UTHUKELA
UMKHANDLU WESIFUNDA
DISTRIKSMUNISIPALITEIT
DISTRICT MUNICIPALITY

Uthukela District Municipality
Annual Financial Statements
for the period ended 30 June 2016

General Information

Legal form of entity	District Municipality
Nature of business and principal activities	The main business operations ot the municipality is to engage in Local Government activities, which includes planning and promotion of integrated development planning, economic, social and environmental development and supplying of the following services tc the comminty: the supply of water and sanitation services, as well as infrastructure development. Water is obtained from the Department o Water Affairs and distributed to the consumers by the municipality.
Municipal Demarcation Code	DC23
Executive Committee	
Mayor	Cllr D.C.P. Mazibuko (Ms.)
	Cllr T.E. Mchunu (Deputy Mayor)
	Cllr N.W. Sibiya (Ms.)
	Cllr A.S. Mazibuko
	Cllr S.A. Mvelase
Councillors	Cllr T.J. M.B. Jeebodh (Speaker)
	Cllr B.C. Mazibuko
	Cllr M.G Hlubi
	Cllr M.A. Mkhize
	Cllr Z.J. Sibisi
	Cllr T.P. Shabalala (Ms.)
	Cllr N.M. Hadebe
	Cllr S.B. Sibisi
	Cllr O.H.D. Sibaya (Ms.)
	Cllr N.M Hlomuka
	Cllr M.L. Zwane
	Cllr T.M. Cele
	Cllr B.R. Madonsela (Ms.)
	Cllr T. Xaba (Ms.)
	Cllr M.E. Mbatha
	Cllr N.L. Zikalala (Ms.)
	Cllr M.L. Mlotshwa
	Cllr S.D. Magubane
	Cllr K.A. Vilakazi
	Cllr B.C. Mabizela
	Cllr S.G. Sikhakhane (Ms.)
	Cllr M.W. Hadebe
	Cllr E.S. Ndumo
	Cllr T.Y. Nqubuka (Ms.)
	Cllr S. Simelane
Grading of local authority	Grade 4 Medium Capacity
Accounting Officer	S.N. Kunene
Chief Finance Officer	Ms. P.H.Z. Kubheka
Registered office	33 Forbes Street Ladysmith Tel: 036-6385100

General Information

	Fax: 036-6385126 municipalmanager@uthukeladm.co.za
Postal address	PO Box 116 Ladysmith Kwazulu Natal 3370
Bankers	First National Bank
Auditors	Auditor General - South Africa
Attorneys	Ramkhelewan Incorporated Ladysmith, 3370

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The reports and statements set out below comprise the Annual Financial Statements presented to the Provincial Legislature:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer certifies that the salaries, allowances and benefits of Councillors as disclosed in note 29 of these Annual Financial Statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with Remuneration of Public Office Bearers Act and Minister of Provincial and Local Government's determination in accordance with this act.

The annual financial statements set out on pagel to 90, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2016 and were signed by him:

S.N. Kunene
ACCOUNTING OFFICER

Statement of Financial Position as at June 30, 2016

	Note(s)	2016 R	2015 Restated* R
Assets			
Current Assets			
Inventories	8	5,546,962	5,217,027
Receivables from exchange transactions	9	4,398,513	4,172,090
Receivables from non-exchange transactions	10	6,024,781	5,827,080
Prepayments	7	139,624	556,012
Consumer debtors	11	143,673,170	124,526,085
Cash and cash equivalents	12	36,715,409	145,087,575
		196,498,459	**285,385,869**
Non-Current Assets			
Property, plant and equipment	4	1,913,594,549	1,785,634,547
Intangible assets	5	653,374	238,202
		1,914,247,923	**1,785,872,749**
Total Assets		**2,110,746,382**	**2,071,258,618**
Liabilities			
Current Liabilities			
Operating lease liability	35	378,853	634,124
Payables from exchange transactions	20	104,239,183	161,444,815
Other Accruals	21	42,685,813	14,791,777
Consumer deposits	22	11,885,907	10,473,849
Employee benefit obligation	6	878,943	899,126
Unspent conditional grants and receipts	16	467,541	6,999,029
VAT Payable	18	29,333,940	26,936,174
Purchase of office building	19	6,210,601	23,940,000
		196,080,781	**246,118,894**
Non-Current Liabilities			
Employee benefit obligation	6	26,438,620	12,494,245
Total Liabilities		**222,519,401**	**258,613,139**
Net Assets		**1,888,226,981**	**1,812,645,479**
Reserves			
Donations and public contributions	14	-	(465,190)
Accumulated surplus	15	1,888,226,981	1,813,110,669
Total Net Assets		**1,888,226,981**	**1,812,645,479**

