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Ingquza Hill Local Municipality
(Registration number EC153)

Annual Financial Statements
for the year ended 30 June 2020

# General Information

**Members of the Executive Council and Leadership**

Mayor: Councillor B Goya
Speaker: Councillor N Capa
Chief Whip: Councillor M Nkungu
MPAC Chair: Councillor S H Mtshazo
Members Interest Chair: Councillor P Dutshwa
Public Participation and Petitions Committee Chair: Vacant
Woman's Caucus Chair: Councillor B J Nkani
Member of the Executive Committee: Councillor M R Ziphathe
Member of the Executive Committee: Councillor B Mabhedumana
Member of the Executive Committee: Councillor B B Goya
Member of the Executive Committee: Councillor T Jotile
Member of the Executive Committee: Councillor V Somani
Member of the Executive Committee: Councillor B Mvulani
Member of the Executive Committee: Councillor M M Mkumla
Member of the Executive Committee: Councillor N A Gagai
Member of the Executive Committee: Councillor S B Vatsha
Member of the Executive Committee: Hon Cllr Z Mhlongo

| | |
|---|---|
| **Grading of local authority** | Grade 3: Low Capacity |
| **Acting Municipal Manager** | M Ndwandwe |
| **Chief Finance Officer (CFO)** | M Mhlifili |
| **Registered office** | 135 Main Street<br>Flagstaff<br>4810 |
| **Business address** | 135 Main Street<br>Flagstaff<br>4810 |
| **Postal address** | P.O. Box 14<br>Flagstaff<br>4810 |
| **Bankers** | First National Bank |
| **Auditors** | Auditor-General (South Africa) |
| **Contact Details** | Telephone: 039 252 0131<br>Fax: 039 252 0699<br>Website: www.ihlm.gov.za |

# Index

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



| | |
|---|---|
| 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 |
| CIGFARO | Chartered Institute of Government Finance, Audit and Risk 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) |

## Accounting Officer's Report

**Introduction**

Ingquza Hill Local Municipality is a low capacity municipality within O R Tambo District Municipality.

It has 32 wards and is headed by a Council of 64 Councillors elected through a ballot and 12 Councillors representing local tribal authorities or traditional leaders (Amakhosi).

Mr M Gqada (Manager Electrification) was the Accounting Officer during the financial year having been appointed by Council in that role from February 2019 to 23 July 2020.

The municipality has in the past achieved a clean audits until 30 June 2018 when a qualified Audit Opinion was received from the Auditor General and subsequently a Disclaimed Audit Opinion received for the financial year ended 30 June 2019.

As reflected in the Statements of Financial Position, Financial Performance and Cash Flows, the municipality continues to be in a position that is liquid and stable financially.

**Leadership**

**Council**

The top 3 Councillors are Hon Cllr B B Goya (Mayo), Hon Cllr N Y Capa (Speaker), and Hon Cllr M Nkungu (Chief Whip).The Mayor Chairs the Executive Committee comprised of:

Hon Cllr B B Goya (Chairperson)

Hon Cllr M R Ziphathe

Hon Cllr B Mabhedumana

Hon Cllr T Jotile

Hon Cllr M Mkumla

Hon Cllr S B Vatsha

Hon Cllr B Mvulani

Hon Cllr V Somani

Hon Cllr N A Gagai-Nkungu

Hon Cllr Z Mhlongo

The Municipal Public Accounts Committee (MPAC) is chaired by Hon Cllr S H Mtshazo.

**Administration**

The administration is headed by the Acting Municipal Manager supported by the following officials:

Mr M Mhlifili (CFO)

Mr S Wana ( Acting Technical Services Director)

Ms M Matubatuba (Corporate Services Director)

Mr M Garane (Community Service Director)

Ms R Tobia ( Planning and Development Director)

Mr N Jiki (Internal Audit Director)

Ms B Nobongoza was appointed into the Acting CFO role from April 2019 to 31 March 2020.

The municipal had 313 employees on staff with a vacancy of 37% or 183 unfilled posts as at 30 June 2020 –this represents a municipal staff operating capacity of 63%.

**Audit Committee**

The municipality appointed 5 Audit Committee members following a vacancy that was created after the previous Audit Committee withdrew from office on 31 March 2019.

The members were appointed from 2 August 2020 for an initial term of 3 years.

Below are the details of the members:

| # | Full Name | Role |
|---|---|---|
| 1 | Mr A Makhanya | Audit Committee Chairperson |
| 2 | Ms N Mngadi | Audit Committee Member |
| 3 | Mr TBS Mathenjwa | Audit Committee Member |
| 4 | Mr A Makhabeni | Audit Committee Member,<br>Risk Management Committee Member |
| 5 | Mr T Zakuza | Audit Committee Member,<br>Risk Management Committee Chairperson |

The municipality has Internal Audit function as well as Risk Management function in line with the requirements of the Municipal Finance Management Act (Act 56 of 2003).

Auditors

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

Lawyers

The following legal practitioners have been utilised by the municipality on legal matters during the financial year:

FT Tayi Incorporated

Ximbi Ncolo and Associates

Jolwana Mgidlana Inc

DM Lukhozi Attorneys

Mjobo Attorneys Legal Advisors

Jaffta Inc

Tito Mathenjwa Strategic Business Initiatives

Bankers

First National Bank continued to serve as municipal bankers during the financial year.

**M Ndwandwe**

**Acting Municipal Manager**

**31 October 2020**

## Accounting Officer's Responsibilities and Approval

.

The Municipal Finance Management Act (Act 56 of 2003) (MFMA) requires the maintenance of adequate accounting records and the responsibility on my part for the content and the integrity of the Annual Financial Statements and related financial information included with this report.

The aforementioned responsibilities are based on the establishment and maintenance of a sound system of internal financial controls and a strong control environment to mitigate risk of error, deficit in a cost effective manner.

Internal controls include the established system of delegation of authority, effective accounting procedures and segregation of duties amongst others.

A further responsibility is the establishment of a risk management function and internal audit to assist in a maintenance of a strong control environment.

As the Accounting Officer, I am further responsible for the preparation of the Annual Financial Statements that adhere to fair presentation in line with the Standards of Generally Recognised Accounting Practice (GRAP), the MFMA and the reporting conversions established by National Treasury.

The Annual Financial Statements have been prepared in accordance with GRAP including where applicable interpretations, guidelines and directives issued by the Accounting Standards Board.

Accounting policies have been consistently applied in the preparation of the financial statements and were supported where applicable by reasonable and prudent judgements and estimates.

The Auditor General of South Africa serves as the external auditor of the municipality and has been engaged to express an independent audit opinion and accordingly has been given unrestricted access to all financial records and related data.

The municipality received a disclaimed audit opinion from the Auditor General for the previous financial year which raised flags regarding shortcomings in the municipal internal financial controls particularly those related to the preparation of Annual Financial Statements.

To mitigate the risk of further regression on the matters raised by the Auditor General, the Council appointed a permanent CFO from April 2020.

Due to the impact of COVID-19 the deadline for the submission of the annual financial statements was extended by a period of two months as per Government Gazette 43582 published on 05 August 2020.  The Gazette invokes the provisions of section 177 (1)(b) of the MFMA 2003 (Act No. 56 of 2003)

Furthermore, a service provider was appointed through the SCM processes to assist the municipality with the preparation of the Annual Financial Statements for the year under review.

The Auditor General of South Africa performed an audit on the Annual Financial Statements, his report is set out on page 7.

I hereby approve the Annual Financial Statements set out on pages 8 to 55 which comprises of the Statement of Financial Position, the Statement of Financial Performance, the Statement of Changes in Net Assets, Cash Flow Statement, the Statement of Comparison of Budget and Actual Amounts and the accompanying Accounting Policies and notes there to.

**M Ndwandwe**
**Acting Municipal Manager**

**Saturday, 31 October 2020**

# Report of the Auditor General

**To the Provincial Legislature of Ingquza Hill Local Municipality**

**Auditor-General (South Africa)**

**31 October 2020**

# Statement of Financial Position as at 30 June 2020

| Figures in Rand | Note(s) | 2020 | 2019 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Inventories | 6 | 12 169 626 | 14 423 965 |
| Receivables from exchange transactions | 7&9 | 10 638 541 | 10 573 888 |
| Receivables from non-exchange transactions | 8&9 | 29 293 999 | 14 845 692 |
| VAT receivable | 10 | 34 275 444 | 26 517 043 |
| Cash and cash equivalents | 11 | 137 969 473 | 90 186 790 |
| | | **224 347 083** | **156 547 378** |
| **Non-Current Assets** | | | |
| Investment property | 3 | 393 368 510 | 393 368 510 |
| Property, plant and equipment | 4 | 696 182 539 | 649 074 509 |
| Investment held as collateral | 5 | - | 6 474 472 |
| | | **1 089 551 049** | **1 048 917 491** |
| **Total Assets** | | **1 313 898 132** | **1 205 464 869** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Other financial liabilities | 12 | - | 6 940 838 |
| Payables from exchange transactions | 13 | 52 318 795 | 42 622 264 |
| Unspent conditional grants and receipts | 14 | 17 120 291 | 4 416 961 |
| Provisions | 15 | 369 982 | 426 570 |
| | | **69 809 068** | **54 406 633** |
| **Non-Current Liabilities** | | | |
| Provisions | 15 | 6 780 000 | 6 729 765 |
| **Total Liabilities** | | **76 589 068** | **61 136 398** |
| **Net Assets** | | **1 237 309 064** | **1 144 328 471** |
| Accumulated surplus | | 1 237 309 064 | 1 144 328 471 |

