



**SEKHUKHUNE**  
District Municipality

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

# Sekhukhune District Municipality

(Registration number DC 47)

Annual Financial Statements for the year ended 30 June 2020

## General Information

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<b>Legal form of entity</b>	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 11 of 1998) read with section 155(1) of the Constitution of the Republic of South Africa (Act 108 of 1996)
<b>Nature of business and principal activities</b>	The provision of services (water and sanitation) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.
<b>Mayoral committee</b> Executive Mayor	Cllr Ramaila KS Cllr Manamela MM (Council Speaker) Cllr Lepota TJ (Chief Whip) Cllr Sihlangu TL Cllr Mahlangu MF Cllr Nchabeleng TL Cllr Matlala MA Cllr Manganeng ML Cllr Mnisi SP Cllr Makola MY Cllr Nkosi SM
Councillors	Cllr Mafefe OH Cllr Mamekoa RS Cllr Sefala KRE Cllr Mhlanga CT Cllr Maila SM Cllr Matsetela ML Cllr Mohlala MC Cllr Moimane MT Cllr Mtsweni BW
<b>Grading of local authority</b>	Grade 4 Municipality
<b>Chief Finance Officer (CFO)</b>	Mr MJ Mofokeng Mr AC Mufamadi- Acting
<b>Accounting Officer</b>	Ms MJ Ntshudisane
<b>Registered office</b>	03 West Street Groblersdal 0470
<b>Postal address</b>	Private Bag X8611 Groblersdal 0470
<b>Bankers</b>	Standard Bank
<b>Auditors</b>	Auditor General (SA) Chartered Accountants (S.A.) Registered Auditors

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

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
DORA	Division of Revenue Act
MTREF	Mid Term Revenue and Expenditure Framework
WSIG	Water Services Infrastructure Grant

# **Sekhukhune District Municipality**

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## **Accounting Officer's Responsibilities and Approval**

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

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

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. The Minister of Finance had exempted municipalities and municipal entities from complying with deadlines stated in sections 126(1) and (2), 127(1) and (2) 129(1) and 133(2) of the Local Government: Municipal Finance Management Act, 2003(Act No. 56 of 2003). Therefore, the municipalities and municipal entities must submit their Annual Financial Statements within two months after the 31 August 2020 which is the 31 October 2020.

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, she 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 external auditors are responsible for independent auditing 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 5.

The annual financial statements set out on pages 5 to 56, which have been prepared on the going concern basis, were approved by the on 31 October 2020 and were signed on its behalf by:

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**Ms MJ Ntshudisane**  
**Municipal Manager**

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## Audit Committee Report

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

### Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 7 meetings were held.

<b>Name of member</b>	<b>Number of meetings attended</b>
Mr L. Lankalebela (Chairperson 01/07/2019 to 31/03/2020)	7
Mr M. Mokwele (Chairperson from 01/04/2020)	7
Ms M. Ndhlovu	5
Ms G. Molepo (01/07/2019 to 31/03/2020)	2
Ms T. Mathabatha (01/07/2019 to 31/03/2020)	3
Ms M. Mothelesi (From 01/04/2020)	1
Mr Mpaku (From 01/04/2020)	1

### Audit committee responsibility

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

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

### The effectiveness of internal control

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

### Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer and senior management of the municipality;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa'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.

### Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

### Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

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**Chairperson of the Audit Committee**

**Date:** \_\_\_\_\_

# **Sekhukhune District Municipality**

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## **Accounting Officer's Report**

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

### **1. Review of activities**

#### **Main business and operations**

Net surplus of the municipality was R 343 567 284 (2019: surplus R 333 876 802).

### **2. Going concern**

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

The ability of the municipality to continue as a going concern is dependent on continued funding by National Government as per DORA over the MTREF period. There are no reasons to believe that funding may be stopped in the foreseeable future.

### **3. Subsequent events**

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

### **4. Accounting policies**

The annual financial statements prepared accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### **5. Bankers**

Standard bank has been appointed as the primary banker of the municipality during the year for a period of five years.

### **6. Auditors**

Auditor General (SA) will continue in office for the next financial period.

### **7. Provincial and National Treasury**

In terms of MFMA 126(1)(a) the municipality and its entity must submit Annual Financial Statements (AFS) to Auditor General (SA), Provincial and National Treasury.

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## Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Assets</b>			
Current Assets			
Inventories	6	31 865 570	22 284 009
Other financial assets	4	1 000	1 000
Receivables from non-exchange transactions	7	55 589 365	50 955 946
VAT receivable	8	28 879 546	48 372 548
Receivables from exchange transactions	9	124 776 059	104 189 796
Cash and cash equivalents	10	62 380 477	71 028 086
		<b>303 492 017</b>	<b>296 831 385</b>
Non-Current Assets			
Property, plant and equipment	3	3 667 593 544	3 394 373 719
<b>Total Assets</b>		<b>3 971 085 561</b>	<b>3 691 205 104</b>
<b>Liabilities</b>			
Current Liabilities			
Operating lease liability	5	3 322 477	1 227 561
Payables from exchange transactions	14	450 006 478	522 021 603
Consumer deposits	15	4 371 415	4 207 572
Unspent conditional grants and receipts	12	68 934 376	61 052 578
Provisions	13	21 512 530	22 457 905
		<b>548 147 276</b>	<b>610 967 219</b>
Non-Current Liabilities			
Provisions	13	20 559 970	21 426 853
<b>Total Liabilities</b>		<b>568 707 246</b>	<b>632 394 072</b>
<b>Net Assets</b>		<b>3 402 378 315</b>	<b>3 058 811 032</b>
Reserves			
Revaluation reserve	11	100 000	100 000
Accumulated surplus		3 402 278 316	3 058 711 031
<b>Total Net Assets</b>		<b>3 402 378 316</b>	<b>3 058 811 031</b>

\* See Note 37

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## Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	17	94 840 932	86 518 023
Interest received - Debtors		10 878 102	11 961 061
Actuarial gains		3 413 060	927 478
Other income		1 841 166	3 504 373
Provision for landfill site written back		-	12 441 973
Interest received	18	16 007 311	11 954 312
<b>Total revenue from exchange transactions</b>		<b>126 980 571</b>	<b>127 307 220</b>
<b>Revenue from non-exchange transactions</b>			
<b>Transfer revenue</b>			
Government grants & subsidies	20	1 303 813 770	1 320 391 855
<b>Total revenue</b>	16	<b>1 430 794 341</b>	<b>1 447 699 075</b>
<b>Expenditure</b>			
Employee related costs	21	(397 644 268)	(373 574 925)
Remuneration of councillors	22	(15 466 714)	(16 597 724)
Repairs and maintenance		(42 133 150)	(49 712 725)
Depreciation and amortisation	23	(100 599 134)	(86 046 288)
Impairment loss	24	(44 550 684)	(3 767 402)
Finance costs	25	(3 534 349)	(3 829 748)
Lease rentals on operating lease		(55 253 928)	(56 055 152)
Debt Impairment	26	(21 630 741)	(15 101 117)
Bad debts written off		(2 630 289)	-
Bulk purchases	27	(128 075 875)	(196 006 452)
Contracted services	28	(58 983 449)	(66 260 366)
Transfers and Subsidies	19	(3 622 319)	(3 699 050)
Loss on disposal of assets and liabilities		(503 734)	(276 547)
General Expenses	29	(212 598 423)	(242 894 777)
<b>Total expenditure</b>		<b>(1 087 227 057)</b>	<b>(1 113 822 273)</b>
<b>Surplus for the year</b>		<b>343 567 284</b>	<b>333 876 802</b>

\* See Note 37



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## Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	100 000	2 768 173 708	2 768 273 708
Adjustments			
Prior period errors - Note 37	-	(43 339 479)	(43 339 479)
<b>Balance at 01 July 2018 as restated*</b>	<b>100 000</b>	<b>2 724 834 229</b>	<b>2 724 934 229</b>
Changes in net assets			
Surplus for the year	-	333 876 802	333 876 802
Total changes	-	333 876 802	333 876 802
<b>Restated* Balance at 01 July 2019</b>	<b>100 000</b>	<b>3 058 711 032</b>	<b>3 058 811 032</b>
Changes in net assets			
Surplus for the year	-	343 567 284	343 567 284
Total changes	-	343 567 284	343 567 284
<b>Balance at 30 June 2020</b>	<b>100 000</b>	<b>3 402 278 316</b>	<b>3 402 378 316</b>
Note(s)	11		