Statement of Financial Performance

	Note(s)	2016 R	2015 Restated* R
Revenue			
Service charges	24	153,121,673	126,440,171
Interest received - trading services	23	20,214,647	19,148,562
Other income	23	3,566,813	3,122,395
Other income - donations	23	-	6,438,651
Interest received - investment	23	11,991,453	9,072,588
Government grants & subsidies	23&25	568,331,256	607,994,895
Total revenue		**757,225,842**	**772,217,262**
Expenditure			
Employee related costs	28	(198,647,228)	(152,520,450)
Remuneration of councillors	29	(6,381,097)	(5,841,687)
Depreciation and amortisation	32	(49,197,065)	(45,537,144)
Finance costs	33	(1,125,317)	(2,465,418)
Lease rentals on operating lease	35	(720,775)	(6,614,870)
Debt Impairment provision	30	(57,975,475)	71,148,947
Bad debt written off	47	(34,811,417)	(161,257,979)
Repairs and maintenance	37	(28,822,389)	(34,497,407)
Bulk purchases	38	(7,691,917)	(6,169,480)
Contracted services	36	(65,268,423)	(39,498,939)
General Expenses	27	(218,314,407)	(180,784,122)
Total expenditure		**(668,955,510)**	**(564,038,549)**
Operating surplus		**88,270,332**	**208,178,713**
Gain (Loss) on write off of assets		(1,231,708)	(2,464,113)
Inventories losses/write-downs		(344,075)	-
Gain (loss) on acturial valuations	6	(12,280,604)	(1,078,071)
		(13,856,387)	**(3,542,184)**
Surplus for the year		**74,413,945**	**204,636,529**

Statement of Changes in Net Assets

	Donations and public contributions R	Accumulated surplus R	Total net assets R
Balance at July 1, 2014	**223,453**	**1,600,601,432**	**1,600,824,885**
Changes in net assets			
Restated surplus for the year	-	204,636,529	204,636,529
Unidentified difference 2012/2013 financial year transfered to accumulated surpluses	-	(210,654)	(210,654)
Donated assets 2013/2014 financial year transfered to accumulated surpluses	(223,453)	223,453	-
Donated assets 2014/2015 financial year	(465,190)	-	(465,190)
Total changes	(688,643)	204,649,328	203,960,685
Opening balance restated	(465,190)	1,805,250,760	1,804,785,570
Adjustments			
Prior year (2014/2015) adjustments to PPE	-	7,859,909	7,859,909
Restated* Balance at July 1, 2015 as restated*	**(465,190)**	**1,813,110,669**	**1,812,645,479**
Changes in net assets			
Surplus for the year ending 30 June 2016	-	74,413,945	74,413,945
Movement in accumulated surplus account during 2015/2016	-	702,367	702,367
Donated assets 2014/2015 transfered to accumulated surpluses during 2015/2016	465,190	-	465,190
Total changes	465,190	75,116,312	75,581,502
Balance at 30June 2016	-	**1,888,226,981**	**1,888,226,981**