* See Note 43

# Statement of Financial Performance

| Figures in Rand | Note(s) | 2020 | 2019 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges: Refuse | 38 | 1 252 380 | 1 236 778 |
| Rental income | 16 | 751 948 | 759 716 |
| Other income | 17 | 3 812 543 | 4 282 026 |
| Interest received | 18 | 10 169 636 | 8 533 469 |
| **Total revenue from exchange transactions** | | **15 986 507** | **14 811 989** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Property rates | 19 | 35 637 967 | 22 398 746 |
| **Transfer revenue** | | | |
| Government grants & subsidies | 20 | 325 013 480 | 301 616 187 |
| Donations received | 40 | 9 794 921 | - |
| Fines | 21 | 834 889 | 1 020 037 |
| **Total revenue from non-exchange transactions** | | **371 281 257** | **325 034 970** |
| **Total revenue** | | **387 267 764** | **339 846 959** |
| **Expenditure** | | | |
| Employee related costs | 22 | (128 124 168) | (115 978 562) |
| Remuneration of councillors | 23 | (22 336 529) | (22 596 307) |
| Depreciation | 41 | (53 203 969) | (47 802 367) |
| Increase in provision for impairment | | (6 223 192) | (15 504 676) |
| Finance costs | 24 | (413 579) | (231 131) |
| Contracted services | 25 | (21 097 328) | (20 809 147) |
| Loss on disposal of assets and liabilities | | - | (2 543 457) |
| General expenses | 26 | (65 548 603) | (55 086 701) |
| **Total expenditure** | | **(296 947 368)** | **(280 552 348)** |
| **Surplus for the year** | | **90 320 396** | **59 294 611** |

* See Note 43

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| Opening balance as previously reported | 1 078 954 629 | 1 078 954 629 |
| Adjustments | | |
| Correction of errors | 983 590 | 983 590 |
| **Balance at 01 July 2018 as restated*** | **1 079 938 219** | **1 079 938 219** |
| Changes in net assets | | |
| Surplus for the year | 59 294 611 | 59 294 611 |
| Other changes | 5 095 641 | 5 095 641 |
| Total changes | 64 390 252 | 64 390 252 |
| Opening balance as previously reported | 1 146 988 668 | 1 146 988 668 |
| **Restated* Balance at 01 July 2019 as restated*** | **1 146 988 668** | **1 146 988 668** |
| Changes in net assets | | |
| Surplus for the year | 90 320 396 | 90 320 396 |
| Total changes | 90 320 396 | 90 320 396 |
| **Balance at 30 June 2020** | **1 237 309 064** | **1 237 309 064** |

Note(s)

* See Note 43

## Cash Flow Statement

| Figures in Rand | Note(s) | 2020 | 2019 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Rates | | 35 637 967 | 32 739 483 |
| Refuse | | 1 252 542 | 8 832 172 |
| Grants | | 333 652 303 | 303 537 303 |
| Interest income | | 10 169 636 | 8 533 469 |
| Other receipts | | 5 399 380 | 3 565 214 |
| | | 386 111 828 | 357 207 641 |
| **Payments** | | | |
| Employee costs and councillors remuneration | | 150 460 696 | (106 325 459) |
| Suppliers | | (395 177 134) | (154 018 690) |
| Finance costs | | (413 579) | (231 131) |
| | | (245 130 017) | (260 575 280) |
| **Net cash flows from operating activities** | 29 | **140 981 811** | **96 632 361** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 4 | (93 837 528) | (73 562 636) |
| Proceeds from sale of property, plant and equipment | 4 | - | (2 543 457) |
| Proceeds from sale of investment property | 3 | - | 733 050 |
| Receipts from financial assets | | 7 579 238 | 5 069 147 |
| **Net cash flows from investing activities** | | **(86 258 290)** | **(70 303 896)** |
| **Cash flows from financing activities** | | | |
| Repayment of other financial liabilities | | (6 940 838) | - |
| **Net cash flows from financing activities** | | **(6 940 838)** | **-** |
| **Net increase/(decrease) in cash and cash equivalents** | | **47 782 683** | **26 328 465** |
| Cash and cash equivalents at the beginning of the year | | 90 186 790 | 69 081 517 |
| **Cash and cash equivalents at the end of the year** | 11 | **137 969 473** | **95 409 982** |

* See Note 43

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 1 312 272 | - | **1 312 272** | 1 252 380 | **(59 892)** | |
| Rental of facilities and equipment | 1 562 028 | - | **1 562 028** | 751 948 | **(810 080)** | |
| Agency services | 4 259 712 | - | **4 259 712** | 2 847 907 | **(1 411 805)** | |
| Licences and permits | 145 452 | - | **145 452** | 392 779 | **247 327** | |
| Other income - (rollup) | 6 338 893 | (466 068) | **5 872 825** | 3 812 543 | **(2 060 282)** | |
| Interest received - investment | 132 571 988 | - | **132 571 988** | 10 169 636 | **(122 402 352)** | |
| **Total revenue from exchange transactions** | **146 190 345** | **(466 068)** | **145 724 277** | **19 227 193** | **(126 497 084)** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 35 641 560 | (44 941 560) | **(9 300 000)** | 35 637 967 | **44 937 967** | |
| Surcharges and Taxes | 15 000 000 | - | **15 000 000** | - | **(15 000 000)** | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 338 557 009 | (259 085 004) | **79 472 005** | 325 013 480 | **245 541 475** | |
| Public contributions and donations | - | - | **-** | 9 794 921 | **9 794 921** | |
| Fines, Penalties and Forfeits | 385 452 | (385 452) | **-** | 834 889 | **834 889** | |
| **Total revenue from non-exchange transactions** | **389 584 021** | **(304 412 016)** | **85 172 005** | **371 281 257** | **286 109 252** | |
| **Total revenue** | **535 774 366** | **(304 878 084)** | **230 896 282** | **390 508 450** | **159 612 168** | |
| **Expenditure** | | | | | | |
| Personnel | (147 938 581) | - | **(147 938 581)** | (128 124 168) | **19 814 413** | |
| Remuneration of councillors | (24 809 555) | - | **(24 809 555)** | (22 336 529) | **2 473 026** | |
| Depreciation and amortisation | (52 080 880) | - | **(52 080 880)** | (53 203 969) | **(1 123 089)** | |
| Impairment loss/ Reversal of impairments | - | - | **-** | (6 223 192) | **(6 223 192)** | |
| Finance costs | (7 864 543) | - | **(7 864 543)** | (413 579) | **7 450 964** | |
| Bad debts written off | (27 000 000) | - | **(27 000 000)** | - | **27 000 000** | |
| Contracted Services | (39 870 533) | 38 934 096 | **(936 437)** | (21 097 328) | **(20 160 891)** | |
| Transfers and Subsidies | (5 999 986) | 1 500 000 | **(4 499 986)** | - | **4 499 986** | |
| Materials and supplies | (89 625 022) | 68 688 408 | **(20 936 614)** | (65 548 603) | **(44 611 989)** | |
| **Total expenditure** | **(395 189 100)** | **109 122 504** | **(286 066 596)** | **(296 947 368)** | **(10 880 772)** | |
| **Operating surplus** | **140 585 266** | **(195 755 580)** | **(55 170 314)** | **93 561 082** | **148 731 396** | |
| Inventories losses/write-downs | (1 200 000) | - | **(1 200 000)** | - | **1 200 000** | |
| **Surplus before taxation** | **139 385 266** | **(195 755 580)** | **(56 370 314)** | **93 561 082** | **149 931 396** | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **139 385 266** | **(195 755 580)** | **(56 370 314)** | **93 561 082** | **149 931 396** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

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

**Reconciliation**

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | 18 891 000 | - | **18 891 000** | 12 169 626 | **(6 721 374)** | |
| Receivables from exchange transactions | - | - | **-** | 9 643 242 | **9 643 242** | |
| Receivables from non-exchange transactions | - | - | **-** | 29 293 999 | **29 293 999** | |
| VAT receivable | 42 082 000 | - | **42 082 000** | 37 111 212 | **(4 970 788)** | |
| Cash and cash equivalents | 163 343 311 | - | **163 343 311** | 137 969 473 | **(25 373 838)** | |
| | **224 316 311** | **-** | **224 316 311** | **226 187 552** | **1 871 241** | |
| **Non-Current Assets** | | | | | | |
| Investment property | 400 576 000 | - | **400 576 000** | 393 368 510 | **(7 207 490)** | |
| Property, plant and equipment | 602 470 636 | - | **602 470 636** | 696 182 539 | **93 711 903** | |
| Receivables from exchange transactions | 4 770 000 | - | **4 770 000** | 5 749 123 | **979 123** | |
| | **1 007 816 636** | **-** | **1 007 816 636** | **1 095 300 172** | **87 483 536** | |
| **Total Assets** | **1 232 132 947** | **-** | **1 232 132 947** | **1 321 487 724** | **89 354 777** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Payables from exchange transactions | 38 042 000 | - | **38 042 000** | 52 318 791 | **14 276 791** | |
| VAT payable | - | - | **-** | 8 244 328 | **8 244 328** | |
| Unspent conditional grants and receipts | - | - | **-** | 17 120 291 | **17 120 291** | |
| Provisions | 8 886 000 | - | **8 886 000** | 369 982 | **(8 516 018)** | |
| | **46 928 000** | **-** | **46 928 000** | **78 053 392** | **31 125 392** | |
| **Non-Current Liabilities** | | | | | | |
| Provisions | - | - | **-** | 6 780 000 | **6 780 000** | |
| **Total Liabilities** | **46 928 000** | **-** | **46 928 000** | **84 833 392** | **37 905 392** | |
| **Net Assets** | **1 185 204 947** | **-** | **1 185 204 947** | **1 236 654 332** | **51 449 385** | |
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | - | - | **-** | 1 237 309 070 | **1 237 309 070** | |

# Accounting Policies

### 1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

### 1.1 Presentation currency

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

### 1.2 Going concern assumption

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

### 1.3 Significant judgements and sources of estimation uncertainty

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

**Trade receivables / Held to maturity investments and/or loans 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 surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, 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.