\* See Note 37

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## Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		56 238 322	53 678 758
Grants		1 311 695 568	1 331 439 684
Interest income		16 007 311	11 954 312
Other receipts		1 841 166	3 504 373
		<b>1 385 782 367</b>	<b>1 400 577 127</b>
<b>Payments</b>			
Employee costs		(415 044 529)	(389 872 174)
Suppliers		(560 675 912)	(550 775 448)
Finance costs		-	(346 934)
		<b>(975 720 441)</b>	<b>(940 994 556)</b>
<b>Net cash flows from operating activities</b>	<b>31</b>	<b>410 061 926</b>	<b>459 582 571</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(418 873 378)	(492 102 696)
<b>Cash flows from financing activities</b>			
Repayment of Borrowings		-	(276 925)
Consumer deposits		163 843	400 464
<b>Net cash flows from financing activities</b>		<b>163 843</b>	<b>123 539</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(8 647 609)</b>	<b>(32 396 586)</b>
Cash and cash equivalents at the beginning of the year		71 028 086	103 424 673
<b>Cash and cash equivalents at the end of the year</b>	<b>10</b>	<b>62 380 477</b>	<b>71 028 087</b>

\* See Note 37

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## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	110 717 331	-	<b>110 717 331</b>	94 840 932	<b>(15 876 399)</b>	Note 47 - N1
Interest received (trading)	9 260 940	-	<b>9 260 940</b>	10 878 102	<b>1 617 162</b>	Note 47 - N2
Discount received	-	-	-	3 413 060	<b>3 413 060</b>	
Other income	1 932 962	-	<b>1 932 962</b>	1 841 166	<b>(91 796)</b>	Note 47 - N3
Provision for landfill site written back	120 000 000	-	<b>120 000 000</b>	-	<b>(120 000 000)</b>	Note 47 - N4
Interest received - investment	14 533 538	-	<b>14 533 538</b>	16 007 311	<b>1 473 773</b>	
<b>Total revenue from exchange transactions</b>	<b>256 444 771</b>	<b>-</b>	<b>256 444 771</b>	<b>126 980 571</b>	<b>(129 464 200)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Transfer revenue</b>						
Government grants & subsidies	1 241 567 335	-	<b>1 241 567 335</b>	1 303 813 770	<b>62 246 435</b>	
<b>Total revenue</b>	<b>1 498 012 106</b>	<b>-</b>	<b>1 498 012 106</b>	<b>1 430 794 341</b>	<b>(67 217 765)</b>	
<b>Expenditure</b>						
Personnel	(392 088 744)	-	<b>(392 088 744)</b>	(397 644 268)	<b>(5 555 524)</b>	
Remuneration of councillors	(15 466 714)	-	<b>(15 466 714)</b>	(15 466 714)	-	
Repairs and maintenance	(43 721 112)	-	<b>(43 721 112)</b>	(42 133 150)	<b>1 587 962</b>	
Transfer payments - Other	(1 052 000)	-	<b>(1 052 000)</b>	-	<b>1 052 000</b>	
Depreciation and amortisation	(85 962 422)	-	<b>(85 962 422)</b>	(100 599 134)	<b>(14 636 712)</b>	Note 47 - N5
Impairment loss/ Reversal of impairments	-	-	-	(44 550 684)	<b>(44 550 684)</b>	Note 47 - N6
Finance costs	(3 534 349)	-	<b>(3 534 349)</b>	(3 534 349)	-	Note 47 - N7
Lease rentals on operating lease	(36 557 370)	-	<b>(36 557 370)</b>	(55 253 928)	<b>(18 696 558)</b>	Note 47 - N8
Debt Impairment	-	-	-	(21 630 741)	<b>(21 630 741)</b>	Note 47 - N9
Bad debts written off	(2 630 289)	-	<b>(2 630 289)</b>	(2 630 289)	-	
Bulk purchases	(108 636 965)	-	<b>(108 636 965)</b>	(128 075 875)	<b>(19 438 910)</b>	Note 47 - N10
Contracted Services	(90 320 976)	-	<b>(90 320 976)</b>	(58 983 449)	<b>31 337 527</b>	Note 47 - N11
Transfers and Subsidies	(3 622 319)	-	<b>(3 622 319)</b>	(3 622 319)	-	
General Expenses	(142 563 899)	(11 167 184)	<b>(153 731 083)</b>	(212 598 423)	<b>(58 867 340)</b>	Note 47 - N12
<b>Total expenditure</b>	<b>(926 157 159)</b>	<b>(11 167 184)</b>	<b>(937 324 343)</b>	<b>(1 086 723 323)</b>	<b>(149 398 980)</b>	
<b>Operating surplus</b>	<b>571 854 947</b>	<b>(11 167 184)</b>	<b>560 687 763</b>	<b>344 071 018</b>	<b>(216 616 745)</b>	
Loss on disposal of assets and liabilities	(503 735)	503 735	-	(503 734)	<b>(503 734)</b>	Note 47 - N13
<b>Surplus before taxation</b>	<b>571 351 212</b>	<b>(10 663 449)</b>	<b>560 687 763</b>	<b>343 567 284</b>	<b>(217 120 479)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>571 351 212</b>	<b>(10 663 449)</b>	<b>560 687 763</b>	<b>343 567 284</b>	<b>(217 120 479)</b>	

# Sekhukhune District Municipality

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## Accounting Policies

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### 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.

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

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

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

#### 1.3 Materiality

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

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

#### 1.4 Significant judgements and sources of estimation uncertainty

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

##### Trade receivables and receivables

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

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

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

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

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## Accounting Policies

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

#### Fair value estimation

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

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

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

#### Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

#### Useful lives of waste and water network and other assets

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

#### Effective interest rate

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

#### Allowance for doubtful debts

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

# Sekhukhune District Municipality

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## Accounting Policies

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### 1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land which is carried at revalued amount being the fair value as determined by the local municipalities in the approved valuation rolls.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

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

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

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

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

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<b>Item</b>	<b>Depreciation method</b>	<b>Average useful life</b>
Land	Straight line	Indefinite lifespan
Community assets	Straight line	15 to 30 years
Machinery and equipment	Straight line	2 to 19 years
Transport assets	Straight line	5 to 15 years
Furniture and office equipment	Straight line	3 to 10 years
IT equipment	Straight line	2 - 17 years
Leasehold improvements	Straight line	5 to 10 years
Infrastructure - Water, reservoirs and reticulation	Straight line	5 to 80 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.

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 29).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

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## Accounting Policies

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### 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.

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

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

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

A financial asset is:

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

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

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

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

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

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.



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### 1.6 Financial instruments (continued)

A residual interest is any contract that manifests an interest in the assets of an 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 unissued 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 an 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 an 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 entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

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

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

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

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

### Classification

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

#### Class

Receivables from exchange transactions  
Receivables from non-exchange transactions  
Cash and cash equivalents  
Other financial assets

#### Category

Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost

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

#### Class

Borrowings  
Operating lease liability  
Payables from exchange transactions  
Bank overdraft

#### Category

Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost

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### 1.6 Financial instruments (continued)

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

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

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

#### Subsequent measurement of financial assets and financial liabilities

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

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

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

#### Fair value measurement considerations

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

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

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## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Reclassification

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

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

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

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

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

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## Accounting Policies

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### 1.7 Statutory receivables

#### Identification

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

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

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

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

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

#### Recognition

The municipality recognises statutory receivables as follows:

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

#### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

#### Subsequent measurement

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

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

#### Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

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## Accounting Policies

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### 1.7 Statutory receivables (continued)

#### Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, a municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

#### Derecognition

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

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

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

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## Accounting Policies

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### 1.8 Leases

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

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

#### Operating leases - lessee

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

### 1.9 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

The cost of inventories for Operations and Maintenance materials not bought through normal stores system are assigned using the first-in, first-out (FIFO) formula.

