authority	4
Accounting Officer	Mrs PME Kaota
Chief Finance Officer (CFO)	Mr PK Pitso
Registered office	Office of the Municipal Manager Corner of Jan Hofmeyer and Tempest Road Jim Fouche Park Welkom 9459
Business address	Corner of Jan Hofmeyer and Tempest Road Jim Fouche Park Welkom 9459
Postal address	P.O. Box 2163 Welkom 9460
Bankers	ABSA Bank Limited
Auditors	Auditor-General of South Africa
Enabling legislation	Consitution of the Republic of South Africa,1995 (Act No.108 of 1995) Municipal Finance Management Act, 2003 (Act No. 56 of 2003) Municipal Structures Act,1998 (Act No. 117 of 1998) Municipal Systems Act, 2000 (Act No. 32 of 2000)
Website	www.lejweleputswa.co.za

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

CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
MMC	Member of Mayoral Committee
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
IAS	International Accounting Standards

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and 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 she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

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

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

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 63, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

Palesa Matshidiso Elizabeth Kaota
Municipal Manager

Audit Committee Report

We are pleased to present the Audit Committee report for the financial year ended 30 June 2020 on Lejweleputswa District Municipality ("LDM").

Audit Committee Members and Attendance

The Audit Committee ("Committee") consists of five independent members. Members are appointed by the Municipal Council in terms of section 166 of Municipal Finance Management Act, 2003 (Act No. 56 of 2003). During the 2019/2020 financial year three ordinary meetings were held. The attendance is reflected in the table below:

Name of member	Position	Attended	Apologies	Total
Mr NL Masoka*	Chairperson	3	-	3
Me G Mayisela**	Member / Chairperson	2	1	3
Me SPT Monosi**	Member	2	1	3
Mr TA Motshoikha**	Member	3	-	3

Me DS Nage**	Member
Mr TJ Macholo**	Member

* Mr Masoka completed his six year term effective 30 March 2020
** New Audit Committee of five members appointed on 1 June 2020, due to COVID-19 no meeting was possible for quarter 4.

Audit Committee responsibility

The Audit Committee has adopted appropriate formal terms of reference as its Audit Committee charter ("the Charter"). The Audit Committee charter is reviewed and tabled before the Council for approval on an annual basis. The last review was on 27 August 2019 and serves as a guide for the Audit Commitee. The Audit Committee has discharged its responsibilities as contained in the Charter.

The effectiveness of internal control and risk management

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King IV Report on Corporate Governance requirements, Internal Audit provides the Audit Committee and Management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

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

We are satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Internal Auditors of the municipality during the year under review.

Evaluation of annual financial statements

We have:

- reviewed and discussed the annual financial statements to be included in the annual report, with the AGSA and management;
- reviewed the AGSA's management report and management’s responses thereto;
- reviewed changes in accounting policies and practices;
- reviewed the Municipality's compliance with legal and regulatory provisions, and
- reviewed significant adjustments resulting from the audit.

We concur with and accept the AGSA's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Audit Committee Report

Internal Audit

We are satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality through their audits. Internal Audit has developed and implemented a risk-based three year strategic and annual operational audit plan.

Auditor-General of South Africa

The Audit Committee has met with the Auditor-General of South Africa to ensure that there are no material unresolved issues. We are satisifed that the Auditor-General is independent of the Municipality.

Me G Mayisela - Chairperson of the Audit Committee

Date: ______________________

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

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

2. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 146 168 953 and that the municipality's total assets exceed its liabilities by R 146 168 953.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

3. Subsequent events

Since December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The municipality has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 30 June 2020 have not been adjusted to reflect their impact. The duration and impact of the COVID-pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the municipality for future periods.

4. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name
Palesa Matshidiso Elizabeth Kaota

5. Interest in controlled entities

Name of controlled entity	
Lejwe Le Putswa Development Agency	-

Lejweleputswa District Municipality is the parent of Lejwe Le Putswa Development Agency SOC Ltd and holds 100% interest.

Details of the municipality's investment in controlled entities are set out in note 8.

6. Auditors

Auditor-General of South Africa.

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019
Assets			
Current Assets			
Cash and cash equivalents	3	134 531 584	133 368 551
Receivables from non-exchange transactions	4	483 661	766 060
VAT receivable	5	1 388 148	1 071 008
		136 403 393	**135 205 619**
Non-Current Assets			
Property, plant and equipment	6	55 826 657	58 863 073
Intangible assets	7	129 272	288 746
Investments in controlled entities	8	100	100
		55 956 029	**59 151 919**
Total Assets		**192 359 422**	**194 357 538**
Liabilities			
Current Liabilities			
Other financial liabilities	10	3 371 605	3 002 066
Payables from exchange transactions	9	17 875 691	11 396 247
Transfers payable (non-exchange)	39	8 314 173	19 399 902
Long service awards	11	492 000	713 000
Employee benefit obligation	11	224 000	187 000
		30 277 469	**34 698 215**
Non-Current Liabilities			
Other financial liabilities	10	-	3 371 769
Employee benefit obligation	11	12 177 000	12 207 000
Long service awards	11	3 736 000	3 487 000
		15 913 000	**19 065 769**
Total Liabilities		**46 190 469**	**53 763 984**
Net Assets		**146 168 953**	**140 593 554**
Accumulated surplus		146 168 953	140 206 685