**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 15 - Provisions.

**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.

**Value added tax (VAT)**

The municipality accounts for VAT on an accrual basis and is registered with the South African Revenue Services (SARS) for VAT on the payments (cash) basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

# Accounting Policies

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

**Unspent conditional grants**

This is represented funds unspent at the end of the financial year on grants received from national and provincial government or any other external party that can only be spent for the condition for which it was received. The amount is recognised as a current liability until the conditions of the grant are met or the money is transferred back to the funder.

**Contingent liabilities**

A contingent liability is:

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or A present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability. The municipality does not recognise contingent liabilities. Contingent liabilities are disclosed in the notes to the annual financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. Annually the municipality evaluates the possibility of the outflow of resources or service potential.

### 1.4 Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Municipality. The Municipality does not recognise contingent assets. Contingent assets are disclosed in the notes to the annual financial statements, where an inflow of economic benefits or service potential is probable. The Municipality continually assesses its contingent assets to ensure that developments are appropriately reflected in the financial statements. Where it does become virtually certain that an inflow of economic benefits or service potential will arise and the asset’s value can be measured reliably, the asset and the related revenue are recognised in the financial statements in the period in which the change occurs.

### 1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

## Accounting Policies

### 1.5 Investment property (continued)

**Fair value**

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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

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

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.6 Property, plant and equipment

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

# Accounting Policies

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

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

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

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

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

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

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

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

| Item | Depreciation method | Average useful life |
|---|---|---|
| Buildings | Straight line | 50 years |
| Infrastructure | Straight line | 7 - 24 years |
| Community | Straight line | 10 - 180 years |
| Other property, plant and equipment | Straight line | 3 - 15 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.

# Accounting Policies

### 1.7 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.

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

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

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

## Accounting Policies

### 1.7 Financial instruments (continued)

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

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

A residual interest is any contract that manifests an interest in the assets of 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 unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of 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;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- 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.

## Accounting Policies

### 1.7 Financial instruments (continued)

**Classification**

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

| Class | Category |
| --- | --- |
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Receivables from exchange transactions | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |
| VAT receivable | 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 | Category |
| --- | --- |
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Unspent conditional grants and receipts | Financial liability measured at amortised cost |
| Other financial liabilities | Financial liability measured at amortised cost |

**Initial recognition**

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

The entity recognises financial assets using trade date accounting.

**Initial measurement of financial assets and financial liabilities**

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

**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.

**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.

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.

**Statutory receivables (continued)**

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.

### 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.

**Finance leases - lessee**

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

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

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

Any contingent rents are expensed in the period in which they are incurred.

**Operating leases - lessor**

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

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

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

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

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

### 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.

# Accounting Policies

### 1.9 Inventories (continued)

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

### 1.10 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

**Designation**

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

# Accounting Policies

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

**Identification**

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

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

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

**Value in use**

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

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

**Recognition and measurement (individual asset)**

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

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

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

**Cash-generating units**

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

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

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

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

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

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

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

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

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

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

# Accounting Policies

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

**Reversal of impairment loss**

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

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

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

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

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

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

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

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

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

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

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

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

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

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

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

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

**Designation**

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

**Identification**

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

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

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

**Value in use**

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

**Depreciated replacement cost approach**

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

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

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

**Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

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

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

**Reversal of an impairment loss**

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

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

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

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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

### 1.12 Employee benefits

### 1.13 Provisions

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

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

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

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

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

# Accounting Policies

### 1.13 Provisions (continued)

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

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

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

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

### 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.

## Accounting Policies

### 1.15 Revenue from exchange transactions (continued)

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

**Interest**

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

Interest is recognised, in surplus or deficit, using the time proportion basis method.

### 1.16 Revenue from non-exchange transactions

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

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

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

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

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

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

**Recognition**

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

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

### 1.16 Revenue from non-exchange transactions (continued)

**Measurement**

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

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

**Transfers**

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

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

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

### 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 Comparative figures

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

### 1.19 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.

### 1.20 Fruitless and wasteful expenditure

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

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

### 1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA 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.

## Accounting Policies

### 1.21 Irregular expenditure (continued)

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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.

### 1.22 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 a cash basis and presented by economic classification linked to performance outcome objectives.

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

The 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.

### 1.23 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.

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.

# Accounting Policies

### 1.23 Related parties (continued)

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.

Only transactions with related parties not at arms lenght or not in the ordinary course of bussiness are disclosed.

### 1.24 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.

# Notes to the Annual Financial Statements

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

### 2. New standards and interpretations

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

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

**GRAP 104 (amended): Financial Instruments**

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

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:
- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

## Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

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

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

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**Guideline: Guideline on Accounting for Landfill Sites**

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

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

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

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 34: Separate Financial Statements**

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 35: Consolidated Financial Statements**

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:
- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 37: Joint Arrangements**

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 38: Disclosure of Interests in Other Entities**

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2020/2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue**

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

A municipality applies judgement based on past experience and current facts and circumstances.

The effective date of the amendment is for years beginning on or after 01 April 2020.

The municipality expects to adopt the interpretation for the first time in the 2019/2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

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

The municipality expects to adopt the standard for the first time in the 2019/2019 annual financial statements.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The subsequent amendments to the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control resulted from changes made to IFRS 3 on Business Combinations (IFRS 3) as a result of the IASB's amendments on Annual Improvements to IFRSs 2010 – 2012 Cycle issued in December 2013.

The most significant changes to the Standard are:

- IASB amendments: To require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting period.

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

The municipality expects to adopt the standard for the first time in the 2019/2019 annual financial statements.

### 3. Investment property

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | - | 393 368 510 | 393 368 510 | 393 368 510 | - | 393 368 510 |

**Reconciliation of investment property - 2020**

| | Opening balance | Total |
|---|---|---|
| Investment property | 393 368 510 | 393 368 510 |

**Reconciliation of investment property - 2019**

| | Opening balance | Disposals | Total |
|---|---|---|---|
| Investment property | 394 101 560 | (733 050) | 393 368 510 |

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.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,

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

3. **Investment property (continued)**

- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

### 4. 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 | 42 317 085 | - | 42 317 085 | 42 317 085 | - | 42 317 085 |
| Buildings | 83 123 368 | (8 028 983) | 75 094 385 | 83 123 368 | (5 306 465) | 77 816 903 |
| Plant and machinery | 32 200 630 | (15 508 009) | 16 692 621 | 32 039 889 | (12 305 783) | 19 734 106 |
| Furniture and fixtures | 9 902 238 | (5 462 852) | 4 439 386 | 9 717 993 | (4 023 399) | 5 694 594 |
| Motor vehicles | 21 605 395 | (8 989 786) | 12 615 609 | 12 051 359 | (6 189 034) | 5 862 325 |
| IT equipment | 6 321 977 | (4 169 074) | 2 152 903 | 5 637 650 | (3 337 150) | 2 300 500 |
| Infrastructure | 589 661 785 | (277 975 582) | 311 686 203 | 568 930 503 | (241 102 372) | 327 828 131 |
| Community assets | 69 675 600 | (15 464 368) | 54 211 232 | 59 880 679 | (11 982 547) | 47 898 132 |
| Work in progress | 176 973 115 | - | 176 973 115 | 119 622 733 | - | 119 622 733 |
| **Total** | **1 031 781 193** | **(335 598 654)** | **696 182 539** | **933 321 259** | **(284 246 750)** | **649 074 509** |

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

| | Opening balance | Additions | Transfers received | Other changes, movements | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land | 42 317 085 | - | - | - | - | 42 317 085 |
| Buildings | 77 816 903 | - | - | (114 202) | (2 608 316) | 75 094 385 |
| Plant and machinery | 19 734 106 | 160 741 | - | - | (3 202 226) | 16 692 621 |
| Furniture and fixtures | 5 694 594 | 365 724 | - | (181 478) | (1 439 454) | 4 439 386 |
| Motor vehicles | 5 862 325 | 9 554 036 | - | - | (2 800 752) | 12 615 609 |
| IT equipment | 2 300 500 | 414 969 | - | - | (562 566) | 2 152 903 |
| Infrastructure | 327 828 131 | 22 966 907 | - | - | (39 108 835) | 311 686 203 |
| Community assets | 47 898 132 | - | 9 794 921 | - | (3 481 821) | 54 211 232 |
| Work in progress | 119 622 733 | 57 350 382 | - | - | - | 176 973 115 |
| | **649 074 509** | **90 812 759** | **9 794 921** | **(295 680)** | **(53 203 970)** | **696 182 539** |

