PORT ST JOHNS
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Port St Johns Local Municipality
Consolidated Annual Financial Statements
for the year ended 30 June 2020

General Information

Legal form of entity	Municipality
Nature of business and principal activities	The main business operation of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Rates, Refuse and Waste Management Services - The collection and disposal of refuse.
Executive committee	
Mayor	Cllr. N Mlombile-Cingo
Speaker	Cllr. A.A Gantsho
Chief Whip	Cllr. C.S Nduku/Mazuza
Councillors	Cllr. N.F Bokwe
	Cllr. Z.H Cube
	Cllr. M Dyosoba
	Cllr. K.M Fono
	Cllr. F Jama
	Cllr. N.C Fono
	Cllr. D.V Madini
	Cllr. F Mafaka
	Cllr. N.P Majali
	Cllr. K Majeke
	Cllr. Z Maqina
	Cllr. S.V Mavimbela
	Cllr. L Rolobile
	Cllr. Z Mhlabeni
	Cllr. N Mfiki
	Cllr. D.Z Mnceba
	Cllr. B Mjakuja
	Cllr. X Moni
	Cllr. Z Mtiki
	Cllr. N.B Mtuku
	Cllr. A Mzungule
	Cllr. L Ndamase
	Cllr. T.M Msongelwa
	Cllr. S.L Ntlatywa
	Cllr. T Ntsham
	Cllr. S.E Sicoto
	Cllr. N.P Soga
	Cllr. N Tani
	Cllr. N Tshitshiliza
	Cllr. G Tshotho
	Cllr. N Vava
	Cllr. M Veni
	Cllr. G.X Vimba
	Cllr. R.M Zweni
	Cllr. M Hobo

General Information

Chief Financial Officer (CFO)	Ms B.A Mbana (Appointed 1 March 2020)
Acting Chief Financial Officer (ACFO)	Ms N Hlangu (Appointed 10 August 2018 to 29 February 2020)
	Mr H.T Hlazo
Registered office	257 Main street Port St Johns 5120
Business address	257 Main street Port St Johns 5120
Postal address	P O Box 2 Port St Johns 5120
District Municipality	OR Tambo District Municipality
Bankers	Standard Bank
Auditors	Auditor-General South Africa
Published	30 November 2020
Municipal demarcation code	EC154
Grading of Local Authority	Grade 3
Capacity of local authority	Low

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

GRAP	Generally Recognised Accounting Practice
CIGFARO	Chartered Institute of Government Finance Audit and Risk Officers
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
Cllr	Councillor
EPWP	The Expanded Public Works Programme

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The consolidated annual financial statements set out on pages 6 to 128, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2020 and were signed on its behalf by:

Mr H.T Hlazo
Accounting Officer

Accounting Officer's Report

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

1. Review of activities

Main business and operations

Port St Johns Local Municipality is a local government institution established in terms of the Municipal Systems Act 32 of 2000 and The Constitution of the Republic of South Africa. The main business operation of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Rates, refuse, general services and includes the rental of units owned by the municipality.

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

2. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 588 202 762 and that the municipality's total assets exceed its liabilities by R 588 202 762.

The consolidated 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.

Since March 2020 the consequences of the COVID-19 pandemic have materially and adversely affected the ability of the municipality to continue normal operations in delivering services to the community with all the efforts being directed towards the fight against the pandemic. The municipality has continued to operate with critical staff and implement the COVID 19 projects as well as perform the critical activities of council. However, most of the planned projects (mainly capital) for the fourth quarter have had to be deferred to the 2020/2021 financial year to give priority to the COVID 19 pandemic projects.

The current national lock down restrictions which has been reduced to “Level 1” from midnight on 20th of September 2020 as announced by the President on the 16th of September 2020. Although there is still uncertainty as to when the restrictions will be fully lifted and other changes to restrictions, these uncertainties together with the plans explained above do not at this time cast significant doubt on the municipality's ability to continue as a going concern.

The Municipality has also obtained an additional Equitable share grant amounting to R29 802 000 which necessitated the Special Adjustment Budget for the 2020/21 financial year to give relief of the uncollected revenue during the lockdown period. The adjustment budget was approved by Council on the 28th of September 2020.

3. Subsequent events

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The municipality has continued to operate with critical staff and implement the COVID 19 projects as well as perform the critical activities of council during the hard lock down period from 26th of March 2020 to 30th of June 2020. However, most of the planned projects (mainly capital) for the fourth quarter have had to be deferred to the 2020/2021 financial year to give priority to the COVID 19 pandemic projects.

The current national lock down restrictions which has been reduced to “Level 1” from midnight on 20th of September 2020 as announced by the President on the 16th of September 2020. There is still uncertainty as to when the restrictions will be fully lifted and other changes to restrictions.

The municipality has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 30 June 2020 have not been adjusted to reflect their impact.

The Municipality has also obtained an additional Equitable share grant amounting to R29 802 000 which necessitated the Special Adjustment Budget for the 2020/21 financial year to give relief of the uncollected revenue during the lockdown period. The adjustment budget was approved by Council on the 28th of September 2020.

Accounting Officer's Report

4. Accounting Officer

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

Name	Nationality
Mr H.T Hlazo	South African

5. Interest in controlled entities

Name of controlled entity	Country of incorporation	Percentage
Port St Johns Development Agency	South African	100

6. Bankers

The municipality banks with Standard Bank.

7. Auditors

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

Statement of Financial Position as at 30 June 2020

		Economic entity		Controlling entity	
		2020	**2019 Restated***	**2020**	**2019 Restated***
	Notes	**R**	**R**	**R**	**R**
Assets					
Current Assets					
Inventories	3	632 644	733 097	632 644	733 097
Receivables from exchange transactions	4	19 703 692	6 591 958	19 631 337	6 568 888
Receivables from non-exchange transactions	5&8	5 549 881	6 524 067	5 549 881	6 524 067
VAT receivable	6	7 326 210	20 383 173	7 326 210	20 383 173
Consumer debtors	7	1 041 967	1 089 339	1 041 967	1 089 339
Cash and cash equivalents	9	109 924 666	57 308 528	108 918 432	57 055 088
		144 179 060	**92 630 162**	**143 100 471**	**92 353 652**
Non-Current Assets					
Investment property	10	11 461 003	11 461 003	11 461 003	11 461 003
Property, plant and equipment	11	509 270 093	498 495 481	508 895 230	498 051 390
		520 731 096	**509 956 484**	**520 356 233**	**509 512 393**
Total Assets		**664 910 156**	**602 586 646**	**663 456 704**	**601 866 045**
Liabilities					
Current Liabilities					
Finance lease obligation	12	53 650	377 500	53 650	343 906
Payables from exchange transactions	13	39 715 028	32 843 244	38 952 987	31 050 320
VAT payable	14	4 561 388	4 510 006	-	-
Consumer deposits	15	61 000	61 000	61 000	61 000
Employee benefit obligation	17	1 057 000	403 759	1 057 000	403 759
Unspent conditional grants and receipts	16	21 004 940	4 203 304	18 753 306	1 951 670
Provisions	19	6 779 701	6 152 935	-	-
		73 232 707	**48 551 748**	**58 877 943**	**33 810 655**
Non-Current Liabilities					
Finance lease obligation	12	18 279	31 757	18 279	31 757
Operating lease liability	18	2 442 273	2 349 705	2 442 273	2 349 705
Employee benefit obligation	17	3 350 000	3 624 453	3 350 000	3 624 453
Provisions	19	10 565 447	12 091 384	10 565 447	12 091 384
		16 375 999	**18 097 299**	**16 375 999**	**18 097 299**
Total Liabilities		**89 608 706**	**66 649 047**	**75 253 942**	**51 907 954**
Net Assets		**575 301 450**	**535 937 599**	**588 202 762**	**549 958 091**
Accumulated surplus		575 301 450	535 937 599	588 202 762	549 958 091

* See Note 53

Statement of Financial Performance

		Economic entity		Controlling entity	
		2020	2019 Restated*	2020	2019 Restated*
	Notes	R	R	R	R
Revenue					
Revenue from exchange transactions					
Service charges	20	956 782	861 208	956 782	861 208
Rental of facilities and equipment	21	9 844	12 635	9 844	12 635
Interest charged on overdue consumer accounts		4 233 799	3 654 008	4 233 799	3 654 008
Licences and permits	22	635 707	85 389	635 707	85 389
Other income	23	3 037 853	2 623 942	3 032 376	2 502 836
Investment revenue - investment	24	5 365 227	5 572 317	5 365 227	5 572 317
Fair value adjustments		136 360	101 486	-	-
Actuarial gains		15 242	-	15 242	-
Total revenue from exchange transactions		**14 390 814**	**12 910 985**	**14 248 977**	**12 688 393**
Revenue from non-exchange transactions					
Taxation revenue					
Property rates	25	9 792 798	9 092 763	9 792 798	9 092 763
Transfer revenue					
Government grants & subsidies	26	230 833 371	236 140 082	230 833 371	236 140 082
Donations received	27	-	5 710 844	-	5 710 844
Fines, Penalties and Forfeits	28	253 300	198 000	253 300	198 000
Total revenue from non-exchange transactions		**240 879 469**	**251 141 689**	**240 879 469**	**251 141 689**
Total revenue		**255 270 283**	**264 052 674**	**255 128 446**	**263 830 082**
Expenditure					
Employee related costs	29	(81 621 797)	(72 243 061)	(76 070 698)	(66 974 661)
Remuneration of councillors	30	(13 771 119)	(13 436 340)	(13 596 950)	(13 120 696)
Depreciation and amortisation	31	(50 209 145)	(46 162 965)	(49 978 340)	(45 971 333)
Impairment loss	32	(42 612)	-	(42 612)	-
Finance costs	33	(1 875 299)	(2 097 632)	(1 332 327)	(1 448 544)
Lease rentals on operating lease		(1 640 739)	(2 359 414)	(1 603 941)	(2 273 814)
Debt Impairment	34	(4 755 883)	(4 433 846)	(4 755 883)	(4 433 846)
Contracted services	35	(6 706 840)	(5 015 575)	(6 706 840)	(5 015 575)
Transfers and Subsidies	36	-	-	(8 724 134)	(10 363 478)
Loss on disposal of assets and liabilities		(4 160 079)	(258 485)	(4 160 079)	(258 478)
Actuarial losses		-	(662 002)	-	(662 002)
Inventories losses/write-downs		(559 406)	(1 042 305)	(559 406)	(1 042 305)
General Expenses	37	(50 563 521)	(55 243 974)	(49 352 566)	(51 034 875)
Total expenditure		**(215 906 440)**	**(202 955 599)**	**(216 883 776)**	**(202 599 607)**
Surplus for the year		**39 363 843**	**61 097 075**	**38 244 670**	**61 230 475**

* See Note 53

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Economic entity		
Opening balance as previously reported	432 355 099	432 355 099
Adjustments		
Prior year adjustments	42 485 425	42 485 425
Balance at 01 July 2018 as restated*	**474 840 524**	**474 840 524**
Changes in net assets		
Surplus for the year	61 097 075	61 097 075
Total changes	61 097 075	61 097 075
Restated* Balance at 01 July 2019	**535 937 607**	**535 937 607**
Changes in net assets		
Surplus for the year	39 363 843	39 363 843
Total changes	39 363 843	39 363 843
Balance at 30 June 2020	**575 301 450**	**575 301 450**

	Accumulated surplus R	Total net assets R
Controlling entity		
Opening balance as previously reported	446 242 191	446 242 191
Adjustments		
Prior year adjustments	42 485 425	42 485 425
Balance at 01 July 2018 as restated*	**488 727 616**	**488 727 616**
Changes in net assets		
Surplus for the year	61 230 475	61 230 475
Total changes	61 230 475	61 230 475
Restated* Balance at 01 July 2019	**549 958 092**	**549 958 092**
Changes in net assets		
Surplus for the year	38 244 670	38 244 670
Total changes	38 244 670	38 244 670
Balance at 30 June 2020	**588 202 762**	**588 202 762**

* See Note 53

Cash Flow Statement

		Economic entity		Controlling entity	
		2020	2019 Restated*	2020	2019 Restated*
	Notes	R	R	R	R
Cash flows from operating activities					
Receipts					
License and Permits		635 707	85 389	635 707	85 389
Grants		247 436 507	229 071 385	247 436 507	229 071 385
Interest income		5 365 227	5 251 460	5 365 227	5 251 460
Traffic fines		32 100	37 900	32 100	37 900
VAT Refunds		28 067 291	5 636 482	28 067 291	5 636 482
Receipts from consumers(rates and refuse)		6 722 887	4 602 701	6 722 887	4 602 701
Other receipts		530 906	2 170 950	525 430	2 049 844
		288 790 625	246 856 267	288 785 149	246 735 161
Payments					
Employee costs		(80 064 146)	(69 011 206)	(74 542 729)	(63 697 270)
Remuneration of councillors		(13 771 119)	(13 436 340)	(13 596 950)	(13 120 696)
Suppliers		(76 943 793)	(75 000 971)	(74 724 502)	(70 544 296)
Finance costs		(13 371)	(334 882)	(11 001)	(251 760)
Grants and subsidies paid		-	-	(8 724 134)	(10 363 478)
		(170 792 429)	(157 783 399)	(171 599 316)	(157 977 500)
Net cash flows from operating activities	40	**117 998 196**	**89 072 868**	**117 185 833**	**88 757 661**
Cash flows from investing activities					
Purchase of property, plant and equipment		(65 001 560)	(89 181 140)	(64 976 343)	(89 118 368)
Proceeds from sale of property, plant and equipment		18 210	-	18 210	-
Net cash flows from investing activities		**(64 983 350)**	**(89 181 140)**	**(64 958 133)**	**(89 118 368)**
Cash flows from financing activities					
Finance lease payments		(398 708)	(492 001)	(364 356)	(389 006)
Net increase/(decrease) in cash and cash equivalents		**52 616 138**	**(600 273)**	**51 863 344**	**(749 713)**
Cash and cash equivalents at the beginning of the year		57 308 528	57 908 801	57 055 088	57 804 801
Cash and cash equivalents at the end of the year	9	**109 924 666**	**57 308 528**	**108 918 432**	**57 055 088**

* See Note 53

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Economic entity						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 052 000	-	**1 052 000**	956 782	**(95 218)**	
Rental of facilities and equipment	63 120	(32 600)	**30 520**	9 844	**(20 676)**	
Interest charged on overdue consumer accounts	501 102	3 498 898	**4 000 000**	4 233 799	**233 799**	**[A1]**
Licences and permits	128 345	951 655	**1 080 000**	635 707	**(444 293)**	
Other income	20 594 238	11 042 530	**31 636 768**	3 037 853	**(28 598 915)**	**[A2]**
Interest received - investment	4 208 000	2 292 000	**6 500 000**	5 365 227	**(1 134 773)**	**[A3]**
Total revenue from exchange transactions	**26 546 805**	**17 752 483**	**44 299 288**	**14 239 212**	**(30 060 076)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	8 853 634	(814 829)	**8 038 805**	9 792 798	**1 753 993**	**[A4]**
Transfer revenue						
Government grants & subsidies	237 807 999	22 128 927	**259 936 926**	230 833 371	**(29 103 555)**	**[A5]**
Fines, Penalties and Forfeits	221 340	(171 340)	**50 000**	253 300	**203 300**	
Total revenue from non-exchange transactions	**246 882 973**	**21 142 758**	**268 025 731**	**240 879 469**	**(27 146 262)**	
Total revenue	**273 429 778**	**38 895 241**	**312 325 019**	**255 118 681**	**(57 206 338)**	
Expenditure						
Personnel	(86 132 687)	(7 672 772)	**(93 805 459)**	(81 621 797)	**12 183 662**	**[A6]**
Remuneration of councillors	(11 803 580)	(2 567 855)	**(14 371 435)**	(13 771 119)	**600 316**	**[A7]**
Depreciation and amortisation	(38 598 468)	2 954 522	**(35 643 946)**	(50 209 145)	**(14 565 199)**	**[A8]**
Impairment loss	(464 815)	-	**(464 815)**	(42 612)	**422 203**	
Finance costs	(105 200)	49 300	**(55 900)**	(1 875 299)	**(1 819 399)**	**[A12]**
Lease rentals on operating lease	(1 018 182)	(932 871)	**(1 951 053)**	(1 640 739)	**310 314**	**[A10]**
Debt Impairment	(6 640 224)	1 640 224	**(5 000 000)**	(4 755 883)	**244 117**	**[A9]**
Contracted Services	(7 601 373)	(2 239 721)	**(9 841 094)**	(6 706 840)	**3 134 254**	**[A10]**
General Expenses	(79 575 967)	(9 069 528)	**(88 645 495)**	(50 563 521)	**38 081 974**	**[A10]**
Total expenditure	**(231 940 496)**	**(17 838 701)**	**(249 779 197)**	**(211 186 955)**	**38 592 242**	
Operating surplus	**41 489 282**	**21 056 540**	**62 545 822**	**43 931 726**	**(18 614 096)**	
Loss on disposal of assets	73 576	76 360	**149 936**	(4 160 079)	**(4 310 015)**	
Fair value adjustments	-	-	**-**	136 360	**136 360**	
Actuarial gains/losses	-	-	**-**	15 242	**15 242**	
Inventories losses/write-downs	-	-	**-**	(559 406)	**(559 406)**	
	73 576	**76 360**	**149 936**	**(4 567 883)**	**(4 717 819)**	
Surplus before taxation	**41 562 858**	**21 132 900**	**62 695 758**	**39 363 843**	**(23 331 915)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**41 562 858**	**21 132 900**	**62 695 758**	**39 363 843**	**(23 331 915)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	1 587 716	-	**1 587 716**	632 644	**(955 072)**	
Receivables from exchange transactions	-	-	**-**	19 703 692	**19 703 692**	**[B1]**
Receivables from non-exchange transactions	4 997 990	-	**4 997 990**	5 549 881	**551 891**	**[B2]**
VAT receivable	-	-	**-**	7 326 210	**7 326 210**	**[B3]**
Consumer debtors	6 930 000	(170 000)	**6 760 000**	1 041 967	**(5 718 033)**	**[B2]**
Cash and cash equivalents	64 778 081	7 328 657	**72 106 738**	109 924 666	**37 817 928**	**[B4]**
	78 293 787	**7 158 657**	**85 452 444**	**144 179 060**	**58 726 616**	
Non-Current Assets						
Investment property	11 461 003	-	**11 461 003**	11 461 003	**-**	
Property, plant and equipment	504 147 142	22 331 000	**526 478 142**	509 270 093	**(17 208 049)**	**[B5]**
	515 608 145	**22 331 000**	**537 939 145**	**520 731 096**	**(17 208 049)**	
Total Assets	**593 901 932**	**29 489 657**	**623 391 589**	**664 910 156**	**41 518 567**	
Liabilities						
Current Liabilities						
Finance lease obligation	226 102	-	**226 102**	53 650	**(172 452)**	
Payables from exchange transactions	20 036 982	685 000	**20 721 982**	39 715 030	**18 993 048**	**[B6]**
VAT payable	-	-	**-**	4 561 388	**4 561 388**	**[B11]**
Consumer deposits	61 000	-	**61 000**	61 000	**-**	
Employee benefit obligation	-	-	**-**	1 057 000	**1 057 000**	**[B9]**
Unspent conditional grants and receipts	-	-	**-**	21 004 940	**21 004 940**	**[B7]**
Provisions	744 793	500 000	**1 244 793**	6 779 701	**5 534 908**	**[B10]**
	21 068 877	**1 185 000**	**22 253 877**	**73 232 709**	**50 978 832**	
Non-Current Liabilities						
Finance lease obligation	2 145 575	-	**2 145 575**	18 279	**(2 127 296)**	
Operating lease liability	-	-	**-**	2 442 273	**2 442 273**	**[B8]**
Employee benefit obligation	-	-	**-**	3 350 000	**3 350 000**	**[B9]**
Provisions	7 781 188	-	**7 781 188**	10 565 447	**2 784 259**	**[B10]**
	9 926 763	**-**	**9 926 763**	**16 375 999**	**6 449 236**	
Total Liabilities	**30 995 640**	**1 185 000**	**32 180 640**	**89 608 708**	**57 428 068**	
Net Assets	**562 906 292**	**28 304 657**	**591 210 949**	**575 301 448**	**(15 909 501)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	562 906 292	28 304 657	**591 210 949**	575 301 448	**(15 909 501)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property rates	3 485 752	-	**3 485 752**	6 722 887	**3 237 135**	
Service charges	357 680	-	**357 680**	-	**(357 680)**	
Other revenue	2 630 447	-	**2 630 447**	29 266 004	**26 635 557**	
Grants	259 887 000	-	**259 887 000**	247 436 507	**(12 450 493)**	
Interest income	9 683 348	-	**9 683 348**	5 365 227	**(4 318 121)**	
	276 044 227	**-**	**276 044 227**	**288 790 625**	**12 746 398**	
Payments						
Suppliers and employees	(179 313 319)	-	**(179 313 319)**	(170 779 058)	**8 534 261**	
Finance costs	(281 876)	-	**(281 876)**	(13 371)	**268 505**	
	(179 595 195)	**-**	**(179 595 195)**	**(170 792 429)**	**8 802 766**	
Net cash flows from operating activities	**96 449 032**	**-**	**96 449 032**	**117 998 196**	**21 549 164**	**[C1]**
Purchase of property, plant and equipment	(122 618 350)	(20 118 551)	**(142 736 901)**	65 001 560	**207 738 461**	**[C2]**
Proceeds from sale of property, plant and equipment	-	-	**-**	18 210	**18 210**	
Net cash flows from investing activities	**(122 618 350)**	**(20 118 551)**	**(142 736 901)**	**65 019 770**	**207 756 671**	
Cash flows from financing activities						
Proceed on customer deposits	61 000	-	**61 000**	-	**(61 000)**	
Repayment of other financial liabilities	(226 102)	-	**(226 102)**	(398 708)	**(172 606)**	
Net cash flows from financing activities	**(165 102)**	**-**	**(165 102)**	**(398 708)**	**(233 606)**	
Net increase/(decrease) in cash and cash equivalents	(26 334 420)	(20 118 551)	**(46 452 971)**	182 619 258	**229 072 229**	
Cash and cash equivalents at the beginning of the year	83 609 602	(7 343 398)	**76 266 204**	57 308 528	**(18 957 676)**	
Cash and cash equivalents at the end of the year	**57 275 182**	**(27 461 949)**	**29 813 233**	**239 927 786**	**210 114 553**	