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019
Revenue			
Revenue from exchange transactions			
Operational revenue	14	332 198	260 037
Interest received	15	10 508 414	9 273 414
Gain on disposal of assets and liabilities		-	84 693
Total revenue from exchange transactions		**10 840 612**	**9 618 144**
Revenue from non-exchange transactions			
Transfer revenue			
Transfer and Subsidies	16	131 916 000	124 430 679
Total revenue	13	**142 756 612**	**134 048 823**
Expenditure			
Employee related cost	17	(83 625 609)	(72 508 691)
Remuneration of councillors	18	(9 291 443)	(8 965 846)
Transfers and subsidies	19	(11 060 862)	(9 595 269)
Depreciation and amortisation	20	(3 991 422)	(3 997 521)
Impairment / (Impairment loss)	21	(511 678)	(610 698)
Finance costs	22	(485 646)	(766 745)
Operating lease expenditure	40	(919 386)	(1 052 043)
Inventory consumed	23	(1 300 969)	(1 052 296)
Contracted services	24	(10 242 032)	(9 953 582)
Loss on disposal of assets and liabilities		(69 220)	-
Operational cost	25	(14 110 994)	(12 471 799)
Total expenditure		**(135 609 261)**	**(120 974 490)**
Surplus for the year		**7 147 351**	**13 041 143**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	**126 084 691**	**126 084 691**
Changes in net assets		
Other asset capitalisation movements	1 080 852	1 080 852
Net income (losses) recognised directly in net assets	1 080 852	1 080 852
Surplus for the year	13 041 142	13 041 142
Total recognised income and expenses for the year	14 121 994	14 121 994
Total changes	14 121 994	14 121 994
Opening balance as previously reported	140 206 685	140 206 685
Adjustments		
Prior period error (refer to note 31)*	314 326	314 326
Balance at 01 July 2019	**140 521 011**	**140 521 011**
Changes in net assets		
Other asset capitalisation movement	(1 499 409)	(1 499 409)
Net income (losses) recognised directly in net assets	(1 499 409)	(1 499 409)
Surplus for the year	7 147 351	7 147 351
Total recognised income and expenses for the year	5 647 942	5 647 942
Total changes	5 647 942	5 647 942
Balance at 30 June 2020	**146 168 953**	**146 168 953**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019
Cash flows from operating activities			
Receipts			
Grants		131 916 000	124 430 679
Interest income		9 808 855	8 600 805
Other receipts		172 385	107 774
		141 897 240	133 139 258
Payments			
Employee costs		(92 917 052)	(78 935 000)
Suppliers		(43 039 123)	(17 100 260)
Finance costs		(485 646)	(766 745)
		(136 441 821)	(96 802 005)
Net cash flows from operating activities	28	**5 455 419**	**36 327 253**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(770 418)	(2 799 837)
Proceeds from sale of property, plant and equipment		229 936	419 976
Purchase of other intangible assets	7	(98 405)	(5 583)
Proceeds from sale of other intangible assets	7	21 300	-
Net cash flows from investing activities		**(617 587)**	**(2 385 444)**
Cash flows from financing activities			
Movement in other financial liabilities		(3 002 230)	(2 720 968)
Employee benefit obligation payments		(143 000)	(130 000)
Movement in long service awards		(685 000)	(359 000)
Net cash flows from financing activities		**(3 830 230)**	**(3 209 968)**
Net increase/(decrease) in cash and cash equivalents		**1 007 602**	**30 731 841**
Cash and cash equivalents at the beginning of the year		133 368 550	102 636 709
Cash and cash equivalents at the end of the year	3	**134 376 152**	**133 368 550**

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Operational revenue	250 000	-	**250 000**	332 198	**82 198**	
Interest received - investment	3 015 000	735 000	**3 750 000**	10 508 414	**6 758 414**	x1
Total revenue from exchange transactions	**3 265 000**	**735 000**	**4 000 000**	**10 840 612**	**6 840 612**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	130 350 000	149 000	**130 499 000**	131 916 000	**1 417 000**	X2
Total revenue	**133 615 000**	**884 000**	**134 499 000**	**142 756 612**	**8 257 612**	
Expenditure						
Employee remuneration	(89 109 559)	-	**(89 109 559)**	(83 625 609)	**5 483 950**	X3
Remuneration of councillors	(9 704 383)	-	**(9 704 383)**	(9 291 443)	**412 940**	X4
Transfers and Subsidies	(9 366 725)	(4 975 002)	**(14 341 727)**	(11 060 862)	**3 280 865**	X5
Depreciation and amortisation	(5 500 433)	-	**(5 500 433)**	(3 991 422)	**1 509 011**	X6
Impairment loss/ Reversal of impairments	-	-	**-**	(511 678)	**(511 678)**	
Finance cost	(617 000)	-	**(617 000)**	(485 646)	**131 354**	
Operating lease expenditure	(1 324 730)	173 900	**(1 150 830)**	(919 386)	**231 444**	
Inventory consumed	(1 418 948)	(50 001)	**(1 468 949)**	(1 300 969)	**167 980**	X7
Contracted services	(7 692 920)	(5 051 003)	**(12 743 923)**	(10 242 032)	**2 501 891**	X8
Operational cost	(15 466 129)	(1 635 095)	**(17 101 224)**	(14 110 994)	**2 990 230**	X9
Total expenditure	**(140 200 827)**	**(11 537 201)**	**(151 738 028)**	**(135 540 041)**	**16 197 987**	
Operating surplus	**(6 585 827)**	**(10 653 201)**	**(17 239 028)**	**7 216 571**	**24 455 599**	
Loss on disposal of assets and liabilities	-	-	**-**	(69 220)	**(69 220)**	
Surplus before taxation	**(6 585 827)**	**(10 653 201)**	**(17 239 028)**	**7 147 351**	**24 386 379**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(6 585 827)**	**(10 653 201)**	**(17 239 028)**	**7 147 351**	**24 386 379**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

A summary of the significant accounting policies are disclosed below.

1.1 Going concern assumption

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

1.2 Significant judgements and sources of estimation uncertainty

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

Impairment testing

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

Value in use of cash generating assets
The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as inflation and interest.