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

### 1.10 Construction contracts and receivables

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, short-term money market instruments and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are measured at amortised cost.

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## Accounting Policies

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### 1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed 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.

Useful life is either:

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

### 1.12 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

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## Accounting Policies

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### 1.12 Employee benefits (continued)

#### Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

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 amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

### 1.13 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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



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## Accounting Policies

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### 1.13 Provisions and contingencies (continued)

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of 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.

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 3434.

### 1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.15 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.

# Sekhukhune District Municipality

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Annual Financial Statements for the year ended 30 June 2020

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### 1.16 Revenue from non-exchange transactions

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

Revenue 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.

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.

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbusement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

### 1.17 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.

### 1.18 Accounting by principals and agents

#### Identification

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

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

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

# Sekhukhune District Municipality

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## Accounting Policies

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### 1.18 Accounting by principals and agents (continued)

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

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

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

#### Binding arrangement

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

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

#### Recognition

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

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

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

### 1.19 Comparative figures

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

### 1.20 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.

### 1.21 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.

# Sekhukhune District Municipality

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### 1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

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

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

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

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

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

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

### 1.23 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

### 1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

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

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

The budget for the economic entity includes all the entities approved budgets under its control.

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

# Sekhukhune District Municipality

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Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.25 Related parties

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

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

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

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

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

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

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

### 1.26 Events after reporting date

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

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

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

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

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## Notes to the Annual Financial Statements

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### 2. New standards and interpretations

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

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 6 (as revised 2010): Consolidated and Separate financial statements	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of land	01 April 2019	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing programme	01 April 2019	Unlikely there will be a material impact
• GRAP 1 (amended) Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 18: Segment reporting	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of interest in other entities	01 April 2020	Unlikely there will be a material impact
• GRAP 104 on Financial instruments (revised)	To be determined	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• IGRAP 20: Accounting for adjustments to revenue	01 April 2020	Unlikely there will be a material impact
• Directive 7 revised :The application of Deemed costs	01 April 2020	Unlikely there will be a material impact
• Guideline on Accounting for landfill sites	To be determined	Unlikely there will be a material impact
• Guideline: Guideline on the application of materiality to financial statements.	Voluntary	Unlikely there will be a material impact

# Sekhukhune District Municipality

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Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 3. 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	14 460 000	-	14 460 000	14 460 000	-	14 460 000
Plant and machinery	5 868 273	(2 006 435)	3 861 838	5 519 545	(1 859 743)	3 659 802
Furniture and office equipment	10 084 627	(5 705 912)	4 378 715	10 351 007	(5 755 673)	4 595 334
Transport assets	14 249 293	(4 737 022)	9 512 271	11 142 572	(4 719 951)	6 422 621
IT equipment	14 849 605	(7 172 697)	7 676 908	11 131 642	(5 648 229)	5 483 413
Leasehold improvements	200 300	(88 269)	112 031	200 300	(69 260)	131 040
Roads Infrastructure	65 704 027	(38 756 032)	26 947 995	65 704 027	(34 847 582)	30 856 445
Community assets	23 395 665	(18 505 095)	4 890 570	23 395 665	(17 660 154)	5 735 511
Wastewater network	71 464 774	(34 962 553)	36 502 221	70 975 865	(32 213 380)	38 762 485
Water network	2 569 306 699	(679 724 007)	1 889 582 692	2 342 760 803	(589 798 590)	1 752 962 213
Assets under construction (WIP)	1 669 668 303	-	1 669 668 303	1 531 304 855	-	1 531 304 855
<b>Total</b>	<b>4 459 251 566</b>	<b>(791 658 022)</b>	<b>3 667 593 544</b>	<b>4 086 946 281</b>	<b>(692 572 562)</b>	<b>3 394 373 719</b>

# Sekhukhune District Municipality

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Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

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

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

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	14 460 000	-	-	-	-	-	-	14 460 000
Plant and machinery	3 659 802	1 026 315	(129 660)	-	-	(694 619)	-	3 861 838
Furniture and office equipment	4 595 334	892 882	(27 530)	-	-	(1 081 971)	-	4 378 715
Transport assets	6 422 621	5 265 800	(307 845)	-	-	(1 868 305)	-	9 512 271
IT equipment	5 483 413	4 041 642	(38 700)	-	-	(1 809 447)	-	7 676 908
Leasehold improvements	131 040	-	-	-	-	(19 009)	-	112 031
Roads Infrastructure	30 856 445	-	-	-	-	(3 908 450)	-	26 947 995
Community assets	5 735 511	-	-	-	-	(844 941)	-	4 890 570
Wastewater network	38 762 485	488 910	-	-	-	(2 740 736)	(8 438)	36 502 221
Water network	1 752 962 213	20 439 268	-	206 106 628	-	(87 631 658)	(2 293 759)	1 889 582 692
Assets under construction (WIP)	1 531 304 855	386 747 422	-	-	(206 106 628)	-	(42 277 346)	1 669 668 303
	<b>3 394 373 719</b>	<b>418 902 239</b>	<b>(503 735)</b>	<b>206 106 628</b>	<b>(206 106 628)</b>	<b>(100 599 136)</b>	<b>(44 579 543)</b>	<b>3 667 593 544</b>

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

	Opening balance	Additions	Transfers received	Disposals	Depreciation	Impairment loss	Total
Land	14 460 000	-	-	-	-	-	14 460 000
Plant and machinery	2 518 704	1 760 652	-	-	(534 967)	(84 587)	3 659 802
Furniture and office equipment	4 706 295	1 305 135	-	-	(1 141 692)	(274 404)	4 595 334
Transport assets	3 514 304	4 150 612	-	-	(1 242 295)	-	6 422 621
IT equipment	4 791 554	2 103 285	-	-	(1 394 413)	(17 013)	5 483 413
Leasehold improvements	153 545	-	-	-	(22 505)	-	131 040
Roads Infrastructure	34 975 203	-	-	-	(3 930 229)	(188 529)	30 856 445
Community assets	8 203 778	-	-	(216 484)	(1 155 902)	(1 095 881)	5 735 511
Wastewater network	41 562 269	-	-	-	(2 797 641)	(2 143)	38 762 485
Water network	1 557 374 985	33 075 710	238 400 137	-	(73 723 803)	(2 164 816)	1 752 962 213
Assets under construction (WIP)	1 319 997 690	449 707 302	(238 400 137)	-	-	-	1 531 304 855
	<b>2 992 258 327</b>	<b>492 102 696</b>	<b>-</b>	<b>(216 484)</b>	<b>(85 943 447)</b>	<b>(3 827 373)</b>	<b>3 394 373 719</b>



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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>3. Property, plant and equipment (continued)</b>		
<b>Carrying amount of stagnant or slow moving projects</b>		
<b>No impairment has been recognised on the following stagnant or slow moving projects:</b>		
Ga Nkoana sports complex	2 243 475	2 243 475
Olifantspoorts Regional Wss Phase 6 Contract 16- Lawmak consulting	8 953 882	8 953 882
Olifantspoorts Regional Wss Phase 6 Contract 19- Mothakge Phadima construction	2 523 927	2 523 927
Jane Furse 25MI command reservoir	34 938 594	34 938 594
Nebo Plateau Bws- Jane Furse To Marulaneng Water Supply	34 648 244	34 648 244
Nebo Plateau-Jane Furse To Lobethal Water Supply	47 125 853	47 125 853
Groblerdsdal Augmentation And Bulk Line (Mm Trading)	3 784 886	3 784 886
Moutse Bulk Water Supply Project 3 4 5- Riverside Chuene	17 785 837	17 785 837
Nkadimeng Bulk Water Supply 9C1- Mediro Civils And Construction	5 822 087	5 822 087
Acip:Flag Boshielo Wcdm Water Supply	3 674 151	3 674 151
Acip:Marble Hall Wwtw Effluent Line	1 477 042	1 477 042
Refurb Of Mapodile Oxidation Ponds- Zenobia Trading/ Wsm Leshika Consulting	1 754 098	1 754 098
Refurbishment Of Penge Wwtw And Wtw- Khuvutlu Water And Cost Recovery/ Evn Consulting	1 776 961	1 776 961
Refurbishment Of Motetema Sewerage And Pump Station- Zenobia Trading/ Sml Projects	2 696 914	2 696 914
Rehab Of Community Water Supply At Phiring, Leboeng, Lepelle- Mdina Engineering/ Wsm Leshika	2 350 027	2 350 027
Dwa-Piet Gouws Water Supply To Ga Masemola	11 126 941	11 126 941
Mig:Zaaiplaas Connector Pipes- Moepeng	9 263 508	9 263 508
	<b>191 946 427</b>	<b>191 946 427</b>