Reconciliation

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Reference
Controlling entity						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 052 000	-	**1 052 000**	956 782	**(95 218)**	
Rental of facilities and equipment	63 120	(32 600)	**30 520**	9 844	**(20 676)**	
Interest received from debtors	501 102	3 498 898	**4 000 000**	4 233 799	**233 799**	**[A1]**
Licences and permits	128 345	951 655	**1 080 000**	635 707	**(444 293)**	
Other income	20 594 238	11 042 530	**31 636 768**	3 032 376	**(28 604 392)**	**[A2]**
Interest received - investment	4 208 000	2 292 000	**6 500 000**	5 365 227	**(1 134 773)**	**[A3]**
Total revenue from exchange transactions	**26 546 805**	**17 752 483**	**44 299 288**	**14 233 735**	**(30 065 553)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	8 853 634	(814 829)	**8 038 805**	9 792 798	**1 753 993**	**[A4]**
Transfer revenue						
Government grants & subsidies	237 807 999	22 128 927	**259 936 926**	230 833 371	**(29 103 555)**	**[A5]**
Fines, Penalties and Forfeits	221 340	(171 340)	**50 000**	253 300	**203 300**	
Total revenue from non-exchange transactions	**246 882 973**	**21 142 758**	**268 025 731**	**240 879 469**	**(27 146 262)**	
Total revenue	**273 429 778**	**38 895 241**	**312 325 019**	**255 113 204**	**(57 211 815)**	
Expenditure						
Personnel	(80 115 106)	(7 987 885)	**(88 102 991)**	(76 070 698)	**12 032 293**	**[A6]**
Remuneration of councillors	(11 503 580)	(2 567 855)	**(14 071 435)**	(13 596 950)	**474 485**	**[A7]**
Depreciation and amortisation	(38 457 967)	3 007 621	**(35 450 346)**	(49 978 340)	**(14 527 994)**	**[A8]**
Impairment loss	(464 815)	-	**(464 815)**	(42 612)	**422 203**	
Finance costs	(105 200)	50 000	**(55 200)**	(1 332 327)	**(1 277 127)**	
Lease rentals on operating lease	(938 182)	(932 871)	**(1 871 053)**	(1 603 941)	**267 112**	**[A10]**
Debt Impairment	(6 640 224)	1 640 224	**(5 000 000)**	(4 755 883)	**244 117**	**[A9]**
Contracted Services	(7 601 373)	(2 239 721)	**(9 841 094)**	(6 706 840)	**3 134 254**	**[A10]**
Transfers and Subsidies	(8 908 967)	-	**(8 908 967)**	(8 724 134)	**184 833**	**[A5]**
General Expenses	(78 407 184)	(8 808 214)	**(87 215 398)**	(49 352 566)	**37 862 832**	**[A10]**
Total expenditure	**(233 142 598)**	**(17 838 701)**	**(250 981 299)**	**(212 164 291)**	**38 817 008**	
Operating surplus	**40 287 180**	**21 056 540**	**61 343 720**	**42 948 913**	**(18 394 807)**	
Loss on disposal of assets	73 640	76 360	**150 000**	(4 160 079)	**(4 310 079)**	
Actuarial gains	-	-	**-**	15 242	**15 242**	
Inventories losses/write-downs	-	-	**-**	(559 406)	**(559 406)**	
	73 640	**76 360**	**150 000**	**(4 704 243)**	**(4 854 243)**	
Surplus for the year	**40 360 820**	**21 132 900**	**61 493 720**	**38 244 670**	**(23 249 050)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	1 587 716	-	**1 587 716**	632 644	**(955 072)**	
Receivables from exchange transactions	-	-	**-**	19 631 337	**19 631 337**	**[B1]**
Receivables from non-exchange transactions	4 997 990	-	**4 997 990**	5 549 881	**551 891**	**[B2]**
VAT receivable	-	-	**-**	7 326 210	**7 326 210**	**[B3]**
Consumer debtors	6 930 000	(170 000)	**6 760 000**	1 041 967	**(5 718 033)**	
Cash and cash equivalents	64 778 081	7 328 657	**72 106 738**	108 918 432	**36 811 694**	**[B4]**
	78 293 787	**7 158 657**	**85 452 444**	**143 100 471**	**57 648 027**	
Non-Current Assets						
Investment property	11 461 003	-	**11 461 003**	11 461 003	**-**	
Property, plant and equipment	504 147 142	22 331 000	**526 478 142**	508 895 230	**(17 582 912)**	**[B5]**
	515 608 145	**22 331 000**	**537 939 145**	**520 356 233**	**(17 582 912)**	
Total Assets	**593 901 932**	**29 489 657**	**623 391 589**	**663 456 704**	**40 065 115**	
Liabilities						
Current Liabilities						
Finance lease obligation	226 102	-	**226 102**	53 650	**(172 452)**	
Payables from exchange transactions	20 036 982	685 000	**20 721 982**	38 952 989	**18 231 007**	**[B6]**
Consumer deposits	61 000	-	**61 000**	61 000	**-**	
Employee benefit obligation	-	-	**-**	1 057 000	**1 057 000**	**[B9]**
Unspent conditional grants and receipts	-	-	**-**	18 753 306	**18 753 306**	**[B7]**
Provisions	744 793	500 000	**1 244 793**	-	**(1 244 793)**	**[B10]**
	21 068 877	**1 185 000**	**22 253 877**	**58 877 945**	**36 624 068**	
Non-Current Liabilities						
Finance lease obligation	2 145 575	-	**2 145 575**	18 279	**(2 127 296)**	
Operating lease liability	-	-	**-**	2 442 273	**2 442 273**	**[B8]**
Employee benefit obligation	-	-	**-**	3 350 000	**3 350 000**	**[B9]**
Provisions	7 781 188	-	**7 781 188**	10 565 447	**2 784 259**	**[B10]**
	9 926 763	**-**	**9 926 763**	**16 375 999**	**6 449 236**	
Total Liabilities	**30 995 640**	**1 185 000**	**32 180 640**	**75 253 944**	**43 073 304**	
Net Assets	**562 906 292**	**28 304 657**	**591 210 949**	**588 202 760**	**(3 008 189)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	562 906 292	28 304 657	**591 210 949**	588 202 760	**(3 008 189)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property rates	3 485 752	-	**3 485 752**	6 722 887	**3 237 135**	
Service charges	357 680	-	**357 680**	-	**(357 680)**	
Other revenue	2 630 447	-	**2 630 447**	29 260 528	**26 630 081**	
Grants	259 887 000	-	**259 887 000**	247 436 507	**(12 450 493)**	
Interest income	9 683 348	-	**9 683 348**	5 365 227	**(4 318 121)**	
	276 044 227	**-**	**276 044 227**	**288 785 149**	**12 740 922**	
Payments						
Suppliers and employees	(179 313 319)	(11 569 249)	**(190 882 568)**	(162 864 181)	**28 018 387**	
Finance costs	(281 876)	100 000	**(181 876)**	(11 001)	**170 875**	
Grants and subsidies paid	(8 908 967)	-	**(8 908 967)**	(8 724 134)	**184 833**	
	(188 504 162)	**(11 469 249)**	**(199 973 411)**	**(171 599 316)**	**28 374 095**	
Net cash flows from operating activities	**87 540 065**	**(11 469 249)**	**76 070 816**	**117 185 833**	**41 115 017**	**[C1]**
Cash flows from investing activities						
Purchase of property, plant and equipment	(122 578 350)	(20 118 551)	**(142 696 901)**	(64 976 343)	**77 720 558**	**[C2]**
Proceeds from sale of property, plant and equipment	-	-	**-**	18 210	**18 210**	
Net cash flows from investing activities	**(122 578 350)**	**(20 118 551)**	**(142 696 901)**	**(64 958 133)**	**77 738 768**	
Cash flows from financing activities						
Proceed on customer deposits	61 000	-	**61 000**	-	**(61 000)**	
Repayment of other financial liabilities	(226 102)	-	**(226 102)**	(364 356)	**(138 254)**	
Net cash flows from financing activities	**(165 102)**	**-**	**(165 102)**	**(364 356)**	**(199 254)**	
Net increase/(decrease) in cash and cash equivalents	(35 203 387)	(31 587 800)	**(66 791 187)**	51 863 344	**118 654 531**	
Cash and cash equivalents at the beginning of the year	83 609 602	(7 343 398)	**76 266 204**	57 055 088	**(19 211 116)**	
Cash and cash equivalents at the end of the year	**48 406 215**	**(38 931 198)**	**9 475 017**	**108 918 432**	**99 443 415**	

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Economic entity - 2020											
Financial Performance											
Property rates	8 853 634	(814 829)	8 038 805	-		8 038 805	9 792 798		1 753 993	122 %	111 %
Service charges	1 052 000	-	1 052 000	-		1 052 000	956 782		(95 218)	91 %	91 %
Investment revenue	4 709 102	5 790 898	10 500 000	-		10 500 000	5 365 227		(5 134 773)	51 %	114 %
Transfers recognised - operational	237 807 999	22 128 927	259 936 926	-		259 936 926	160 460 184		(99 476 742)	62 %	67 %
Other own revenue	21 007 043	11 790 245	32 797 288	-		32 797 288	8 322 105		(24 475 183)	25 %	40 %
Total revenue (excluding capital transfers and contributions)	**273 429 778**	**38 895 241**	**312 325 019**	**-**		**312 325 019**	**184 897 096**		**(127 427 923)**	**59 %**	**68 %**
Employee costs	(86 132 687)	(7 672 772)	(93 805 459)	-	-	(93 805 459)	(81 621 797)	-	12 183 662	87 %	95 %
Remuneration of councillors	(11 803 580)	(2 567 855)	(14 371 435)	-	-	(14 371 435)	(13 771 119)	-	600 316	96 %	117 %
Debt impairment	(6 640 224)	1 640 224	(5 000 000)			(5 000 000)	(4 755 883)	-	244 117	95 %	72 %
Depreciation and asset impairment	(39 063 283)	2 954 522	(36 108 761)			(36 108 761)	(50 251 757)	-	(14 142 996)	139 %	129 %
Finance charges	(105 200)	49 300	(55 900)	-	-	(55 900)	(1 875 299)	-	(1 819 399)	3 355 %	1 783 %
Other expenditure	(88 121 946)	(12 165 760)	(100 287 706)	-	-	(100 287 706)	(63 630 585)	-	36 657 121	63 %	72 %
Total expenditure	**(231 866 920)**	**(17 762 341)**	**(249 629 261)**	**-**	**-**	**(249 629 261)**	**(215 906 440)**	**-**	**33 722 821**	**86 %**	**93 %**
Surplus/(Deficit)	**41 562 858**	**21 132 900**	**62 695 758**	**-**		**62 695 758**	**(31 009 344)**		**(93 705 102)**	**(49)%**	**(49)%**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	(122 618 350)	(20 118 551)	(142 736 901)	-		(142 736 901)	70 373 187		213 110 088	(49)%	(57)%
Surplus (Deficit) after capital transfers and contributions	**(81 055 492)**	**1 014 349**	**(80 041 143)**	**-**		**(80 041 143)**	**39 363 843**		**119 404 986**	**(49)%**	**(49)%**
Surplus/(Deficit) for the year	**(81 055 492)**	**1 014 349**	**(80 041 143)**	**-**		**(80 041 143)**	**39 363 843**		**119 404 986**	**(49)%**	**(49)%**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Controlling entity - 2020											
Financial Performance											
Property rates	10 252 213	(814 829)	9 437 384	-		9 437 384	9 792 798		355 414	104 %	96 %
Service charges	1 052 000	-	1 052 000	-		1 052 000	956 782		(95 218)	91 %	91 %
Investment revenue	10 500 000	5 791 000	16 291 000	-		16 291 000	5 365 227		(10 925 773)	33 %	51 %
Transfers recognised - operational	162 946 000	2 565 000	165 511 000	-		165 511 000	160 460 184		(5 050 816)	97 %	98 %
Other own revenue	2 630 447	-	2 630 447	-		2 630 447	8 180 268		5 549 821	311 %	311 %
Total revenue (excluding capital transfers and contributions)	**187 380 660**	**7 541 171**	**194 921 831**	**-**		**194 921 831**	**184 755 259**		**(10 166 572)**	**95 %**	**99 %**
Employee costs	(80 999 000)	(6 574 000)	(87 573 000)	-	-	(87 573 000)	(76 070 698)	-	11 502 302	87 %	94 %
Remuneration of councillors	(12 035 580)	(2 567 855)	(14 603 435)	-	-	(14 603 435)	(13 596 950)	-	1 006 485	93 %	113 %
Debt impairment	(5 000 000)	1 640 224	(3 359 776)			(3 359 776)	(4 755 883)	-	(1 396 107)	142 %	95 %
Depreciation and asset impairment	(36 038 000)	7 843 000	(28 195 000)			(28 195 000)	(50 020 952)	-	(21 825 952)	177 %	139 %
Finance charges	(281 876)	100 000	(181 876)	-	-	(181 876)	(1 332 327)	-	(1 150 451)	733 %	473 %
Transfers and grants	(8 908 967)	-	(8 908 967)	-	-	(8 908 967)	(8 724 134)	-	184 833	98 %	98 %
Other expenditure	(28 015 640)	(4 688 000)	(32 703 640)	-	-	(32 703 640)	(62 382 832)	-	(29 679 192)	191 %	223 %
Total expenditure	**(171 279 063)**	**(4 246 631)**	**(175 525 694)**	**-**	**-**	**(175 525 694)**	**(216 883 776)**	**-**	**(41 358 082)**	**124 %**	**127 %**
Surplus/(Deficit)	**16 101 597**	**3 294 540**	**19 396 137**	**-**		**19 396 137**	**(32 128 517)**		**(51 524 654)**	**(166)%**	**(200)%**

Appropriation Statement

	Original budget R	Budget adjustments (i.t.o. s28 and s31 of the MFMA) R	Final adjustments budget R	Shifting of funds (i.t.o. s31 of the MFMA) R	Virement (i.t.o. council approved policy) R	Final budget R	Actual outcome R	Unauthorised expenditure R	Variance R	Actual outcome as % of final budget R	Actual outcome as % of original budget R
Transfers recognised - capital	96 021 000	18 694 000	114 715 000	-		114 715 000	70 373 187		(44 341 813)	61 %	73 %
Surplus (Deficit) after capital transfers and contributions	**112 122 597**	**21 988 540**	**134 111 137**	**-**		**134 111 137**	**38 244 670**		**(95 866 467)**	**29 %**	**34 %**
Surplus/(Deficit) for the year	**112 122 597**	**21 988 540**	**134 111 137**	**-**		**134 111 137**	**38 244 670**		**(95 866 467)**	**29 %**	**34 %**

Appropriation Statement

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
	R	R	R	R

Budget differences

Material differences between budget and actual amounts

The variances between budget and actual are explained below.

[A] Statement of financial performance

[A1] Interest received from debtors was more than budget. Budget was based on expected amounts owed by debtors. Actual interest was more than budgeted lower than expected payments recovered from customers and more interest charged on outstanding debt.

[A2] On the budget for other income, municipality also budgeted an amount for VAT refunds for two (2) financial years 2018/19 and 2019/20 as other income. These were received starting from February 2020 until yearend. Such recoveries are however not other income and they are credited to the VAT receivable in the Statement of Financial Position.

[A3] Interest received from investment was less than budget due to decrease in interest rates despite increase in cash in those accounts, due to less operation in the last quarter because of COVID 19.

[A4] Property rates revenue was more than budget due to the fact municipality billed all the ratepayers on the valuation roll.

[A5] The government grants recognised as revenue was less than budget due to decreased grant for Small township revitalisation and Municipal Infrastructure Grants recognised since projects could not be completed due to COVID 19.

[A6] Employee related costs budget was more than actual due to vacant posts budgeted for that are not yet filled.

[A7] The remuneration of councilors was lower than budgeted due to passing on of one councilor resulted in savings.

[A8] Depreciation and amortisation budget is less than actual due to more projects that were completed during the later part of the previous year and other in current year. These were depreciated from capitalisation dates. The municipality also received some assets as a donation during the year amounting to R5,7million. These were not budgeted for but had a effect of increasing depreciation in current year.

[A9] Debt impairment is less than budgeted due to changes in recovery patterns from debtors which influence the impairment allowance.

[A10] The operating expenditure was less than budget due to COVID 19 pandemic which prevented the Municipality from operating fully especially in the last quarter.

[A11] The municipality received a donation of a nusery valued at R5,7million from Mbizana Local Municipality during the year. This was not budgeted for.

[A12] Actual finance costs are more than budgeted for due to interest on outstanding VAT, long service awards liability and discounting of the landfill site provision all of which were not budgeted for.

[B] Statement of financial position

[B1] No receivables from exchange were budgeted for. The actual amount is mainly due to the deposits made in respect of purchases of land by the municipality. These were not budgeted for as the municipality anticipated that the transfers would have gone through by year end.

[B2] The receivables from non-exchange at year end are more than budgeted for due to higher non-payment rates than expected.

Appropriation Statement

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
	R	R	R	R

[B3] The municipality did not budget for any VAT receivable as they anticipated that the outstanding returns would have been settled by year end. There outstanding VAT at year end was due to VAT not yet received from SARS and also the accrual.

[B4] Cash and cash equivalents were higher than budgeted at year end due to reduced operations and hence less payments made in the last quarter of the year caused by the COVID 19 induced lockdown.

[B5] Property, plant and equipment was more than budgeted due to assets that were not recorded on the Municipality's books as well as donations received.

[B6] Payables from exchange increased due to increased purchasing towards year end whose invoices were settled after year end.

[B7] Unspent conditional grants were not budgeted for. The municipality expected to complete all projects by year end and recognised the grant revenue. It was however prevented from doing so by the COVID 19 pandemic and had to roll over the project into the 2020/2021 financial year.

[B8] The operating lease liability is in respect of land that the municipality rents from the OR Tambo District Municipality. This was not budgeted for.

[B9] Employee benefit obligation is the defined benefit obligation of the municipality emanating from the long service awards of employees. This was also not budgeted for.

[B10]. The Landfill site provision was more than budgeted for due to increase in expected landfill closure expenditure beyond what was budgeted for as well and changes in the discount rate.

[B11]. VAT payable was not budgeted for. This is the VAT payable by the Port St Johns Development Agency.

[C] Cash Flow statement

[C1] Cash flow from operating activities is more than budgeted due to increase in collections from customers, and cost savings on suppliers and employees.

[C2] Cash spend on accruing property, plant and equipment was in line with the budget.

Accounting Policies

1. Presentation of Consolidated Annual Financial Statements

The consolidated 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 consolidated 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.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Consolidation

Basis of consolidation

Consolidated consolidated annual financial statements are the consolidated annual financial statements of the economic entity presented as those of a single entity.

The consolidated consolidated annual financial statements incorporate the annual financial statements of the controlling entity (Port St Johns Local Municipality) and those of its controlled entitiy (Port St Johns Development Agency).

Consolidated consolidated annual financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

1.4 Consolidation (continued)

The revenue and expenses of a controlled entity are included in the consolidated consolidated annual financial statements from the transfer date or acquisition date as defined in the Standards of GRAP on Transfer of functions between entities under common control or Transfer of functions between entities not under common control. The revenue and expenses of the controlled entity are based on the values of the assets and liabilities recognised in the controlling entity’s consolidated annual financial statements at the acquisition date.

The consolidated annual financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated consolidated annual financial statements are prepared as of the same date.

When the end of the reporting dates of the controlling entity is different from that of a controlled entity, the controlled entity prepares, for consolidation purposes, additional consolidated annual financial statements as of the same date as the consolidated annual financial statements of the controlling entity unless it is impracticable to do so. When the consolidated annual financial statements of a controlled entity used in the preparation of consolidated consolidated annual financial statements are prepared as of a date different from that of the controlling entity, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the controlling entity’s consolidated annual financial statements. In any case, the difference between the end of the reporting date of the controlled entity and that of the controlling entity is no more than three months. The length of the reporting periods and any difference between the ends of the reporting dates is the same from period to period.

Adjustments are made when necessary to the consolidated annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

Non-controlling interest in the net assets of the economic entity is identified and recognised separately from the controlling entity's interest therein, and are recognised within net assets.

Changes in a controlling entity's ownership interest in a controlled entity that do not result in a loss of control are accounted for as transactions that affect net assets.

A Special purpose entity is consolidated when the substance of the relationship between the economic entity and the Special purpose entity indicates that the Special purpose entity is controlled by the economic entity.

Loss of control

When a controlling entity loses control of a controlled entity, it:

- derecognises the assets and liabilities of the controlled entity at their carrying amounts at the date when control is lost;
- derecognises the carrying amount of any non-controlling interests in the former controlled entity at the date when control is lost (including any components in the statement of financial performance attributable to them);
- recognises:
  - the fair value of the consideration received (if any), from the transaction, event or circumstances that resulted in the loss of control; and
  - if the transaction that resulted in the loss of control involves a distribution of residual interests of the controlled entity to owners in their capacity as owners, that distribution;
- recognises any investment retained in the former controlled entity at its fair value at the date when control is lost;
- reclassifies to surplus or deficit, or transfers directly to accumulated surplus or deficit, if required in accordance with other accounting policies, the amounts identified; and
- recognises any resulting difference as a gain or loss in surplus or deficit (in accordance with the accounting policy on Transfer of functions between entities not under common control or in accordance with the accounting policy on Transfer of functions between entities under common control) attributable to the controlling entity.

On the loss of control of a controlled entity, any investment retained in the former controlled entity and any amounts owed by or to the former controlled entity are accounted for in accordance with other accounting policies from the date when control is lost.