## Notes to the Annual Financial Statements

Figures in Rand

**4. Property, plant and equipment (continued)**

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

| | Opening balance | Additions | Construction/work in progress | Other changes, movements | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land | 42 317 085 | - | - | - | - | 42 317 085 |
| Buildings | 35 833 268 | 43 818 328 | - | 40 394 | (1 875 087) | 77 816 903 |
| Plant and machinery | 23 059 463 | 238 300 | - | (1 827) | (3 561 830) | 19 734 106 |
| Furniture and fixtures | 3 649 611 | 3 139 551 | - | - | (1 094 568) | 5 694 594 |
| Motor vehicles | 3 432 271 | 3 880 367 | - | - | (1 450 313) | 5 862 325 |
| IT equipment | 1 632 100 | 1 386 043 | - | - | (717 643) | 2 300 500 |
| Infrastructure | 310 949 631 | 52 804 548 | - | (38 032) | (35 888 016) | 327 828 131 |
| Community assets | 47 362 141 | 3 750 900 | - | - | (3 214 909) | 47 898 132 |
| Work in progress | - | - | 119 622 733 | - | - | 119 622 733 |
| | **468 235 570** | **109 018 037** | **119 622 733** | **535** | **(47 802 366)** | **649 074 509** |

## Notes to the Annual Financial Statements

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

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

**Property, plant and equipment in the process of being constructed or developed**

| | | |
|---|---|---|
| **Cumulative expenditure recognised in the carrying value of property, plant and equipment** | | |
| Access Roads | 23 672 280 | 12 648 690 |
| Electrification | 42 485 809 | 39 828 795 |
| Municipal Offices | 13 738 067 | 12 006 597 |
| Community Halls | 16 303 063 | 16 115 198 |
| Street Lights | 72 963 | 72 963 |
| Landfill Site | 3 223 644 | 3 223 644 |
| Facelifts (Town) | 11 289 341 | 7 760 557 |
| High Mast Lights | 24 084 042 | 16 131 390 |
| Public Toilets | 1 254 529 | 791 839 |
| Sport Fields | 13 882 893 | 10 037 174 |
| R61 Construction | 16 562 215 | 1 005 892 |
| Internal Streets Lusikisiki Phase 2 | 7 367 969 | - |
| New Municipal Offices Lusikisiki | 2 061 342 | - |
| Taxi Rank Flagstaff | 929 432 | - |
| | **176 927 589** | **119 622 739** |

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.

### 5. Investment held as collateral

| | | |
|---|---|---|
| **At amortised cost** | | |
| Rand Merchant Bank | - | 6 474 472 |
| The investment is pledged as security for a loan with the DBSA and the municipality has no access to the investment until the loan is repaid in September 2019. This investment is zero coupon bond. | | |

| | | |
|---|---|---|
| **Non-current assets** | | |
| At amortised cost | - | 6 474 472 |

**Financial assets pledged as collateral**

**Collateral**

| | | |
|---|---|---|
| Carrying value of financial assets pledged as collateral for liabilities or contingent liabilities | 6 474 472 | 6 474 472 |

### 6. Inventories

| | | |
|---|---|---|
| Inventories | 11 350 500 | 13 879 638 |
| Consumables | 819 126 | 544 327 |
| | **12 169 626** | **14 423 965** |

In the current year the net realisable value was reduced by R2,529,138 as a result of the implementation of the new valuation roll implemented of 01 July 2019.

## Notes to the Annual Financial Statements

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

### 7. Receivables from exchange transactions

| | | |
| --- | --- | --- |
| Deposits | 2 561 341 | 2 561 341 |
| Rental debtors | 19 949 | 19 949 |
| Land sales debtors | 7 061 952 | 7 061 952 |
| Consumer debtors - Refuse | 995 299 | 930 646 |
| | **10 638 541** | **10 573 888** |

**Trade and other receivables past due but not impaired**

Trade and other receivables which are past due are not considered to be impaired. At 30 June 2020, R 9 643 242 (2019: R 9.643,242-) were past due but not impaired.

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

| | | |
| --- | --- | --- |
| Deposits | 2 561 341 | 2 561 341 |
| Rental Debtors | 19 949 | 19 949 |
| Land Sale Debtors | 7 061 952 | 7 061 952 |

**Trade and other receivables impaired**

As of 30 June 2020, trade and other receivables of R - (2019: R -) were impaired and provided for.

The amount of the provision was R (8 662 031) as of 30 June 2020 (2019: R -).

The ageing of these loans is as follows:

### 8. Receivables from non-exchange transactions

| | | |
| --- | --- | --- |
| Fines | 6 196 280 | 6 027 005 |
| Consumer debtors - Rates | 23 097 719 | 8 818 687 |
| | **29 293 999** | **14 845 692** |

### 9. Consumer debtors disclosure

| | | |
| --- | --- | --- |
| **Gross balances** | | |
| Consumer debtors - Rates | 81 596 255 | 62 616 397 |
| Consumer debtors - Refuse | 9 657 330 | 8 687 536 |
| | **91 253 585** | **71 303 933** |
| **Less: Allowance for impairment** | | |
| Consumer debtors - Rates | (58 498 536) | (53 797 710) |
| Consumer debtors - Refuse | (8 662 031) | (7 756 890) |
| | **(67 160 567)** | **(61 554 600)** |
| **Net balance** | | |
| Consumer debtors - Rates | 23 097 719 | 8 818 687 |
| Consumer debtors - Refuse | 995 299 | 930 646 |
| | **24 093 018** | **9 749 333** |

## Notes to the Annual Financial Statements

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

### 9. Consumer debtors disclosure (continued)

| **Rates** | | |
|---|---|---|
| Current (0 -30 days) | 22 839 | - |
| 31 - 60 days | 87 512 | 12 891 |
| 61 - 90 days | - | 120 467 |
| 121 - 365 days | 1 300 | - |
| > 365 days | 22 986 068 | 8 685 329 |
| | **23 097 719** | **8 818 687** |

| **Refuse** | | |
|---|---|---|
| Current (0 -30 days) | 116 387 | - |
| 31 - 60 days | 115 240 | 110 862 |
| 61 - 90 days | 114 932 | 155 050 |
| 91 - 120 days | 114 837 | - |
| 121 - 365 days | 1 439 044 | 1 398 169 |
| Less: Allowance for Impairment | (905 141) | (733 435) |
| | **995 299** | **930 646** |

### 10. VAT receivable

| | | |
|---|---|---|
| VAT | 34 275 444 | 26 517 043 |

### 11. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 35 | 35 |
| Bank balances | 137 969 438 | 90 186 755 |
| | **137 969 473** | **90 186 790** |

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | Cash book balances | |
|---|---|---|---|---|
| | 30 June 2020 | 30 June 2019 | 30 June 2020 | 30 June 2019 |
| First National Bank - 6224175712 - Primary account | 4 374 709 | 239 630 | (22 963 386) | (4 881 897) |
| First National Bank - 62003235307 - Call account | - | - | - | - |
| First National Bank - 62219877836 - Call account | 221 765 | 212 956 | 16 016 | 212 956 |
| First National Bank - 74233699310 - Call account | 41 386 486 | 38 433 372 | 4 689 725 | 38 433 372 |
| First National Bank - 62231474537 - Call account | 4 115 197 | 468 798 | 12 350 000 | 468 798 |
| First National Bank - 62231473761 - Call account | 57 865 661 | 22 109 795 | 40 059 284 | 22 109 795 |
| First National Bank - 62792758503 - Call account | 31 249 601 | 29 798 446 | 103 817 799 | 29 798 446 |
| **Total** | **139 213 419** | **91 262 997** | **137 969 438** | **86 141 470** |

# Notes to the Annual Financial Statements

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

## 12. Other financial liabilities

| | | |
| --- | --- | --- |
| **At amortised cost** | | |
| The Development Bank of Southern Africa Limited (DBSA) | - | 6 940 838 |

Loan from DBSA which is repayable on 30 September 2019. The loan has a fixed interest rate of 6.75% per annum. The loan shall be repaid in 1 (one) bullet payment at the end of the term from proceedings of zero coupon bond. The loan is secured by the investment held with FNB - RMB, which is ceeded to the DBSA.