Value in use of non-cash generating assets
The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 11.

Effective interest rate

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

Allowance for impairment

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

1.3 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Not depreciated
Buildings and paving	Straight line	30-45 years
Plant and machinery	Straight line	5-20 years
Furniture and fixtures	Straight line	5-15 years
Motor vehicles	Straight line	7-14 years
Office equipment (including computers)	Straight line	4-9 years
Emergency equipment	Straight line	5-10 years
Other property, plant and equipment	Straight line	5-10 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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

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

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

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

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

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

1.4 Intangible assets

An asset is identifiable if it either:

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

1.4 Intangible assets (continued)

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software	Straight line	3 years indefinite

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

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

1.5 Investments in controlled entities

In the municipality's separate annual financial statements, investments in controlled entities are carried at cost.

The municipality applies the same accounting for each category of investment.

The municipality recognises a dividend or similar distribution in surplus or deficit in its separate annual financial statements when its right to receive the dividend or similar distribution is established.

Investments in controlled entities that are accounted for in accordance with the accounting policy on Financial instruments in the consolidated annual financial statements, are accounted for in the same way in the controlling entity's separate annual financial statements.

Accounting Policies

1.6 Financial instruments

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

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

A concessionary loan is a loan granted to or received by the 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 the municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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 estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality uses 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 municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

1.6 Financial instruments (continued)

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

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

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of the entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of the entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of the entity.

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 municipality 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 municipality designates at fair value at initial recognition; or
- are held for trading.

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

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

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

1.6 Financial instruments (continued)

Classification

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

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from non-exchange transactions	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:

Payables from exchange transactions	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost
Transfers payable (non-exchange)	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The municipality measures all other financial assets and financial liabilities initially at fair value.

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

- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

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

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 municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-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.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

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.

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

Accounting Policies

1.6 Financial instruments (continued)

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.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

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.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets measured at cost:

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

Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

The 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.

1.6 Financial instruments (continued)

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

Presentation

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

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

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

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

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

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

Identification

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

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

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

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

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

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

Statutory receivables (continued)

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

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

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

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

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

1.7 Leases

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

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

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.8 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

1.8 Impairment of cash-generating assets (continued)

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

Identification

When the carrying amount of a 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.

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.

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.

1.8 Impairment of cash-generating assets (continued)

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 uses 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 municipality 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.

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

1.9 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

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

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

Identification

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

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

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

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 asset 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 current 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.

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.

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

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

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.

1.10 Employee benefits

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality 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.

Accounting Policies

1.10 Employee benefits (continued)

Post-employment benefits

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

Post-employment benefit plans are formal or informal arrangements under which the 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.

Post-employment benefits: Defined contribution plans

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

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

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, 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.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.10 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

The municipality determine 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, which is recognised immediately;
- past service cost, which is recognised immediately;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

Accounting Policies

1.10 Employee benefits (continued)

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.

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

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

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

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

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

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

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

The 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.

1.10 Employee benefits (continued)

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees. According to the rules of the long-term service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service.

The municipality’s liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards 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 recognises 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 is recognised immediately;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

1.11 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.

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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

Provisions are not recognised for future operating expenditure.

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

Accounting Policies

1.11 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

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

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

1.12 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.

Interest and investment income

Revenue arising from the use by others of municipality assets yielding interest or similar distributions is recognised when:

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

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

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

Interest charged on debtor accounts are limited to the principal debt as prescribed by the National Credit Act.

1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

1.13 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Transfers

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

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

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

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

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.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.14 Investment income

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

1.15 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.

1.16 Unauthorised expenditure

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

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

1.17 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.

1.18 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), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular 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.

1.19 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:
- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or

1.19 Grants in aid (continued)

- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving raise to the transfer occurred.

1.20 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

1.21 Budget information

The approved budget is prepared on the accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

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

1.22 Related parties

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

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

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

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

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

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

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

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

1.23 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Accounting Policies

1.23 Events after the reporting date (continued)

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

1.24 VAT

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (15%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods and services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT or are scoped out for VAT purposes. The entity accounts for VAT on a monthly basis.

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:

GRAP 104 (amended): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised.Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.
The most significant changes to the Standard affect:
-Financial guarantee contracts issued
-Loan commitments issued
-Classification of financial assets
-Amortised cost of financial assets
-Impairment of financial assets
-Disclosures

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

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's
operations.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6 000	6 000
Bank balances	19 524 602	90 996 637
Short-term deposits	115 000 982	42 365 914
	134 531 584	**133 368 551**

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 - cheque account - 134000017	19 397 779	91 002 664	11 977 640	19 524 602	90 996 637	11 977 640
ABSA Bank - call account - 4094589145	-	10 613 141	10 010 000	-	10 613 141	10 010 000
ABSA Bank - call account - 40945890674	-	10 163 141	10 010 000	-	10 163 141	10 010 000
ABSA Bank - call account - 4094767743	22 448 962	21 139 632	-	22 448 962	21 139 632	-
ABSA Bank - call account - 4092614160	-	-	51 439	-	-	51 439
ABSA Bank - call account - 2077459096	-	-	30 483 740	-	-	30 483 740
ABSA Bank - call account - 9354965082	41 419 877	-	-	41 419 877	-	-
ABSA Bank - call account - 9356355225	51 132 143	-	-	51 132 143	-	-
Total	**134 398 761**	**132 918 578**	**62 532 819**	**134 525 584**	**132 912 551**	**62 532 819**

4. Receivables from non-exchange transactions

Salary advances	868	12 583
Deposits	4 700	4 700
Other receivables	(24 715)	(1 832)
Accrued interest	-	229 118
Sundry receivables	30 396 119	29 908 123
Less: Allowance for impairment	(29 893 310)	(29 386 632)
	483 662	**766 060**

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Receivables from non-exchange transactions past due but not impaired

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

1 month past due	483 662	743 178

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

4. Receivables from non-exchange transactions (continued)

Reconciliation of allowance for impairment

Opening balance	29 386 632	28 775 934
Provision for impairment	506 678	610 698
	29 893 310	**29 386 632**

5. VAT receivable

VAT	1 388 148	1 071 008

The carrying amount of VAT receivable approximates fair value due to its short term nature. The municipality reports to SARS on a cash basis and the amount receivables represent creditors/accruals owed by the municipality being more that VAT payable on cash receipts from customers. The input tax is claimed upon the cash payment to creditors. Output tax is paid upon cash receipts from debtors.