The fair value of any investment retained in the former controlled entity at the date when control is lost is regarded as the fair value on initial recognition of financial assets in accordance with the Standard of GRAP on Financial instruments or when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty

In preparing the consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated 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 consolidated annual financial statements. Significant judgements include:

Receivables

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

Allowance for slow moving, damaged and obsolete stock

An allowance is estimated to write stock down to the lower of cost or net replacement cost. Management have made estimates of the replacement costs on certain inventory items. The write down is included in the operation surplus.

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful lives and residual values of property, plant and equipment

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

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Post-retirement benefits

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

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

Other key assumptions for employee benefit obligations are based on current market conditions. Additional information is disclosed in Note 17.

Effective interest rate

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

Allowance for doubtful debts

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

1.6 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 economic entity, 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.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

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

Item	Useful life
Property - land	indefinite
Property - buildings	20-30 years

Accounting Policies

1.6 Investment property (continued)

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.

Property interests held under operating leases are classified and accounted for as investment property.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

- The nature of the asset;
- The reason(s) why the assets was acquired; and
- The asset's current use.

The economic entity separately discloses expenditure to repair and maintain investment property in the notes to the consolidated annual financial statements (see note 11).

The economic entity discloses relevant information relating to assets under construction or development, in the notes to the consolidated annual financial statements (see note 11).

1.7 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 economic entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

1.7 Property, plant and equipment (continued)

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Non depreciable	Not depreciable
Buildings	Straight line	30 years
Plant and machinery	Straight line	2 - 15 years
Furniture and office equipment	Straight line	7 - 10 years
Transport assets	Straight line	5 - 10 years
Office equipment	Straight line	3 - 7 years
IT equipment	Straight line	3 years
Infrastructure	Straight line	15 - 30 years
Community assets	Straight line	30 years
Bins and containers	Straight line	5 years
Cellular equipment	Straight line	2 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 economic entity. 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 economic entity assesses at each reporting date whether there is any indication that the economic entity 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 economic entity 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 economic entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The economic entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 11).

1.7 Property, plant and equipment (continued)

The economic entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

1.8 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.9 Financial instruments

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

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.

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 municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

A financial asset is:

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

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

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

1.9 Financial instruments (continued)

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	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
Finance lease obligation	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at amortised cost.

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

Fair value measurement considerations

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

1.9 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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

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

Financial liabilities

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

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

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

Presentation

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

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

1.10 Statutory receivables

Identification

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

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

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

Accounting Policies

1.10 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.

Recognition

The economic entity recognises statutory receivables as follows:

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

Initial measurement

The economic entity initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

Accrued interest

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

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

Other charges

Where the economic entity is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

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

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

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

1.10 Statutory receivables (continued)

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

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

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

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

Derecognition

The economic entity derecognises a statutory receivable, or a part thereof, when:

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

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

1.11 Leases

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

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

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.

1.11 Leases (continued)

Operating leases - lessee

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

1.12 Inventories

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

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

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

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

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

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

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

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

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

1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. 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.

1.13 Impairment of cash-generating assets (continued)

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 economic entity; or
- the number of production or similar units expected to be obtained from the asset by the economic entity.

Judgements are made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets.

Designation

At initial recognition, the economic entity 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 an economic entity's objective of using the asset.

The economic entity 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 economic entity 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 economic entity 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.

Identification

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

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

Irrespective of whether there is any indication of impairment, the economic entity 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 economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the economic entity applies the appropriate discount rate to those future cash flows.

1.13 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the economic entity:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

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

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the economic entity 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.

1.13 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 economic entity 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 economic entity 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.

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

Redesignation

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

1.14 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.

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

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

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

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

Judgements are made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets.

Designation

At initial recognition, the economic entity 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 an economic entity's objective of using the asset.

The economic entity 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 economic entity 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 economic entity 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 economic entity 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 economic entity 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 economic entity 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.

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

Value in use

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

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

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the 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 economic entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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 economic entity 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 economic entity 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 economic entity estimates the recoverable service amount of that asset.

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

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

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

Redesignation

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

1.15 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

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

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

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

Short-term employee benefits

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits

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

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

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

Post-employment benefits: Defined contribution plans

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

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

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

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

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

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

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

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

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

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

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

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

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

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

1.15 Employee benefits (continued)

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

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

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

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

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

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

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value.

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

1.15 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

Other post retirement obligations

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

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.15 Employee benefits (continued)

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus.

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

1.16 Provisions and contingencies (continued)

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the economic entity

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

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 economic entity 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.

Where a fee is received by the economic entity for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the economic entity considers that an outflow of economic resources is probable, an economic entity recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Accounting Policies

1.16 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.17 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.

1.18 Revenue from exchange transactions

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

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

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, volume rebates and Value Added Taxation.

1.18 Revenue from exchange transactions (continued)

Sale of goods

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

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

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 economic entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

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

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

1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an 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.

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

1.19 Revenue from non-exchange transactions (continued)

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, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

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

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

Recognition

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

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

Measurement

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

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

1.19 Revenue from non-exchange transactions (continued)

Taxes (property rates)

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

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.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the infringement is committed and the fine is issued.

Impairment is recognised using the collection statistics for the period. If the municipality has managed to collect say 20% of traffic fines issued historically, then an impairment is recognised at 80% of all outstanding traffic fine debtors at year end.

Gifts and donations, including goods in-kind

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

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Services in-kind

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

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

Grants

Revenue received from conditional grants is recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. A liability is recognised, to the extent that the criteria, conditions or obligations have not been met.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received but the Municipality has not met the condition, a liability is recognised.

Revenue is measured at the fair value of the consideration received or receivable.

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 present 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 will be recognised as revenue.

1.20 Investment income

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

1.21 Borrowing costs

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

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

1.22 Comparative figures

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

1.23 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.

1.24 Fruitless and wasteful expenditure

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

1.24 Fruitless and wasteful expenditure (continued)

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.

1.25 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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

Irregular expenditure that was incurred and identified during the current financial year 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.

1.26 Statutory receivables

Statutory receivables arise from legislation, supporting regulations, or similar means and require settlement by another entity in cash or another financial asset. Statutory receivables can arise from both exchange and non-exchange transactions.

Initial Recognition

Statutory receivables are recognised when the related revenue (exchange or non-exchange revenue) is recognised or when the receivable meets the definition of an asset. The Municipality initially measure statutory receivables at their transaction amount.

Subsequent Measurement

The Municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is subsequently changed to reflect any interest or other charges that may have accrued on the receivable, less any impairment losses and amounts derecognised.

1.26 Statutory receivables (continued)

Impairment and uncollectability of statutory receivables

The Municipality assesses at each reporting date whether there is any indication that a statutory receivable may be impaired.

If there is an indication that a statutory receivable may be impaired, the Municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable is reduced, through the use of an allowance account. The amount of the loss is recognised in the Statement of Financial Performance. In estimating the future cash flows, the Municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the Municipality discounts the estimated future cash flows using a rate that reflects the current risk free rate and any risks specific to the statutory receivable for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows. Any previously recognised impairment loss is adjusted by adjusting the allowance account. The amount of any adjustment is recognised in the Statement of Financial Performance.

Derecognition

The Municipality derecognises a statutory receivable when the rights to the cash flows from the receivable are settled, expire or are waived or the Municipality transfers the receivable and substantially all the risks and rewards of ownership of the receivable to another entity.

When the Municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of receivable to another entity, the Municipality derecognises the receivable and recognises separately any rights and obligations created or retained in the transfer.

1.27 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and income expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

1.28 Budget information

Economic Entity is typically subjected 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 economic entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

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

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

The consolidated 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.

Variances numerically greater than R250 000 and 10% of approved budgets are considered material and explanations for those variances are provided in the note to the financial statements.

1.29 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.

1.29 Related parties (continued)

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

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

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

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

Management are those persons responsible for planning, directing and controlling the activities of the economic entity, including those charged with the governance of the economic entity 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 economic entity.

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

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

1.30 Events after reporting date

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

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

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

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

1.31 Value-added Tax (VAT)

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

1.32 Unpaid Conditional Grants and Receipts

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

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

The municipality has adopted the interpretation for the first time in the 2019/2020 annual financial statements. The impact of the interpretation is not material.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers definitions, identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

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

The municipality has adopted the interpretation for the first time in the 2019/2020 annual financial statements. The impact of the interpretation is not material.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

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

The municipality has adopted the interpretation for the first time in the 2019/2020 annual financial statements. The impact of the interpretation is not material.

Notes to the Consolidated Annual Financial Statements

2. New standards and interpretations (continued)
GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that 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. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that 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.

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

Notes to the Consolidated Annual Financial Statements

2. New standards and interpretations (continued)

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management

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

The municipality has adopted the standard for the first time in the 2019/2020 annual financial statements. The impact of the standard is not material.

2.2 Standards and interpretations issued, but not yet effective

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

GRAP 104 (amended): Financial Instruments

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

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

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

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

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

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.

Notes to the Consolidated Annual Financial Statements

2. New standards and interpretations (continued)

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 for years beginning on or after 01 April 2020.

The municipality expects to adopt the guideline for the first time in the 2020/2021 annual financial statements.

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

Guideline: Guideline on the Application of Materiality to Financial Statements

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP & References to pronouncements used in the Guideline.

The guideline is encouraged to be used by entities.

The municipality expects to adopt the guideline for the first time in the 2020/2021 annual financial statements.

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

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB’s Amendments to IAS 1.

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:
- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

Notes to the Consolidated Annual Financial Statements

2. New standards and interpretations (continued)

An economic entity applies judgement based on past experience and current facts and circumstances.

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

The economic entity will adopt the interpretation for the first time in the 2020/2021 consolidated annual financial statements.

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 economic entity has early adopted the standard for the first time in the 2020/2021 consolidated 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 economic entity has early adopted the standard for the first time in the 2020/2021 consolidated annual financial statements.

The impact of the standard is not material.

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.

An economic entity applies judgement based on past experience and current facts and circumstances.

Notes to the Consolidated Annual Financial Statements

2. New standards and interpretations (continued)

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

The economic entity expects to adopt the interpretation for the first time in the 2020/2021 consolidated annual financial statements.

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

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of ‘minority interest’ has been amended to ‘non-controlling interest’, and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

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

The municipality expects to adopt this standard for the first time in the 2020/2021 annual financial statements.

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

Directive 7 (revised): The Application of Deemed Cost

This Directive was originally issued by the Accounting Standards Board (the Board) in December 2009. Since then, it has been amended by:

- Consequential amendments when the following Standards of GRAP were amended to clarify some of the principles:
  - GRAP 105 Transfer of Functions Between Entities Under Common Control
  - GRAP 107 Mergers
- Consequential amendments arising from GRAP 110 *Living and Non-living Resources* issued in December 2017.
- Consequential amendments arising from the following Standards of GRAP in May 2018:
  - GRAP 34 *Separate Financial Statements*
  - GRAP 35 *Consolidated Financial Statements*
  - GRAP 36 *Investments in Associates and Joint Ventures*
  - GRAP 37 *Joint Arrangements*
  - GRAP 38 *Disclosure of Interests in Other Entities*

The effective date of this Directive coincides with the effective dates of the applicable Standards of GRAP, as determined by the Minister of Finance. If an entity has assets that it previously could not recognise and/or measure in accordance with the Standards of GRAP on their initial adoption on the transfer date or the merger date because information about the acquisition cost of the assets was not available, an entity applies this Directive to those assets. The fair value of those assets is determined at the date of adopting the Standards of GRAP on the transfer date or the merger date in accordance with the Directive’s Appendix paragraph A3.

The effective date of this revised directive is for years beginning on or after 01 April 2020.

The municipality expects to adopt the directive for the first time in the 2020/2021 annual financial statements.

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

2. New standards and interpretations (continued)

GRAP 18 (as amended 2016): Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are: General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

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

The municipality expects to adopt this standard for the first time in the 2020/2021 annual financial statements.

The adoption of this standard will not have a material impact on the results of the municipality but will result in more disclosures than would have previously been provided in the annual financial statements.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

3. Inventories

Stores	632 644	733 097	632 644	733 097

Inventory is categorised as follows:

Construction material	217 824	407 331	217 824	407 331
Protective and cleaning material	149 986	36 601	149 986	36 601
Gardening	68 743	46 641	68 743	46 641
Mechanical tools	5 885	19 231	5 885	19 231
Spare parts	45 576	155 025	45 576	155 025
Fuel and Oil	144 630	68 268	144 630	68 268
	632 644	**733 097**	**632 644**	**733 097**

Inventories expensed during the year

Amount expensed	282 811	1 321 132	282 811	1 321 132

Inventory pledged as security

No inventory was pledged as security.

Inventories losses/write-downs

The amount written off in the Statement of Financial Performance in respect of inventories is detailed as follows:

Stock count variances	499 341	425 352	499 341	425 352
Stock paid for but not delivered	1 609	615 884	1 609	615 884
Obsolete inventory	58 456	1 069	58 456	1 069
	559 406	**1 042 305**	**559 406**	**1 042 305**

The assessment of carrying inventory at the lower of its cost or current replacement cost was carried out and resulted in no additional write-downs.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

4. Receivables from exchange transactions

Prepayments [5]	-	164 520	-	164 520
Deposits [2]	19 565 217	5 217 391	19 565 217	5 217 391
Sundry debtors [4]	32 319	832 319	32 319	832 319
Suspense account (ABSA) [1]	33 801	33 801	33 801	33 801
Interest receivable [3]	-	320 857	-	320 857
Other receivables [6]	72 355	23 070	-	-
	19 703 692	**6 591 958**	**19 631 337**	**6 568 888**

[1] ABSA relates to the amounts fraudulently deducted from the municipal bank account in prior years. The Municipality has initiated the process of consequent management with the aim of recovering the debt.

[2] The Municipality signed an agreement to buy Erf 904 to build offices in 2019 for an agreed price R17 500 000 (inclusive of value added taxation) and by end of year, the municipality had made a deposit payment of R6 000 000 by end of 2019. The balance was paid in current year over the eight instalments. The Municipality also agreed, in the current year, to buy Erf 183 and Erf 398 belonging to Outspan Property Trust and Umtata Street Child Programme to build municipal offices. The agreed cost of both properties is R5 000 000 (inclusive of value added taxation) and by end of year, the municipality made the full payment of R 5 000 000 for the two properties. All the three properties has not been transferred to the municipality due to rates clearance and water clearance which were still outstanding. In terms of the agreements, The Municipality cannot occupy the land or start making improvements before the property is transferred to it.

The amount reflected in the note above is the total purchase price of the three (3) properties excluding value added taxation which has since been recovered from SARS.

Subsequent to year end, on Erf 904 and 398 were transferred into the Municipality's name on the 29th of September 2020. Transfer of Erf 183 into the municipal name has not yet happened due to outstanding rates clearance and water clearance certificates.

[3] Interest receivable related to interest that was accrued on the municipal bank accounts on 30 June 2020.

[4] Sundry debtors are composed of overpayments of councilors emanating from prior years as well as an overpayment to a supplier. The overpayment to the supplier amounting to R800 000 was recovered in current year as tabulated below:

Item				
Overpayment of councillors	32 319	32 319	32 319	32 319
Overpayment of a supplier	-	800 000	-	800 000
	32 319	**832 319**	**32 319**	**832 319**

[5] Prepayments related to fuel that was paid for before year end in the previous year and delivered after year end in 2019/2020 financial year.

[6] These represents overpayments to suppliers which have been reclassified to receivables.

Trade and other receivables pledged as security

There were no receivables from exchange transactions pledged as security.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

5. Receivables from non-exchange transactions

Fines	215 497	283 156	215 497	283 156
Consumer debtors - Rates	5 334 384	6 240 911	5 334 384	6 240 911
	5 549 881	**6 524 067**	**5 549 881**	**6 524 067**

Receivables from non-exchange transactions pledged as security

No receivables from non-exchange have been pledged as security for any liabilities of the municipality.

Credit quality of receivables from non-exchange transactions

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its credit risk control. No external credit rating is performed.

None of the financial assets that are fully performing have been renegotiated in the last year.

Other disclosures

Consumer receivables from rates are billed annually. Interest is charged on overdue consumer receivables at a rate of 15% (2019: 15%) per annum.

No interest is charges on overdue traffic fines debtors.

The municipality enforces its approved credit control policy to ensure the recovery of receivables.

6. VAT receivable

VAT	7 326 210	20 383 173	7 326 210	20 383 173

VAT is payable to SARS on the receipt basis. No interest is payable to SARS if the VAT is paid over timeously. However, interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are made before the due date.

The receivable amount is made up of two bases as follows:

Cash Basis				
VAT Input	58 657 182	44 149 796	58 657 182	44 149 796
VAT Output	(814 474)	(390 859)	(814 474)	(390 859)
VAT Control	(53 066 455)	(24 999 164)	(53 066 455)	(24 999 164)
	4 776 253	**18 759 773**	**4 776 253**	**18 759 773**

Accrual basis				
Creditors VAT Provisional	3 350 738	2 347 685	3 350 738	2 347 685
Debtors VAT Provisional	(800 781)	(724 285)	(800 781)	(724 285)
Cash basis balances	4 776 253	18 759 773	4 776 253	18 759 773
	7 326 210	**20 383 173**	**7 326 210**	**20 383 173**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 **R**	**2019** **R**	**2020** **R**	**2019** **R**

7. Consumer debtors

Gross balances				
Refuse	9 114 278	7 852 991	9 114 278	7 852 991
Property lease rental	161 616	161 616	161 616	161 616
	9 275 894	**8 014 607**	**9 275 894**	**8 014 607**
Less: Allowance for impairment				
Refuse	(8 072 311)	(6 779 814)	(8 072 311)	(6 779 814)
Property lease rental	(161 616)	(145 454)	(161 616)	(145 454)
	(8 233 927)	**(6 925 268)**	**(8 233 927)**	**(6 925 268)**
Net balance				
Refuse	1 041 967	1 073 177	1 041 967	1 073 177
Property lease rental	-	16 162	-	16 162
	1 041 967	**1 089 339**	**1 041 967**	**1 089 339**
Refuse				
Current (0 -30 days)	160 988	291 427	160 988	291 427
31 - 60 days	158 798	292 260	158 798	292 260
61 - 90 days	156 990	140 977	156 990	140 977
91 - 120 days	155 647	138 165	155 647	138 165
121 - 365 days	8 481 855	1 610 991	8 481 855	1 610 991
> 365 days	-	5 379 171	-	5 379 171
	9 114 278	**7 852 991**	**9 114 278**	**7 852 991**
Property lease rental				
> 365 days	161 616	161 616	161 616	161 616

Notes to the Consolidated Annual Financial Statements

7. Consumer debtors (continued)

Summary of debtors by customer classification

	Economic entity 2020 R	Economic entity 2019 R	Controlling entity 2020 R	Controlling entity 2019 R
Residential				
Current (0 -30 days)	34 376	21 729	34 376	21 729
31 - 60 days	33 830	61 148	33 830	61 148
61 - 90 days	33 545	29 721	33 545	29 721
91 - 120 days	33 371	29 545	33 371	29 545
121 - 365 days	2 058 873	334 551	2 058 873	334 551
> 365 days	-	1 416 771	-	1 416 771
	2 193 995	**1 893 465**	**2 193 995**	**1 893 465**
Business				
Current (0 -30 days)	74 661	34 255	74 661	34 255
31 - 60 days	73 308	137 224	73 308	137 224
61 - 90 days	72 088	65 549	72 088	65 549
91 - 120 days	71 185	63 421	71 185	63 421
121 - 365 days	2 967 469	726 227	2 967 469	726 227
> 365 days	161 616	1 998 583	161 616	1 998 583
	3 420 327	**3 025 259**	**3 420 327**	**3 025 259**
National and provincial government				
Current (0 -30 days)	51 951	51 598	51 951	50 598
31 - 60 days	51 661	93 887	51 661	93 887
61 - 90 days	51 357	45 706	51 357	45 706
91 - 120 days	51 090	45 199	51 090	45 199
121 - 365 days	3 455 512	550 212	3 455 512	550 212
> 365 days	-	2 310 278	-	2 310 278
	3 661 571	**3 096 880**	**3 661 571**	**3 095 880**
Total				
Current (0 -30 days)	160 988	291 427	160 988	291 427
31 - 60 days	158 799	292 260	158 799	292 260
61 - 90 days	156 990	140 977	156 990	140 977
91 - 120 days	155 647	138 165	155 647	138 165
121 - 365 days	8 481 854	1 610 991	8 481 854	1 610 991
> 365 days	161 616	5 540 787	161 616	5 540 787
	9 275 894	**8 014 607**	**9 275 894**	**8 014 607**
Reconciliation of allowance for impairment				
Balance at beginning of the year	(6 925 268)	(6 052 131)	(6 925 268)	(6 052 131)
Contributions to allowance	(1 308 659)	(873 137)	(1 308 659)	(873 137)
	(8 233 927)	**(6 925 268)**	**(8 233 927)**	**(6 925 268)**

Consumer debtors pledged as security

No consumer debtors have been pledged as security for any liabilities of the municipality.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

7. Consumer debtors (continued)

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its credit risk control. No external credit rating is performed.

None of the financial assets that are fully performing have been renegotiated in the last year.

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 33). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. The impairment allowance recognised in these financial statements is determined using past collection trends with the expected future cash flows being discounted to reflect the time value of money. The historical collection trends could well change in future due to the impact of the COVID 19 pandemic and the national lockdown which may have affected the consumers ability to pay their accounts. However, the impact of this on the currently used historical payments trends is unknown and could not be estimated with reasonable certainty.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The economic entity does not hold any collateral as security.

Other disclosures

Consumer receivables from refuse and property lease rentals are billed monthly. Interest is charged on overdue consumer receivables at a rate of 15% (2018: 15%) per annum.

The municipality enforces its approved credit control policy to ensure the recovery of receivables.