The following projects are currently experiencing delays or were halted. The carrying amount of those assets included in the balance of Property, plant and equipment are listed above. For each project, the reason for the delay or halting of the project were noted as below:

- 1. Ga Nkoana Sports Complex** - The project was practically completed but was not handed over due to unavailability of electricity, it was then vandalised. A report was produced by IWS to Department of Sports, Arts and Culture to request funding.
- 2. Olifantspoort S Regional Wss Phase 6 Contract 16 - Lawmak consulting** - Terminated, No contractor was appointed to complete the works due to lack of funding. Awaiting MIG approval.
- 3. Olifantspoort S Regional Wss Phase 6 Contract 19 - Mothakge Phadima Construction** - Terminated, no contractor was appointed to complete the works due to lack of funding. Awaiting MIG approval.
- 4. Jane Furse 25MI Command Reservoir** - Completed, cannot be tested, No water source.
- 5. Nebo Plateau Bws- Jane Furse to Marulaneng Water Supply** - Completed, cannot be tested, No water source.
- 6. Nebo Plateau-Jane Furse to Lobethal Water Supply** - Contractor withdrew from the project, No further action.
- 7. Groblersdal Augmentation and Bulk Line (Mm Trading)** - The project is practically completed, but not handed over-due contractual disputes.
- 8. Moutse Bulk Water Supply Project 3 4 5 - Riverside Chuene** - Terminated, DWS completing the works.

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Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

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

**9. Nkadimeng Bulk Water Supply 9C1- Mediro Civils and Construction** - Midiro Civils was appointed by SDM in March 2010 to construct this project to the value of R 5 780 488-56, with an engineer's estimate of R 7 441 681 - 67. The contractor was bound to encounter serious financial/cashflow difficulties, as his appointment value was almost 25% below the estimate of the engineer. The contractor started off well but as was expected he soon uncountered cashflow difficulties. This together with various other factors, such as, vandalism, poor workmanship by sub-contractors and to a lesser extent industrial action, slowed down the project progress and eventually the project ground to a halt.

\*The option of terminating the contract was also considered, but since the main reason for his cashflow problem was his low contract appointment value, we jointly decided it would be unfair to terminate him.

\*The contractor called for a meeting PMU to request cashflow assistance from the municipality. Various options were discussed. He then requested if funds from the project be released into the engineer's account for correct utilising. This to pay labour, site-staff, fuel, material, etc., to ensure continuous progress. This proposal was accepted by SDM.

\*The bulk of construction was completed by December 2015, mainly with testing and minor finishing outstanding. By then the transferred funds had been depleted. At that stage Pula had already advanced a further R 85 198.09 in the hope of completing the project. Meetings were held with the contractor and the SDM project manager.

\*As the contractor indicated that he had no means to complete the project, it was proposed to to PMU to utilise the remaining retention money to complete the outstanding work. For this purpose, a cession document was prepared and submitted to SDM but was never processed. If this option is not pursued, the contractor would have to be terminated and a new contractor appointed. This will most definitely cost SDM much more.

\*We are currently resubmitting this proposal to SDM.

**10. Acip:Flag Boshielo Wcdm Water Supply** - The project become stagnant due to contractual disputes.

**11. Acip:Marble Hall Wwtw Effluent Line**

**12. Refurb Of Mapodile Oxidation Ponds - Zenobia Trading/ Wsm Leshika Consulting** - No progress due to lack of funding.

**13. Refurbishment Of Penge Wwtw And Wtw - Khuvutlu Water And Cost Recovery/ Evn Consulting** - No progress due to lack of funding.

**14. Refurbishment Of Motetema Sewerage And Pump Station- Zenobia Trading/ Sml Projects** - Completed Not commissioned. Completion certificate cannot be issued as the project cannot be tested due to unavailability of electricity.

**15. Rehab Of Community Water Supply At Phiring, Leboeng, Lepelle - Mdina Engineering/ Wsm Leshika** - Completed Not commissioned. Completion certificate cannot be issued as the project cannot be tested due to unavailability of electricity. The project was handed over to be completed by WSIG funding.

**16. Dwa-Piet Gouws Water Supply To Ga Masemola** - The project is dependent on another project to be operational.

**17. Mig:Zaaiplaas Connector Pipes - Moepeng** - The project cannot be tested as it's dependent on the other project for operation.

# Sekhukhune District Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>3. Property, plant and equipment (continued)</b>		
<b>Property, plant and equipment in the process of being constructed or developed</b>		
<b>Cumulative expenditure recognised in the carrying value of property, plant and equipment</b>		
Land	1 669 668 303	1 531 304 855
<b>Expenditure incurred to repair and maintain property, plant and equipment</b>		
<b>Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance</b>		
Repairs and Maintenance	38 753 853	49 712 725
<b>Pledged as security</b>		
No assets are pledged as security.		
The Municipality holds fully depreciated assets carried at zero value in the asset register which are still in use.		
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.		
<b>4. Other financial assets</b>		
<b>Residual interest at cost</b>		
Investment in Sekhukhune Development Agency	1 000	1 000
Investment - Municipal Entity (Sekhukhune Development Agency) The municipality is a sole shareholder of Sekhukhune Development Agency		
<b>Current assets</b>		
Residual interest at cost	1 000	1 000
<b>5. Operating lease liability</b>		
Current liabilities	(3 322 477)	(1 227 561)
<b>Present value of minimum lease payments due</b>		
- within one year	(3 322 477)	(1 227 561)
The lease liability is due to payments on leases to be made in the future years as a result of straight lining operating leases on office rentals and fleet.		
<b>6. Inventories</b>		
Water inventory	939 678	1 133 518
Consumable stores	1 490 069	1 342 000
Maintenance materials	29 435 823	19 808 491
	<b>31 865 570</b>	<b>22 284 009</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>7. Receivables from non-exchange transactions</b>		
Government grants - RBIG Funds	40 853 958	50 506 249
Sundry debtors	14 735 407	449 697
	<b>55 589 365</b>	<b>50 955 946</b>

### 8. VAT receivable

VAT	28 879 546	48 372 548
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Sekhukhune District Municipality is registered as a Category C (monthly) vendor as contemplated in Section 27(3) of the VAT Act Number 89 of 1991, submitting VAT returns on a monthly basis.

The Municipality calculates monthly tax payable in terms of Section 16(3)(b)(i), where the vendor in terms of Section 15 is required to account for tax payable on a payment basis (or cash basis).

The VAT receivable is mainly made up of outstanding refunds at year end, penalties on disallowed VAT that was paid after year end and VAT on debtors and creditors.