Notes to the Annual Financial Statements

Figures in Rand

6. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 140 000	-	1 140 000	1 140 000	-	1 140 000
Buildings	76 165 211	(28 119 841)	48 045 370	76 039 594	(25 541 243)	50 498 351
Plant and equipment	490 254	(397 492)	92 762	486 199	(387 853)	98 346
Furniture and fixtures	6 696 839	(4 565 252)	2 131 587	6 654 050	(4 286 585)	2 367 465
Motor vehicles	3 538 648	(893 431)	2 645 217	3 538 648	(556 059)	2 982 589
Office equipment	5 896 546	(4 137 206)	1 759 340	5 597 745	(3 836 080)	1 761 665
Emergency equipment	43 551	(31 170)	12 381	43 551	(28 894)	14 657
Total	**93 971 049**	**(38 144 392)**	**55 826 657**	**93 499 787**	**(34 636 714)**	**58 863 073**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation on disposal'	Depreciation	Total
Land	1 140 000	-	-	-	-	1 140 000
Buildings	50 498 351	125 617	-	-	(2 578 598)	48 045 371
Plant and equipment	98 345	4 055	-	-	(9 638)	92 762
Furniture and fixtures	2 367 465	48 297	(5 508)	3 402	(282 070)	2 131 586
Motor vehicles	2 982 588	109 269	(109 269)	-	(337 372)	2 645 216
Office equipment	1 761 664	483 180	(184 379)	95 585	(396 710)	1 759 340
Emergency equipment	14 657	-	-	-	(2 276)	12 381
	58 863 070	**770 418**	**(299 156)**	**98 987**	**(3 606 664)**	**55 826 656**

Notes to the Annual Financial Statements

Figures in Rand

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Depreciation on disposal	Depreciation	Fully deprciated assets adjustment	Total
Land	1 140 000	-	-	-	-	-	1 140 000
Buildings	51 709 318	1 343 415	(98 033)	41 369	(2 497 718)	-	50 498 351
Plant and equipment	129 966	-	(31 936)	-	479	(164)	98 345
Furniture and fixtures	2 375 733	320 214	(497 407)	415 673	(252 703)	5 955	2 367 465
Motor vehicles	3 065 330	459 340	(545 734)	441 034	(437 382)	-	2 982 588
Office equipment	1 437 329	676 868	(262 919)	248 772	(349 926)	11 540	1 761 664
Emergency equipment	188 472	-	(306 941)	260 839	(127 908)	195	14 657
	60 046 148	**2 799 837**	**(1 742 970)**	**1 407 687**	**(3 665 158)**	**17 526**	**58 863 070**

Reconciliation of Work-in-Progress 2019

	Included within Buildings	Total
Opening balance	584 924	584 924
Additions/capital expenditure	432 528	432 528
Transferred to completed items	(1 017 452)	(1 017 452)
	-	-

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
General expenses	306 209	359 100

Notes to the Annual Financial Statements

6. Property, plant and equipment (continued)

Maintenance of property, plant and equipment

Maintenance of property, plant and equipment by nature and type of expenditure - 2020

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.

7. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 906 069	(2 776 797)	129 272	288 746	-	288 746

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Disposals	Amortisation on disposal	Amortisation	Total
Computer software	288 746	98 405	(21 300)	12 311	(248 891)	129 271
Computer software	-	-	-	-	-	-
	288 746	**98 405**	**(21 300)**	**12 311**	**(248 891)**	**129 271**

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software	633 052	5 583	(349 889)	288 746

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

8. Investments in controlled entities

Name of company	% holding 2020	% holding 2019	Carrying amount 2020	Carrying amount 2019
Lejwe le Putswa Development Agency	100,00 %	100,00 %	100	100

9. Payables from exchange transactions

	2020	2019
Trade payables	4 221 319	851 175
Accrued leave pay	10 139 640	7 612 969
Accrued bonus	3 097 340	2 826 953
Retention	417 392	105 150
	17 875 691	**11 396 247**

10. Other financial liabilities

	2020	2019
At amortised cost		
ABSA loan (3044406667)	3 371 605	6 373 835
The loan is with ABSA Bank Limited and the repayments are made on a six monthly basis. The loan will be redeemed on 28 February 2021 and the loan bears interest at prime less 0.25%.		
The municipality did not default on an y of the other financial liabilities, wether it be on the capital or the interest portions, and none of the terms attached to the other financial liabilities were negotiated.		
Non-current liabilities		
At amortised cost	-	3 371 769
Current liabilities		
At amortised cost	3 371 605	3 002 066

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

11. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. 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) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates as unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2020 by ZAQEN Consultants and Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:
* Bonitas
* Hosmed
* Keyhealth
* LA Health
* Samwumed

The members od the post-employment health care benefit plan are made up as follows:		
In service member (employees)	123	96
In service members (employees) non-members	4	4
	127	**100**

Long service awards

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2020 by ZAQEN Consultants and Actuaries. The projected unit credit funding method has been used to determine the past - service liabilities at the valuation date and the projected annual expense in the year following the valuation date.
The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.
Long service benefits are awarded in the form of leave days and a percentage of salary. We have converted the awarded leave days into a percentage of the employee's annual salary. The conversion is based on a 250 working day year.