8. Consumer debtors disclosure

Gross balances				
Consumer debtors - Rates	35 620 263	33 368 424	35 620 263	33 368 424
Less: Allowance for impairment				
Consumer debtors - Rates	(30 285 879)	(27 127 513)	(30 285 879)	(27 127 513)
Net balance				
Consumer debtors - Rates	5 334 384	6 240 911	5 334 384	6 240 911
Rates				
Current (0 -30 days)	434 709	110 191	434 709	110 191
31 - 60 days	417 270	362 923	417 270	362 923
61 - 90 days	399 744	720 449	399 744	720 449
91 - 120 days	395 928	419 049	395 928	419 049
>121 days	33 972 612	31 755 812	33 972 612	31 755 812
	35 620 263	**33 368 424**	**35 620 263**	**33 368 424**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

8. Consumer debtors disclosure (continued)

Summary of debtors by customer classification

Residential				
Current (0 -30 days)	177 502	55 138	177 502	55 138
31 - 60 days	173 911	150 218	173 911	150 218
61 - 90 days	159 347	292 718	159 347	292 718
91 - 120 days	157 959	146 273	157 959	146 273
> 121 days	12 711 241	10 221 737	12 711 241	10 221 737
	13 379 960	**10 866 084**	**13 379 960**	**10 866 084**

Business				
Current (0 -30 days)	122 856	44 483	122 856	44 483
31 - 60 days	119 567	110 272	119 567	110 272
61 - 90 days	117 574	218 314	117 574	218 314
91 - 120 days	115 154	109 640	115 154	109 640
> 121 days	11 940 912	10 436 107	11 940 912	10 436 107
	12 416 063	**10 918 816**	**12 416 063**	**10 918 816**

National and provincial government				
Current (0 -30 days)	134 351	10 571	134 351	10 571
31 - 60 days	123 792	102 433	123 792	102 433
61 - 90 days	122 823	209 417	122 823	209 417
91 - 120 days	122 815	163 136	122 815	163 136
> 121 days	9 320 459	11 907 966	9 320 459	11 097 966
	9 824 240	**12 393 523**	**9 824 240**	**11 583 523**

Total				
Current (0 -30 days)	434 709	110 192	434 709	110 192
31 - 60 days	417 270	362 192	417 270	362 923
61 - 90 days	399 744	720 449	399 744	720 449
91 - 120 days	395 928	419 049	395 928	419 049
> 121 days	33 972 612	31 755 811	33 972 612	31 755 811
	35 620 263	**33 367 693**	**35 620 263**	**33 368 424**

Reconciliation of allowance for impairment				
Balance at beginning of the year	(27 127 513)	(23 803 874)	(27 127 513)	(23 803 874)
Contributions to allowance	(3 158 366)	(3 323 639)	(3 158 366)	(3 323 639)
	(30 285 879)	**(27 127 513)**	**(30 285 879)**	**(27 127 513)**

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 33). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. The impairment allowance recognised in these financial statements is determined using past collection trends with the expected future cash flows being discounted to reflect the time value of money. The historical collection trends could well change in future due to the impact of the COVID 19 pandemic and the national lockdown which may have affected the consumers ability to pay their accounts. However, the impact of this on the currently used historical payments trends is unknown and could not be estimated with reasonable certainty.

The maximum exposure to credit risk at the reporting date is the fair value of each receivable mentioned above. The municipality does not hold any collateral as security.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 **R**	**2019** **R**	**2020** **R**	**2019** **R**

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6 901	6 012	6 000	6 000
Bank balances	14 385 165	3 900 964	13 379 832	3 647 536
Short-term deposits	95 532 600	53 401 552	95 532 600	53 401 552
	109 924 666	**57 308 528**	**108 918 432**	**57 055 088**

Fleet card amount is attached to the main account with the limit of R200 000.

No item of cash and cash equivalents has been pledged as security.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings:

Credit rating				
Standard Bank Limited-zaA-1+ [1]	112 696 575	60 355 496	111 691 246	60 102 068

[1] The municipality noted an error were the municipality incorrectly disclosed amounts on cash book instead of the amount in the bank for the credit rating disclosures. This has now been corrected.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

9. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2020	30 June 2019	30 June 2018	Cash book balances 30 June 2020	30 June 2019	30 June 2018
Absa BANK - Current Account - Operational 9269	-	-	-	-	146 034	-
STD Bank - Current Account [1]	16 158 644	6 700 516	1 899 694	13 379 832	3 501 501	1 900 028
STD Bank- Salaries Call Account - 9569 -001	2 942 969	4 713 902	32 272 082	2 942 968	4 713 902	32 272 082
STD Bank - Repairs Call Account - 9569 -003	755 915	713 401	19 966 831	755 915	713 401	19 966 831
STD Bank Call Account- FMG - 9569 - 006	1 142 376	54 222	1 030 440	1 142 376	54 222	1 030 440
STD Bank - MIG Call Account - 9569 - 008	5 387 255	155 623	2 189 216	5 387 255	8 155 623	2 189 216
STD Bank- LED Call Account - 9569 - 007	13 736	13 736	13 736	13 736	13 736	13 736
STD Bank - Traffic Call Account- 9569 - 004	82 859 111	41 533 192	5 666	82 859 111	33 533 193	5 666
STD Bank - Plant Call Account - 9569 - 002	31 391	29 754	28 256	31 391	29 754	28 256
STD Bank - EPWP Call Account - 9569 - 011	163 112	5 149	104 389	163 112	5 149	104 389
STD- Bank - INEP Call Account - 9569 - 010	1 835 410	5 512 158	148 811	1 835 410	5 512 158	148 811
STD Bank - DESRAC Call Account - 9569 - 009	401 327	670 415	145 346	401 327	670 415	145 346
ABSA Bank -Primary Account- 40-6064-2488	922 345	18 579	68 695	922 345	18 579	68 695
ABSA Bank-Salaries Account- 40-6320-8356	82 963	234 258	25 479	82 963	234 258	35 479
ABSA Bank-Mngazi to Manteku- 40-7165-4521	25	591	(174)	25	591	(174)
Total	**112 696 579**	**60 355 496**	**57 898 467**	**109 917 766**	**57 302 516**	**57 908 801**

[1] The differences between cash book balance and bank statement for the current account is due to uncleared payments that went through the bank after year end.

10. Investment property

Economic entity	2020 Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	2019 Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	11 461 003	-	11 461 003	11 461 003	-	11 461 003

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

10. Investment property (continued)

Controlling entity	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	11 461 003	-	11 461 003	11 461 003	-	11 461 003

Reconciliation of investment property - Economic entity - 2020

	Opening balance	Total
Investment property	11 461 003	11 461 003

Reconciliation of investment property - Economic entity - 2019

	Opening balance	Total
Investment property	11 461 003	11 461 003

Reconciliation of investment property - Controlling entity - 2020

	Opening balance	Total
Investment property	11 461 003	11 461 003

Reconciliation of investment property - Controlling entity - 2019

	Opening balance	Total
Investment property	11 461 003	11 461 003

Pledged as security

None of the above investment property has been pledged as security.

Investment property held for sale

Included in the investment property, is certain property held pending finalisation of sale to the OR Tambo District Municipality.

The entire investment property is land which does not depreciate even though the policy of the Municipality is to carry investment property at cost less accumulated depreciation and accumulated impairment.

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.

11. Property, plant and equipment

Economic entity	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	7 957 239	(3 019 425)	4 937 814	7 957 239	(2 684 692)	5 272 547
Cellular equipment	1 178 809	(1 107 993)	70 816	1 139 942	(773 181)	366 761
Community assets	26 928 194	(9 371 208)	17 556 986	26 599 343	(8 008 871)	18 590 472
Furniture and office equipment	2 676 189	(1 580 753)	1 095 436	3 018 849	(1 430 560)	1 588 289
IT equipment	2 702 499	(1 697 912)	1 004 587	3 049 841	(1 520 386)	1 529 455
Infrastructure	512 612 006	(273 297 680)	239 314 326	506 193 251	(235 003 697)	271 189 554
Infrastructure - WIP	158 889 312	-	158 889 312	110 359 020	-	110 359 020
Land	55 118 000	-	55 118 000	55 118 000	-	55 118 000
Plant and machinery	41 986 973	(16 580 169)	25 406 804	42 629 410	(13 786 048)	28 843 362
Signage	28 936	(25 893)	3 043	28 936	(24 918)	4 018
Transport assets	11 197 870	(5 324 901)	5 872 969	9 373 042	(3 739 039)	5 634 003
Total	**821 276 027**	**(312 005 934)**	**509 270 093**	**765 466 873**	**(266 971 392)**	**498 495 481**

Controlling entity	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	7 957 239	(3 019 425)	4 937 814	7 957 239	(2 684 692)	5 272 547
Cellular equipment	1 178 809	(1 107 993)	70 816	1 139 942	(773 181)	366 761
Community assets	26 928 194	(9 371 208)	17 556 986	26 599 343	(8 008 871)	18 590 472
Furniture and office equipment	2 478 411	(1 407 056)	1 071 355	2 821 071	(1 264 728)	1 556 343
IT equipment	2 396 531	(1 435 554)	960 977	2 769 090	(1 319 408)	1 449 682
Infrastructure	512 612 006	(273 297 680)	239 314 326	506 193 251	(235 003 697)	271 189 554
Infrastructure - WIP	158 889 312	-	158 889 312	110 359 020	-	110 359 020
Land	55 118 000	-	55 118 000	55 118 000	-	55 118 000
Plant and machinery	41 969 154	(16 564 879)	25 404 275	42 611 591	(13 771 583)	28 840 008
Transport assets	10 262 711	(4 691 342)	5 571 369	8 574 242	(3 265 239)	5 309 003
Total	**819 790 367**	**(310 895 137)**	**508 895 230**	**764 142 789**	**(266 091 399)**	**498 051 390**

Notes to the Consolidated Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Economic entity - 2020

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Fair value adjustment	Total
Buildings	5 272 547	-	-	-	(334 733)	-	-	4 937 814
Cellular equipment	366 761	38 867	-	-	(334 812)	-	-	70 816
Community assets	18 590 472	328 851	-	-	(1 362 337)	-	-	17 556 986
Furniture and office equipment	1 588 289	175 381	(178 460)	-	(485 086)	(4 688)	-	1 095 436
IT equipment	1 529 455	308 546	(212 345)	-	(610 257)	(10 812)	-	1 004 587
Infrastructure	271 189 554	-	(3 587 081)	13 898 773	(42 186 920)	-	-	239 314 326
Infrastructure - WIP	110 359 020	62 429 065	-	(13 898 773)	-	-	-	158 889 312
Land	55 118 000	-	-	-	-	-	-	55 118 000
Plant and machinery	28 843 362	99 114	(200 404)	-	(3 308 157)	(27 111)	-	25 406 804
Signage	4 018	-	-	-	(975)	-	-	3 043
Transport assets	5 634 003	1 688 470	-	-	(1 585 864)	-	136 360	5 872 969
	498 495 481	**65 068 294**	**(4 178 290)**	**-**	**(50 209 141)**	**(42 611)**	**136 360**	**509 270 093**

Reconciliation of property, plant and equipment - Economic entity - 2019

	Opening balance	Additions	Disposals	Transfers received	Other changes, movements	Depreciation	Fair value adjustment	Total
Buildings	5 606 365	-	-	-	-	(333 818)	-	5 272 547
Cellular equipment	465 548	201 176	-	-	54 354	(354 317)	-	366 761
Community assets	13 639 931	5 931 555	-	-	-	(981 014)	-	18 590 472
Furniture and office equipment	1 709 358	295 287	(44 979)	-	-	(371 377)	-	1 588 289
IT equipment	1 655 857	403 351	(58 488)	-	-	(471 265)	-	1 529 455
Infrastructure	275 722 275	-	-	34 982 951	-	(39 515 672)	-	271 189 554
Infrastructure - WIP	63 840 367	81 501 604	-	(34 982 951)	-	-	-	110 359 020
Land	55 118 000	-	-	-	-	-	-	55 118 000
Plant and machinery	26 192 054	5 372 448	-	-	-	(2 721 140)	-	28 843 362
Signage	1 687	4 500	-	-	-	(2 169)	-	4 018
Transport assets	5 716 490	1 383 239	(155 016)	-	-	(1 412 196)	101 486	5 634 003
	449 667 932	**95 093 160**	**(258 483)**	**-**	**54 354**	**(46 162 968)**	**101 486**	**498 495 481**

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Controlling entity - 2020

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Fair value adjustment	Total
Buildings	5 272 547	-	-	-	-	(334 733)	-	-	4 937 814
Cellular equipment	366 761	38 867	-	-	-	(334 812)	-	-	70 816
Community assets	18 590 472	328 851	-	-	-	(1 362 337)	-	-	17 556 986
Furniture and office equipment	1 556 343	175 383	(178 459)	-	-	(477 224)	(4 688)	-	1 071 355
IT equipment	1 449 682	283 329	(212 345)	-	-	(548 877)	(10 812)	-	960 977
Infrastructure	271 189 554	-	(3 587 081)	13 898 773	-	(42 186 920)	-	-	239 314 326
Infrastructure - WIP	110 359 020	62 429 065	-	(13 898 773)	-	-	-	-	158 889 312
Land	55 118 000	-	-	-	-	-	-	-	55 118 000
Plant and machinery	28 840 008	99 114	(200 404)	-	-	(3 307 332)	(27 111)	-	25 404 275
Transport assets	5 309 003	1 688 470	-	-	-	(1 426 104)	-	-	5 571 369
	498 051 390	**65 043 079**	**(4 178 289)**	**-**	**-**	**(49 978 339)**	**(42 611)**	**-**	**508 895 230**

Reconciliation of property, plant and equipment - Controlling entity - 2019

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Fair value adjustment	Total
Buildings	5 606 365	-	-	-	-	(333 818)	-	-	5 272 547
Cellular equipment	465 548	201 176	-	-	54 354	(354 317)	-	-	366 761
Community assets	13 639 931	5 931 555	-	-	-	(981 014)	-	-	18 590 472
Furniture and office equipment	1 695 900	269 887	(44 976)	-	-	(364 468)	-	-	1 556 343
IT equipment	1 545 586	370 479	(58 486)	-	-	(407 897)	-	-	1 449 682
Infrastructure	275 722 275	-	-	34 982 951	-	(39 515 672)	-	-	271 189 554
Infrastructure - WIP	63 840 367	81 501 604	-	(34 982 951)	-	-	-	-	110 359 020
Land	55 118 000	-	-	-	-	-	-	-	55 118 000
Plant and machinery	26 187 800	5 372 448	-	-	-	(2 720 240)	-	-	28 840 008
Transport assets	5 374 690	1 383 239	(155 016)	-	-	(1 293 910)	-	-	5 309 003
	449 196 462	**95 030 388**	**(258 478)**	**-**	**54 354**	**(45 971 336)**	**-**	**-**	**498 051 390**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

11. Property, plant and equipment (continued)

Pledged as security

There were no assets held as security for any of the municipal liabilities.

Changes in estimates

The Municipality reassesses the useful lives and residual values of items of the municipality at the end of each reporting period, in line with the accounting policy and GRAP 17 - Property, plant and equipment. These assessments are based on historic analysis, benchmarking, and the latest available and reliable information.

The depreciation methods and average useful lives and residual values of property, plant and equipment have been assessed and based on this analysis, the useful lives and residual values have been revised. The impact of the change is a reduction in the annual depreciation charge for the current year of R59 391. It is not practical to provide an estimate for future years. There was no change in the estimate of useful lives in the financial year ended 30 June 2019.

Assets subject to finance lease (Net carrying amount)

Cellular equipment	70 816	366 761	70 816	366 761
Communication equipment	-	325 000	-	-
	70 816	**691 761**	**70 816**	**366 761**

Property, plant and equipment approved for sale

Included in the property, plant and equipment are assets with a total carrying amount of R918 982 relating to assets approved for sale in terms of a council resolution dated 31 October 2019. It is expected that these will be disposed through an auction in the next financial year. The breakdown of these assets is tabulated below:

Category	Cost	Accumulated Depreciation and accumulated impairment	Carrying Amount
Furniture and office equipment	31 204	(28 874)	2 330
IT equipment	263 632	(218 175)	45 457
Transport assets	1 993 896	(1 122 701)	871 195
	2 288 732	**(1 369 750)**	**918 982**

Reconciliation of Work-in-Progress Economic entity - 2020

	Access Roads	Electrification Structures	Total
Opening balance	60 645 935	49 713 085	110 359 020
Additions/capital expenditure	56 402 481	6 026 584	62 429 065
Transferred to completed items	(13 898 761)	-	(13 898 761)
	103 149 655	**55 739 669**	**158 889 324**

Reconciliation of Work-in-Progress Economic entity - 2019

	Access Roads	Electrification Structures	Total
Opening balance	36 683 804	27 156 563	63 840 367
Additions/capital expenditure	58 945 082	22 556 522	81 501 604
Transferred to completed items	(34 982 951)	-	(34 982 951)
	60 645 935	**49 713 085**	**110 359 020**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

11. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress Controlling entity - 2020	Access Roads	Electrification Structures	Total
Opening balance	60 645 935	49 713 085	110 359 020
Additions/capital expenditure	56 402 481	6 026 584	62 429 065
Transferred to completed items	(13 898 761)	-	(13 898 761)
	103 149 655	**55 739 669**	**158 889 324**

Reconciliation of Work-in-Progress Controlling entity - 2019	Access Roads	Electrification Structures	Total
Opening balance	36 683 804	27 156 563	63 840 367
Additions/capital expenditure	58 945 082	22 556 522	81 501 604
Transferred to completed items	(34 982 951)	-	(34 982 951)
	60 645 935	**49 713 085**	**110 359 020**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance				
Buildings	719 762	682 589	719 762	682 589
Furniture and office equipment	39 728	390 571	39 728	390 571
Infrastructure	1 050 293	1 440 570	1 050 293	1 440 570
IT equipment	123 750	150 087	123 750	150 087
Transport assets	360 536	255 798	335 375	242 648
Plant and machinery	1 981 652	1 140 337	1 961 781	1 133 639
	4 275 721	**4 059 952**	**4 230 689**	**4 040 104**

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.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

12. Finance lease obligation

Minimum lease payments due				
- within one year	57 117	399 214	57 117	364 862
- in second to fifth year inclusive	18 936	32 857	18 936	32 857
	76 053	432 071	76 053	397 719
less: future finance charges	(4 124)	(22 814)	(4 124)	(22 056)
Present value of minimum lease payments	**71 929**	**409 257**	**71 929**	**375 663**
Present value of minimum lease payments due				
- within one year	53 650	377 500	53 650	343 906
- in second to fifth year inclusive	18 279	31 757	18 279	31 757
	71 929	**409 257**	**71 929**	**375 663**
Non-current liabilities	18 279	31 757	18 279	31 757
Current liabilities	53 650	377 500	53 650	343 906
	71 929	**409 257**	**71 929**	**375 663**

It is economic entity policy to lease certain motor vehicles and cellular equipment under finance leases.

The average lease term was 2 - 5 years and the average effective borrowing rate was 9% (2019: 9% to 10%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent. There are no renewal options and no restrictions on use under the agreements.

The economic entity's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 11.

13. Payables from exchange transactions

Trade payables	14 314 585	10 881 543	13 726 841	9 327 712
Payments received in advanced [1]	1 391 237	1 034 594	1 391 237	1 034 594
Retentions	8 536 776	6 349 118	8 534 465	6 347 952
OR Tambo advance [2]	6 132 507	6 132 507	6 132 284	6 132 284
Accrued leave pay	6 786 015	6 304 981	6 786 015	6 304 981
Accrued bonus	1 845 283	1 560 762	1 845 283	1 560 762
Payroll accruals	198 718	109 964	26 955	(127 740)
Unallocated deposits	509 907	469 775	509 907	469 775
	39 715 028	**32 843 244**	**38 952 987**	**31 050 320**

[1] This refers to consumer debtors with credit balances.

[2] An amount of 6 132 284 was advanced to the municipality by the OR District Municipality in exchange for land. The land is yet to be transferred to the District. There is no interest to the advanced payment.

14. VAT payable

VAT payables	4 561 388	4 510 006	-	-

15. Consumer deposits

Refuse	61 000	61 000	61 000	61 000

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts				
Department of Sports, Recreation, Arts and Culture	887 656	552 656	887 656	552 656
Expanded Public Works Programme [3]	237 122	1 285 750	237 122	1 285 750
Finance Management Grant	148 142	-	148 142	-
Integrated National Electrification Programme Grant	4 125 711	-	4 125 711	-
Local Government Sector Education and Training Authority	71 401	113 264	71 401	113 264
Municipal Infrastructure Grant	10 609 440	-	10 609 440	-
Small Town Revitalization	2 490 031	-	2 490 031	-
Mngazi to Manteku Project	20 095	20 095	-	-
Small Scale Fish Factory	1 011 550	1 011 550	-	-
Cutweni project	1 219 989	1 219 989	-	-
Municipal Disaster Relief Grant [4]	-	-	-	-
Eradication of Ellian Plants	183 803	-	183 803	-
	21 004 940	**4 203 304**	**18 753 306**	**1 951 670**

Movement during the year

Balance at the beginning of the year	4 203 304	11 272 001	1 951 670	9 020 367
Unspent grant repaid	-	(8 296 665)	-	(8 296 665)
Additions during the year	95 688 507	101 639 385	95 688 507	101 639 385
Income recognition during the year	(78 886 871)	(100 411 417)	(78 886 871)	(100 411 417)
	21 004 940	**4 203 304**	**18 753 306**	**1 951 670**

[1]. See note 26 for reconciliation of grants from National/Provincial Government.

[2]. These amounts are invested in a ring-fenced investment until utilised. Refer note 26.

[3]. The EPWP project was funded by two grantors in the current year namely The National Treasury and the Provincial Department of Transport. The funding from the former was fully utilised during the year while that of the latter had some unspend portion as detailed below.