### 9. Receivables from exchange transactions

#### Gross balances

Water	232 027 870	192 410 128
Waste water	15 395 117	12 795 855
	<b>247 422 987</b>	<b>205 205 983</b>

#### Less: Allowance for impairment

Water	(115 015 609)	(94 479 039)
Waste water	(7 631 319)	(6 537 148)
	<b>(122 646 928)</b>	<b>(101 016 187)</b>

#### Net balance

Water	117 012 261	97 931 089
Waste water	7 763 798	6 258 707
	<b>124 776 059</b>	<b>104 189 796</b>

#### Water

Current (0 -30 days)	9 212 705	7 594 888
31 - 60 days	14 866 640	6 424 913
61 - 90 days	7 952 247	5 513 185
91 - 120 days	5 483 344	4 311 764
121 - 365 days	194 512 934	168 565 379
Debt Impairment	(115 015 609)	(94 479 040)
	<b>117 012 261</b>	<b>97 931 089</b>

#### Waste water

Current (0 -30 days)	1 139 129	1 041 164
31 - 60 days	1 486 250	695 253
61 - 90 days	506 389	554 156
91 - 120 days	442 300	500 558
121 - 365 days	11 821 049	10 004 724
Debt Impairment	(7 631 319)	(6 537 148)
	<b>7 763 798</b>	<b>6 258 707</b>

# Sekhukhune District Municipality

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Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

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

#### Reconciliation of allowance for impairment

Balance at beginning of the year	(101 016 187)	(85 915 070)
Contributions to allowance	(21 630 741)	(15 101 117)
	<b>(122 646 928)</b>	<b>(101 016 187)</b>

### 10. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	30 694 259	12 159 794
Short-term deposits	31 686 218	58 868 292
	<b>62 380 477</b>	<b>71 028 086</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
Standard Bank - Primary Account	58 733 311	10 678 590	18 497 863	30 694 259	12 159 794	18 295 305
FNB Call Account	-	775 630	32 727 255	-	755 630	32 727 255
Nedbank Call Account	-	16 150 624	-	-	16 150 624	42 271
ABSA Call Account	-	41 941 330	-	-	41 942 038	87 300
Standard Bank Call Account	31 538 923	-	52 272 542	31 686 218	-	52 272 542
<b>Total</b>	<b>90 272 234</b>	<b>69 546 174</b>	<b>103 497 660</b>	<b>62 380 477</b>	<b>71 008 086</b>	<b>103 424 673</b>

### 11. Revaluation reserve

Revaluation surplus	100 000	100 000
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### 12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG)	47 086 615	16 168 634
Finance Mangement Grant (FMG)	(3 040)	5
Water Services Infrastructure Grant (WSIG)	21 353 651	44 877 946
Expanded Public Works Programme (EPWP)	653	653
Rural Roads Asset Management System Grant (RRAMS)	369 423	5 340
Municipal Disaster Management Grant	127 074	-
	<b>68 934 376</b>	<b>61 052 578</b>

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

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

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

# Sekhukhune District Municipality

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Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 13. Provisions

#### Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Unused leave provision	24 398 343	2 883 750	(2 041 950)	2 137 247	(2 991 890)	24 385 500
Long service award provision	19 486 415	1 658 928	(4 434 275)	1 397 102	(421 170)	17 687 000
	<b>43 884 758</b>	<b>4 542 678</b>	<b>(6 476 225)</b>	<b>3 534 349</b>	<b>(3 413 060)</b>	<b>42 072 500</b>

#### Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	12 441 973	-	(12 441 973)	-	-	-	-
Unused leave provision	26 036 129	3 429 240	-	(3 365 462)	2 254 083	(3 955 647)	24 398 343
Long service award provision	15 340 506	1 485 483	-	(1 596 475)	1 228 732	3 028 169	19 486 415
	<b>53 818 608</b>	<b>4 914 723</b>	<b>(12 441 973)</b>	<b>(4 961 937)</b>	<b>3 482 815</b>	<b>(927 478)</b>	<b>43 884 758</b>

Non-current liabilities	20 559 970	21 426 853	
Current liabilities	21 512 530	22 457 905	
	<b>42 072 500</b>	<b>43 884 758</b>	

# Sekhukhune District Municipality

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## Notes to the Annual Financial Statements

Figures in Rand

### 13. Provisions (continued)

#### Unused leave provision

The provision is the value of unused leave liability at year end. The following assumptions were used in the determination of the leave liability:

The discount rate of 7,4% and the general salary inflation of 3,96% resulting in net effective discount rate of 3,32%. The average retirement age was assumed to be 62 years.

#### Long service awards provision

The provision is the value of long service award liability that is expected to be payable under the municipality's current arrangements and as per condition of service approved by SALGBC. The following assumptions were used in determining the long service award liability:

852 employees were eligible for long service awards. The discount rate of 10,04% and the general salary inflation of 5,68% resulting in net effective discount rate of 4,12%. The average retirement age was assumed to be 62 years.

### 14. Payables from exchange transactions

Trade payables	261 271 860	349 483 400
Other payables	7 495 488	952 302
Retention and sessions	169 941 017	160 992 562
Deposits received	3 184 846	2 675 571
Bonus provision	8 113 267	7 917 768
	<b>450 006 478</b>	<b>522 021 603</b>

### 15. Consumer deposits

Water	4 371 415	4 207 572
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# Sekhukhune District Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>16. Revenue</b>		
Service charges	94 840 932	86 518 023
Interest received (trading)	10 878 102	11 961 061
Actuarial gains	3 413 060	927 478
Other income	1 841 166	3 504 373
Provision for landfill written back	-	12 441 973
Interest received - investment	16 007 311	11 954 312
Government grants & subsidies	1 303 813 770	1 320 391 855
	<b>1 430 794 341</b>	<b>1 447 699 075</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	94 840 932	86 518 023
Interest received (trading)	10 878 102	11 961 061
Actuarial gains	3 413 060	927 478
Other income	1 841 166	3 504 373
Provision for landfill written back	-	12 441 973
Interest received - investment	16 007 311	11 954 312
	<b>126 980 571</b>	<b>127 307 220</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
Government grants & subsidies	1 303 813 770	1 320 391 855
<b>17. Service charges</b>		
Sale of water	81 909 151	79 192 795
Sewerage and sanitation charges	12 931 781	7 325 228
	<b>94 840 932</b>	<b>86 518 023</b>
<b>18. Investment revenue</b>		
<b>Interest revenue</b>		
Short term investments	14 336 728	9 689 842
Primary bank account	1 670 583	2 264 470
	<b>16 007 311</b>	<b>11 954 312</b>
<b>19. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
Sekhukhune District Development Agency Grants	3 622 319	3 699 050



# Sekhukhune District Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>20. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	769 247 580	711 480 000
Expanded Public Works Programme Grant (EPWP)	2 665 000	1 745 347
Finance Management Grant (FMG)	1 788 045	1 319 995
Rural Roads Assets Management Grant (RRAMS)	2 062 917	2 285 660
Municipal Disaster Grant	766 926	-
National Department of Labour : SETA	708 098	-
	<b>777 238 566</b>	<b>716 831 002</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant (MIG)	418 108 385	480 067 221
Rural Bulk Infrastructure Grant (RBIG)	69 820 470	95 187 491
Water Services Infrastructure Grant (WSIG)	38 646 349	28 306 141
	<b>526 575 204</b>	<b>603 560 853</b>
	<b>1 303 813 770</b>	<b>1 320 391 855</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Conditional grants received	534 566 190	608 911 855
Unconditional grants received	769 247 580	711 480 000
	<b>1 303 813 770</b>	<b>1 320 391 855</b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
<b>Municipal Infrastructure Grant (MIG)</b>		
Balance unspent at beginning of year	16 168 634	36 834 705
Current-year receipts	465 195 000	464 936 000
Conditions met - transferred to revenue	(418 108 386)	(480 067 071)
Refunded to National Treasury	(16 168 633)	(5 535 000)
	<b>47 086 615</b>	<b>16 168 634</b>
Conditions still to be met - remain liabilities (see note 12).		
<b>Expanded Public Works Programme (EPWP)</b>		
Balance unspent at beginning of year	5	-
Current-year receipts	2 665 000	1 746 000
Conditions met - transferred to revenue	(2 665 000)	(1 745 995)
Overspend	(3 045)	-
	<b>(3 040)</b>	<b>5</b>
Conditions still to be met - remain liabilities (see note 12).		
<b>Water Services Infrastructure Grant (WSIG)</b>		
Balance unspent at beginning of year	44 877 946	8 184 087
Current-year receipts	60 000 000	65 000 000
Conditions met - transferred to revenue	(38 646 349)	(28 306 141)