- Account: RMB
- Account number: 128331
- Value : R6,474,472.00

The loan was used to support sustainable infrastructure development and improve the quality of life at Ingquza Local Municipality.

| | | |
| --- | --- | --- |
| **Current liabilities** | | |
| At amortised cost | - | 6 940 838 |

## 13. Payables from exchange transactions

| | | |
| --- | --- | --- |
| Trade payables | 12 428 091 | 6 630 711 |
| Prepaid income | 3 972 106 | 4 015 970 |
| Retentions with held from contractors | 19 667 102 | 17 189 200 |
| Leave and bonus provision | 14 037 385 | 14 037 385 |
| Long service awards | 989 960 | - |
| Net salaries clearance | 1 224 151 | 748 998 |
| | **52 318 795** | **42 622 264** |

## 14. Unspent conditional grants and receipts

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

| | | |
| --- | --- | --- |
| **Unspent conditional grants and receipts** | | |
| Municipal Infrastructure Grant | 12 703 330 | - |
| LED Grant | 4 416 961 | 4 416 961 |
| | **17 120 291** | **4 416 961** |

**Movement during the year**

| | | |
| --- | --- | --- |
| Balance at the beginning of the year | 4 416 961 | 2 958 536 |
| Additions during the year | 12 703 330 | 75 092 071 |
| Income recognition during the year | - | (73 633 646) |
| | **17 120 291** | **4 416 961** |

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

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

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

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

# Notes to the Annual Financial Statements



## 15. Provisions

**Reconciliation of provisions - 2020**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Landfil site | 426 570 | - | - | 426 570 |
| Performance bonus | - | - | (56 588) | (56 588) |
| Long Service Awards | 6 729 765 | - | (6 729 765) | - |
| Long Service Awards | - | 6 780 000 | - | 6 780 000 |
| | **7 156 335** | **6 780 000** | **(6 786 353)** | **7 149 982** |

**Reconciliation of provisions - 2019**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Landfil site | 426 570 | - | 426 570 |
| Bonus provision | 164 630 | (164 630) | - |
| Long Service Awards | - | 6 729 765 | 6 729 765 |
| | **591 200** | **6 565 135** | **7 156 335** |

| | 2020 | 2019 |
|---|---|---|
| Non-current liabilities | 6 780 000 | 6 729 765 |
| Current liabilities | 369 982 | 426 570 |
| | **7 149 982** | **7 156 335** |

**Landfil site**

Provision for the restoration of the landfill site. The Municipality received an approval by the Office of The Environmental Affairs to operate a Landfill site.

The Landfill site was not utilised from 23 September 2018, as the Mdikane community is preventing the use of the Landfill site. The municipality is in the process of derecognising the asset. The asset will be derecognised and the provision for rehabilitation will be reversed, once Counicl approval is obtained.

**Performance bonus**

This is a provision for performance bonuses due to all section 57 managers in 2017 financial year. It was based on 14% of annual, all inclusive, salary as at 30 June 2017. The provision was reversed in the 2018 financial year.

**Bonus provision**

This is a provision for service bonus payable to employees as at 30 June 2020. The accrual calculation is based on the thirteen cheque payable that falls due within the current year. The municipality has an obligation to pay a service bonus in terms of its condition of employment.

**Employee benefit cost provision**

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

# Notes to the Annual Financial Statements

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

### 15. Provisions (continued)

**Long service award**

The municipality offers employees long service awards for every five years of service completed, from ten years of service to 45 years of service, inclusive. This provision is unfunded.

### 16. Rental of facilities and equipment

| | | |
| --- | --- | --- |
| **Premises** | | |
| Community hall rental | - | 33 117 |
| Lease rentals | 751 948 | 726 599 |
| | **751 948** | **759 716** |

### 17. Other income

| | | |
| --- | --- | --- |
| Advertising fee income | 163 588 | 190 170 |
| Agency fee income | 2 847 907 | 3 664 453 |
| Licences and permits | 392 779 | 35 069 |
| Cemetery and burial fee income | 15 467 | 33 295 |
| Insurance refund | - | 31 018 |
| Building plan approval | 150 399 | 254 614 |
| Rezoning and subdivision | 63 626 | 12 436 |
| Tender documents | 148 224 | 29 144 |
| Commission | 30 553 | 31 827 |
| | **3 812 543** | **4 282 026** |

### 18. Investment revenue

| | | |
| --- | --- | --- |
| **Interest revenue** | | |
| Bank | 10 169 636 | 8 533 469 |

The amount included in Investment revenue arising from exchange transactions amounted to R -.

The amount included in Investment revenue arising from non-exchange transactions amounted to R -.

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to Rxxx (PY: Rxxx).

# Notes to the Annual Financial Statements

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

## 19. Property rates

**Rates received**

| | | |
| --- | --- | --- |
| Residential | 77 022 | 53 296 |
| Bussiness | 35 560 945 | 22 345 450 |
| | **35 637 967** | **22 398 746** |

**Valuations**

Valuations on land and buildings are performed every X years. The last general valuation came into effect on 1 July 20XX. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R - (2019: R -) is applied to property valuations to determine assessment rates. Rebates of -% (2019: -%) are granted to residential and state property owners.

Rates are levied on an annual basis with the final date for payment being Thursday, 30 September 2010 (Wednesday, 30 September 2009). Interest at prime plus 1% per annum (2019: -%) and a collection fee of -% (2019: -%), is levied on rates outstanding two months after due date.

The new general valuation will be implemented on 01 July 2007.

# Notes to the Annual Financial Statements

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

## 20. Government grants and subsidies

**Operating grants**

| | | |
|---|---|---|
| Equitable share | 257 385 000 | 224 603 000 |
| Local Government Service SETA (L.G. SETA) | 198 928 | 271 030 |
| Local Government Financial Management Grant (FMG) | 3 907 000 | 1 700 000 |
| Expanded Public Works Programme Integrated Grant (EPWP) | - | 1 398 000 |
| Municipal Disaster Relief Grant | 447 000 | - |
| | **261 937 928** | **227 972 030** |

**Capital grants**

| | | |
|---|---|---|
| Local and Regional Economic Development (Small Towns Revamp) | 18 090 882 | 2 559 621 |
| Libraries Archives and Museums (Library Grant) | - | 800 000 |
| Municipal Infrastructure Grant (MIG) | 41 802 670 | 54 976 000 |
| Government grant (capital) 16 | 3 182 000 | 15 308 536 |
| | **63 075 552** | **73 644 157** |
| | **325 013 480** | **301 616 187** |

**Municipal Infrastructure Grant (MIG)**

| | | |
|---|---|---|
| Current-year receipts | 54 506 000 | 54 976 000 |
| Conditions met - transferred to revenue | (41 802 670) | (54 976 000) |
| | **12 703 330** | **-** |

Conditions still to be met - remain liabilities (see note 14).

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

**LED Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 4 416 961 | 4 416 961 |

Conditions still to be met - remain liabilities (see note 14).

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

**Local Government Financial Management Grant (FMG)**

| | | |
|---|---|---|
| Current-year receipts | 1 700 000 | 1 700 000 |
| Conditions met - transferred to revenue | (1 700 000) | (1 700 000) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 14).

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

**Integrated National Electrification Programme Grant (INEP)**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 2 958 536 |
| Current-year receipts | 3 182 000 | 12 350 000 |
| Conditions met - transferred to revenue | (3 182 000) | (15 308 536) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 14).

# Notes to the Annual Financial Statements

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

## 20. Government grants and subsidies (continued)

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

**Local and Regional Economic Development (Small Towns Revamp)**

| | | |
|---|---|---|
| Current-year receipts | 18 630 000 | 2 559 621 |
| Conditions met - transferred to revenue | (18 630 000) | (2 559 621) |
| | - | - |

Conditions still to be met - remain liabilities (see note 14).

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

**Libraries Archives and Museums (Library Grant)**

| | | |
|---|---|---|
| Current-year receipts | 800 000 | 774 000 |
| Conditions met - transferred to revenue | (800 000) | (774 000) |
| | - | - |

Conditions still to be met - remain liabilities (see note 14).

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

**Local Government Service SETA (L.G. SETA)**

| | | |
|---|---|---|
| Current-year receipts | 271 030 | 570 996 |
| Conditions met - transferred to revenue | (271 030) | (570 996) |
| | - | - |

Conditions still to be met - remain liabilities (see note 14).

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

## 21. Fines

| | | |
|---|---|---|
| Building Fines | - | 74 371 |
| Pound Fines | 28 039 | 39 766 |
| Court Traffic Fines | 806 850 | - |
| Municipal Traffic Fines | - | 905 900 |
| | **834 889** | **1 020 037** |

## Notes to the Annual Financial Statements

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

### 22. Employee related costs

| | | |
|---|---|---|
| Basic | 82 013 737 | 78 873 136 |
| Bonus | 4 962 093 | 4 684 502 |
| Medical aid | 5 302 313 | - |
| UIF, Medical aid and Bargining council | 1 745 822 | 6 525 266 |
| WCA | - | 562 540 |
| SDL | 228 927 | - |
| Leave pay | 188 307 | 677 391 |
| Overtime payments | 10 834 339 | 6 417 992 |
| Long-service awards | 1 040 195 | - |
| Acting allowances | - | 339 902 |
| Car allowance | 6 776 213 | 6 250 192 |
| Housing benefits and allowances | 2 850 684 | 1 611 146 |
| Cellular and telephone allowance | 713 438 | 566 387 |
| Pension | 11 468 100 | 9 470 108 |
| **Staff costs** | **128 124 168** | **115 978 562** |

**Remuneration of Municipal Manager**

| | | |
|---|---|---|
| Annual Remuneration | 1 092 789 | 1 084 741 |
| Car Allowance | - | 194 589 |
| Contributions to UIF, Medical and Pension Funds | - | 1 785 |
| | **1 092 789** | **1 281 115** |

**Remuneration of Chief Finance Officer**

| | | |
|---|---|---|
| Annual Remuneration | 1 933 336 | 783 324 |
| Car Allowance | 113 169 | 164 621 |
| Contributions to UIF, Medical and Pension Funds | 1 785 | - |
| Acting Allowance | 24 963 | - |
| | **2 073 253** | **947 945** |