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

Carrying value		
Employee benefit obligation (non-current portion)	12 177 000	12 207 000
Employee benefit obligation (current portion)	224 000	187 000
Long service awards (non-current portion)	3 736 000	3 487 000
Long service awards (current portion)	492 000	713 000
	16 629 000	**16 594 000**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

11. Employee benefit obligations (continued)

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

Opening balance	12 394 000	13 195 000
Current service cost	749 000	720 000
Interest cost	1 286 000	1 291 000
Actuarial (gain) / losses	(1 885 000)	(2 682 000)
Benefits paid	(143 000)	(130 000)
	12 401 000	**12 394 000**

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

Opening balance	4 200 000	3 965 000
Current service cost	384 000	367 000
Interest cost	427 000	374 000
Actuarial (gain) / losses	(98 000)	(147 000)
Benefits paid	(685 000)	(359 000)
	4 228 000	**4 200 000**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	Yield curve	Yield curve
Consumer price inflation	Difference between nominal and yield curve	Difference between nominal and yield curve
Medical aid contribution inflation	CPI+1%	CPI+1%

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Movement during the year

Balance at the beginning of the year	-	-
Additions during the year	4 566 000	4 316 969
Income recognition during the year	(4 566 000)	(4 316 969)
	-	-

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

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

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

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

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

13. Revenue

Operational revenue	332 198	260 037
Interest received - investment and cash and cash equivalents	10 508 414	9 273 414
Transfers and subsidies	131 916 000	124 430 679
	142 756 612	**133 964 130**

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

Operational revenue	332 198	260 037
Interest received - investment and cash and cash equivalents	10 508 414	9 273 414
	10 840 612	**9 533 451**

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

Transfer revenue		
Transfers and subsidies	131 916 000	124 430 679

14. Operational revenue

Insurance refund	14 002	79 189
Auction fees on sale of assets	4 855	86 435
Commission received	50 028	46 795
Sundry income	-	468
Environmental health services income	103 500	47 150
SDL Refund	159 813	-
	332 198	**260 037**

15. Interest revenue

Interest revenue		
Interest received - investment and cash and cash equivalents	9 964 317	8 600 805
Interest received - trading	544 097	672 609
	10 508 414	**9 273 414**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

16. Transfers and subsidies

Operational grants

Equitable Shares	35 428 770	33 706 000
Financial Management Grant	1 000 000	1 000 000
Expanded Public Works Programme	1 000 000	1 000 000
Levy Replacement (Transitional) Grant	91 921 230	86 374 520
COVID-19 Grant	149 000	-
Rural Roads Asset Management Systems Grant	2 417 000	2 281 000
Local Government Sector Education and Training Authority Grant	-	69 159
	131 916 000	**124 430 679**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	4 566 000	4 316 969
Unconditional grants received	127 350 000	120 080 520
	131 916 000	**124 397 489**

Equitable Share

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

Rural Roads Asset Management Grant

Balance unspent at beginning of year	-	-
Current-year receipts	2 417 000	2 281 000
Conditions met - transferred to revenue	(2 417 000)	(2 281 000)
	-	-

The purpose of the grant is for the provision of system to collect rural road, traffic data and rural acce bridges.

Financial Management Grant

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

The purpose of the grant is to promote and support reforms in financial management by building capacity in municipalites to impliment the Municipal Finance Management Act (MFMA).

Expanded Public Works Programme

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

The Expanded Public Works programme is an operational grant which is used by the municipality on its own discretaion.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

16. Transfers and subsidies (continued)

Levy Replacement (Transitional) Grant

Current-year receipts	91 921 230	86 374 520
Conditions met - transferred to revenue	(91 921 230)	(86 374 520)
	-	-

The Levy Replacement (Transitional) Grant is an operational grants which is used by the municipality on its own discretion, which is mainly to fund its operational activities.

Local Government Sector Education and Training Authority Grant

Current-year receipts	-	69 159
Conditions met - transferred to revenue	-	(69 159)
	-	-

The purpose of the grant is to improve the effectiveness and efficieny of the skills development through provision of bursaries and the promotion and support of the integration of theoretical learning with workplace training.

COVID-19 Grant

Current-year receipts	149 000	-
Conditions met - transferred to revenue	(149 000)	-
	-	-

The purpose of the grant is to provide additional access to basic services for vulnerable communities during the lockdown and to sanitise public transport facilities as the economy undergoes a phased re-opening.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

17. Employee related costs

Barganing council	16 618	13 125
Basic	48 816 549	40 880 665
Bonus - 13th cheque	3 985 720	3 355 136
Cellphone allowance	214 848	212 044
Contribution to pension and provident fund	8 425 369	7 124 269
Defined contribution plans	918 327	(153 298)
Group life insurance	815 503	668 028
Housing benefits and allowances	504 547	471 046
Leave pay provision charge	2 981 109	2 318 372
Medical aid - company contributions	4 552 098	3 835 895
Overtime payments	78 941	120 256
Standby allowance	313 857	160 410
Travel allowance	7 165 670	6 708 733
UIF	253 751	208 602
	79 042 907	**65 923 283**

Remuneration of Ms PME Kaota - Municipal Manager

Annual Remuneration	814 987	788 589
Car Allowance	232 926	231 006
Performance Bonuses	194 129	188 842
Contributions to UIF, Medical and Pension Funds	161 761	157 098
Cellphone Allowance	36 000	36 000
Housing Allowance	84 000	84 000
Acting Allowance and other payments	19 496	11 327
Bonus	75 836	63 988
Backpay	23 854	20 732
	1 642 989	**1 581 582**

2020: Mr Makhetha acted during December 2019 and June 2020.