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>20. Government grants and subsidies (continued)</b>		
Refunded to National Treasury	(44 877 946)	-
	<b>21 353 651</b>	<b>44 877 946</b>

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

### Finance Management Grant (FMG)

Balance unspent at beginning of year	653	-
Current-year receipts	1 785 000	1 320 000
Conditions met - transferred to revenue	(1 788 045)	(1 319 347)
Overspending	3 045	-
	<b>653</b>	<b>653</b>

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

### Rural Roads Assets Management System Grant (RRAMS)

Balance unspent at beginning of year	5 340	-
Current-year receipts	2 427 000	2 291 000
Conditions met - transferred to revenue	(2 062 917)	(2 285 660)
	<b>369 423</b>	<b>5 340</b>

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

### Municipal Disaster Grant

Current-year receipts	894 000	-
Conditions met - transferred to revenue	(766 926)	-
	<b>127 074</b>	<b>-</b>

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

### Regional Bulk Infrastructure Grant (RBIG)

Balance unspent at beginning of year	(50 506 249)	(47 673 672)
Current-year receipts	79 472 761	92 354 914
Conditions met - transferred to revenue	(69 820 470)	(95 187 491)
Closing Balance	40 853 958	50 506 249
	-	-

### National Department of Labour:SETA

Current-year receipts	708 098	-
Conditions met - transferred to revenue	(708 098)	-
	-	-

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

### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 03 of 2017), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

# Sekhukhune District Municipality

(Registration number DC 47)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>21. Employee related costs</b>		
Basic	251 891 919	239 920 094
Medical aid - company contributions	10 558 741	12 018 882
UIF	1 494 963	1 499 817
SDL	2 767 765	3 064 703
Bargaining council	95 744	91 057
Leave pay provision charge	5 269 601	4 340 745
Group life	1 129 576	1 163 108
Pension Fund	38 971 309	36 201 677
Travel, motor car, accommodation, subsistence and other allowances	27 746 159	28 886 257
Overtime payments	36 220 474	27 585 129
Long-service awards	4 159 787	1 700 201
Housing benefits and allowances	2 270 088	2 219 431
Cellphone allowance	1 688 462	1 710 344
Shift and standby allowance	13 305 130	13 113 480
Uniform allowance	74 550	60 000
	<b>397 644 268</b>	<b>373 574 925</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	660 842	1 091 228
Car Allowance	-	240 000
Contributions to UIF, Medical and Pension Funds	90 826	158 101
Settlement Lumpsum	735 313	127 761
Leave pay-out	67 865	-
Acting Allowance	28 512	-
	<b>1 583 358</b>	<b>1 617 090</b>
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	221 895	295 860
Car Allowance	-	28 000
Contributions to UIF, Medical and Pension Funds	29 407	39 250
Other Allowances	13 938	26 360
Subsistence and Travelling Allowance	-	67 231
	<b>265 240</b>	<b>456 701</b>
<b>Director - Corporate Services</b>		
Annual Remuneration	849 209	788 428
Car Allowance	-	72 000
Performance Bonuses	68 591	-
Contributions to UIF, Medical and Pension Funds	74 989	72 770
Other Allowances	47 061	217 049
	<b>1 039 850</b>	<b>1 150 247</b>
<b>Director Community Services</b>		
Annual Remuneration	604 702	1 160 747
Car Allowance	-	60 000
Annual Bonus	74 234	-
Contributions to UIF, Medical and Pension Funds	22 225	159 429
Other Allowances	48 410	98 471
Leave pay-out	73 541	-
	<b>823 112</b>	<b>1 478 647</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>21. Employee related costs (continued)</b>		
<b>Director Infrastructure and Water Services</b>		
Annual Remuneration	-	782 581
Car Allowance	-	192 936
Contributions to UIF, Medical and Pension Funds	-	135 246
Other Allowances	-	85 442
	-	<b>1 196 205</b>
<b>Director Planning and Economic Development</b>		
Annual Remuneration	969 493	943 222
Car Allowance	156 000	156 000
Contributions to UIF, Medical and Pension Funds	118 236	125 433
Other Allowances	82 129	102 174
	<b>1 325 858</b>	<b>1 326 829</b>
<b>Chief Audit Executive</b>		
Annual Remuneration	892 078	1 100 887
Car Allowance	90 000	120 000
Performance Bonuses	65 872	-
Contributions to UIF, Medical and Pension Funds	129 501	182 493
Other Allowances	48 138	69 298
	<b>1 225 589</b>	<b>1 472 678</b>
<b>Acting Municipal Manager</b>		
Annual Remuneration	693 085	-
Contributions to UIF, Medical and Pension Funds	92 154	-
Acting Allowance	29 112	-
Other Allowances	70 771	-
	<b>885 122</b>	-
<b>Acting Chief Finance Officer</b>		
Annual Remuneration	767 444	-
Annual Bonus	52 671	-
Contributions to UIF, Medical and Pension Funds	156 341	-
Other Allowances	26 773	-
	<b>1 003 229</b>	-
<b>Acting Director Infrastructure and Water Services</b>		
Annual Remuneration	874 290	-
Other Allowances	38 281	-
Contributions to UIF, Medical and Pension Funds	161 087	-
	<b>1 073 658</b>	-

# Sekhukhune District Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>21. Employee related costs (continued)</b>		
<b>Acting Chief Audit Executive</b>		
Annual Remuneration	145 630	-
Acting Allowance	4 339	-
Other Allowances	4 797	-
	<b>154 766</b>	<b>-</b>
<b>Acting Director Community Services</b>		
Annual Remuneration	342 608	-
Contributions to UIF, Medical and Pension Funds	80 981	-
Other Allowances	56 608	-
	<b>480 197</b>	<b>-</b>
<b>Acting Director Corporate Services</b>		
Annual Remuneration	251 148	-
Acting Allowance	12 545	-
Contributions to UIF, Medical and Pension Funds	48 377	-
Other Allowances	11 563	-
	<b>323 633</b>	<b>-</b>
<b>22. Remuneration of councillors</b>		
Executive Major	821 923	808 767
Chief Whip	594 736	749 203
Mayoral Committee Members	6 657 134	6 762 059
Speaker	760 769	729 532
Councillors	6 632 152	7 548 163
	<b>15 466 714</b>	<b>16 597 724</b>

# Sekhukhune District Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>22. Remuneration of councillors (continued)</b>		
<b>Executive Mayor: Cllr Ramaila KS</b>		
Annual Remuneration	723 835	714 388
Cellphone Allowance	43 800	-
Other Allowances	-	40 800
Contributions to UIF, Medical and Pension Funds	54 288	53 579
	<b>821 923</b>	<b>808 767</b>
<b>Council Speaker: Cllr Manamela MM</b>		
Annual Remuneration	648 255	623 173
Cellphone Allowance	43 800	40 800
Contributions to UIF, Medical and Pension Funds	48 619	46 738
Medical Aid Benefit	20 095	18 821
	<b>760 769</b>	<b>729 532</b>
<b>Chief Whip: Cllr Lepota TJ</b>		
Annual Remuneration	326 243	410 720
Cellphone Allowance	188 072	235 573
Performance Bonuses	32 700	40 800
Contributions to UIF, Medical and Pension Funds	22 957	30 804
Medical Aid Benefit	24 764	31 306
	<b>594 736</b>	<b>749 203</b>
<b>Mayoral Committee Members</b>		
Annual Remuneration	3 415 415	3 306 840
Travelling Allowance	2 436 155	2 677 700
Cellphone Allowance	373 700	367 200
Contributions to UIF, Medical and Pension Funds	257 407	247 969
Medical Aid Benefit	174 457	162 351
	<b>6 657 134</b>	<b>6 762 060</b>
<b>23. Depreciation and amortisation</b>		
Property, plant and equipment	100 599 134	86 046 288
<b>24. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	44 550 684	3 767 402
The municipality has assessed the slow moving projects and immovable assets for existence of impairment conditions. The recoverable amount of the asset was based on its fair value less its value in use.		
<b>25. Finance costs</b>		
Borrowings	-	11 077
Late payment of creditors	-	335 856
Discounting of provisions	3 534 349	3 482 815
	<b>3 534 349</b>	<b>3 829 748</b>