Cash Flow Statement

	Note(s)	2016 R	2015 Restated* R
Cash flows from operating activities			
Receipts			
Service charges		(77,122,560)	73,138,674
Grants		561,799,768	574,441,886
interest income		32,206,100	28,221,151
Other receipts		215,471,545	73,030,427
		732,354,853	748,832,138
Payments			
Employee and councillor costs		(217,308,929)	(159,440,208)
Suppliers and others		(444,602,070)	(247,413,602)
Finance costs		(1,125,317)	(2,465,418)
		(663,036,316)	(409,319,228)
Net cash flows from operating activities	39	**69,318,537**	**339,512,910**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(178,260,347)	(312,499,613)
Purchase of other intangible assets	5	(543,600)	(177,835)
Proceeds from sale of other intangible assets	5	(43,543)	-
Net cash flows from investing activities		**(178,847,490)**	**(312,677,448)**
Cash flows from financing activities			
Decrease in long term loan		-	(7,845,841)
Nett increase in other liability (Consumer Deposits)		-	1,083,730
Movement in other liability 2		1,412,058	-
Increase / (decrease) in finance lease liability		(255,271)	(1,540,102)
Net cash flows from financing activities		**1,156,787**	**(8,302,213)**
Net increase in cash and cash equivalents		**(108,372,166)**	**18,533,249**
Cash and cash equivalents at the beginning of the year		145,087,575	126,554,326
Cash and cash equivalents at the end of the year	12	**36,715,409**	**145,087,575**

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 Performance						
Revenue						
Revenue from exchange transactions						
Service charges	165,107,000	-	**165,107,000**	153,121,673	**(11,985,327)**	Note 1
Interest received	26,568,000	-	**26,568,000**	20,214,647	**(6,353,353)**	Note 2
Other income	356,000	-	**356,000**	3,566,813	**3,210,813**	Note 3
Interest received - investment	8,010,000	2,000,000	**10,010,000**	11,991,453	**1,981,453**	Note 4
Total revenue from exchange transactions	**200,041,000**	**2,000,000**	**202,041,000**	**188,894,586**	**(13,146,414)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants-Transfers recognised (capital)	556,311,000	(3,743,000)	**552,568,000**	568,331,256	**15,763,256**	Note 5
Total revenue	**756,352,000**	**(1,743,000)**	**754,609,000**	**757,225,842**	**2,616,842**	
Expenditure						
Personnel	(219,377,000)	-	**(219,377,000)**	(198,647,228)	**20,729,772**	Note 6
Remuneration of councillors	(5,332,000)	(814,000)	**(6,146,000)**	(6,381,097)	**(235,097)**	Note 7
Depreciation and amortisation	(51,430,000)	-	**(51,430,000)**	(49,197,065)	**2,232,935**	Note 8
Finance costs	(60,000)	60,000	-	(1,125,317)	**(1,125,317)**	Note9
Lease rentals on operating lease	-	-	-	(720,775)	**(720,775)**	Note 10
Bad debt provision	(28,222,000)	-	**(28,222,000)**	(57,975,475)	**(29,753,475)**	Note 11
Bad debt written off	-	-	-	(34,811,417)	**(34,811,417)**	Note 12
Repairs and maintenance	(59,605,000)	18,000,000	**(41,605,000)**	(28,822,389)	**12,782,611**	Note 13
Bulk purchases	(6,377,000)	841,000	**(5,536,000)**	(7,691,917)	**(2,155,917)**	Note 14
Contracted Services	(42,260,000)	(3,973,000)	**(46,233,000)**	(65,268,423)	**(19,035,423)**	Note 15
Government Grant Expenditure	(13,228,000)	-	**(13,228,000)**	-	**13,228,000**	Note 16
General Expenses	(154,661,000)	(4,473,000)	**(159,134,000)**	(218,314,407)	**(59,180,407)**	Note 17
Total expenditure	**(580,552,000)**	**9,641,000**	**(570,911,000)**	**(668,955,510)**	**(98,044,510)**	
Operating surplus	**175,800,000**	**7,898,000**	**183,698,000**	**88,270,332**	**(95,427,668)**	
Loss on disposal of assets and liabilities	-	-	-	(1,231,708)	**(1,231,708)**	Note 18
Actuarial gains/losses	-	-	-	(12,280,604)	**(12,280,604)**	Note 19
Inventories losses/write-downs	-	-	-	(344,075)	**(344,075)**	Note 20
	-	-	-	**(13,856,387)**	**(13,856,387)**	
Surplus before taxation	**175,800,000**	**7,898,000**	**183,698,000**	**74,413,945**	**(109,284,055)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**175,800,000**	**7,898,000**	**183,698,000**	**74,413,945**	**(109,284,055)**	