Remuneration of Mr PK Pitso - Chief Finance Officer

Annual Remuneration	694 522	644 607
Car Allowance	183 823	184 969
Performance Bonuses	158 685	154 363
Contributions to UIF, Medical and Pension Funds	184 246	171 242
Cellphone Allowance	30 000	30 000
Housing Allowance	50 000	60 000
Bonus	-	22 970
Acting Allowance and other payments	8 461	-
Backpay	20 654	16 947
	-	-
	1 330 391	**1 285 098**

2020: Mrs Leshoro acted during January 2020.

Remuneration of Mr MM Mthombeni - Manager Environmental Health and Disaster Management

Annual Remuneration	-	589 478
Car Allowance	-	211 132
Performance Bonuses	-	141 499
Contributions to UIF, Medical and Pension Funds	-	36 116
Cellphone Allowance	-	16 500
Housing Allowance	-	110 000

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

17. Employee related costs (continued)

Bonus	-	66 323
Acting Allowance and other payments	113 985	11 327
Backpay	-	16 947
	-	-
	113 985	**1 199 322**

2020: Ms Njobe acted during August 2019 to May 2020.
Mr Nzume acted during June 2020.

Remuneration of Mr Makhetha - Manager LED

Annual Remuneration	666 185	644 607
Car Allowance	156 347	162 293
Performance Bonuses	158 685	154 363
Contributions to UIF, Medical and Pension Funds	174 981	158 811
Cellphone Allowance	18 000	18 000
Housing Allowance	60 000	60 000
Bonus	55 515	30 511
Backpay	19 496	16 947
	1 309 209	**1 245 532**

Remuneration of Me L.S. Rabie-Khonkhe - Manager Corporate Services

Annual Remuneration	1 773	644 608
Car Allowance	525	195 406
Performance Bonuses	-	154 363
Contributions to UIF, Medical and Pension Funds	-	130 500
Cellphone Allowance	48	18 000
Housing Allowance	161	60 000
Acting Allowance and other payments	156 999	-
Bonus	26 623	53 246
Backpay	-	16 947
	186 129	**1 273 070**

2020: Ms Malapane acted during August 2019 to May 2020.
Mr Makhetha acted during June 2020.

18. Remuneration of councillors

Mayoral committee members	4 606 328	4 428 813
Speaker	755 878	728 375
Executive mayor	934 569	897 038
Councillors	2 994 669	2 911 630
	9 291 444	**8 965 856**

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. The Executive Mayor has the use of a council owned vehicle for official duties as well as two full-time VIP protection/ drivers.

Executive Mayor	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	Total
Cllr Ngangelizwe	710 150	-	40 800	183 618	934 568

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

18. Remuneration of councillors (continued)

Speaker	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	Total
Cllr Maleka	621 809	-	40 800	93 271	755 880

Mayoral committee members	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	Total
7 Members	2 671 901	1 090 344	244 800	599 283	4 606 328
	-	-	-	-	-
Total	**2 671 901**	**1 090 344**	**244 800**	**599 283**	**4 606 328**

Part time councillors	Basic+ PAYE	Travel Allowance	Cellphone and data allowance	Pension and Medical Aid	Total
15 Members	1 488 610	542 846	297 387	241 405	2 570 248
Session allowances	424 421	-	-	-	424 421
	1 913 031	**542 846**	**297 387**	**241 405**	**2 994 669**

19. Transfers and subsidies

Allocation in kind: Local Municipalities	791 250	371 860
Allocation in kind: Households	2 526 027	1 071 311
Monetary allocation: Development Agency	6 336 725	6 028 824
Monetary allocation: Households	1 406 860	2 123 274
	11 060 862	**9 595 269**

20. Depreciation and amortisation

Property, plant and equipment and intangible assets	3 742 531	3 644 432
Intangible assets	248 891	353 089
	3 991 422	**3 997 521**

21. Impairment of assets

Impairments		
Trade and other receivables	511 678	610 698

22. Finance costs

Non-current borrowings	485 646	766 745

23. Inventory Consumed

Printing, stationary, personal protective equipment and cleaning material	1 300 969	1 052 296

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

24. Contracted Services

Outsourced Services		
Administrative and Support Staff	480 652	1 112 164
Catering Services	708 042	271 573
Cleaning Services	99 644	-
Litter Picking and Street Cleaning	1 507 709	1 468 772
Security Services	775 729	668 848
Project management	2 010 346	1 323 358
Transport Services	223 251	-
Consultants and Professional Services		
Business Advisory Services	453 848	1 468 959
Infrastructure and Planning	2 417 000	2 281 000
Laboratory Services	85 984	43 191
Legal Cost	1 009 732	796 034
Contractors		
Aerial Surveillance	-	9 750
Artists and Performers	-	43 000
Catering Services	177 955	134 971
Employee Wellness	157 840	262 647
Event Promoters	-	69 315
Plants, Flowers and Other Decorations	134 300	-
	10 242 032	**9 953 582**

25. Operational cost

Achievement and Awards	150 580	9 660
Advertising and Marketing	751 397	1 643 493
Auditors Remuneration	2 622 666	2 225 989
Bank charges	141 296	111 484
Bursaries	462 510	360 200
Communication	396 215	442 587
Entertainment	256 273	368 274
External Computer Services	612 093	517 657
Fuel and oil	299 138	467 013
Hire	332 420	148 600
Insurance	549 950	415 674
Learnership and internships	2 102 055	732 453
License and Registration Fees	109 156	49 825
Municipal Services	669 654	558 005
Repairs and maintenance	1 009 694	410 443
Skills Development Levy	688 206	589 053
Staff recruitment	-	13 200
Subscriptions and Membership fees	1 100 288	757 077
Supplier Development Programme	15 578	-
Travel and Subsistance	1 430 709	2 322 524
Uniforms	25 861	-
Workmen's Compensation Fund	385 255	328 588
	14 110 994	**12 471 799**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