# Sekhukhune District Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>26. Debt impairment</b>		
Debt impairment	21 630 741	15 101 117
<b>27. Bulk purchases</b>		
Water	128 075 875	196 006 452
<b>28. Contracted services</b>		
VIP Sanitation	58 983 449	66 260 366
<b>29. General expenses</b>		
Advertising	540 579	937 764
Auditors remuneration	6 864 299	7 083 483
Bank charges	297 281	278 500
Computer expenses	163 365	-
Consulting and professional fees	42 707 318	45 860 339
Audit committee expenses	522 524	564 520
IT support	1 300 043	4 362 178
Entertainment	35 573	33 785
Accommodation	473 062	770 001
Hire charges	729 082	923 572
Insurance	5 760 586	3 526 968
Packaging	21 200	-
Fuel and oil	17 291 141	12 434 655
Printing and stationery	1 195 085	2 954 156
Protective clothing	1 559 888	2 646 163
Security (Guarding of municipal property)	43 785 180	34 835 805
Software expenses	4 031 182	2 288 920
Staff welfare	25 301	835 417
Subscriptions and membership fees	3 706 796	3 645 410
Telephone and fax	3 857 216	4 438 018
Transport and freight	(412 630)	2 637 611
Training	1 172 800	2 283 201
Travel - local	650 238	1 269 325
Electricity	43 172 300	41 181 309
Other expenses	2 540 930	5 037 257
Tankering costs	15 529 045	43 048 319
Catering services	787 818	3 035 286
Staff recruitment	186 119	393 720
Meter reading	8 815 341	8 671 902
Bursaries	695 925	1 946 968
Audio-visual services	4 593 836	4 970 225
	<b>212 598 423</b>	<b>242 894 777</b>
<b>30. Auditors' remuneration</b>		
Fees	5 215 784	6 286 326
Consulting	1 648 515	797 157
	<b>6 864 299</b>	<b>7 083 483</b>

# Sekhukhune District Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>31. Cash generated from operations</b>		
Surplus	343 567 284	333 876 802
<b>Adjustments for:</b>		
Depreciation and amortisation	100 599 134	86 046 288
Impairment loss	44 550 684	3 767 402
Debt impairment	21 630 741	15 101 117
Movements in operating lease assets and accruals	2 094 916	267 305
Movements in provisions	(1 933 547)	(47 214)
Finance costs - provisions	3 534 349	3 482 815
Actuarial gains	(3 413 060)	(927 478)
Provision for landfill written back	-	(12 441 973)
Loss on sale of assets and liabilities	503 734	276 547
Bad debts written off	2 630 289	-
<b>Changes in working capital:</b>		
Inventories	(9 581 561)	3 977 445
Receivables from exchange transactions	(44 847 293)	(49 174 425)
Other receivables from non-exchange transactions	(4 633 419)	(3 608 275)
Payables from exchange transactions	(72 015 125)	53 098 896
VAT	19 493 002	9 853 533
Unspent conditional grants and receipts	7 881 798	16 033 786
	<b>410 061 926</b>	<b>459 582 571</b>

## 32. Financial instruments disclosure

### Categories of financial instruments

#### 2020

#### Financial assets

	At amortised cost	Total
Other financial assets	1 000	1 000
Trade and other receivables from exchange transactions	124 776 059	124 776 059
Other receivables from non-exchange transactions	55 589 365	55 589 365
Cash and cash equivalents	62 380 477	62 380 477
	<b>242 746 901</b>	<b>242 746 901</b>

#### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	450 006 478	450 006 478



# Sekhukhune District Municipality

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## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 32. Financial instruments disclosure (continued)

2019

#### Financial assets

	At amortised cost	Total
Other financial assets	1 000	1 000
Trade and other receivables from exchange transactions	104 189 796	104 189 796
Other receivables from non-exchange transactions	50 955 946	50 955 946
Cash and cash equivalents	71 028 086	71 028 086
	<b>226 174 828</b>	<b>226 174 828</b>

#### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	522 021 603	522 021 603

### 33. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

• Property, plant and equipment	606 957 466	400 647 992
---------------------------------	-------------	-------------

##### Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	182 502 923	52 021 009
---------------------------------	-------------	------------

##### Total capital commitments

Already contracted for but not provided for	606 957 466	400 647 992
Not yet contracted for and authorised by accounting officer	182 502 923	52 021 009
	<b>789 460 389</b>	<b>452 669 001</b>

#### Total commitments

##### Total commitments

Authorised capital expenditure	789 460 389	452 669 001
--------------------------------	-------------	-------------

This committed expenditure relates to property, plant and equipment and will be financed by available bank facilities, retained surpluses, and government grants.

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

- within one year	35 331 693	28 304 327
- in second to fifth year inclusive	8 751 556	34 070 418
	<b>44 083 249</b>	<b>62 374 745</b>

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

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### 34. Contingencies

Litigation is in the process against the municipality relating to a dispute with awarding of contracts, payment to contractors and dismissed employees to the value of R 38,792,719 - (2019 - R 63,679,469). The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the cases should be resolved within the next two years.

#### Contingent assets

The municipality has instituted a litigation process to recover amounts from suppliers who did not meet the conditions to utilise such amounts. R22 210 223 - (2019 - 22 210 223)

### 35. Related parties

#### Relationships

Accounting Officer

Refer to accounting officer's report note 21

Controlled entities

Refer to note 19

Key members of management

Refer to note 22

#### Related party balances

##### Amounts included in Trade receivable (Trade Payable) regarding related parties

Sekhukhune Development Agency	572 449	581 505
Matz Civil and Megastructures (Proprietary) Limited	881 500	-

##### Other Related Party Transactions and Balances

Investment in Sekhukhune Development Agency	1 000	1 000
Grants and subsidies paid to Sekhukhune Development Agency	3 531 494	3 586 449

The director of Matz Civil and Megastructures is a son to Councillor M.A. Matlala.

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### 36. Change in estimate

#### Property, plant and equipment

The useful life of certain plant was estimated in 2006 to be certain years. In the current period management have revised their estimate to other years. The effects of these revisions have increased the depreciation and accumulated depreciation amounts for the current and future periods as follows: -

The impact on the cash flow statement is nil.

#### Furniture and Office Equipment

The useful life of Furniture and Office Equipment was estimated in 2006 to be 2-19 years. In the current period management have revised their estimate to 2-20 years. The effect of this revision has increased the depreciation and accumulated depreciation for the current and future periods by R50,653.11

The impact on the cash flow statement is nil

#### Leasehold Improvements

The useful life of Leasehold Improvements was estimated in 2006 to be 5-15 years. In the current period management have revised their estimate to 8-10 years. The effect of this revision has increased the depreciation and accumulated depreciation for the current and future periods by R 3 557

The impact on the cash flow statement is nil.

#### Transport Assets

The useful life of Transport Assets was estimated in 2006 to be 5-15 years. In the current period management have revised their estimate to 5-16 years. The effect of this revision has increased the depreciation and accumulated depreciation for the current and future periods by R 68 998.

The impact on the cash flow statement is nil.

### 37. 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	Re-classification	Restated
Property, plant and equipment	3	3 351 264 450	43 150 209	-	3 394 414 659
Receivables from non-exchange transactions		69 713 224	(15 308 008)	(3 449 270)	50 955 946
Trade payables		442 816 618	79 203 379	-	522 019 997
Receivables from exchange transactions		100 168 901	571 625	3 449 270	104 189 796
Consumer Deposits		4 209 180	(1 608)	-	4 207 572
VAT Receivable		48 552 674	(180 126)	-	48 372 548
Accumulated Surplus		3 109 721 649	(50 969 679)	-	3 058 751 970
		<b>7 126 446 696</b>	<b>56 465 792</b>	<b>-</b>	<b>7 182 912 488</b>

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### 37. Prior-year adjustments (continued)

#### Statement of financial performance

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Service charges		86 115 109	402 914	-	86 518 023
Interest received-Debtors		11 892 632	68 429	-	11 961 061
Employee related costs		373 664 049	-	(89 124)	373 574 925
General expenses		245 537 821	-	89 124	245 626 945
Depreciation and amortisation		85 938 852	107 436	-	86 046 288
Repairs and maintenance		56 366 047	(6 653 322)	-	49 712 725
<b>Surplus for the year</b>		<b>859 514 510</b>	<b>(6 074 543)</b>	<b>-</b>	<b>853 439 967</b>

#### Errors

The following prior period errors adjustments occurred:

#### Property, plant and equipment

**1. Work-in-Progress:** recognition was made of items of Work-in-Progress that was omitted from capitalisation in the prior year.