	Economic entity 2020 R	Economic entity 2019 R	Controlling entity 2020 R	Controlling entity 2019 R

16. Unspent conditional grants and receipts (continued)

Description - 2020	National Treasury	Department of Transport	Total
Opening balance	-	1 285 750	1 285 750
Receipts	1 462 000	-	1 462 000
Conditions met (transferred to revenue)	(1 461 964)	(1 048 664)	(2 510 628)
Closing balance	**36**	**237 086**	**237 122**

Description - 2019	National Treasury	Department of Transport	Total
Opening balance	207 513	-	207 513
Unspend grant repaid	(207 513)	-	(207 513)
Receipts	1 775 000	1 431 429	3 206 429
Conditions met (transferred to revenue)	(1 775 000)	(145 679)	(1 920 679)
Closing balance	**-**	**1 285 750**	**1 285 750**

[4] Municipal Disaster Relief Grant	National Treasury	Total
Receipts	685 000	685 000
Conditions met (transferred to revenue)	(685 000)	(685 000)
	-	-

17. Employee benefit obligations

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

	Economic entity 2020 R	Economic entity 2019 R	Controlling entity 2020 R	Controlling entity 2019 R
Carrying value				
Present value of the defined benefit obligation-wholly unfunded	(4 407 000)	(4 028 212)	(4 407 000)	(4 028 212)
Non-current liabilities	(3 350 000)	(3 624 453)	(3 350 000)	(3 624 453)
Current liabilities	(1 057 000)	(403 759)	(1 057 000)	(403 759)
	(4 407 000)	**(4 028 212)**	**(4 407 000)**	**(4 028 212)**

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

	Economic entity 2020 R	Economic entity 2019 R	Controlling entity 2020 R	Controlling entity 2019 R
Opening balance	4 028 212	2 876 183	4 028 212	2 876 183
Benefits paid	(471 292)	(167 247)	(471 292)	(167 247)
Net expense recognised in the statement of financial performance	850 080	1 319 276	850 080	1 319 276
	4 407 000	**4 028 212**	**4 407 000**	**4 028 212**

Net expense recognised in the statement of financial performance

	Economic entity 2020 R	Economic entity 2019 R	Controlling entity 2020 R	Controlling entity 2019 R
Current service cost	556 604	424 093	556 604	424 093
Interest cost	308 718	233 181	308 718	233 181
Actuarial (gains) losses	(15 242)	662 002	(15 242)	662 002
	850 080	**1 319 276**	**850 080**	**1 319 276**

	Economic entity		Controlling entity	
	2020	**2019**	**2020**	**2019**
	R	**R**	**R**	**R**

17. Employee benefit obligations (continued)

Calculation of actuarial gains and losses

Basis changes:Increases in net discount rates	(141 000)	(36 637)	(141 000)	(36 637)
Salary increases higher than assumed	102 000	131 228	102 000	131 228
Changes to employee profile different from assumed	(43 775)	210 322	(43 775)	210 322
Net impact of changes in assumed average retirement ages	-	250 264	-	250 264
Application of revised withdrawal rates	-	184 371	-	184 371
Actual benefits vesting,lower than expected	67 533	(77 546)	67 533	(77 546)
	(15 242)	**662 002**	**(15 242)**	**662 002**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	6.81 %	8.06 %	6.81 %	8.06 %
Expected increase in salaries	3.61 %	5.52 %	3.61 %	5.52 %
Average Retirement Age: Males (years)	62	62	62	62
Average Retirement Age: Females (years)	62	62	62	62

Discount rate

The discount rate reflects the estimated timing of benefit payments which is oftenly achieved this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid. The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. The cash flow weighted duration of the liabilities is approximately 5.60 years (2019: 6,09 years). The valuation, therefore, used the nominal yield curve for SA Government bonds with duration of 6 years as at 30 June 2020. The resultant discount rate was 6.81% (2019: 8.06%). These rates were deduced from the interest rate data obtained from the JSE after the market close on 30 June 2020.

Future Salary inflation

The general inflation assumption was used to estimate the base rate for determining the rate at which the future salaries will increase. The assumption was that salary inflation will exceed general inflation by about 1,0% per annum. The Salary inflation rate was therefore set at 3.61% (2019: 5.52 %) per annum.

Pre-retirement mortality

The valuation assumed that the pre-retirement mortality will be in line with the SA85-90 ultimate table, adjusted down for female lives. This assumption is in line with the previous assumption used.

Assumed 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.

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

17. Employee benefit obligations (continued)

Other assumptions

Assumed general earnings inflation rate, discount rate, average retirement age of employees and Assumed rates of withdrawal of employees from service have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in general earnings inflation rate would have the following effects:

	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	921 500	814 400	921 500	814 400
Effect on the aggregated of the interest cost	(327 300)	(291 800)	(327 300)	(291 800)
Effects on defined benefits obligation	234 000	(214 000)	234 000	(214 000)

Amounts for the current and previous four years are as follows:

	2020 R	2019 R	2018 R	2017 R	2016 R
Defined benefit obligation	4 407 000	4 028 212	2 876 183	2 455 626	2 128 356

Defined contribution plan

It is the policy of the economic entity to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The economic entity is under no obligation to cover any unfunded benefits.

The total economic entity contribution to such schemes recognised as an expense	(7 687 443)	(6 789 329)	(7 687 443)	(6 789 329)

18. Operating lease liability

Non-current liabilities	(2 442 273)	(2 349 705)	(2 442 273)	(2 349 705)

The Municipality leases land from Transnet for a period of 30 years Effective from 1 January 2006. The lease payment is R5 000 per month with annual escalation of 9%. No Contingent rent is payable. The lease is not renewable at the end of the lease term.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

19. Provisions

Reconciliation of provisions - Economic entity - 2020

	Opening Balance	Additions	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation - landfill sites [1]	12 091 384	-	(2 516 790)	990 853	10 565 447
VAT provision [2]	6 152 935	626 766	-	-	6 779 701
	18 244 319	**626 766**	**(2 516 790)**	**990 853**	**17 345 148**

Reconciliation of provisions - Economic entity - 2019

	Opening Balance	Additions	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation - landfill sites [1]	11 644 361	-	(465 627)	912 650	12 091 384
VAT provision [2]	5 583 430	569 505	-	-	6 152 935
	17 227 791	**569 505**	**(465 627)**	**912 650**	**18 244 319**

Reconciliation of provisions - Controlling entity - 2020

	Opening Balance	Additions	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation - landfill sites [1]	12 091 384	-	(2 516 790)	990 853	10 565 447

Reconciliation of provisions - Controlling entity - 2019

	Opening Balance	Additions	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation - landfill sites [1]	11 644 361	-	(465 627)	912 650	12 091 384

	Economic entity 2020 R	Economic entity 2019 R	Controlling entity 2020 R	Controlling entity 2019 R
Non-current liabilities	10 565 447	12 091 384	10 565 447	12 091 384
Current liabilities	6 779 701	6 152 935	-	-
	17 345 148	**18 244 319**	**10 565 447**	**12 091 384**

[1]. Environmental rehabilitation - landfill sites

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful in 2039 and has been discounted to reflect its present value.

The evaluation, audit and computation of the provision for rehabilitation of the sites have been carried out by Environmental & Sustainability Solution CC.

The landfill site is expected to be used for the next nineteen (19) years and thereafter maintained for an additional thirty (30) years. It is estimated that R28 388 723 (2019: R27 492 272) will be spent to rehabilitate the site.

[2]. VAT Provision

A provision occurred in respect of interest and penalties on output VAT payable to the South African Revenue Services("SARS").

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

19. Provisions (continued)

The Agency did not declare output VAT on grant received when submitting VAT returns from the year 2006 to 2013. It is probable that SARS will charge interest and penalties on this debt. SARS official interest rate were used to determine the interest payable while penalties were provided for at 10% of the VAT liabilityin line with SARS practices.

20. Service charges

Refuse removal	956 782	861 208	956 782	861 208

21. Rental of facilities and equipment

Halls and Billboards	9 844	12 635	9 844	12 635

22. Licences and permits (exchange)

Trade licences	67 694	30 966	67 694	30 966
Other licences [1]	568 013	54 423	568 013	54 423
	635 707	**85 389**	**635 707**	**85 389**

[1] Other licences is made up of Learners' drivers licences and community licenses.

23. Other income

Insurance claims received [1]	17 861	1 090 681	17 861	1 090 681
Plan and tender documents fees	181 172	176 658	181 172	176 658
Sundry Income [2]	2 689 490	1 121 109	2 684 013	1 098 604
Grave sites	23 940	24 907	23 940	24 907
Commission received	125 390	111 986	125 390	111 986
Management fees received	-	98 601	-	-
	3 037 853	**2 623 942**	**3 032 376**	**2 502 836**

[1] The insurance claims received in the previous year related to the various claims received from insurers following the burning down of offices during strike action which happened in August 2018. Very little amount of claims were received in current year.

[2] The sundry income increased due to the decrease in landfill site provision amounting to R 2 516 790 (2019: R465 627) that is accounted as a gain in line with iGRAP2 requirements.

Breakdown of sundry income				
Decrease in landfill site provision	2 516 790	465 627	2 516 790	465 627
Other receipts	172 700	655 482	167 223	632 977
	2 689 490	**1 121 109**	**2 684 013**	**1 098 604**

24. Investment revenue

Interest revenue				
Bank	5 365 227	5 572 317	5 365 227	5 572 317

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

25. Property rates

Rates received

Rates	9 792 798	9 092 763	9 792 798	9 092 763

Income forgone relates to discounts granted to ratepayers as per the approved municipal tariff schedule and policies.

Valuations

Residential	157 565 459	157 565 459	157 565 459	157 565 459
Commercial	121 816 140	121 816 140	121 816 140	121 816 140
State	427 332 300	427 332 300	427 332 300	427 332 300
Municipal	42 397 710	42 397 710	42 397 710	42 397 710
Small holdings and farms	32 444 550	32 444 550	32 444 550	32 444 550
Vacant plots	48 445 569	48 445 569	48 445 569	48 445 569
Place Of Worship	3 492 300	3 492 300	3 492 300	3 492 300
	833 494 028	**833 494 028**	**833 494 028**	**833 494 028**

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. No interim valuation was done in the 2019-2020 financial year. The last such interim valuation came into effect on 1 July 2015.

Rates are levied on an annual basis. Interest at 15% per annum (2019: 15%).

The new general valuation will be implemented on 01 July 2020.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

26. Government grants and subsidies

Operating grants				
Equitable share	151 748 000	135 728 665	151 748 000	135 728 665
Expanded Public Works Programme	2 510 628	1 920 679	2 510 628	1 920 679
Finance Management Grant	2 286 858	1 970 000	2 286 858	1 970 000
Local Government Sector Education and Training Authority	198 501	-	198 501	-
Department of Sports, Recreation, Arts and Culture	215 000	196 040	215 000	196 040
Eradication of alien plants project	2 816 197	3 000 000	2 816 197	3 000 000
Municipal Disaster Relief Grant	685 000	-	685 000	-
	160 460 184	**142 815 384**	**160 460 184**	**142 815 384**
Capital grants				
Integrated National Electrification Programme	5 076 290	25 940 000	5 076 290	25 940 000
Municipal Infrastructure Grant	23 735 559	33 705 000	23 735 559	33 705 000
Small Town Revitalisation	41 561 338	33 679 698	41 561 338	33 679 698
	70 373 187	**93 324 698**	**70 373 187**	**93 324 698**
	230 833 371	**236 140 082**	**230 833 371**	**236 140 082**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	79 085 371	100 411 417	79 085 371	100 411 417
Unconditional grants received	151 748 000	135 728 665	151 748 000	135 728 665
	230 833 371	**236 140 082**	**230 833 371**	**236 140 082**

Equitable Share

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

All registered indigents receive a monthly subsidy of 50kWH (2019: 50kWH) which is funded from the equitable share grant. Refuse removal services for a tariff of 100% of amount billed (2019: R102.47) per month are offered for free to the indigent communities of Port St Johns.

Local Government Sector Education and Training Authority

Balance unspent at beginning of year	113 264	26 189	113 264	26 189
Current-year receipts	156 638	87 075	156 638	87 075
Conditions met - transferred to revenue	(198 501)	-	(198 501)	-
	71 401	**113 264**	**71 401**	**113 264**

Conditions still to be met - remain liabilities (see note 16).

The purpose of this discretionary grant is to meet the sector needs as set out in the sector skills plan(SSP) and the priorities set out in the national skills development strategy (NSDS 111) . In doing so, the local government is looking for suitable candidates to partner with to promote the development of the skills in the local government sector.

The Municipality applied for roll over of the unspent portion of the grant.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 **R**	**2019** **R**	**2020** **R**	**2019** **R**

26. Government grants and subsidies (continued)

Expanded Public Works Programme

Balance unspent at beginning of year	1 285 750	207 513	1 285 750	207 513
Unspent grants repaid	-	(207 513)	-	(207 513)
Current-year receipts	1 462 000	3 206 429	1 462 000	3 206 429
Conditions met - transferred to revenue	(2 510 628)	(1 920 679)	(2 510 628)	(1 920 679)
	237 122	**1 285 750**	**237 122**	**1 285 750**

Conditions still to be met - remain liabilities (see note 16).

The purpose of the grant is to incentives municipalities to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas. The Municipality applied for roll over of the unspent portion of the grant.

Finance Management Grant

Balance unspent at beginning of year	-	938 212	-	938 212
Unspent grant repaid	-	(938 212)	-	(938 212)
Current-year receipts	2 435 000	1 970 000	2 435 000	1 970 000
Conditions met - transferred to revenue	(2 286 858)	(1 970 000)	(2 286 858)	(1 970 000)
	148 142	**-**	**148 142**	**-**

Conditions still to be met - remain liabilities (see note 16).

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

The Municipality applied for roll over of the unspent portion of the grant.

Integrated National Electrification Programme Grant

Current-year receipts	9 202 000	25 940 000	9 202 000	25 940 000
Conditions met - transferred to revenue	(5 076 289)	(25 940 000)	(5 076 289)	(25 940 000)
	4 125 711	**-**	**4 125 711**	**-**

Conditions still to be met - remain liabilities (see note 16).

The grant is received from National government for electrification projects within the previously disadvantage communities of the municipality.

Department of Sports, Recreation, Arts and Culture

Balance unspent at beginning of year	552 656	248 696	552 656	248 696
Current-year receipts	550 000	500 000	550 000	500 000
Conditions met - transferred to revenue	(215 000)	(196 040)	(215 000)	(196 040)
	887 656	**552 656**	**887 656**	**552 656**

Conditions still to be met - remain liabilities (see note 16).

The purpose of the grant is to maintain existing library facilities, assist in supervising and administration of staff in public libraries, establish library structures, support library awareness programmes and collect revenue from public libraries and deposit into municipal bank accounts

The Municipality applied for roll over of the unspent portion of the grant.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

26. Government grants and subsidies (continued)

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	7 150 940	-	7 150 940
Unspent grant repaid	-	(7 150 940)	-	(7 150 940)
Current-year receipts	34 345 000	33 705 000	34 345 000	33 705 000
Conditions met - transferred to revenue	(23 735 560)	(33 705 000)	(23 735 560)	(33 705 000)
	10 609 440	**-**	**10 609 440**	**-**

Conditions still to be met - remain liabilities (see note 16).

The purpose of this grant is to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions, servicing poor communities.

The Municipality applied for roll over of the unspent portion of the grant.

Small Town Revitalisation

Balance unspent at beginning of year	-	448 817	-	448 817
Current-year receipts	44 051 369	33 230 881	44 051 369	33 230 881
Conditions met - transferred to revenue	(41 561 338)	(33 679 698)	(41 561 338)	(33 679 698)
	2 490 031	**-**	**2 490 031**	**-**

Conditions still to be met - remain liabilities (see note 16).

The project provides finance for upgrading of road infrastructure in rural townships.

The Municipality applied for roll over of the unspent portion of the grant.

Eradication of alien plants project

Current-year receipts	3 000 000	3 000 000	3 000 000	3 000 000
Conditions met - transferred to revenue	(2 816 197)	(3 000 000)	(2 816 197)	(3 000 000)
	183 803	**-**	**183 803**	**-**

Conditions still to be met - remain liabilities (see note 16).

The purpose of the grant is to supply finance to enable communities to bring invasive species such as blue gums, poplar and wattle under control in such way that it contributes to the conservation of the natural resources.

The Municipality applied for roll over of the unspent portion of the grant.

Municipality Disaster Grant

Current-year receipts	685 000	-	685 000	-
Conditions met - transferred to revenue	(685 000)	-	(685 000)	-
	-	**-**	**-**	**-**

Conditions still to be met - remain liabilities (see note 16).

The purpose of the grant is for the provision of goods and services for disaster responds relating to COVID 19 announced in terms of Disaster Management Act.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

26. Government grants and subsidies (continued)

Mangazi to Manteku project

Balance unspent at beginning of year	20 095	20 095	-	-

Conditions still to be met - remain liabilities (see note 16).

Small scale Fish Factory

Balance unspent at beginning of year	1 011 550	1 011 550	-	-

Conditions still to be met - remain liabilities (see note 16).

Cutweni project

Balance unspent at beginning of year	1 219 989	1 219 989	-	-

Conditions still to be met - remain liabilities (see note 16).

27. Donations received

Nursery received	-	5 710 844	-	5 710 844

The Municipality received the nursery as a donation from Mbizana Local Municipality valued to R5 710 844.

28. Fines, Penalties and Forfeits

Municipal Traffic Fines	253 300	198 000	253 300	198 000

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

29. Employee related costs

Basic salaries	59 600 351	51 665 110	54 049 252	46 396 710
Medical aid - company contributions	3 901 692	3 104 738	3 901 692	3 104 738
UIF	393 492	375 255	393 492	375 255
Workman's Compensation Fund	554 846	-	554 846	-
Leave pay accrual charge	686 845	2 860 261	686 845	2 860 261
Defined contribution plans	7 687 443	6 789 329	7 687 443	6 789 329
Overtime payments	2 420 647	2 829 710	2 420 647	2 829 710
Long-service awards	556 604	424 093	556 604	424 093
Allowances [1]	5 819 877	4 194 565	5 819 877	4 194 565
	81 621 797	**72 243 061**	**76 070 698**	**66 974 661**

[1] Allowances amount is composed of all allowances such as acting, car/travel, night shift, standby, clothing and shift allowances.

Remuneration of municipal manager - HT Hlazo (Appointed August 2018)

Annual Remuneration	766 150	631 326	766 150	631 326
Car Allowance	180 000	135 000	180 000	135 000
Bonuses	58 214	28 563	58 214	28 563
Contributions to UIF, SDL, Medical and Pension Funds	12 247	1 636	12 247	1 636
Back pay	36 844	32 471	36 844	32 471
Other allowances (house,remote and travel)	41 000	9 518	41 000	9 518
	-	-	-	-
	1 094 455	**838 514**	**1 094 455**	**838 514**

Remuneration of the Chief Financial Officer - BA Mbana (Appointed 1 March 2020)

Annual Remuneration	297 042	-	297 042	-
Back Pay	10 678	-	10 678	-
Contributions to UIF, SDL, Medical and Pension Funds	3 645	-	3 645	-
Other allowances	12 872	-	12 872	-
	324 237	**-**	**324 237**	**-**

Remuneration of the Acting Chief Financial Officer - N Hlangu (Appointed August 2018 to 29 February 2020)

Annual Remuneration	505 928	708 690	505 928	708 690
Bonuses	63 241	59 381	63 241	59 381
Contributions to UIF, SDL, Medical and Pension Funds	122 565	172 553	122 565	172 553
Acting Allowances	120 000	63 811	120 000	63 811
Back pay	-	98 326	-	98 326
	811 734	**1 102 761**	**811 734**	**1 102 761**

Remuneration of Corporate Services Manager - LT Somtseu (Appointed September 2018)

Annual Remuneration	700 869	644 441	700 869	644 441
Car Allowance	110 000	-	110 000	-
Contributions to UIF, Medical and Pension Funds	10 505	3 862	10 505	3 862
Other allowances (housing, remote and travel)	95 023	45 567	95 023	45 567
Back Pay	33 976	25 010	33 976	25 010
	950 373	**718 880**	**950 373**	**718 880**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

29. Employee related costs (continued)

Remuneration of Community Services Manager - F Guleni (Appointed in January 2019)

Annual Remuneration	834 769	412 437	834 769	412 437
Car Allowance	8 000	-	8 000	-
Contributions to UIF, SDL, Medical and Pension Funds	10 553	892	10 553	892
Other allowances (housing,remote and travel)	33 711	7 815	33 711	7 815
Back Pay	33 976	8 777	33 976	8 777
	921 009	**429 921**	**921 009**	**429 921**

Remuneration of Engineering Services Manager - CCA O'Bose (Appointed September 2018)

Annual Remuneration	842 769	644 441	842 769	644 441
Contributions to UIF, SDL, Medical and Pension Funds	10 889	1 487	10 889	1 487
Other allowances (housing, remote and travel)	33 711	7 815	33 711	7 815
Back pay	33 976	25 835	33 976	25 835
	921 345	**679 578**	**921 345**	**679 578**

Remuneration of LED Manager - S Xuku (Appointed April 2019)

Annual Remuneration	842 769	404 449	842 769	404 449
Bonuses	-	19 551	-	19 551
Contributions to UIF, SDL, Medical and Pension Funds	11 170	4 948	11 170	4 948
Other allowances (housing, remote and travel)	33 711	7 815	33 711	7 815
Leave	-	52 016	-	52 016
Long service awards	15 629	-	15 629	-
Back pay	33 976	2 070	33 976	2 070
	937 255	**490 849**	**937 255**	**490 849**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

30. Remuneration of councillors

Councillors	13 596 950	13 120 696	13 596 950	13 120 696
PSJDA Board members	174 169	315 644	-	-
	13 771 119	**13 436 340**	**13 596 950**	**13 120 696**

Economic Entity 2020	Annual Remuneratic n	Backpay	Car Allowance	Cellphone Allowance and other	Acting Allowance	Total
Mlombile/Cingo N - Mayor	619 976	32 224	206 659	4 140	-	862 999
A.A Gantsho - Speaker	485 244	27 379	161 748	44 400	-	718 771
Nduku/Mazuza C - Chief Whip	464 983	25 668	154 994	4 140	-	649 785
Subtotal	1 570 203	85 271	523 401	52 680	-	2 231 555
Other Councillors	7 841 895	433 162	2 613 965	258 430	42 696	11 190 148
Back pay for Ex-councillors	-	173 247	-	-	-	173 247
PSJDA Board members	174 169	-	-	-	-	174 169
	9 586 267	**691 680**	**3 137 366**	**311 110**	**42 696**	**13 769 119**

Economic Entity 2019	Annual Remuneratic n	Backpay	Car Allowance	Cellphone Allowance and other	Acting Allowance	Total
Mlombile/Cingo N - Mayor	604 396	17 528	201 465	2 688	-	826 077
A.A Gantsho - Speaker	360 549	20 371	120 183	3 154	-	504 257
Nduku/Mazuza C - Chief Whip	453 298	19 675	151 099	4 189	-	628 261
Subtotal	1 418 243	57 574	472 747	10 031	-	1 958 595
Other Councillors	7 782 634	546 239	2 576 470	256 758	-	11 162 101
PSJDA Board members	315 644	-	-	-	-	315 644
	9 516 521	**603 813**	**3 049 217**	**266 789**	**-**	**13 436 340**

Controlling Entity 2020	Annual Remuneration	Backpay	Car Allowance	Cellphone Allowance and other	Acting Allowance	Total
Mlombile/Cingo N - Mayor	619 976	34 224	206 659	4 140	-	864 999
A.A Gantsho - Speaker	485 244	27 379	161 748	44 400	-	718 771
Nduku/Mazuza C - Chief Whip	464 983	25 668	154 994	4 140	-	649 785
Subtotal	1 570 203	87 271	523 401	52 680	-	2 233 555
Other Councillors	7 841 895	433 162	2 613 965	258 430	42 696	11 190 148
Back pay for Ex-councillors	-	173 247	-	-	-	173 247
	9 412 098	**693 680**	**3 137 366**	**311 110**	**42 696**	**13 596 950**

Controlling Entity 2019	Annual Remuneration	Backpay	Car Allowance	Cellphone Allowance and other	Acting Allowance	Total
Mlombile/Cingo N - Mayor	604 396	17 528	201 465	2 688	-	826 077
Nokhanda B - Speaker	360 549	20 371	120 183	3 154	-	504 257
Nduku/Mazuza C - Chief Whip	453 298	19 675	151 099	4 189	-	628 261
Subtotal	1 418 243	57 574	472 747	10 031	-	1 958 595
Other Councillors	7 782 634	546 239	2 576 470	256 758	-	11 162 101
	9 200 877	**603 813**	**3 049 217**	**266 789**	**-**	**13 120 696**

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

30. Remuneration of councillors (continued)

In-kind benefits

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

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

Detailed remuneration details per councilor are disclosed in note 44.