26. Related parties

Relationships			
Controlled entities	Refer to note 8		

Related party balances

Investments		
Lejwe Le Putswa Development Agency (SOC) Ltd	100	100
Transfers		
Lejwe Le Putswa Development Agency (SOC) Ltd	6 336 725	6 028 824
Purchases from related parties		
Manida Trading and Projects (The spouse of the director works for the Traffic Department)	4 100	54 950
Chav 814-Solutions (The father of the director works for the state)	8 987	-
IMM Holdings (The spouse of the director works for the state)	7 126	-
Gaoregoma (The father of the director works for the state)	25 800	-
MBV Group (The wife of the director works for the state)	29 900	-

27. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	983 547	983 547
Cash and cash equivalents	134 376 152	134 376 152
	135 359 699	**135 359 699**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	3 371 605	3 371 605
Payables from exchange transactions	26 375 910	26 375 910
	29 747 515	**29 747 515**

2019

Financial assets

	At amortised cost	Total
Other receivables from non-exchange transactions	480 064	480 064
Cash and cash equivalents	133 597 669	133 597 669
	134 077 733	**134 077 733**

Financial liabilities

. Financial instruments disclosure (continued)

	At amortised cost	Total
Other financial liabilities	6 373 835	6 373 835
Trade and other payables from exchange transactions	30 796 147	30 796 147
	37 169 982	**37 169 982**

28. Cash (used in) generated from operations

	2020	2019
Surplus	7 145 971	12 999 929
Adjustments for:		
Depreciation and amortisation	3 882 153	4 015 046
Gains or loss on sale of assets	69 220	(84 693)
Interest income	(554 097)	(672 609)
Impairment	511 678	904 321
Movements in retirement benefit assets and liabilities	150 000	(671 000)
Movement in long service awards	713 000	594 000
Capitalization directly to statement of changes in net assets	(1 708 049)	1 080 852
Changes in working capital:		
Other receivables from non-exchange transactions	226 388	(152 262)
Payables from exchange transactions	(4 772 974)	18 944 695
VAT	(317 140)	(337 403)
Taxes and transfers payable (non-exchange)	(11 118 919)	19 399 902
	(5 772 769)	**36 327 253**

29. Commitments

Authorised capital expenditure

	2020	2019
Already contracted for but not provided for		
• Aganang Consulting Engineers	-	2 417 000
Total capital commitments		
Already contracted for but not provided for	-	2 417 000

Authorised operational expenditure

This committed expenditure relates to plant and equipment and will be financed by existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

	2020	2019
Minimum lease payments due		
- within one year	720 743	674 820
- in second to fifth year inclusive	766 667	337 410
	1 487 410	**1 012 230**

It is municipality policy to lease certain office equipment under operating leases. The lease term is 3 year at an annual rental. The lease will expire in December 2021.

The municipality leases a telephone system under an operating lease. The lease term is 3 years. The lease will expire 30 June 2023.

Figures in Rand	2020	2019

30. Contingencies

Litigation is in process where Matjhabeng Local Municipality and Lejweleputswa district Municipality are sued for damages as a result of a motor vehicle accident as a result of a pothole in which there was a loss of life. The municipality was cited as a second respondent and Matjhabeng Local Municipality as the first respondent. The potential liability is R1 400 000.

Litigation is in process where a claim for damages was instituted against Lejweleputswa district Municipality in respect of damages to their vehicle resulting from a pothole. The potential liability is R336 182.

Two employees are claiming overtime The potential liability is R1 465 515.

Two defamation of character disputes are still not in process. The potential liability is R1 300 000 and R400 000 respectively.

An application was received from the Department of Labour for non-compliance with the Employment Equity Act. The potential liability is R1 800 000.

Nature of litigation		
Labour claims	4 965 515	850 000
Public liability claims	1 736 182	1 036 182
	6 701 697	**1 886 182**

31. Prior-year adjustments

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

Statement of financial position

2019

	Note	As previously reported	Correction of error	Reclassification	Restated
Receivables from non-exchange transactions		709 182	-	56 878	766 060
Property, plant and equipment		58 533 082	16 642	313 443	58 863 073
Payables from exchange transctions		(30 796 149)	-	19 399 902	(11 396 247)
Payables from non-exchange transactions		-	-	(19 399 902)	(19 399 902)
Opening balance of accumulated surplus		(140 206 685)	883	(313 443)	(140 521 011)
		(111 760 570)	**17 525**	**56 878**	**(111 688 027)**

Statement of financial performance

2019

	Note	As previously reported	Correction of error	Reclassification	Restated
Employee related cost		(72 545 898)	-	37 207	(72 508 691)
Transfers and subsidies		(9 955 469)	-	360 200	(9 595 269)
Depreciation and amortisation		(4 015 046)	17 525	-	(3 997 521)
Operating lease expenditure		(1 163 436)	-	111 393	(1 052 043)
Operational cost		(12 019 878)	-	(451 922)	(12 471 800)
Surplus for the year		**(99 699 727)**	**17 525**	**56 878**	**(99 625 324)**

Errors

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

31. Prior-year adjustments (continued)

The following prior period errors adjustments occurred:

Error 1

Assets were identified during the yearly assessment to be fully depreciated. The usefull live of the assets were adjusted based on the assesment performed.

Reclassifications

The following reclassifications adjustment occurred:

Reclassification

General ledger accounts were reclassified to correct the nature of the expenditure.

32. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: credit risk and liquidity risk and market risk.