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
Statement of Financial Position						
Assets						
Current Assets						
Inventories	8,266,000	-	8,266,000	5,546,962	(2,719,038)	Note 21
Receivables from exchange transactions	12,503,000	-	12,503,000	4,398,513	(8,104,487)	Note 22
Receivables from non-exchange transactions	-	-	-	6,024,781	6,024,781	Note 23
Prepayments	-	-	-	139,624	139,624	Note 24
Consumer debtors from exchange transactions	320,315,000	-	320,315,000	143,673,170	(176,641,830)	Note 25
Cash and cash equivalents	47,030,000	-	47,030,000	36,715,409	(10,314,591)	Note 26
	388,114,000	-	388,114,000	196,498,459	(191,615,541)	
Non-Current Assets						
Property, plant and equipment	2,094,782,000	(58,166,000)	2,036,616,000	1,913,594,549	(123,021,451)	Note 27
Intangible assets	103,000	-	103,000	653,374	550,374	Note 28
	2,094,885,000	(58,166,000)	2,036,719,000	1,914,247,923	(122,471,077)	
Total Assets	2,482,999,000	(58,166,000)	2,424,833,000	2,110,746,382	(314,086,618)	
Liabilities						
Current Liabilities						
Operating lease liability	-	-	-	378,853	378,853	Note 29
Payables from exchange transactions	110,500,000	-	110,500,000	104,239,183	(6,260,817)	Note 30
Other accruals	-	-	-	42,685,813	42,685,813	Note 31
Consumer deposits	9,954,000	-	9,954,000	11,885,907	1,931,907	Note 32
Employee benefit obligation	-	-	-	878,943	878,943	Note 33
Unspent conditional grants and receipts	-	-	-	467,541	467,541	Note 34
Other liabilities (VAT payable)	13,846,000	-	13,846,000	29,333,940	15,487,940	Note 35
Other liabilities (purchase of office building)	-	-	-	6,210,601	6,210,601	Note 36
	134,300,000	-	134,300,000	196,080,781	61,780,781	
Non-Current Liabilities						
Provisions (Retirement benefit obligation)	12,925,000	-	12,925,000	26,438,620	13,513,620	Note 37
Total Liabilities	147,225,000	-	147,225,000	222,519,401	75,294,401	
Net Assets	2,335,774,000	(58,166,000)	2,277,608,000	1,888,226,981	(389,381,019)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Accumulated surplus	2,335,774,000	(58,166,000)	2,277,608,000	1,888,226,981	(389,381,019)	