31. Depreciation and amortisation

Property, plant and equipment	50 209 145	46 162 965	49 978 340	45 971 333

32. Impairment of assets

Impairments				
Property, plant and equipment	42 612	-	42 612	-

33. Finance costs

Late payment of trade and other payables [2]	(73 550)	235 453	11 001	247 812
Other finance costs [1]	1 948 849	1 862 179	1 321 326	1 200 732
	1 875 299	**2 097 632**	**1 332 327**	**1 448 544**

[1]. Other finance costs relate to interest on finance leases, landfill site rehabilitation provision, provision on late payment of taxes and on employee benefits obligations. The table below details the breakdown:

Description				
Finance leases	22 512	59 778	21 755	50 953
Landfill site rehabilitation provision discounting	990 853	912 650	990 853	912 650
Long service awards	308 718	233 181	308 718	233 181
Bank overdraft	-	3 948	-	3 948
Interest on VAT [3]	626 766	652 622	-	-
	1 948 849	**1 862 179**	**1 321 326**	**1 200 732**

[2]. The interest is negative in the period due to reversals of interest which accumulated in prior periods by the suppliers follwing settlement of the liabilities.

[3]. The interest incurred is an estimate of amounts payable on output VAT payable to South African Revenue Services ("SARS"). The agency did not declare output VAT on grant received when submitting VAT returns from the year 2006 to 2013. It is probable that SARS will charge interest and penalties on this debt. SARS official Interest rates were used to determine the interest payable in line with SARS practices.

34. Debt impairment

Debt impairment	4 755 883	4 433 846	4 755 883	4 433 846

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

35. Contracted services

Consultants and professional fees	6 396 496	2 049 693	6 396 496	2 049 693
Security services [1]	-	1 832 561	-	1 832 561
Legal fees	310 344	1 133 321	310 344	1 133 321
	6 706 840	**5 015 575**	**6 706 840**	**5 015 575**

[1] The security cost incurred in the prior year related to hiring of external companies to offer security services during the times of strikes to secure the property of the municipality. None was re required in the current year.

36. Grants and subsidies paid

Other subsidies				
LED Programmes - (PSJDA)	-	-	8 724 134	10 363 478

37. General expenses

Accounting fees	274 936	208 750	-	-
Advertising	610 640	1 149 320	591 190	1 135 640
Audit Committee Fees	297 843	250 962	279 843	250 962
Auditors remuneration	4 640 431	6 268 329	4 223 235	5 952 717
Bank charges	155 884	182 302	141 150	157 072
Books and publications	3 026	-	3 026	-
Cleaning	58 509	128 157	46 950	115 955
Community development and training	271 396	303 754	271 396	303 754
Computer expenses	32 410	17 551	9 181	1 473
Consumables	328 094	221 786	328 094	221 786
Debt collection	185 358	291 659	185 358	291 659
Electricity	1 160 481	1 337 657	1 160 481	1 337 657
Entertainment	374 800	501 025	361 145	488 234
Fuel and oil	3 379 104	3 809 491	3 369 456	3 796 289
Grant project expenses	7 935 176	7 493 908	7 910 996	4 490 208
Hire	125 336	213 483	125 336	213 483
Insurance	1 052 060	1 312 243	970 714	1 253 554
Licence Fees	223 448	621 780	220 761	615 969
Motor vehicle expenses	-	45 931	-	45 931
Other expenses	583 839	474 035	574 723	448 907
Postage and courier	535	1 635	535	1 635
Printing and stationery	435 947	724 566	391 472	690 726
Protective Clothing	380 391	618 074	380 391	605 549
Repairs and maintenance	4 275 720	4 059 951	4 230 689	4 040 103
Section 79 committees	22 100	55 200	22 100	55 200
Skills Development Levy	969 824	670 465	969 824	670 465
Social Responsibility program	5 533 739	7 274 235	5 533 739	7 274 235
Staff welfare [1]	732 459	-	732 459	-
Subscriptions and membership fees	908 332	1 598 209	908 332	1 598 209
Telephone and fax	4 903 793	3 644 178	4 865 614	3 560 540
Training	111 670	606 615	111 670	605 265
Travel - local	5 343 271	7 223 956	5 179 737	6 876 931
Ward Committees Stipend	5 252 969	3 934 767	5 252 969	3 934 767
	50 563 521	**55 243 974**	**49 352 566**	**51 034 875**

[1] This relates to expenditure incurred by the Municipality in the current year relating to procurement of personal protective equipment and sanitizers for employee protection against COVID - 19 as well as general employee wellness expenses.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

38. Auditors' remuneration

Fees	4 640 431	6 268 329	4 223 235	5 952 717

39. Operating surplus

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

Operating lease charges				
Equipment				
• Contractual amounts	1 640 739	2 359 414	1 603 941	2 273 814

Loss on sale of property, plant and equipment	(4 160 079)	(258 485)	(4 160 079)	(258 478)
Impairment on property, plant and equipment	42 612	-	42 612	-
Depreciation on property, plant and equipment	50 209 145	46 162 965	49 978 340	45 971 333
Employee costs	95 392 916	85 679 401	89 667 648	80 095 357

40. Cash generated from operating activities

Surplus	39 363 843	61 097 075	38 244 670	61 230 475
Adjustments for:				
Depreciation and amortisation	50 209 145	46 162 965	49 978 340	45 971 333
Gain on sale of assets and liabilities	4 160 079	258 485	4 160 079	258 478
Fair value adjustments	(136 360)	(101 486)	-	-
Finance costs	33 514	307 590	32 756	298 765
Impairment loss	42 612	-	42 612	-
Debt impairment	4 755 883	4 433 846	4 755 883	4 433 846
Movements in operating lease assets and accruals	92 568	432 131	92 568	432 131
Movements in retirement benefit assets and liabilities	378 788	1 152 029	378 788	1 152 029
Movements in provisions	(899 171)	1 016 528	(1 525 937)	447 023
Other non-cash items	(38 871)	(201 193)	(38 871)	(201 176)
Non cash donations - (Community assets)	-	(5 710 844)	-	(5 710 844)
Changes in working capital:				
Inventories	100 453	854 619	100 453	854 619
Receivables from exchange transactions	(13 111 734)	(5 858 558)	(13 062 449)	(5 835 488)
Consumer debtors	(4 708 511)	(4 703 464)	(4 708 511)	(4 703 464)
Other receivables from non-exchange transactions	974 186	1 228 604	974 186	1 228 604
Payables from exchange transactions	6 871 791	10 485 546	7 902 667	10 518 363
VAT	13 108 345	(14 712 308)	13 056 963	(14 548 336)
Unspent conditional grants and receipts	16 801 636	(7 068 697)	16 801 636	(7 068 697)
	117 998 196	**89 072 868**	**117 185 833**	**88 757 661**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

41. Financial instruments disclosure

Categories of financial instruments

Economic entity - 2020

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	19 703 692	19 703 692
Receivables from non-exchange transactions	5 549 881	5 549 881
Consumer debtors	1 041 967	1 041 967
Cash and cash equivalents	109 924 666	109 924 666
	136 220 206	**136 220 206**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	39 715 028	39 715 028
Finance lease liability	71 929	71 929
Consumer deposits	61 000	61 000
	39 847 957	**39 847 957**

Economic entity - 2019

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	6 591 958	6 591 958
Receivables from non-exchange transactions	6 524 067	6 524 067
Consumer debtors	1 089 339	1 089 339
Cash and cash equivalents	57 308 528	57 308 528
	71 513 892	**71 513 892**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	32 843 244	32 843 244
Finance lease liability	409 257	409 257
Consumer deposits	61 000	61 000
	33 313 501	**33 313 501**

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

41. Financial instruments disclosure (continued)

Controlling entity - 2020

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	19 631 337	19 631 337
Receivables from non-exchange transactions	5 549 881	5 549 881
Consumer debtors	1 041 967	1 041 967
Cash and cash equivalents	108 918 432	108 918 432
	135 141 617	**135 141 617**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	38 952 987	38 952 987
Finance lease liability	71 929	71 929
Consumer deposits	61 000	61 000
	39 085 916	**39 085 916**

Controlling entity - 2019

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	6 568 888	6 568 888
Receivables from non-exchange transactions	6 524 067	6 524 067
Consumer debtors	1 089 339	1 089 339
Cash and cash equivalents	57 055 088	57 055 088
	71 237 382	**71 237 382**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	31 050 320	31 050 320
Finance lease liability	375 663	375 663
Consumer deposits	61 000	61 000
	31 486 983	**31 486 983**

41. Financial instruments disclosure (continued)

Financial instruments in Statement of financial performance

Economic entity - 2020

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	9 599 026	9 599 026
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(1 875 299)	(1 875 299)
	7 723 727	**7 723 727**

Economic entity - 2019

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	9 226 325	9 226 325
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(2 097 632)	(2 097 632)
	7 128 693	**7 128 693**

Controlling entity - 2020

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	9 599 026	9 599 026
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(1 332 327)	(1 332 327)
	8 266 699	**8 266 699**

Controlling entity - 2019

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	9 226 325	9 226 325
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(1 448 544)	(1 448 544)
	7 777 781	**7 777 781**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R
42. Commitments				
Authorised capital expenditure				
Already contracted for but not provided for				
• Property, plant and equipment	95 853 905	69 433 708	95 853 905	69 433 708
Total capital commitments				
Already contracted for but not provided for	95 853 905	69 433 708	95 853 905	69 433 708
Authorised operational expenditure				
Already contracted for but not provided for				
• General expenditure	14 677 959	14 019 945	14 458 614	13 484 423
Total operational commitments				
Already contracted for but not provided for	14 677 959	14 019 945	14 458 614	13 484 423
Total commitments				
Total commitments				
Authorised capital expenditure	95 853 905	69 433 708	95 853 905	69 433 708
Authorised operational expenditure	14 677 959	14 019 945	14 458 614	13 484 423
	110 531 864	**83 453 653**	**110 312 519**	**82 918 131**

This committed expenditure relates to access roads, land acquisition and operational expenditure. It will be financed by the Municipal Infrastructure Grant and municipal own internal resources.

Operating leases - as lessee (expense)

Minimum lease payments due				
- within one year	563 090	545 790	563 090	545 790
- in second to fifth year inclusive	1 250 674	1 518 001	1 250 674	1 518 001
- later than five years	5 263 096	5 558 860	5 263 096	5 558 860
	7 076 860	**7 622 651**	**7 076 860**	**7 622 651**

[1] Port St Johns Local Municipality leases land from Transnet for a period of 30 years Effective from 1 January 2006. The lease payment is R5 000 per month with annual escalation of 9%. No Contingent rent is payable. The lease is not renewable at the end of the lease term.

[2] Port St Johns Local Municipality leases 10 photocopier machines for a period of 36 months from Aloe Office and Business Equipment effective from 31 January 2019. The lease payment varies according to the machine leased which is payable monthly and has no escalation. No contingent rent is payable.

43. Contingencies

Liabilities

Mr. Mfecane Vs Port St Municipality (case number 4058/2019)

Mr. Mfecane is suing the Municipality for R 6 876 268 for the loss suffered when a property he unlawfully occupied was demolished in terms of the court order.The case has been handed over to attorney for defending.

The estimated fees including cost and disbursements are R 7 500 000.

Mr. Bodlani Vs Port St Johns Municipality (D E le Roux - MAT 4627)

Mr. Bodlani instituted action against the Municipality for damages allegedly suffered in the sum of R495 000 as a result of being assaulted by municipal employees. LRI is still awaiting a trial date. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

The estimated fees are R650 000.

Almo Projects CC t/a Zamani Civils Vs Port St John Municipality (D E le Roux - MAT 5106)

Almo Projects CC t/a Zamani Civils Instituted action against the Municipality for alleged breach of contract in the sum of R9 944 339. The claim has been ceded to Nurcha Finance Development Finance (Pty) Ltd. The matter was set down for hearing on 14 February 2018 but could not proceed as the plaintiff's counsel was unavailable. Due to the delay in finalising the matter the attorneys have advised the Municipality to consider referring the case to arbitration. The Municipality is still to give an instruction to the attorneys on the arbitration decision. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

The estimated fees are R11 000 000.

Bambilanga and Tshibilika Vs Port St Johns Municipality (case No. 4435/2016) and (case No. 92/2017)

These two matters concerns Municipal employee who was assaulted by casual workers. He is suing the Municipality for injuries he suffered as he says that the Municipality did not put in place protective measures to protect. The attorneys of record have withdrawn from the matter, which means it now dormant until they appoint another attorney.

The estimated fees are R500 000.

Fundile Nogumla & Another Vs Port St Johns (Case Number 591/16)

A civil claim for damages against the municipality suffered as a result of alleged negligence by the municipality (shark attack). The attorneys are going to hold a pre-trial conference as pleadings in the matter have been closed and they shall apply for a trial date. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

The estimated fees are R 500 000.

Z Ndabeni & Others Vs Port St Johns (Case number 220/2019)

The Municipality is being sued for unlawful arrest. Pleadings have been closed. Awaiting trial date from the registrar of the high court. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

The estimated fees are R 200 000.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

43. Contingencies (continued)

Nomlindo Mbulungwana Vs Port St Johna Municipality (Case number 53/2017)

The Plaintiff issued Summons against the municipality in which she is claiming an amount of R150 000 for damages suffered as a result of a road which was constructed, purportedly through her property, on Greens Farm, Port St. Johns. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

The estimated fees are R150 000.

Port St Johns Municipality Vs Luxolo Fono (Case number 4056/2018)

This matter is about the illegal structure built at ERF 1 & 736 at Second beach.

The estimated legal fees are R300 000.

Port St Johns Municipality Vs F. Abdullah & T. Hassain

This matter is about illegal land use at Mpantu. The municipality applied to interdict the block making at ERF 1602.

The estimated legal fees are still being determined.

Mnoneleli T. Mfecane Vs Port St Johns

Mfenace applied for interdict to stop the Municipality from using ERF 283 & 266 at first beach. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

The estimated legal fees are still being determined.

Nokwenzeka M . Magidigidi Vs Port St Johns Local Municipality (Case Number 5212/2018)

Claim for the wrongfully impounded vehicle. The plaintiff seeks to be reimbursed of the 3 motor vehicles that were impounded to be compensated with the monetary value of R83 000. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

The estimated legal fees are still being determined.

Sikwele Nqileni & Others Vs Port St Johns Local Municipality (Case Number Ecel 397-19)

Full time employment claim. The employees are seeking to be employed on a permanent basis claiming that they were promised to be employed permanently.

The estimated legal fees are still being determined.

Nandipha Sibobi Vs Port St Johns Local Municipality (Case Number Ecel 397-19)

Interview claim. The plaintiff is disputing her non-appointment as Chief Financial Officer and is challenging the outcome of the interview. She has demanded the results of the interview.

The estimated legal fees are still being determined.

Nomthika Elizabeth Gxekwa vs Port St Johns Local Municipality

The plaintiff is disputing her non-appointment as a cleaner and is challenging the outcome of the interview. She has demanded the results of the interview.

The estimated legal fees are still being determined.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

43. Contingencies (continued)

Ntombekhaya Pamella Magabuko vs Port St Johns Local Municipality

The plaintiff is disputing her non-appointment as a cleaner and is challenging the outcome of the interview.She has demanded the results of the interview.

The estimated legal fees are still to be determined.

Sizwe Aylief Mlamla vs Port St Johns Local Municipality

The plaintiff is disputing her non-appointment as a cleaner and is challenging the outcome of the interview.He has demanded the results of the interview.

The estimated legal fees are still to be determined.

Pursatham Naidoo & Others vs Port St Johns Local Municipality & other (Case number 95/2017)

An order to stop illegal eviction & unlawful occupation of Land.

The estimated legal fees are still to be determined.

Port St Johns Local Municipality vs Tal'imi board KZN (Case number 2846/2018)

Interdict for illegal construction of Mosque without following proper channels of rezoning

The estimated legal fees are still to be determined.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

44. Related parties

Relationships	
Accounting Officer	Mr H.T Hlazo
Other members of key management	Ms B. A Mbana-Chief Financial Officer L.T Somtseu- Corporate Service Senior Manager S Xuku - LED Senior Manager 55 CCA O'Bose - Engineering Services Senior Manager F Guleni - Community Services Senior Manager
Controlled entity	Port St Johns Development Agency
Mayor	Cllr. N Mlombile-Cingo
Speakers	Cllr. A.A Gantsho
Chief Whip	Cllr. C.S Nduku/Mazuza
Councillors	Cllr. N. F Bokwe Cllr. Z.H Cube Cllr. M Dyosoba Cllr. K.M Fono Cllr. F Jama Cllr. N.C Fono Cllr. M Hobo Cllr. D.V Madini Cllr. F Mafaka Cllr. N.P Majali Cllr. K Majeke Cllr. Z Maqina Cllr. S.V Mavimbela Cllr. L Rolobile Cllr. Z Mhlabeni Cllr. N Mfiki Cllr. D.Z Mnceba Cllr. B Mjakuja Cllr. X Moni Cllr. Z Mtiki Cllr. N.B Mtuku Cllr. A Mzungule Cllr. L Ndamase Cllr. T.M Msongelwa Cllr. S.L Ntlatywa Cllr. T Ntsham Cllr. S.E Sicoto Cllr. N.P Soga
Directors of the controlled entitiy (Port St Johns Development Agency)	X Mvinjelwa A Nyikinya AL Bewana N Balfour L Mbane EFB Makiwane LS Nduku N Mtakati-Futwa

[1]. The municipality has an Agency relationship with its Agency, Port St Johns Development Agency. Under this agreement the agency carries out certain economic development functions as agreed with the municipality. The Municipality pays the Agency for these services in terms of the agency arrangement.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

44. Related parties (continued)

Related party transactions

Grant paid to related parties				
Port St Johns Development Agency	-	-	8 724 134	10 363 478