Liquidity risk

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

The 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. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Borrowings	3 371 769	-	-

At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Borrowings	3 002 066	3 371 769	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Cash and cash equivalents and investments - the municipality limits its credit risk by only banking with registered financial institutions in terms of the Banks Act, 94 of 1990 operating in South Africa. The municipality does not expect any counterparty to fail to meets its obligation.

Receivables from non-exchange transactions - management evaluated credit risk relating to customers on an ongoing basis. If there is no independent rating, risk control assessess the credit quality of the customer, taking into account its financial position, past experience and other factors.

Market risk

Interest rate risk

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

The risk is managed on an on-going basis.

33. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 146 168 953 and that the municipality's total assets exceed its liabilities by R 146 168 953.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

34. Events after the reporting date

Since December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The municipality has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 30 June 2020 have not been adjusted to reflect their impact. The duration and impact of the COVID-pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the municipality for future periods.

35. Irregular expenditure

	2020	2019
Opening balance as previously reported	664 017	2 234 207
Opening balance as restated	**664 017**	**2 234 207**
Add: Irregular Expenditure - current	1 172 612	583 280
Less: Amount written off - prior period	(583 280)	(2 153 470)
Closing balance	**1 253 349**	**664 017**

Incurred during the year

The municipality incurred irregular expenditure as a result of non-compliance with the supply chain management processes.

Amounts written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R 583 280 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

36. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

	2020	2019
Current year subscription / fee	891 096	728 660
Amount paid - current year	(891 096)	(728 660)
	-	-

Audit fees

	2020	2019
Current year subscription / fee	2 622 666	2 225 989
Amount paid - current year	(2 622 666)	(2 225 989)
	-	-

PAYE, SDL and UIF

	2020	2019
Current year subscription / fee	16 640 368	13 249 557
Amount paid - current year	(16 640 368)	(13 249 557)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

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

Pension and medical aid deductions

Current year subscription / fee	22 893 363	19 784 525
Amount paid - current year	(22 893 363)	(19 784 525)
	-	-

VAT

VAT receivable	1 388 148	1 071 008

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

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

Figures in Rand	2020	2019

37. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Details per supplier	Reason for deviation	2019	2018
Multiple suppliers	The municipality has procured goods and services in response to declared national disaster caused by Covid 19 pandemic, assisting all local municipalities within the district. Processes were not followed as a result of the emergency of the transaction.	2 645 329	-
Multiple suppliers	The municipality has procured laptops for employees to enable the social distancing under COVID 19 pandemic. Processes were not followed as a result of the emergency of the transaction.	256 987	-
Close to Home	Lejweleputswa District Municipality has experience a disaster of floods, which left families destructed with nowhere to sleep. As a result, Lejweleputswa Dsitrict Municipality on the 24th of April 2019, as a matter of emergency intervended by procuring blankets for those families that were in need of assistance. Lejweleputswa managed to source three qoutations but it was not advertised as required due to emerency through Disaster relief.	-	195 000
Adapt IT	Finance Department renews GRAP software licenses annualy, the software assits the municipality with the compilation of the financial statements. The GRAP software is only provided by one company, Adapt IT. Due to Adapt IT being the only supplier it is not possible to provide 3 quotations.	108 037	98 213
Bytes SI-A Division of Altron	Lejweleputswa District Municipality use financial system Samras offrered by Altron Bytes Universal Systems. When the municipality upgraded the server system to Mscoa Server, Bytes Universal Systems was awarded the supply and installation as the custodian of our system and approved service provider for Mscoa implementation through national treasury transversal contract T25 2016. This was an exceptional case and it was to follow official procurement processes.	-	361 540

Notes to the Annual Financial Statements

Figures in Rand		2020	2019

37. Deviation from supply chain management regulations (continued)

Matjhabeng local Municipality (Mathjhabeng Traffic Training Academy)	In order to be appointed as Law Enforcement Officers they needed to be trained as Peace Officers in terms of Section 33(1) of the Criminal Procedure Act 51. At the time Matjhabeng Local Municipality's Traffic Training Academy was the sole provider who could offer training to 14 officials at short notice. This was an exceptional case and it was to follow official procurement processes.	-	35 994
Adami's Mining and electrical Suppliers	The municipality has appointed services provider Adami's Mining and Electrical Suppliers to supply and install 9600BTU council chamber air conditioner. Companies wre invited to assist, but the firt company to respond was appointed to avoid strip and quote by all companies.	85 325	-
The Institute of Internal Auditors South Africa	The Institute of Internal Auditors South africa was appointed to provide to Internal Auditors Official through deviation as a single provider offering the training that is in line with municipal auditing requirements.	43 585	-
Westvaal Delta	Westvaal Delta was appointed to replace Isuzu bakkie engine. This transaction was treted as a sole provider as the dealership specialize with Isuzu.	125 659	-
		4 098 934	**690 747**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

38. Budget differences

Material differences between budget and actual amounts

X1 - The interest on investments was more tgan budgeted for as the transfer payment for Masilonyana Local Municipality grants was not considered. These funds were placed on a call account before contractors were to be paid.

X2 - The municipality managed to save on contracted services during the year.

X3 - Savings on employees who resigned, vacant posts which were not filled or filled for a part of the year and retired employees.

X4 -The municipality was able to save on inventory consumed.

X5 - Saving was due to the decrease in prime rate during the year.

X6 - Saving is due to the condition of the conditionla grant not being met yet.

X7 - The municipality managed to save on day-to-day operational expenditure during the year.

X8 - The municipality managed to save on day-to-day operational expenditure during the year.

39. Transfers payable (non-exchange)

Masilonyana grants	8 314 173	19 433 092

40. Lease rentals on operating lease

Equipment		
Contractual amounts	919 386	1 052 043