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						
Sale of goods and services	107,678,000	(15,809,000)	**91,869,000**	(77,122,560)	**(168,991,560)**	
Grants	556,311,000	(3,743,000)	**552,568,000**	561,799,768	**9,231,768**	
Other receipts	358,000	-	**358,000**	215,471,545	**215,113,545**	
Interest income	13,324,000	-	**13,324,000**	32,206,100	**18,882,100**	
	677,671,000	**(19,552,000)**	**658,119,000**	**732,354,853**	**74,235,853**	
Payments						
Employee costs	(224,709,000)	5,332,000	**(219,377,000)**	(217,308,929)	**2,068,071**	
Suppliers and other	(262,904,000)	3,298,000	**(259,606,000)**	(444,602,070)	**(184,996,070)**	
Finance costs	(60,000)	60,000	-	(1,125,317)	**(1,125,317)**	
	(487,673,000)	**8,690,000**	**(478,983,000)**	**(663,036,316)**	**(184,053,316)**	
Net cash flows from operating activities	**189,998,000**	**(10,862,000)**	**179,136,000**	**69,318,537**	**(109,817,463)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(319,070,000)	58,166,000	**(260,904,000)**	(178,260,347)	**82,643,653**	
Proceeds from sale of property, plant and equipment	-	-	-	(43,543)	**(43,543)**	
Purchase of other intangible assets	-	-	-	(543,600)	**(543,600)**	
Net cash flows from investing activities	**(319,070,000)**	**58,166,000**	**(260,904,000)**	**(178,847,490)**	**82,056,510**	
Cash flows from financing activities						
Movement in other liability (consumer deposits)	413,000	-	**413,000**	1,412,058	**999,058**	
Movement in finance lease liabilty	-	-	-	(255,271)	**(255,271)**	
Net cash flows from financing activities	**413,000**	-	**413,000**	**1,156,787**	**743,787**	
Net increase/(decrease) in cash and cash equivalents	(128,659,000)	47,304,000	**(81,355,000)**	(108,372,166)	**(27,017,166)**	
Cash and cash equivalents at the beginning of the year	176,047,000	(30,959,000)	**145,088,000**	145,087,575	**(425)**	
Cash and cash equivalents at the end of the year	**47,388,000**	**16,345,000**	**63,733,000**	**36,715,409**	**(27,017,591)**	

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	

References to statement of comparison of budget and actual amounts

Statement of financial performance.

Note 1 - "Service charges" - Council did not achieve its target with regards to the budget on collection of service charges and has developed and implemented a revenue enhancement strategy to improve on the completeness of debtors and revenue collection. Field workers has been appointed to identify faulty meter which will be replaced during the 2016/2017 financial year. Consultants have been appointed whom has identified meters where no readings have been taken and meters which have been estimated over a period of time. Fualty meters will be replaced and all meters will be read during the 2016/2017 financial year.

Note 2 - "Interest Received" - As Council did not achieve its targets with regards to service charges budgeted for the targets set for interest on service charges were also not achieved.

Note 3 - "Other income" - Income was under budgeted. (budget was not realistic as it was based on previous trends).

Note 4 - "Interest received - investments" - Due to a positive cash flow situation during the year Council could invest more surplus funds therefore an increase on interest on investments.

Note 5 - "Government grants - transfers regognised" - This is as a result of 100% expenditure on grants which includes the roll over amounts from the 2014/2015 financial year.

Note 6 - "Employee related costs" - This is as a result of critical positions which were filled towards the second half of the financial year. Vacant positions were filled as per the approved organogram.

Note 7 - "Remuneration of Councillors" - Councillors recieved back pay during the 2015/2016 financial year as per the Government Gazette for Councillors upper limits dated December 2015.

Note 8 - "Depreciation and amortization" - Provision were made in the budget for the 2015/2016 financial year for the additional assets Council anticipated to purchased during the 2015/2016 financial year.

Note 9 - "Finance costs" - Council redeemed all DBSA loans and finance leases during the financial year. When the budget was compiled for the 2015/2016 financial year no provision was made for other bank charges.

Note 10 - "Lease rentals on operating leases" - This is a new line item on the statement of financial performance and was budgeted for under general expenditure. Going forward this line item will be budgeted for accourdingly.

Note 11 - "Provision for bad debt" - Collection of outstanding debt remains a challenge and with the increase in total outstanding debtors which were not anticipated the provision far exceeded the amount budgeted for.