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

44. Related parties (continued)

Remuneration of management

Councillors

2020

Name	Annual Remuneration	Back Pay	Car Allowances	Cellphone Allowance and other	Cellphone insurance backpay	Total
Cllr. N Mlombile-Cingo	619 976	34 224	206 659	4 140	-	864 999
Cllr. A.A Gantsho	485 244	27 379	161 748	44 400	-	718 771
Cllr. C.S Nduku/Mazuza	464 983	25 668	154 994	4 140	5 372	655 157
Cllr. N.F Bokwe	195 387	10 831	65 129	10 740	5 372	287 459
Cllr. Z.H Cube	196 199	10 831	65 399	4 140	5 767	282 336
Cllr. M Dyosoba	196 199	10 831	65 400	5 940	-	278 370
Cllr. K.M Fono	259 404	14 320	86 468	5 940	5 372	371 504
Cllr. F Jama	196 199	10 831	65 400	5 940	-	278 370
Cllr. N.C Fono	195 387	10 831	65 129	4 140	5 372	280 859
Cllr. M Hobo	251 789	13 899	83 930	5 940	-	355 558
Cllr. D.V Madini	196 199	10 831	65 400	4 140	5 372	281 942
Cllr. F Mafaka	259 404	14 320	86 468	4 140	-	364 332
Cllr. N.P Majali	259 404	14 320	86 468	10 740	-	370 932
Cllr. K Majeke	196 199	10 831	65 400	4 140	-	276 570
Cllr. Z Maqina	196 199	10 831	65 400	10 740	5 372	288 542
Cllr. S.V Mavimbela	251 789	13 899	83 930	4 140	-	353 758
Cllr. L Rolobile	196 199	10 831	65 400	4 140	5 372	281 942
Cllr. Z Mhlabeni	196 199	10 831	65 400	4 140	5 372	281 942
Cllr. N Mfiki	259 404	14 320	86 468	9 730	79	370 001
Cllr. D.Z Mnceba	196 199	10 831	65 400	4 140	-	276 570
Cllr. B Mjakuja	196 199	10 831	65 400	8 940	-	281 370
Cllr. X Moni	259 404	14 320	86 468	48 638	5 372	414 202
Cllr. Z Mtiki	196 199	10 831	65 400	5 940	5 372	283 742
Cllr. N.B Mtuku	259 404	14 320	86 468	8 940	5 372	374 504
Cllr. A Mzungule	195 387	10 831	65 129	8 940	-	280 287
Cllr. L Ndamase	259 404	14 320	86 468	8 940	5 372	374 504
Cllr. T.M Msongelwa	195 387	10 831	65 129	8 940	-	280 287
Cllr. S.L Ntlatywa	195 387	10 831	65 129	10 740	-	282 087
Cllr. T Ntsham	196 199	10 831	65 400	4 140	-	276 570
Cllr. S.E Sicoto	195 387	10 831	65 129	5 940	-	277 287
Cllr. N.P Soga	196 199	10 831	65 400	8 940	-	281 370
Cllr. N Tani	259 404	14 320	86 468	4 140	5 372	369 704
Cllr. N Tshitshiliza	251 789	13 899	83 931	10 740	5 372	365 731
Cllr. G Tshotho	196 199	10 831	65 400	10 740	5 372	288 542
Cllr. Z Totwana	196 199	10 831	65 400	5 940	-	278 370
Cllr. N Vava	196 199	10 831	65 400	8 940	-	281 370
Cllr. M Veni	251 789	13 899	83 931	8 940	5 372	363 931
Cllr. G.X Vimba	196 199	10 831	65 400	8 940	-	281 370
Cllr. R.M Zweni	251 789	13 899	83 931	10 740	5 767	366 126
Cllr. P Langa *	-	-	-	-	4 582	4 582
Cllr. T Khukula*	-	-	-	-	4 582	4 582
Cllr. B Nokhanda*	-	-	-	-	5 767	5 767
Cllr. H.S Tsili*	-	-	-	-	4 582	4 582
Cllr. D Nompaka*	-	-	-	-	4 582	4 582
Cllr. N Ndakayi*	-	-	-	-	4 582	4 582
Cllr. V.N Mcekisa*	-	-	-	-	4 582	4 582
Cllr. M.N Sophotela*	-	-	-	-	4 582	4 582

Notes to the Consolidated Annual Financial Statements

			Economic entity		Controlling entity	
			2020 R	2019 R	2020 R	2019 R
44. Related parties (continued)						
Cllr. S.J Sotshongaye*	-	-	-	-	4 582	4 582
Cllr. N.F Diko*	-	-	-	-	4 582	4 582
Cllr. J.S Lobi*	-	-	-	-	5 767	5 767
Cllr. S Madolo*	-	-	-	-	4 582	4 582
Cllr. S Mzaza*	-	-	-	-	4 582	4 582
Cllr. N Mbotshwa*	-	-	-	-	4 582	4 582
Cllr. M.S Mabovana*	-	-	-	-	4 582	4 582
Cllr. N.P Kotana*	-	-	-	-	4 582	4 582
	9 412 085	**520 439**	**3 137 371**	**353 808**	**173 247**	**13 596 950**

* These are former councilors who were paid back the cellphone insurances previously deducted from them in the period 2011 to 2016 when they were still in office. This was done in line with a council resolution of the 30th of October 2019 that all councilors who served from 2011 to 2016 should be paid back cellphone insurance deductions previously deducted from their salaries.

44. Related parties (continued)

2019

Name	Annual Remuneration	Back Pay	car Allowances	Cellphone Allowance and other	Total
Cllr. NM Cingo	604 396	17 529	201 465	2 688	826 078
Cllr B Nokhanda	360 549	20 371	120 183	3 154	504 257
Cllr. C.S Nduku/Mazuza	453 298	19 675	151 099	4 189	628 261
Cllr. N. F. Bokwe	191 269	13 636	63 756	10 789	279 450
Cllr. Z.H. Cube	191 269	13 636	63 756	4 189	272 850
Cllr. M. Dyosoba	191 269	13 636	63 756	5 278	273 939
Cllr. K.M. Fono	252 886	15 056	84 295	5 989	358 226
Cllr. F. Jama	191 269	12 808	63 756	5 278	273 111
Cllr. N.C. Fono	191 269	13 636	63 756	4 189	272 850
Cllr. M. Hobo	245 462	14 885	81 821	5 910	348 078
Cllr. D.V. Madini	191 269	13 636	63 756	4 189	272 850
Cllr. F. Mafaka	252 886	15 056	84 295	3 478	355 715
Cllr. N.P. Majali	252 886	15 056	84 295	10 078	362 315
Cllr. K. Majeke	191 269	13 636	63 757	3 478	272 140
Cllr. Z. Maqina	191 269	13 636	63 756	10 789	279 450
Cllr. S.V. Mavimbela	245 462	14 885	81 821	3 478	345 646
Cllr. L. Rolobile	196 340	13 636	65 447	4 189	279 612
Cllr. Z. Mhlabeni	191 269	13 636	63 756	4 189	272 850
Cllr. N. Mfiki	247 814	31 800	82 605	7 409	369 628
Cllr. D.Z. Mnceba	191 269	13 636	63 757	3 478	272 140
Cllr. B. Mjakuja	191 269	13 636	63 757	8 278	276 940
Cllr. X. Moni	252 886	15 056	84 295	5 989	358 226
Cllr. Z. Mtiki	191 269	13 636	63 757	5 989	274 651
Cllr. N.B. Mtuku	252 886	15 056	84 295	8 989	361 226
Cllr. A. Mzungule	191 269	13 636	63 757	8 278	276 940
Cllr. L. Ndamase	252 886	15 056	84 295	8 989	361 226
Cllr. T.M. Msongelwa	191 269	13 636	63 757	8 278	276 940
Cllr. S.L. Ntlatywa	191 269	13 636	63 757	10 078	278 740
Cllr. T. Ntsham	191 269	13 636	63 757	3 478	272 140
Cllr. S.E. Sicoto	191 269	13 636	63 757	5 278	273 940
Cllr. N.P. Soga	191 269	13 636	63 757	8 278	276 940
Cllr. N. Tani	252 886	15 056	84 295	4 189	356 426
Cllr. N. Tshitshiliza	245 462	14 885	81 821	10 789	352 957
Cllr. G. Tshotho	191 269	13 636	63 757	10 789	279 451
Cllr. Z. Totwana	191 269	13 636	63 757	5 278	273 940
Cllr. N. Vava	191 269	13 636	63 757	8 278	276 940
Cllr. M. Veni	245 462	14 885	81 821	8 989	351 157
Cllr. G.X. Vimba	191 269	13 636	63 757	8 278	276 940
Cllr. R.M. Zweni	245 462	14 885	81 821	10 789	352 957
Cllr A.A Gantsho	133 053	21 809	26 611	11 100	192 573
	9 200 880	**603 801**	**3 049 226**	**266 789**	**13 120 696**

Executive management

*Details of remuneration paid to key management personnel have been disclosed on note 29 "Employee related costs".

Councilors' outstanding consumer accounts

Details of outstanding consumer accounts have been disclosed in note 51 "Additional disclosure in terms of Municipal Finance Management Act".

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

45. Risk management

Financial risk management

Liquidity risk

Liquidity risk is the risk that the Municipality will encounter difficulty in raising funds to meet commitments associated with financial liabilities. The financial liabilities of the Municipality are backed by appropriate assets and it has adequate liquid resources. Council has an approved financial plan which brought policies and procedures in place to monitor the cash projections and by ensuring that financial resources are available to meet its cash requirements.

Credit risk

Credit risk is defined as the risk that one party to a financial instrument will fail to honour their obligation, thus causing the other party to incur a financial loss.

Credit risk consists mainly of cash deposits, cash equivalents and receivables from consumers for property rates and refuse collection.

Consumer debtors comprise of many consumers, dispersed across different industries and geographical areas within Port St Johns. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of an allowance for doubtful debt. Outstanding accounts are followed up monthly.

The Municipality has a significant concentration of credit risk in respect of receivables from consumers for rate and refuse collection. The municipality is obliged to continue to offer refuse collection service as well as levy rates to these consumers.

The Municipality's credit risk exposure is represented primarily by the net aggregate balance of amounts receivable in respect of unpaid rates, refuse charges and other receivables. Debt collection procedures are applied as diligently as circumstances permit in such a way as to minimise risk and related collection costs. As a general principle, no collateral is required for these receivables.

The University provides for impairment losses in respect these receivables to the extent that these can be reliably and objectively determined, having regard to the credit risk experience and payment history of the particular categories of debtors.

The Municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high-quality credit standing. The credit exposure to any single counterparty is managed by setting transaction/exposure limits. These limits are reviewed annually by the CFO and authorised by the executive mayoral committee.

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

Financial instrument	Economic entity - 2020	Economic entity - 2019	Controlling entity - 2020	Controlling entity - 2019
Receivables from exchange transactions	19 703 692	6 591 958	19 631 337	6 568 888
Receivables from non-exchange transactions	5 549 881	6 524 067	5 549 881	6 524 067
Consumer debtors	1 041 967	1 089 339	1 041 967	1 089 339
Cash and cash equivalents	109 924 666	57 308 528	108 918 432	57 055 088

45. Risk management (continued)

Market risk

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest rate changes.

As the municipality has no significant interest-bearing financial liabilities, the municipality's income and operating cash flows are substantially independent of changes in market interest rates except for the effect of interest received on cash placed on call accounts.

Cash flow interest rate risk

Economic entity - 2020	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Total
Receivables from exchange transactions	- %	19 703 692	-	-	-	19 703 692
Receivables from non-exchange transactions	15.00 %	5 549 881	-	-	-	5 549 896
Consumer debtors	15.00 %	1 041 967	-	-	-	1 041 982
Cash in current banking institutions	- %	109 924 666	-	-	-	109 924 666
Subtotal		136 220 206	-	-	-	136 220 236
Finance lease liabilities	9.00 %	(71 929)	-	-	-	(71 920)
Payables from exchange transactions	- %	(39 715 028)	-	-	-	(39 715 028)
		96 433 249	**-**	**-**	**-**	**96 433 288**

Economic entity - 2019	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Total
Receivables from exchange transactions	- %	6 591 958	-	-	-	6 591 958
Receivables from non-exchange transactions	15.00 %	6 524 067	-	-	-	6 524 082
Consumer debtors	15.00 %	1 089 339	-	-	-	1 089 354
Cash in current banking institutions	- %	57 308 528	-	-	-	57 308 528
Subtotal		71 513 892	-	-	-	71 513 922
Finance lease liabilities	10.00 %	(409 257)	-	-	-	(409 247)
Payables from exchange transactions	- %	(32 843 244)	-	-	-	(32 843 244)
		38 261 391	**-**	**-**	**-**	**38 261 431**

Price risk

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 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.

The Municipality does not have any financial instruments that are affected by price risk.

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

45. Risk management (continued)

Implications of COVID-19 on Financial risk management

The World Health Organisation has declared the COVID-19 coronavirus outbreak to be a pandemic. Since March 2020, the South African government has taken stringent steps to contain and/or delay the spread of the virus. Actions taken in response to the spread of COVID-19 have resulted in significant disruption to business operations of the municipality and a significant increase in economic uncertainty. This includes, but is not limited to, financial market volatility and erosion, deteriorating credit, liquidity concerns, further increases in government intervention, increasing unemployment, broad declines in consumer discretionary spending, increasing inventory levels, reductions in production because of decreased demand, layoffs and furloughs, and other restructuring activities more volatile asset prices and currency exchange rates, and a marked decline in borrowing and investment interest rates. These events and conditions create a level of uncertainty and risk that the municipality has not encountered before.

As the pandemic increases in both magnitude and duration, entities are experiencing conditions often associated with a general economic downturn. The continuation of these circumstances could result in an even broader economic downturn which could have a prolonged negative impact on an entity’s financial results.

Market risk

The municipality’s exposure to market risk has increased because of the pandemic due to increased market volatility. The crash in market prices in the last quarter of the financial year due to the COVID-19 global pandemic has significantly increased the municipality’s exposure to market risk.

The South African Reserve Bank has effectively reduced the repo rate by 42% in the first five months of 2020. This has had the impact of financial institutions reducing the prime lending rate as well reducing the investment interest rates earned on call accounts.

Credit risk

The COVID-19 pandemic has increased the credit risk exposure of the municipality as many ratepayers are without income and the risk of default on their consumer accounts is increased. However, the municipality applies a very stringent and conservative approach in measuring impairment on its receivables outstanding at year end. The amount provided for impairment losses on receivables is considered adequate. The environment is subject to rapid change and updated facts and circumstances will continue to be monitored as new information becomes available.

Liquidity risk

Liquidity risk is increased as the municipality’s collections from collections from consumers form a significant part of its budget. The measures taken by Government to curb the spread of the virus has negatively impacted municipality’s cash flows. The municipality also received some funds from national government under the National Disaster grant and together with funds redirected from existing budget votes, is being utilised to implement programs required to alleviate the impact of the COVID – 19 pandemic on the society.

The following are the contractual maturities of the financial liabilities, including interest payments and excluding the impact of netting agreements.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

45. Risk management (continued)

Economic entity 2020	Carrying amount	Contractual cash flows	1 year or less	>1 year
Finance lease obligation	71 929	71 929	53 650	18 279
Payables from exchange transactions	39 715 028	39 715 028	39 715 028	-
Consumer deposits	61 000	61 000	61 000	-
Unspent conditional grants and receipts	21 004 940	21 004 940	21 004 940	-
	60 852 897	**60 852 897**	**60 834 618**	**18 279**

Economic entity 2019	Carrying amount	Contractual cash flows	1 year or less	>1 year
Finance lease obligation	409 257	409 257	377 500	31 757
Payables from exchange transactions	32 843 244	32 843 244	32 843 244	-
Consumer deposits	61 000	61 000	61 000	-
Unspent conditional grants and receipts	4 203 304	4 203 304	4 203 304	-
	37 516 805	**37 516 805**	**37 485 048**	**31 757**

Controlling entity 2020	Carrying amount	Contractual cash flows	1 year or less	>1 year
Finance lease obligation	71 929	71 929	53 650	18 279
Payables from exchange transactions	38 952 987	38 952 987	38 952 987	-
Consumer deposits	61 000	61 000	61 000	-
Unspent conditional grants and receipts	18 753 306	18 753 306	18 753 306	-
	57 839 222	**57 839 222**	**57 820 943**	**18 279**

Controlling entity 2019	Carrying amount	Contractual cash flows	1 year or less	>1 year
Finance lease obligation	375 663	375 663	343 906	31 757
Payables from exchange transactions	31 050 320	31 050 320	31 050 320	-
Consumer deposits	61 000	61 000	61 000	-
Unspent conditional grants and receipts	1 951 670	1 951 670	1 951 670	-
	33 438 653	**33 438 653**	**33 406 896**	**31 757**

46. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 588 202 762 and that the municipality's total assets exceed its liabilities by R 588 202 762.

The consolidated 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.

Since March 2020 the consequences of the COVID-19 pandemic have materially and adversely affected the ability of the municipality to continue normal operations in delivering services to the community with all the efforts being directed towards the fight against the pandemic. The municipality has continued to operate with critical staff and implement the COVID 19 projects as well as perform the critical activities of council. However, most of the planned projects (mainly capital) for the fourth quarter have had to be deferred to the 2020/2021 financial year to give priority to the COVID 19 pandemic projects.

The current national lock down restrictions which has been reduced to “Level 1” from midnight on 20th of September 2020 as announced by the President on the 16th of September 2020. Although there is still uncertainty as to when the restrictions will be fully lifted and other changes to restrictions, these uncertainties together with the plans explained above do not at this time cast significant doubt on the municipality's ability to continue as a going concern.

46. Going concern (continued)

The Municipality has also obtained an additional Equitable share grant amounting to R29 802 000 which necessitated the Special Adjustment Budget for the 2020/21 financial year to give relief of the uncollected revenue during the lockdown period. The adjustment budget was approved by Council on the 28th of September 2020.

47. Events after the reporting date

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The municipality has continued to operate with critical staff and implement the COVID 19 projects as well as perform the critical activities of council during the hard lock down period from 26th of March 2020 to 30th of June 2020. However, most of the planned projects (mainly capital) for the fourth quarter have had to be deferred to the 2020/2021 financial year to give priority to the COVID 19 pandemic projects.

The current national lock down restrictions which has been reduced to “Level 1” from midnight on 20th of September 2020 as announced by the President on the 16th of September 2020. There is still uncertainty as to when the restrictions will be fully lifted and other changes to restrictions.

The Municipality, subsequent to year end, got Erf 904 and 398 transferred into the Municipality's name on the 29th of September 2020. These were reported at year end as deposits on note 4 - Receivables from exchange transactions.

The Municipality has also obtained an additional Equitable share grant amounting to R29 802 000 which necessitated the Special Adjustment Budget for the 2020/21 financial year to give relief of the uncollected revenue during the lockdown period. The adjustment budget was approved by Council on the 28th of September 2020.

The municipality has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 30 June 2020 have not been adjusted to reflect their impact.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

48. Unauthorised expenditure

Opening balance as previously reported	130 310 835	126 322 877	130 310 835	126 322 877
Opening balance as restated	**130 310 835**	**126 322 877**	**130 310 835**	**126 322 877**
Add: unauthorised expenditure - current year	-	3 987 958	-	3 987 958
Less: Amounts recoverable - current	-	-	-	-
Less: Amounts recoverable - prior period	-	-	-	-
Less: Amount written off - current	-	-	-	-
Less: Amount written off - prior period	-	-	-	-
Closing balance	**130 310 835**	**130 310 835**	**130 310 835**	**130 310 835**

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

Cash	-	3 987 958	-	3 987 958

Analysed as follows: cash

General expenditure	-	3 987 958	-	3 987 958

Unauthorised expenditure: Budget overspending – per municipal department

Community services	-	2 791 012	-	2 791 012
Corporate services	-	1 196 946	-	1 196 946
	-	**3 987 958**	**-**	**3 987 958**

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes: overspending of the total amount appropriated in the municipality's approved budget; overspending of the total amount appropriated for a vote in the approved budget expenditure from a vote unrelated to the department or functional area covered by the vote; expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose; spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation otherwise than in accordance with any conditions of the allocation; or a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

Unauthorised expenditure incurred in the previous years is currently under investigation by the Municipal Public Accounts Committee (MPAC) working together with the Internal Audit. There is also an independent investigation on same being performed jointly by the Department of Cooperative Governance and Traditional Affairs and National Treasury. These investigations are still underway, and their reports will inform the Municipality on how to deal with the expenditure as directed by legislation.

49. Fruitless and wasteful expenditure

Opening balance as previously reported	27 005 203	25 463 421	19 447 157	18 566 211
Opening balance as restated	**27 005 203**	**25 463 421**	**19 447 157**	**18 566 211**
Add: fruitless and wasteful expenditure	642 507	1 541 782	11 001	880 946
Closing balance	**27 647 710**	**27 005 203**	**19 458 158**	**19 447 157**

Notes to the Consolidated Annual Financial Statements

		Economic entity		Controlling entity	
		2020 R	2019 R	2020 R	2019 R

49. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings	Economic entity 2020 R	Economic entity 2019 R	Controlling entity 2020 R	Controlling entity 2019 R
Interest incurred on late payment of suppliers	None	13 371	54 199	11 001	45 991
Penalties paid to SARS for non-compliance with the Tax Administration ACT	None	2 370	201 827	-	201 821
Removal of Polish	None	-	14 250	-	14 250
Payments made for inventory items not delivered	[1]	-	618 884	-	618 884
Interest and penalties - VAT		626 766	652 622	-	-
		642 507	**1 541 782**	**11 001**	**880 946**

[1] This related to fuel ordered and paid for but not delivered. The Municipality has commissioned an investigation into the matter and this is underway.

[2] Fruitless and wasteful expenditure incurred in the previous years is currently under investigation by the Municipal Public Accounts Committee (MPAC) working together with the Internal Audit. There is also an independent investigation on same being performed jointly by the Department of Cooperative Governance and Traditional Affairs and National Treasury. These investigations are still underway, and their reports will inform the Municipality on how to deal with the expenditure as directed by legislation.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R
50. Irregular expenditure				
Opening balance as previously reported	199 780 832	139 158 211	192 944 841	132 322 220
Correction of prior period error [1]	-	28 993 118	-	28 993 118
Opening balance as restated	**199 780 832**	**168 151 329**	**192 944 841**	**161 315 338**
Add: Irregular Expenditure	10 711 458	31 629 503	10 711 458	31 629 503
Less: Amounts recoverable - current	-	-	-	-
Less: Amounts recoverable - prior period	-	-	-	-
Less: Amount written off - current	-	-	-	-
Less: Amount written off - prior period	-	-	-	-
Closing balance	**210 492 290**	**199 780 832**	**203 656 299**	**192 944 841**

[1] In current year restatements have been made to amounts previously disclosed in the prior years. This was due to the fact that the municipal irregular expenditure was incomplete and inaccurate from the 2010/2011 financial year. However, restatements could only be effected as far back and the 2016/2017 financial year. The municipality could not go beyond this due to unavailability of records caused by arson attack which happened in previous years. This therefore rendered it impossible for the municipality to correct the expenditure between the 2010/2011 to the 2015/2016 financial years.