### 23. Remuneration of councillors

| | | |
|---|---|---|
| Mayor | 649 684 | 614 229 |
| Speaker | 499 961 | - |
| Chief Whip | 4 841 328 | 498 159 |
| Executive Committee | 3 986 120 | 4 681 999 |
| Other councillors | 12 359 436 | 16 801 920 |
| | **22 336 529** | **22 596 307** |

### 24. Finance costs

| | | |
|---|---|---|
| Other financial liabilities | 413 579 | 231 131 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|
| **25. Contracted services** | | |
| **Outsourced Services** | | |
| Business and Advisory | 529 374 | - |
| Catering Services | 618 878 | - |
| Clearing and Grass Cutting Services | 211 500 | - |
| Hygiene Services | 33 800 | - |
| Internal Auditors | 6 500 | - |
| Personnel and Labour | 237 500 | - |
| Drivers Licence Cards | 171 272 | - |
| Electrical | 551 572 | - |
| **Consultants and Professional Services** | | |
| Business and Advisory | 421 743 | 5 732 621 |
| Infrastructure and Planning | 724 159 | - |
| Assessment fees - Designs | 108 061 | 18 890 |
| IT services | 9 906 239 | 8 709 897 |
| **Contractors** | | |
| Catering Services | 795 609 | - |
| Employee Wellness | 20 505 | - |
| Event Promoters | 718 595 | 2 107 759 |
| Graphic Designers | 2 250 | - |
| Interior Decorator | 27 300 | - |
| Maintenance of Buildings and Facilities | 1 688 396 | 161 718 |
| Maintenance of Equipment | 2 029 226 | 3 773 927 |
| Maintenance of Unspecified Assets | 1 004 217 | - |
| Pest Control and Fumigation | 445 273 | - |
| Tracing Agents and Debt Collectors | 37 719 | 255 785 |
| Traffic and Street Lights | - | 48 550 |
| Sewerage Services | 752 640 | - |
| Stage and Sound Crew | 55 000 | - |
| | **21 097 328** | **20 809 147** |

# Notes to the Annual Financial Statements

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

### 26. General expenses

| | | |
| --- | --- | --- |
| Advertising | 524 263 | 940 021 |
| Auditors remuneration - External auditors | 3 796 582 | 3 832 115 |
| Bank charges | 115 261 | 101 543 |
| Awards | 5 638 | 427 758 |
| Consumables - Materials | - | 4 595 526 |
| Employee wellness | - | 23 275 |
| Bursaries and learnerships | 64 700 | 1 659 875 |
| Hire charges | 1 587 999 | 2 389 042 |
| External Insurance | 1 478 261 | 1 422 046 |
| Catering services | 383 533 | 2 591 578 |
| Allowance ward admin | - | 5 729 250 |
| Business and advisory | 8 722 189 | 3 318 746 |
| Levies | 799 179 | - |
| Fuel and oil | 4 740 276 | 4 470 965 |
| Printing and stationery | 262 276 | 793 294 |
| Increase / (decrease) in provisions | 113 050 | 235 560 |
| Indigent relief | 371 321 | 832 091 |
| Professional bodies membership and subscriptions | 1 588 538 | 86 598 |
| Telephone | 5 789 898 | 4 202 823 |
| Municipal services | 1 171 996 | 665 360 |
| Travel - local | 9 484 365 | 8 969 373 |
| Travel - overseas | 74 363 | - |
| Indigent relief | - | 4 541 394 |
| Municipal services | 1 986 522 | - |
| Internal auditors | - | 160 243 |
| Burial services | 41 435 | 2 266 964 |
| Seating allowance for Traditional council | - | 514 800 |
| Licencing | - | 316 461 |
| Other expenses | 22 446 958 | - |
| | **65 548 603** | **55 086 701** |

### 27. Repairs and maintenance

| | | |
| --- | --- | --- |
| Property, plant and equipment | 11 303 716 | 9 465 262 |
| Computer installation | - | 131 856 |
| | **11 303 716** | **9 597 118** |

### 28. Operating surplus

Operating surplus for the year is stated after accounting for the following:

| | | |
| --- | --- | --- |
| Loss on sale of property, plant and equipment | - | (2 543 457) |
| Impairment of other receivables from non-exchange transactions | 6 223 192 | 15 504 676 |
| Depreciation on property, plant and equipment | 53 203 969 | 47 802 367 |
| Employee costs | 150 460 697 | 138 574 869 |

# Notes to the Annual Financial Statements

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

### 29. Cash generated from operations

| | | |
|---|---|---|
| Surplus | 90 320 396 | 59 294 611 |
| **Adjustments for:** | | |
| Depreciation | 53 203 969 | 47 802 367 |
| Loss on sale of assets and liabilities | - | 2 543 457 |
| Movements in provisions | - | 1 947 357 |
| Impairment - PPE | - | 2 543 457 |
| **Changes in working capital:** | | |
| Inventories | 2 254 339 | 4 467 498 |
| Receivables from exchange transactions | (64 653) | (20 431 343) |
| Other receivables from non-exchange transactions | (14 448 307) | (14 118 443) |
| Payables from exchange transactions | 9 696 527 | (8 840 758) |
| VAT | (12 683 790) | 8 645 149 |
| Unspent conditional grants and receipts | 12 703 330 | 12 779 009 |
| | **140 981 811** | **96 632 361** |

### 30. Financial instruments disclosure

**Categories of financial instruments**

**2020**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Receivables from exchange transactions | 6 717 794 | 6 717 794 |
| Receivables from non-exchange transactions | 6 873 613 | 6 873 613 |
| Cash and cash equivalents | 86 141 470 | 86 141 470 |
| VAT receivable | 18 299 618 | 18 299 618 |
| | **118 032 495** | **118 032 495** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Other financial liabilities | 6 940 838 | 6 940 838 |
| Payables from exchange transactions | 40 294 660 | 40 294 660 |
| Unspent conditional grants and receipts | 1 037 420 | 1 037 420 |
| | **48 272 918** | **48 272 918** |

## Notes to the Annual Financial Statements

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

**30. Financial instruments disclosure (continued)**

**2019**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Receivables from exchange transactions | 17 852 031 | 17 852 031 |
| Receivables from non-exchange transactions | 16 233 550 | 16 233 550 |
| Cash and cash equivalents | 74 150 663 | 74 150 663 |
| VAT receivable | 7 586 586 | 7 586 586 |
| | **115 822 830** | **115 822 830** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Other financial liabilities | 6 940 838 | 6 940 838 |
| Payables from exchange transactions | 36 123 829 | 36 123 829 |
| Unspent conditional grants and receipts | 2 958 536 | 2 958 536 |
| | **46 023 203** | **46 023 203** |

**31. Contingencies**

| | | |
|---|---|---|
| Sifiso Hlayedwa v IHLM - Damages arising from alleged unlawful removal of container at Lusikisiki | 61 400 | - |
| Ayanda Mdodana v IHLM - Damages arising from alleged unlawful removal of container at Lusikisiki | 31 900 | - |
| Mawande Sataka and others v IHLM - Damages arising from alleged unlawful removal of container | 55 000 | - |
| Brenda Lamladana v IHLM - Ms Dana is alleging to have been underpaid whilst working for the institution and Umsobomvu Youth Fund | 85 804 | - |
| J.W Ngwane v IHLM - Damages arising from unlawful arrest | 100 000 | - |
| Assembles of GOd v IHLM - Damages arising from alleged demolition of structure | 700 000 | - |
| Nokulunga Madolo v IHLM - Damages arising out of alleged demolition of structure | 1 089 195 | - |
| GAMNCA v IHLM - Disappearances of horses out of municipal pound | 100 000 | - |
| Maximum profit v IHLM | 1 340 722 | - |
| | **3 564 021** | **-** |

.

**32. Related parties**

**33. Going concern**

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 1 237 309 064 and that the municipality's total assets exceed its liabilities by R 1 237 309 064.

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

## Notes to the Annual Financial Statements

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

### 34. Events after the reporting date

Disciplinary hearings were initiated during the financial year. These are progressing well in the 2019/2020 financial year. The appointment of the audit committee was finalised on 30 July 2019. The accounting officer is not aware of any other matter or circumstance arising since the end of the financial year.

### 35. Irregular expenditure

| | | |
|---|---|---|
| **Opening balance as restated** | **7 490 019** | **-** |
| Add: Irregular Expenditure - current | 1 391 434 | 7 490 019 |
| Less: written off/condoned | (7 287 436) | - |
| **Closing balance** | **1 594 017** | **7 490 019** |

### 36. 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 had to administer legal disputes between the municipality and Mr M.Fihlani for the cost of R 1 800 000. The municipality required the acquisition of legal services outside the panel of service providers. The reason for these deviations were that the municipality deemed it impractical to use the panel, due to the need for an independent practitioner. This was reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

The municipality had to administer legal disputes between the municipality and Mr M.Fihlani at the estimated cost of R 600 000. The services were for the chairing of a hearing process. The municipality required the acquisition of legal services outside the panel of service providers. The reason for these deviations were that the municipality deemed it impractical to use the panel, due to the need for an independent practitioner. This was reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

### 37. Employee benefit obligations

**Defined benefit plan**

The Municipality offers employees LSA for every five years of service completed, from five years of service to 45 years of service, inclusive.