Note 12 - "Bad debt Written off" - Council has implemented its indigent policy and indigent debt has been written off. This was not anticipated when the budget was compiled.

Note 13 - "Repairs and maintenance" - Council did not achieve their target on the maintenance of assets as the Asset and Maintenance Manager retired and there are no maintenance plan in place.

Note 14 - "Bulk purchases" - In the 2013/2015 financial year a provision was made in respect of bulk purchases however in the 2014/2015 financial year actual invoices received from DWA were paid. The budget therefore was not based on a provision but on anticipated actual billing from DWA. The expenditure reflected is based on actual invoices received from DWA in respect of the 2015/2016 financial year.

Note 15 - "Contracted services" - Council bought its own water tankers, however with the drought was forced to hire additional water tankers to be able to supply water to areas which have been affected. Council did not budget for the contractual appointments of additional water tankers therefore the increase in contracted services.

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	

Note 16 - "Government grant expenditure" - Government grants is no longer disclosed as a seperate line item in the statement of financial performance. These expennditure Is included in the other line items in thestatement of financial performance.

Note 17 - "General Expenditure" - Were under budgeted for.

Note 18 - "Loss on disposal of assets and liabilities" - This was not budgeted for.

Note 19 - "Actuarial gain/losses" - This is as a result of the actuarial valuation on long service awards and post retirenment medical which was not budgeted for.

Note 20 - "Inventory losses / write downs" - This is the result of inventory losses which were not budgeted for.

Statement of financial position.

Note 21 - "Inventories" - Inventory items are no longer kept at the plants and all items required must be obtained from the stores. Due to the drought a number of reservoirs are dry and water stock as at 30 June 2016 is significant less than the previous financial year. As the budget was based on the trend of the 2014/2015 financial year inventory were over budgeted for.

Note 22 - "Receivables from exchange transactions" - more consumers were anticipated to open water accounts as developments are expanding all over the district. This however did not seem to realize.

Note 23 - "Receivables from non-exchange transactions" - mainly due to salary fraude.This was not budgeted for.

Note 24 - "Prepayments" - this is in respect of rental of offices and parking space paid in advance. This was not budgeted for.

Note 25 - "Consumer debtors from exchance transactions" - When the budget were prepared provision for bad debt were not accurately taken into account therefore variance between budget and actual amount.

Note 26 - "Cash and cash equivalents" - Was over budgeted for. The budget was based on the 2014/2015 financial year however the affects of the drought could not be anticipated. More water tankers had to be hired and funds had to be made available for new bore holes and bore hole refurbishment which were only parcially grant funded.

Note 27 - "Property plant & equipment" - The variance betweeen the budget and actual amount is due to over budgeting. One of the reasons was the depreciation for the current year.

Note 28 - "Intangable assets" - The variance is the result of the purchase of new computer software from Microsoft etc. which had to be paid in US dollars.

Note 29 - "Operating lease liability" - the liability in respect of rental of offices and parking space. This was not budgeted for.

Note 30 - "Payables from exchange transactions" - Consist of Trust funds, DWA accrual in respect of raw water purchases and increase in retentions on capital expenditure.

Note 31 - "Other accruals" - Consiste of leave pay and bonus accruals which were not budgeted for.

Note 32 - "Consumer deposits" - The variance is as a result of increases in consumer deposits due to non payment of outstanding debt and new connections.

Note 33 - "Employee benefit obligation" - In respect of post retirement medical aid and long service awards. Were not budgeted for.

Note 34 - "Unspent conditional grants and receipts" - Represents the unspent liability at financial year end 30 June 2016 not budgeted for.

Note 35 - "Other Liabilities 1" - Represents VAT payable and was under budgeted.

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	

Note 36 - "Other Liabilities 2" - Represents the final payment due with regards to the purchase of the office building at 33 Forbes Street in Ladysmith.

Note 37 - " Provisions for retirement benefit obligation" - Medical aid and long service award obligation as at 30 June 2016 were under budgeted.