Notes to the Consolidated Annual Financial Statements

		Economic entity		Controlling entity	
		2020 R	2019 R	2020 R	2019 R

50. Irregular expenditure (continued)

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

	Disciplinary steps taken/criminal proceedings				
Regulation 32 incorrectly applied	None	4 470 887	26 980 370	4 470 887	26 980 370
Three written quotations not obtained	None	335 114	1 064 688	335 114	1 064 688
Overspending on contracts	None	2 076 171	795 876	2 076 171	795 876
Award above CIDB grading	None	3 829 286	2 463 356	3 829 286	2 463 356
Expenditure outside municipal mandate	None	-	123 963	-	123 963
Not advertised for required time	None	-	171 000	-	171 000
Other	None	-	14 250	-	14 250
Non-compliance with SCM policy	None	-	16 000	-	16 000
		10 711 458	**31 629 503**	**10 711 458**	**31 629 503**

Irregular expenditure relates to expenditure incurred contrary to supply chain management policy and regulations. Irregular expenditure incurred in the previous years from the 2010/2011 financial year up to the 2017/2018 financial year is currently under investigation by the Municipal Public Accounts Committee (MPAC) working together with the Internal Audit. There is also an independent investigation on same being performed jointly by the Department of Cooperative Governance and Traditional Affairs and National Treasury. These investigations are still underway, and their reports will inform the Municipality on how to deal with the expenditure as directed by legislation.

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

51. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

Current year subscription / fee	922 359	1 593 077	922 359	1 593 077
Amount paid - current year	(59 589)	(1 593 077)	(59 589)	(1 593 077)
	862 770	**-**	**862 770**	**-**

Audit fees

Opening balance	-	163 320	-	163 320
Current year subscription / fee	4 223 235	7 239 680	4 223 235	7 239 680
Amount paid - current year	(3 760 542)	(7 403 000)	(3 760 542)	(7 403 000)
	462 693	**-**	**462 693**	**-**

PAYE, UIF and SDL

Opening balance	154	584 529	154	584 529
Current year subscription / fee	14 367 502	12 573 404	14 367 502	12 573 404
Amount paid - current year	(14 367 656)	(13 238 569)	(14 367 656)	(13 238 569)
Amount paid - previous years	-	80 790	-	80 790
	-	**154**	**-**	**154**

Pension and Medical Aid Deductions

Opening balance	466 417	(213 084)	466 417	(213 084)
Current year subscription / fee	11 086 229	15 022 154	11 086 229	15 022 154
Amount paid - current year	(10 642 520)	(14 342 653)	(10 642 520)	(14 342 653)
	910 126	**466 417**	**910 126**	**466 417**

VAT

VAT receivable	7 326 210	20 383 173	7 326 210	20 383 173
VAT payable	4 561 388	4 510 006	-	-
	11 887 598	**24 893 179**	**7 326 210**	**20 383 173**

VAT output payables and VAT input receivables are shown in notes 6 and 14.

The municipality has financial risk policies in place to ensure that payments are made before the due date.

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

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

Councillors' consumer accounts

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. S.L Ntlatywa	8	-	8

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. S.L Ntlatywa	2 916	5 446	8 362

All the other councillors reside in the rural areas of Port St John's Municipality, therefore, they are not billed for any services.

52. 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 consolidated annual financial statements.

Deviations for the period up to 30 June 2020

The amount for deviations as at 30 June 2020 is R 2 995 204 (2019: R3 729 075).

The following deviations and ratifications of minor breaches of procurement processes are reported to council in terms of Paragraph 36(2) of the SCM Policy:

Category				
Emergency	190 750	585 520	190 750	585 520
Exceptional cases	632 639	2 121 571	632 639	2 121 571
Sole supplier	2 171 815	1 021 984	2 171 815	1 021 984
	2 995 204	**3 729 075**	**2 995 204**	**3 729 075**

53. Prior period errors

The municipality's annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP). The basis is consistent with the prior year except for restatements reflected below.

Expenditure, VAT and payables from exchange transactions

During the current financial year, the following errors were identified:

- The municipality had incorrectly recorded certain suppliers invoices inclusive of VAT, omitted recording of supplier invoices, misallocated expense items amongst expense general ledgers and or posted invoices in incorrect accounting periods;
- A deposit paid for the purchase of property was incorrectly recorded inclusive of VAT. The correction of this category of errors did not have an effect on the surplus previously reported in the prior years;
- Some expense accruals were overstated by including some invoices on the accruals list while they were already included in the accounts payable age analysis;
- Supplier double payments were identified which overstated expenditure in the previous financial year;
- Some accounts payable transactions were recorded in the general ledger only and not on the suppliers module. This resulted in differences between the suppliers' age analysis and general ledger;
- The amount outstanding to SARS at the end of the 2018/2018 financial year was not cleared when the payments were done in the following financial year; and
- A payment for the procurement of inventory items was incorrectly expensed in the previous financial year.

Corrections have been made in the current financial year, where these items have been corrected and prior period amounts adjusted retrospectively in accordance with GRAP 3 – Changes in Accounting Policies, Accounting Estimates and Errors. The accounts payable and the related expenditure were updated accordingly.

The impact of the corrections on the surplus and opening accumulated surplus for the previous year is tabulated below:

Error description	2019 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)
A prepayment for purchase of stock items was incorrectly expensed	(164 520)	-	(164 520)
Accruals for the 2018/2019 financial year were overstated	(180 741)	-	(180 741)
Amounts owed to SARS at the end of 201/2018 financial year not cleared when they were settled in the 2018/2019 financial year	-	(584 609)	(584 609)
Correction of errors in expenses and payables relating to classification, VAT treatment and cut off	(1 392 395)	(617 796)	(2 010 191)
Correction of VAT incorrectly included in expenses for the 2017/2018 financial year	-	(962 357)	(962 357)
Overstatement of expenses due to duplicate payments made to a supplier	(695 652)	-	(695 652)
Transactions recorded on the general ledger but not on the accounts payable module	-	(319 140)	(319 140)
	(2 433 308)	**(2 483 902)**	**(4 917 210)**

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

53. Prior period errors (continued)
Property, plant and equipment and infrastructure WIP

The municipality identified a multiple number of errors affecting property, plant and equipment, related depreciation and infrastructure work in progress (WIP):

- Some assets were identified on the ground which were not recorded in the financial records of the municipality;
- Some assets were incorrectly disposed in the previous financial year. These assets were identified as existing at the end of current year;
- Depreciation calculation errors were discovered mainly due to incorrect useful lives used, inadequate assessments of remaining useful lives, inadequate infrastructure asset unbundling, assets not recorded in the fixed asset register and incorrect classification of assets;
- Some assets were incorrectly classified on the fixed asset register categories. The correction of this category of errors did not have an effect on the surplus previously reported in the prior years; and
- Some Work In Progress projects were capitalised in incorrect accounting periods resulting in misstatements in infrastructure assets and related depreciation. The correction of this category of errors did not have an effect on the surplus previously reported in the prior years.
- Some items of property, plant and equipment were received as donations but were recorded in an incorrect accounting period.

These have been made corrected in the current financial year, where these items have been corrected and prior period amounts adjusted retrospectively in accordance with GRAP 3 – Changes in Accounting Policies, Accounting Estimates and Errors.

The impact of the corrections on the surplus and opening accumulated surplus for the previous year is tabulated below:

Error description	2019 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)
Assets disposals misstated in the previous financial year	(124 730)	123 295	(1 435)
Assets not recorded in the financial records of the municipality	-	(14 006 428)	(14 006 428)
Depreciation on property, plant and equipment was misstated in the previous financial years	11 807 862	(24 479 864)	(12 672 002)
Donated assets recognised in incorrect financial years	(5 689 511)	-	(5 689 511)
	5 993 621	**(38 362 997)**	**(32 369 376)**

Derecognition of certain infrastructure assets amounting to R3 587 081

In the process of finalising financial statements for current year, the Municipality identified certain items of infrastructure that were lost by floods, replacements and related events amounting to a total carrying amount of R3.6m (cost of R7.5m, accumulated depreciation of R3.9m). These items were derecognised in current year using the council approval date of 31 October 2019 (current year) since the exact event dates could not be established therefore the errors could not be corrected retrospectively as required by GRAP 3 – Changes in Accounting Policies, Accounting Estimates and Errors.

53. Prior period errors (continued)
Employee related costs and leave accrual

The municipality lost some information relating to employees following arson attacks in 2017/2018 financial year and this affected the ability to produce reliable financial information affecting the employee leave provision and these errors were corrected retrospectively in accordance with GRAP 3 – Changes in Accounting Policies, Accounting Estimates and Errors. Resultantly, the errors in leave registers and calculations. There municipality also combined allowances and overtime together with basic salaries in the disclosure of employee costs. The correction of these classification errors did not have an effect on the surplus previously reported in the prior years.

The impact of the corrections on the surplus and opening accumulated surplus for the previous year is tabulated below:

Error description	2019 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)
Employee leave pay accrual misstatements in the previous financial years	1 087 299	104 667	1 191 966

Property rates, refuse and interest receivable

The following errors were identified and corrected and the adjustments made retrospectively as required by GRAP 3:

- Differences were identified between the debtors' statements (ageing) and general ledger;
- Impairment on property rates receivables was overstated in the previous financial years;
- Interest receivable from the money placed in call accounts with the banks was overstated in the previous financial year;
- Property rate receivables with credit balances were misstated. The correction of this category of errors did not have an effect on the surplus previously reported in the prior years; and
- Refuse charges were incorrectly levied of some properties for which no refuse collection is done and therefore these should not be charged for any refuse collection:

The impact of the corrections on the surplus and opening accumulated surplus for the previous year is tabulated below:

Error description	2019 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)
Impairment allowance on property rates debtors was overstated in the previous years	36 987	(1 743 193)	(1 706 206)
Interest receivable was overstated in the general ledger in the 20182019 financial year	47 218	-	47 218
Reversal of Refuse charges incorrectly processed in 2019	160 734	-	160 734
	244 939	**(1 743 193)**	**(1 498 254)**

Other misstatements and reclassifications

The municipality also decided to change certain general ledger account classifications in the annual financial statements in order to achieve a more accurate presentation in the college annual financial statements. As a result of these reclassifications, the prior years were restated retrospectively in terms of GRAP 3 – Changes in Accounting Policies, Accounting Estimates and Errors. The annual financial statement line items affected by these reclassifications are licences and permits and fines, penalties and forfeits. These reclassifications did not have an effect on the surplus previously reported in the prior years.

53. Prior period errors (continued)
Effect of correction of errors

The aggregate effect of the restatements on the municipality's annual financial statements for the year ended 30 June 2019:

Economic entity - 2019

Error and the effect on surplus/(deficit)	2019 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total R
A prepayment for purchase of stock items was incorrectly expensed	(164 520)	-	(164 520)
Accruals for the 2018/2019 financial year were overstated	(180 741)	-	(180 741)
Amounts owed to SARS at the end of 201/2018 financial year not cleared when they were settled in the 2018/2019 financial year	-	(584 609)	(584 609)
Assets disposals misstated in the previous financial year	(124 730)	123 295	(1 435)
Assets not recorded in the financial records of the municipality	-	(14 006 428)	(14 006 428)
Correction of errors in expenses and payables relating to classification, VAT treatment and cut off	(1 392 395)	(617 796)	(2 010 191)
Correction of VAT incorrectly included in expenses for the 2017/2018 financial year	-	(962 357)	(962 357)
Employee leave pay accrual misstatements in the previous financial years	1 087 299	104 667	1 191 966
Impairment allowance on property rates debtors was overstated in the previous years	36 987	(1 743 193)	(1 706 206)
Interest receivable was overstated in the general ledger in the 20182019 financial year	47 218	-	47 218
Overstatement of expenses due to duplicate payments made to a supplier	(695 652)	-	(695 652)
Depreciation on property, plant and equipment was misstated in the previous financial years	11 807 862	(24 479 864)	(12 672 002)
Reversal of Refuse charges incorrectly processed in 2019	160 734	-	160 734
Transactions recorded on the general ledger but not on the accounts payable module	-	(319 140)	(319 140)
Donated assets recognised in incorrect financial years	(5 689 511)	-	(5 689 511)
	4 892 551	**(42 485 425)**	**(37 592 874)**

The impact of corrections of these errors as well as reclassifications on the Statement of Financial Performance and Statement of financial Position are as follows:

53. Prior period errors (continued)

Statement of financial position	As previously disclosed	Correction of errors	Reclassifications	Restated
Inventory	733 097	-	-	733 097
Receivables from exchange transactions	6 457 265	134 693	-	6 591 958
Receivables from non-exchange transactions	4 962 808	1 561 259	-	6 524 067
VAT receivable	16 497 672	3 885 501	-	20 383 173
Consumer debtors	1 274 183	(184 844)	-	1 089 339
Cash and cash equivalents	57 308 528	-	-	57 308 528
Investment property	11 461 003	-	-	11 461 003
Property, plant and equipment	464 846 419	33 649 062	-	498 495 481
Finance lease obligation - current	(377 500)	-	-	(377 500)
Payables from exchange transactions	(31 390 447)	(1 452 797)	-	(32 843 244)
VAT payable	(4 510 006)	-	-	(4 510 006)
Consumer deposits	(61 000)	-	-	(61 000)
Employee benefit obligation - current	(403 759)	-	-	(403 759)
Unspent conditional grants and receipts	(4 203 304)	-	-	(4 203 304)
Provisions	(6 152 935)	-	-	(6 152 935)
Finance lease obligation non -current	(31 757)	-	-	(31 757)
Operating lease liability	(2 349 705)	-	-	(2 349 705)
Employee benefit obligation non - current	(3 624 453)	-	-	(3 624 453)
Provisions	(12 091 384)	-	-	(12 091 384)
Accumulated surplus	(498 344 725)	(37 592 874)	-	(535 937 599)
	-	-	-	-

Statement of financial performance	As previously disclosed	Correction of errors	Reclassifications	Restated
Service charges	(1 021 941)	160 733	-	(861 208)
Rental of facilities and equipment	(12 635)	-	-	(12 635)
Interest revenue from debtors	(3 654 008)	-	-	(3 654 008)
Licences and permits	(30 966)	-	(54 423)	(85 389)
Other income	(2 623 942)	-	-	(2 623 942)
Interest revenue - bank	(5 619 535)	47 218	-	(5 572 317)
Fair vslue adjustments	(101 486)	-	-	(101 486)
Property rates	(9 092 763)	-	-	(9 092 763)
Government grants & subsidies	(236 140 082)	-	-	(236 140 082)
Donations received	-	(5 710 844)	-	(5 710 844)
Fines, Penalties and Forfeits	(252 423)	-	54 423	(198 000)
Employee related costs	71 155 764	1 087 297	-	72 243 061
Remuneration of councillors	13 436 340	-	-	13 436 340
Depreciation and amortisation	34 333 771	11 829 194	-	46 162 965
Finance costs	2 097 632	-	-	2 097 632
Lease rentals on operating lease	2 359 414	-	-	2 359 414
Debt Impairment	4 396 859	36 987	-	4 433 846
Contracted services	5 752 250	(736 675)	-	5 015 575
Actuarial losses	662 002	-	-	662 002
Loss on disposal of assets	383 214	(124 729)	-	258 485
Inventory losses/write-downs	1 042 305	-	-	1 042 305
General Expenses	56 940 604	(1 696 630)	-	55 243 974
Surplus for the year	**(65 989 626)**	**4 892 551**	**-**	**(61 097 075)**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020 R	2019 R	2020 R	2019 R

53. Prior period errors (continued)
Corrections to prior period disclosures

During the year, the Municipality discovered and corrected prior period errors relating to disclosures previously made on commitments and Fruitless and wasteful expenditure. These errors resulted in misstatement of the disclosed amounts. Corrections were made to the disclosures of the previous financial year. The impact of the retrospective corrections is tabulated below.

Description	As previously disclosed	Correction of errors	Restated
Irregular expenditure	145 258 899	54 521 933	199 780 832

53. Prior period errors (continued)

Controlling entity - 2019

Error and the effect on surplus/(deficit)	2019 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)
A prepayment for purchase of stock items was incorrectly expensed	(164 520)	-	(164 520)
Accruals for the 2018/2019 financial year were overstated	(180 741)	-	(180 741)
Amounts owed to SARS at the end of 201/2018 financial year not cleared when they were settled in the 2018/2019 financial year	-	(584 609)	(584 609)
Assets disposals misstated in the previous financial year	(124 730)	123 295	(1 435)
Assets not recorded in the financial records of the municipality	-	(14 006 428)	(14 006 428)
Correction of errors in expenses and payables relating to classification, VAT treatment and cut off	(1 392 395)	(617 796)	(2 010 191)
Correction of VAT incorrectly included in expenses for the 2017/2018 financial year	-	(962 357)	(962 357)
Employee leave pay accrual misstatements in the previous financial years	1 087 299	104 667	1 191 966
Impairment allowance on property rates debtors was overstated in the previous years	36 987	(1 743 193)	(1 706 206)
Interest receivable was overstated in the general ledger in the 20182019 financial year	47 218	-	47 218
Overstatement of expenses due to duplicate payments made to a supplier	(695 652)	-	(695 652)
Depreciation on property, plant and equipment was misstated in the previous financial years	11 807 862	(24 479 864)	(12 672 002)
Reversal of Refuse charges incorrectly processed in 2019	160 734	-	160 734
Transactions recorded on the general ledger but not on the accounts payable module	-	(319 140)	(319 140)
Donated assets recognised in incorrect financial years	(5 689 511)	-	(5 689 511)
	4 892 551	**(42 485 425)**	**(37 592 874)**

The impact of corrections of these errors as well as reclassifications on the Statement of Financial Performance and Statement of financial Position are as follows:

53. Prior period errors (continued)

Statement of financial position	As previously disclosed	Correction of errors	Reclassifications	Restated
Inventory	733 097	-	-	733 097
Receivables from exchange transactions	6 434 195	134 693	-	6 568 888
Receivables from non-exchange transactions	4 962 808	1 561 259	-	6 524 067
VAT receivable	16 497 672	3 885 501	-	20 383 173
Consumer debtors	1 274 183	(184 844)	-	1 089 339
Cash and cash equivalents	57 055 088	-	-	57 055 088
Investment property	11 461 003	-	-	11 461 003
Property, plant and equipment	464 402 328	33 649 062	-	498 051 390
Finance lease obligation - current	(343 906)	-	-	(343 906)
Payables from exchange transactions	(29 597 523)	(1 452 797)	-	(31 050 320)
Consumer deposits	(61 000)	-	-	(61 000)
Employee benefit obligation - current	(403 759)	-	-	(403 759)
Unspent conditional grants and receipts	(1 951 670)	-	-	(1 951 670)
Finance lease obligation non -current	(31 757)	-	-	(31 757)
Operating lease liability	(2 349 705)	-	-	(2 349 705)
Employee benefit obligation non - current	(3 624 453)	-	-	(3 624 453)
Provisions	(12 091 384)	-	-	(12 091 384)
Accumulated surplus	(512 365 217)	(37 592 874)	-	(549 958 091)
	-	-	-	-

Statement of financial performance	As previously disclosed	Correction of errors	Reclassifications	Restated
Service charges	(1 021 941)	160 733	-	(861 208)
Rental of facilities and equipment	(12 635)	-	-	(12 635)
Interest revenue from debtors	(3 654 008)	-	-	(3 654 008)
Licences and permits	(30 966)	-	(54 423)	(85 389)
Other income	(2 502 836)	-	-	(2 502 836)
Interest revenue - bank	(5 619 535)	47 218	-	(5 572 317)
Property rates	(9 092 763)	-	-	(9 092 763)
Government grants & subsidies	(236 140 082)	-	-	(236 140 082)
Donations received	-	(5 710 844)	-	(5 710 844)
Fines, Penalties and Forfeits	(252 423)	-	54 423	(198 000)
Employee related costs	65 887 364	1 087 297	-	66 974 661
Remuneration of councillors	13 120 696	-	-	13 120 696
Depreciation and amortisation	34 142 139	11 829 194	-	45 971 333
Finance costs	1 448 544	-	-	1 448 544
Lease rentals on operating lease	2 273 814	-	-	2 273 814
Debt Impairment	4 396 859	36 987	-	4 433 846
Contracted services	5 752 250	(736 675)	-	5 015 575
Transfers and Subsidies	10 363 478	-	-	10 363 478
Loss on disposal of assets and liabilities	383 207	(124 729)	-	258 478
Actuarial losses	662 002	-	-	662 002
Inventories losses/write-downs	1 042 305	-	-	1 042 305
General Expenses	52 731 505	(1 696 630)	-	51 034 875
Surplus for the year	**(66 123 026)**	**4 892 551**	**-**	**(61 230 475)**

Notes to the Consolidated Annual Financial Statements

	Economic entity		Controlling entity	
	2020	2019	2020	2019
	R	R	R	R

53. Prior period errors (continued)

Corrections to prior period disclosures

During the year, the Municipality discovered and corrected prior period errors relating to disclosures previously made on commitments and Fruitless and wasteful expenditure. These errors resulted in misstatement of the disclosed amounts. Corrections were made to the disclosures of the previous financial year. The impact of the retrospective corrections is tabulated below.

Description	As previously disclosed	Correction of error(s)	Restated
Irregular expenditure	138 422 908	54 521 933	192 944 841

54. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are shown above.

55. Accounting by principals and agents

The municipality is not a party to any principal-agent arrangement(s).

56. Statutory receivables

In accordance with the principles of GRAP 108, Statutory Receivables of the municipality are classified as follows:

Receivables from Non-Exchange Transactions	2020 R	2019 R	2020 R	2019 R
Property rates	35 620 263	33 368 424	35 620 263	33 368 424
Traffic fines	7 326 210	20 383 173	7 326 210	20 383 173
	42 946 473	53 751 597	42 946 473	53 751 597
Other Receivables				
VAT receivable	1 700 483	1 479 283	1 700 483	1 479 283
	44 646 956	**55 230 880**	**44 646 956**	**55 230 880**

Refer to note 6, 5 and 8 for more detail relating to the fines and rates receivables, including any provision for impairment raised against the gross amounts disclosed above.