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

| | | |
|---|---|---|
| Opening balance | 6 729 805 | 6 277 062 |
| Current service cost | 1 108 657 | 944 695 |
| Interest cost | 527 694 | 499 959 |
| Net Periodic Cost Recongnised in Profit and Loss | 1 636 351 | 1 305 708 |
| Expected employer benefits vesting | (504 017) | (802 956) |
| Actuarial (gain)/loss | (92 139) | (138 946) |
| Closing Balance | 7 770 000 | 6 729 805 |
| Current portion of Liability (due in the next 12 months) | 990 000 | 504 017 |
| Non-Current Portion of Liabilty | 6 780 000 | 6 225 788 |
| | **-** | **-** |

# Notes to the Annual Financial Statements

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

### 37. Employee benefit obligations (continued)

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

| | 2020 | 2019 |
|---|---|---|
| Opening accured liability | 6 729 805 | 6 277 062 |
| Current service cost | 1 108 657 | 944 695 |
| Employee benefits vesting | (504 017) | (802 956) |
| Interest cost | 527 694 | 499 959 |
| Total Annual Expense | 1 132 334 | 641 689 |
| Actuarial Loss/Gain | (92 139) | (138 946) |
| Closing Accured Liability | 7 770 000 | 6 729 805 |
| | - | - |

**Calculation of actuarial gains and losses**

| | 2020 | 2019 |
|---|---|---|
| Actuarial (gains) losses – Obligation | (92 139) | (138 946) |

# Notes to the Annual Financial Statements

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

**37. Employee benefit obligations (continued)**

**Key assumptions used**

In estimating the unfunded liability for LSA of the Municipality a number of actuarial assumptions are required. The GRAP 25 Statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.
It should be noted that the valuation method and assumptions do not affect the ultimate cost of the LSA arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and Current-Service costs are recognised over time. Assumptions used at the reporting date:

| | | |
| --- | --- | --- |
| Discount rate | 7,24 % | 8,14 % |
| General earnings inflation rate (long-term) | 3,94 % | 5,55 % |
| Net effective discount rate | 3,17 % | 2,45 % |

The earnings used in the valuation include an increase on 1 July 2020 of 6.25% as per the SALGBC Circular No.: 02/2020. The next general earnings increase was assumed to take place on 1 July 2021.

Key Demographic Assumptions

The average retirement age is 62 years old. The mortality during employment is SA 85-90.

Withdrawal from service (sample annual rates):

| **Age** | Female | Male |
| --- | --- | --- |
| 20 | 9 % | 9 % |
| 30 | 6 % | 6 % |
| 40 | 5 % | 5 % |
| 50 | 3 % | 3 % |
| | **- %** | **- %** |

**Financial Assumptions**

Discount rate

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve. Consequently, a discount rate of 7.24% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 7.24% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 3.69%. These rates do not reflect any adjustment for taxation, and were deduced from the interest rate data obtained from the JSE after the market close on 30 June 2020.

The liablilty-weighted average term of the total liability is 6.51 years.

Earnings Inflation Rate

This assumption is required to reflect the estimated growth in earnings of the eligible employees until retirement. It is important in that the LSA are based on an employee's earnings at the date of the award. The assumption is traditionally split into two components, namely General Earnings Inflation and Promotional Earnings Escalation. The latter is considered under demographic assumptions.

General Earnings Inflation

## Notes to the Annual Financial Statements



### 37. Employee benefit obligations (continued)

This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, earnings inflation is between 1.0% and 1.5% above CPI inflation.
The expected inflation assumption of 2.94% was obtained from the differential between market yields on index-linked bonds (3.69%) consistent with the estimated terms of the liabilities and those of nominal bonds (7.24%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+7.24%-0.50%)/(1+3.69%))-1.
Thus, a general earnings inflation rate of 3.94% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 3.17%.
It has been assumed that the next general earnings increase will take place on 1 July 2021.

Demographic Assumptions

Promotional Earnings Scale
The annual inflation rates below are in addition to the General Earnings Inflation assumption of 3.94% per annum for all employees.

Promotional earnings scale table:

| **Age Band** | Additional promotional scale |
|---|---|
| 20 - 24 | 5 % |
| 25 - 29 | 4 % |
| 30 - 34 | 3 % |
| 35 - 39 | 2 % |
| 40 - 44 | 1 % |
| | **- %** |

Average Retirement Age
The normal retirement age of employees is 65. It has been assumed that employees will retire at age 62 on average, which then implicitly allows for expected rates of ill-health and early retirement. Employees who have passed the assumed average retirement age, have been assumed to retire at their next birthday.

Sensitivity Results

The assumptions which tend to have the greatest impact on the results are:
(i) The general earnings inflation rate assumption;
(ii) The discount rate assumption;
(iii) The average retirement age of employees; and
(iv) Assumed rates of withdrawal of employees from service.

The liability at the Valuation Date was recalculated to show the effect of:
(i) A 1% increase and decrease in the assumed general earnings inflation rate;
(ii) A 1% increase and decrease in the discount rate;
(iii) A two-year increase and decrease in the assumed average retirement age of eligible employees; and
(iv) A two-fold increase and a 50% decrease in the assumed rates of withdrawal from service.

| **Assumption** | Change | Liability | % change |
|---|---|---|---|
| Central assumptions | | 7 770 000 | - % |
| General earnings inflation rate | +1% | 8 237 000 | 6 % |
| | -1% | 7 347 000 | (5)% |
| Discount rate | +1% | 7 323 000 | (6)% |
| | -1% | 8 270 000 | 6 % |
| Average retirement age | +2 yrs | 8 419 000 | 8 % |
| | -2 yrs | 7 171 000 | (8)% |
| Withdrawal rates | x200% | 6 158 000 | (21)% |
| | x50% | 8 878 000 | 14 % |

### 37. Employee benefit obligations (continued)

| | | |
| --- | --- | --- |
| | - | - % |

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

| **Assumption** | Change | Current service cost | Interest cost | Total | % change |
| --- | --- | --- | --- | --- | --- |
| Central assumptions | | 1 108 700 | 527 700 | 1 636 400 | |
| General earnings inflation rate | +1% | 1 193 500 | 563 400 | 1 756 900 | 7% |
| | -1% | 1 032 800 | 495 400 | 1 528 200 | -7% |
| Discount rate | +1% | 1 038 600 | 554 300 | 1 592 900 | -3% |
| | -1% | 1 188 200 | 496 500 | 1 684 700 | 3% |
| Average retirement age | +2 yrs | 1 178 200 | 581 700 | 1 759 900 | 8% |
| | -2 yrs | 1 046 000 | 484 900 | 1 530 900 | -6% |
| Withdrawal rates | x50% | 1 346 700 | 614 400 | 1 961 100 | 20% |
| | | - | - | - | |

**Actual returns**

**History of Liabilities, assets and experience adjustments**

Amounts for the current and previous four years are as follows (R millions):

| | 30/06/2016 | 30/06/2017 | 30/06/2018 | 30/06/2019 | 30/06/2020 |
| --- | --- | --- | --- | --- | --- |
| Accured liability | 5.518 | 5.920 | 6.227 | 6.730 | 7.770 |
| Fair valur plan of assets | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Surplus (deficit) | (5.518) | (5.920) | (6.227) | (6.730) | (7.770) |

The table below summarises the experience adjustments for the current and previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has occurred.

| | 30/06/2016 | 30/06/2017 | 30/06/2018 | 30/06/2019 | 30/06/2020 |
| --- | --- | --- | --- | --- | --- |
| Liabilities: (Gain)/Loss | 286 821 | (76 557) | 400 539 | 233 625 | 205 861 |

The table below indicates shows the development of the Accrued Liability over the current period, and projects the Employer's Unfunded Accrued Liability and periodic costs over the two-year period following the Valuation Date. :

| | 30/06/2020 | 30/06/2021 |
| --- | --- | --- |
| Opening Accured Liability | 6 729 805 | 7 770 000 |
| Current service cost | 1 108 657 | 1 101 000 |
| Interest cost | 527 694 | 527 000 |
| Total Annual Expense | 1 132 334 | 638 000 |
| Actuarial Loss/(Gain) | (92 139) | - |
| Closing Accured Liability | 7 770 000 | 8 408 000 |
| | - | - |

### 38. Service charges

| | | |
| --- | --- | --- |
| Solid waste | 1 252 380 | 1 236 778 |

### 39. Other revenue

| | | |
| --- | --- | --- |
| Other income - (rollup) | 3 812 543 | 4 282 026 |

# Notes to the Annual Financial Statements

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

### 40. Public contributions and donations

| | | |
| --- | --- | --- |
| Donation of Parks | 9 794 921 | - |

Conditions still to be met - remain liabilities (see note 14)

The municipality received a donation of two parks at Lusikisiki and Flagstaff from National Department of Environmental Affairs.

### 41. Depreciation and amortisation

| | | |
| --- | --- | --- |
| Property, plant and equipment | 53 203 969 | 47 802 367 |

### 42. Auditors' remuneration

| | | |
| --- | --- | --- |
| Fees | 3 796 582 | 3 832 115 |

# Notes to the Annual Financial Statements

### 43. Prior period errors/Reclassification

The Reclassification is as a result of implementation of Municipal Standard Charts of Accounts (mSCOA). The reclassification was done to achieve fair presentation of financial statements.

The prior period error was as a result of armotisation of intangible assets that was incorrectly calculated in the prior year.