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
2016											
Financial Performance											
Service charges	165,107,000	-	165,107,000	-		165,107,000	153,121,673		(11,985,327)	93 %	93 %
Investment revenue	8,010,000	2,000,000	10,010,000	-		10,010,000	11,991,453		1,981,453	120 %	150 %
Transfers recognised - operational	318,371,000	(3,743,000)	314,628,000	-		314,628,000	322,989,343		8,361,343	103 %	101 %
Other own revenue	26,925,000	-	26,925,000	-		26,925,000	23,781,460		(3,143,540)	88 %	88 %
Total revenue (excluding capital transfers and contributions)	**518,413,000**	**(1,743,000)**	**516,670,000**	-		**516,670,000**	**511,883,929**		**(4,786,071)**	**99 %**	**99 %**
Employee costs	(219,377,000)	-	(219,377,000)	-	-	(219,377,000)	(198,647,228)	-	20,729,772	91 %	91 %
Remuneration of councillors	(5,332,000)	(814,000)	(6,146,000)	-	-	(6,146,000)	(6,381,097)	-	(235,097)	104 %	120 %
Debt impairment	(28,222,000)	-	(28,222,000)			(28,222,000)	(57,975,475)	-	(29,753,475)	205 %	205 %
Depreciation and asset impairment	(51,430,000)	-	(51,430,000)			(51,430,000)	(49,197,065)	-	2,232,935	96 %	96 %
Finance charges	(60,000)	60,000	-	-	-	-	(1,125,317)	-	(1,125,317)	DIV/0 %	1,876 %
Materials and bulk purchases	(6,377,000)	841,000	(5,536,000)	-	-	(5,536,000)	(7,691,917)	-	(2,155,917)	139 %	121 %
Other expenditure	(269,755,000)	9,555,000	(260,200,000)	-	-	(260,200,000)	(347,937,411)	-	(87,737,411)	134 %	129 %
Total expenditure	**(580,553,000)**	**9,642,000**	**(570,911,000)**	-	-	**(570,911,000)**	**(668,955,510)**	-	**(98,044,510)**	**117 %**	**115 %**
Surplus/(Deficit)	**(62,140,000)**	**7,899,000**	**(54,241,000)**	-		**(54,241,000)**	**(157,071,581)**		**(102,830,581)**	**290 %**	**253 %**

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
2016											
Financial Performance											
Service charges	165,107,000	-	165,107,000	-		165,107,000	153,121,673		(11,985,327)	93 %	93 %
Investment revenue	8,010,000	2,000,000	10,010,000	-		10,010,000	11,991,453		1,981,453	120 %	150 %
Transfers recognised - operational	318,371,000	(3,743,000)	314,628,000	-		314,628,000	322,989,343		8,361,343	103 %	101 %
Other own revenue	26,925,000	-	26,925,000	-		26,925,000	23,781,460		(3,143,540)	88 %	88 %
Total revenue (excluding capital transfers and contributions)	**518,413,000**	**(1,743,000)**	**516,670,000**	-		**516,670,000**	**511,883,929**		**(4,786,071)**	**99 %**	**99 %**
Employee costs	(219,377,000)	-	(219,377,000)	-	-	(219,377,000)	(198,647,228)	-	20,729,772	91 %	91 %
Remuneration of councillors	(5,332,000)	(814,000)	(6,146,000)	-	-	(6,146,000)	(6,381,097)	-	(235,097)	104 %	120 %
Debt impairment	(28,222,000)	-	(28,222,000)			(28,222,000)	(57,975,475)	-	(29,753,475)	205 %	205 %
Depreciation and asset impairment	(51,430,000)	-	(51,430,000)			(51,430,000)	(49,197,065)	-	2,232,935	96 %	96 %
Finance charges	(60,000)	60,000	-	-	-	-	(1,125,317)	-	(1,125,317)	DIV/0 %	1,876 %
Materials and bulk purchases	(6,377,000)	841,000	(5,536,000)	-	-	(5,536,000)	(7,691,917)	-	(2,155,917)	139 %	121 %
Other expenditure	(269,755,000)	9,555,000	(260,200,000)	-	-	(260,200,000)	(347,937,411)	-	(87,737,411)	134 %	129 %
Total expenditure	**(580,553,000)**	**9,642,000**	**(570,911,000)**	-	-	**(570,911,000)**	**(668,955,510)**	-	**(98,044,510)**	**117 %**	**115 %**
Surplus/(Deficit)	**(62,140,000)**	**7,899,000**	**(54,241,000)**	-		**(54,241,000)**	**(157,071,581)**		**(102,830,581)**	**290 %**	**253 %**