**2. Water Network Assets:** recognition was made of Water Network assets that were acquired through expenditure votes in the prior and were not transferred to assets.

#### Receivables

**1. Receivables from non-exchange transactions:** there were reclassifications of items of receivables from exchange transactions that were incorrectly classified hereinunder in the prior year.

**2. Receivables from non-exchange transactions;** the prior year balance included amounts being claimed for recovery by the municipality from specific suppliers who did not meet the conditions to utilise such amounts. These have been correctly classified as contingencies and removed from receivables from non-exchange transactions and correspondingly accumulated surplus.

**3. Receivables form exchange transactions:** there were reclassifications from receivables from non-exchange transactions of items that were incorrectly classified therein in the prior year.

**4. a) VAT accrued:** VAT was accounted for on billings on properties that have not billed in the prior year.

**b) VAT** was accounted for on retentions on payments that were not raised in the prior year.

#### Payables

**1. Trade payables:** recognition was made of the debt owed by Sekhukhune District Municipality to Lepelle Northern Water. The recognition of which was omitted in the previous year.

**2. Retentions:** corrections were made of prior year retentions.

**3. Salary suspense:** correction was made of prior year to clear third party salary suspense account.

#### Statement of Financial Performance

**1. Service charges:** correction was made of the billing on certain properties that were omitted in the prior year.

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### 37. Prior-year adjustments (continued)

**2. Interest received:** interest was charged on the billing of certain properties that were omitted in the prior year.

**3. Employee-related costs:** amounts of staff accommodation were reclassified to general expenses. These amounts were previously erroneously classified as employee-related costs.

**4. General expenses:** amounts of staff accommodation that were previously classified as employee costs in error have been reclassified as general expenses.

**5. Depreciation:** depreciation charges were allocated to the items of property, plant and equipment that were capitalised after having been omitted in the prior year.

**6. Repairs and maintenance:** items of property, plant and equipment acquired using some repairs and maintenance votes that had not been capitalised in the previous year were reclassified.

### 38. Risk management

#### Financial risk management

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

#### 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.

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

#### Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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### 38. Risk management (continued)

#### 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.

### 39. Going concern

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

The ability of the municipality to continue as a going concern is dependent on continued funding by National Treasury as per the DORA over MTREF period. Therefore, there are no reasons to believe that funding may be stopped in the foreseeable future.

### 40. Events after the reporting date

The Council appointed Municipal Manager, Acting Chief Financial Officer and Director Infrastructure and Water Services after year end.

### 41. Covid-19 Disclosure

#### Revenue

The municipality realised a decline in revenue collection as a result of the spread of the virus and its economic impact.

#### Debt repayment

As a result of the difficult economic conditions, the municipality will normally employ council approved Credit control policy and by-laws to collect due debt by customers. The municipality will therefore restrict water as a measure for debt collection, however such restrictions were viewed as a violation of Covid-19 lock regulations.

The municipality's receivables reported at R247,422,987 (2019: R205,205,983) which implies an increase in trade receivables of about R42 million.

#### Government grants

The municipality received a government grant of R766,926 to cover the effects of Covid-19 pandemic and the grant was disclosed in terms of GRAP 23 requirements.

### 42. Unauthorised expenditure

Opening balance as previously reported	248 904 203	54 159 575
<b>Opening balance as restated</b>	<b>248 904 203</b>	<b>54 159 575</b>
Expenditure during the year	149 398 980	194 744 628
<b>Closing balance</b>	<b>398 303 183</b>	<b>248 904 203</b>

### 43. Fruitless and wasteful expenditure

Opening balance as previously reported	28 089 166	5 347 630
<b>Opening balance as restated</b>	<b>28 089 166</b>	<b>5 347 630</b>
Expenditure during the year	18 133 594	22 741 536
<b>Closing balance</b>	<b>46 222 760</b>	<b>28 089 166</b>

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<b>44. Irregular expenditure</b>		
Opening balance as previously reported	819 876 397	1 217 747 432
Add: Irregular Expenditure - current year	167 636 259	74 775 996
<b>Add: Amounts written off as irrecoverable (not condoned)</b>	<b>987 512 656</b>	<b>1 292 523 428</b>
Less: Amount written off - current	-	(472 647 031)
<b>Closing balance</b>	<b>987 512 656</b>	<b>819 876 397</b>

### Cases under investigation

-

As far as prior year UIF was reported to council and council referred it to MPAC for further investigations. The MPAC report was tabled in Council with recommendation and disciplinary measures to be taken by the accounting officer.

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

#### Contributions to organised local government

Current year subscription / fee	3 723 209	3 627 328
Amount paid - current year	(3 723 209)	(3 627 328)
	-	-

#### Material losses (Water distribution)

Kilolitres of water lost	10 547 557	11 189 317
Value of water losses during the year	51 623 011	60 682 242

#### Audit fees

Opening balance	-	1 024 743
Current year subscription / fee	6 077 278	6 816 627
Amount paid - current year	(6 077 278)	(7 841 370)
	-	-

#### PAYE and UIF

Opening balance	-	4 590 221
Current year subscription / fee	68 975 502	78 272 673
Amount paid - current year	(68 975 502)	(82 862 894)
	-	-

#### Pension and Medical Aid Deductions

Opening balance	-	(142 425)
Current year subscription / fee	80 679 826	74 808 023
Amount paid - current year	(80 675 178)	(74 549 454)
	<b>4 648</b>	<b>116 144</b>

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

#### Councillors' arrear consumer accounts

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

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Nchabeleng TL	155	52	207
Councillor Matsetela ML	2 312	703	3 015
	<b>2 467</b>	<b>755</b>	<b>3 222</b>

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Sihlangu TL	83	-	83
Councillor Nchabeleng TL	1 172	-	1 172
Councillor Matsetela ML	-	15 288	15 288
	<b>1 255</b>	<b>15 288</b>	<b>16 543</b>

### 46. Deviation from supply chain management regulations

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

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

The municipality has deviated from normal supply chain processes with transactions to the value of R933,814.75. The transactions were duly reported to council and subjected to investigation by council committee.



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### 47. Budget differences

#### Material differences between budget and actual amounts

The following are explanations for material variances between budgeted and actual amounts.

N1 - The restrictions that accompanied the coming of the Covid-19 pandemic impeded the municipality's efforts to effectively collect service charges.

N2 - The increase in outstanding debtors throughout the year rose as the municipality was unable to fully implement credit control policy due to Covid-19 pandemic induced legal restrictions.

N3 - The gain is mainly driven by the increase in the discount rate and also reduction of eligible employees.

N4 - The transfer of the landfill to Local Municipalities.

N5 - Additions of items of property, plant and equipment increased the depreciation charge in the current year.

N6 - Slow moving projects that were previously not impaired to recoverable value.

N7 - There was an increase in the discount rate.

N8 - Limited budget for contractual obligations and fleet management.

N9 - The increase in outstanding receivable throughout the year due to poor collection rates and inconsistent application of credit control policy due to capacity constraints and Covid-19 pandemic related restrictions.

N10 - Differences between the water supplier calculation of amounts owed and the calculation by the municipality. A conservative approach was used to account for water purchases as per the supplier's calculation.

N11 - Limited budget for contractual obligations and fleet management.

N12 - Limited budget for contractual obligations and fleet management.

N13 - Losses on disposal not allocated on budget.