## Statement of Financial Position

| | Audited | Prior year adjustments | Reclassifying adjustments | Restated |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | 86 141 470 | 4 045 320 | - | 90 186 790 |
| Receivables from exchange transactions | 6 899 273 | 3 674 615 | - | 10 573 888 |
| Receivables from non-exchange transactions | 6 873 613 | 7 972 079 | - | 14 845 692 |
| Inventories | 19 239 068 | (4 815 103) | - | 14 423 965 |
| VAT receivable | 18 118 503 | 8 398 540 | - | 26 517 043 |
| | **137 271 927** | **19 275 451** | **-** | **156 547 378** |
| **Non-Current Assets** | | | | |
| Investment property | 394 101 560 | (733 050) | - | 393 368 510 |
| Property, plant and equipment | 655 438 611 | (6 364 102) | - | 649 074 509 |
| Investment held as collateral | 6 474 472 | - | - | 6 474 472 |
| | **1 056 014 643** | **(7 097 152)** | **-** | **1 048 917 491** |
| **Total Assets** | **1 193 286 570** | **12 178 299** | **-** | **1 205 464 869** |
| **Liabilities** | | | | |
| **Current Liabilities** | | | | |
| Payables from exchange transactions | 41 655 953 | 966 311 | - | 42 622 264 |
| Unspent conditional grants and receipts | 1 037 420 | 3 379 541 | - | 4 416 961 |
| Other financial liabilities | 6 940 838 | - | - | 6 940 838 |
| Provisions | 3 032 753 | (2 606 183) | - | 426 570 |
| | **52 666 964** | **1 739 669** | **-** | **54 406 633** |
| **Non-Current Liabilities** | | | | |
| Provisions | 6 225 478 | 504 287 | - | 6 729 765 |
| **Total Liabilities** | **58 892 442** | **2 243 956** | **-** | **61 136 398** |
| **Net Assets** | **1 134 394 128** | **9 934 343** | **-** | **1 144 328 471** |
| **Net Assets** | | | | |
| Accumulated surplus | 1 134 393 857 | 9 934 614 | - | 1 144 328 471 |

# Notes to the Annual Financial Statements

**43. Prior period errors/Reclassification (continued)**

**43.1. Cash and cash equivalents**

| | |
|---|---:|
| Balance previosly reported | 86 141 470 |
| Prior year error | 4 045 320 |
| | **90 186 790** |

In the 2018/2019 financial year an amount of R1 420 620 was erroneously captured twice in the cashbook which was a payment for Furniture and office equipment resulting into double entry in the PPE and the cashbook, however the actual payment in the bank was made once. Also in the same financial year an amount of R2 624 880 which was a payment for Taweni access road was erroneously captured twice in the cashbook resulting into double entry in the PPE and the cashbook however the actual payment in the bank was made once.

**43.2 Receivables from exchange transactions**

| | |
|---|---:|
| Balance previosly reported | 6 899 273 |
| Prior year errors | 3 674 615 |
| | **10 573 888** |

**43.3 Inventories**

| | |
|---|---:|
| Balance previosly reported | 19 239 068 |
| Prior year adjustment - sale of sites | (4 815 103) |
| | **14 423 965** |

In the prior year, sale of sites with a value of R4,815,103 was erroneously processed against land sale debtors. There was no debtor raised for these sites as this was a cash sale recosgnised in the 2019 financial year. To correct this error, a journal was passed in the prior year.

**43.4 VAT receivable**

| | |
|---|---:|
| Balance previosly reported | 18 118 503 |
| Prior year error | 8 398 540 |
| | **26 517 043** |

In 2018-2019 financial year a prior period error (2017-2018) restatement was made on VAT receivable, however there was no sufficient and appropriate evidence to support the prior period error. Also an adjustment was made to the 2018-2019 VAT receivable, also with no sufficient and appropriate evidence to support the adjustment.

To correct these prior period errors, South African Revenue Services (SARS) Statements were used as a basis for the VAT receivable. The earliest available SARS statements were sourced and adjustments were made to the 2018-2019 opening and closing balances.

When processing these adjustments it was noted that there were instances where SARS had disallowed some monies in the returns submitted and these were not captured in the VAT control accounts and there was no follow up made with SARS to resubmit the disallowed monies. The municipality is intending to follow up on those disallowed monies together with the penalties that were levied on the municipality. Therefore the disallowed monies and the penalties levied were disclosed as VAT debtors for 2018-2019 financial year.

SARS allows objections to be made up to 5 years of assessments therefore the earliest available period was March 2015 therefore the adjustments were made from March 2015 until June 2019.

# Notes to the Annual Financial Statements

**43. Prior period errors/Reclassification (continued)**

**43.5 Property, plant and equipment**

| | |
|---|---|
| Balance previosly reported | 655 438 611 |
| Prior perid error | (6 364 102) |
| | **649 074 509** |

In the 2018/2019 financial year an amount of R1 420 620 was erroneously captured twice in the cashbook which was a payment for Furniture and office equipment resulting into double entry in the PPE and the cashbook, however the actual payment in the bank was made once. Also in the same financial year an amount of R2 624 880 which was a payment for Taweni access road was erroneously captured twice in the cashbook resulting into double entry in the PPE and the cashbook however the actual payment in the bank was made once.

**43.6 Payables from exchange transactions**

| | |
|---|---|
| Balance previosly reported | 41 655 953 |
| Prior year error | 966 311 |
| | **42 622 264** |

In the prior year an adjustment to payables from exchange transactions was processed on caseware, however there was no sufficient and appropriate evidence to support the adjustment. To correct this error, all payment vouchers for payments made after year end were inspected to determine the accruals for prior year and a journal was passed in the prior year.

# Notes to the Annual Financial Statements

**43. Prior period errors/Reclassification (continued)**

## Statement of Financial Performance

| | Audited | Prior year adjustments | Reclassifying adjustments | Restated |
|---|---|---|---|---|
| **Revenue** | | | | |
| **Revenue from exchange transactions** | | | | |
| Service charges | 1 236 778 | - | - | 1 236 778 |
| Rental of facilities and equipment | 759 715 | 1 | - | 759 716 |
| Other operating revenue | 4 282 026 | - | - | 4 282 026 |
| Investment revenue | 8 533 469 | - | - | 8 533 469 |
| **Total revenue from exchange transactions** | **14 811 988** | **1** | **-** | **14 811 989** |
| **Revenue from non-exchange transactions** | | | | |
| **Taxation revenue** | | | | |
| Property rates | 22 398 746 | - | - | 22 398 746 |
| **Transfer revenue** | | | | |
| Government grants & subsidies | 301 616 187 | - | - | 301 616 187 |
| Fines, Penalties and Forfeits | 1 020 037 | - | - | 1 020 037 |
| **Total revenue from non-exchange transactions** | **325 034 970** | **-** | **-** | **325 034 970** |
| **Total revenue** | **339 846 958** | **1** | **-** | **339 846 959** |
| **Expenditure** | | | | |
| Employee related costs | (118 190 624) | - | - | (115 978 562) |
| Remuneration of councillors | (22 596 307) | - | - | (22 596 307) |
| Depreciation and amortisation | (47 758 608) | (43 759) | - | (47 802 367) |
| Impairment loss/ Reversal of impairments | (24 174 320) | - | - | (15 504 676) |
| Finance costs | (231 131) | - | - | (231 131) |
| Contracted services | (2 957 825) | - | - | (20 809 147) |
| Repairs and maintenance | (11 303 716) | 11 303 716 | - | - |
| Actuarial loss | (502 703) | - | - | (2 543 457) |
| General Expenses | (56 692 496) | - | - | (44 198 508) |
| **Total expenditure** | **(284 407 730)** | **11 259 957** | **-** | **(282 550 880)** |
| **Operating surplus** | **55 439 228** | **11 259 958** | **-** | **57 296 079** |
| **Surplus for the year** | **55 439 228** | **11 259 958** | **-** | **57 296 079** |

**43.7 Sales of goods**

| | |
|---|---|
| Balance previosly reported | - |
| Other 1 | - |
| | **-** |

**44. Additional disclosure in terms of Municipal Finance Management Act**

**Audit fees**

| | | |
|---|---|---|
| Current year raised | 2 756 627 | 3 827 509 |
| Amount paid - current year | (2 756 627) | (3 827 509) |
| | **-** | **-** |

# Notes to the Annual Financial Statements

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

**PAYE, UIF and SDL**

| | | |
|---|---|---|
| Current year raised | 22 050 029 | 17 042 727 |
| Amount paid - current year | (22 050 029) | (17 042 727) |
| | - | - |

**Medical aid**

| | | |
|---|---|---|
| Current year raised | 10 836 293 | 4 921 516 |
| Amount paid - current year | (10 836 293) | (4 921 516) |
| | - | - |

**Provident and pension funds**

| | | |
|---|---|---|
| Current year raised | 14 213 620 | 8 698 862 |
| Amount paid - current year | (14 213 620) | (8 698 862) |
| | - | - |

**VAT**

| | | |
|---|---|---|
| VAT receivable | 37 111 212 | (7 585 586) |
| VAT payable | 8 244 328 | - |
| | **45 355 540** | **(7 585 586)** |

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

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

**45. Utilisation of Long-term liabilities reconciliation**

| | | |
|---|---|---|
| Long-term liabilities raised | - | 6 940 838 |

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.