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	237,940,000	-	237,940,000	-		237,940,000	245,341,913		7,401,913	103 %	103 %
Surplus (Deficit) after capital transfers and contributions	**175,800,000**	**7,899,000**	**183,699,000**	**-**		**183,699,000**	**88,270,332**		**(95,428,668)**	**48 %**	**50 %**
Gain/Loss on actuarial valuations	-	-	-	-							
Gain/Loss on disposal of assets	-	-	-	-		-	12,280,604		12,280,604	DIV/0 %	DIV/0 %
Inventories losses/write-downs	-	-	-	-		-	1,231,708		1,231,708	DIV/0 %	DIV/0 %
						-	344,075		344,075	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	**175,800,000**	**7,899,000**	**183,699,000**	**-**		**183,699,000**	**74,413,945**		**(109,285,055)**	**41 %**	**42 %**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Significant judgements and sources of estimation uncertainty

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

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. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

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

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

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

1.3 Property, plant and equipment (continued)

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	30 Years
Plant and machinery	Straight line	5 Years
Furniture and fixtures	Straight line	7 years
Motor vehicles	Straight line	5 Years
Office equipment	Straight line	3-5 Years
IT equipment	Straight line	3 Years
Computer software	Straight line	3 years
Pumps	Straight line	15 Years
Reservoirs and tanks	Straight line	50 Years
Chemical tanks	Straight line	50 Years
Reinforced concrete clatifiers	Straight line	50 Years
Transformer high voltage	Straight line	50 Years
Transformer medium voltage	Straight line	45 Years
Laboratory equipment	Straight line	5 Years
Specialised vehicles	Straight line	5 Years
Water network	Straight line	20 Years

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

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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

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

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

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

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

Accounting Policies

1.4 Intangible assets

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

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Patents, trademarks and other rights	30 years
Computer software, other	3 years

1.5 Financial instruments

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

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

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

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

Accounting Policies

1.5 Financial instruments (continued)

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

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

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

Accounting Policies

1.5 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.5 Financial instruments (continued)

Classification

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

Class	Category
Receivables from excange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at fair value
Consumer debtors	Financial asset measured at amortised cost
Cash and cash euivalents	Financial asset measured at fair value

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
Other accruals	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
VAT payable	Financial liability measured at amortised cost
Purchase of office building	Financial liability measured at fair value

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

1.5 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

1.6 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.

1.6 Leases (continued)

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.

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

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

Operating leases - lessor

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

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

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

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

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

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.

1.7 Inventories

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

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

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

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

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

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

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

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

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.

1.8 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

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

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

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

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

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

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

Useful life is either:

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

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

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

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

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

Value in use

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

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

Discount rate

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

1.8 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

1.9 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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).

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

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

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

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

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

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

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

Useful life is either:

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

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

1.10 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.11 Employee benefits

Defined contribution plans

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

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

Accounting Policies

1.11 Employee benefits (continued)

Defined benefit plans

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

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

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

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

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

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

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

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

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

1.12 Provisions and contingencies

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus.

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

1.12 Provisions and contingencies (continued)

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

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

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

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

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

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

Where a fee is received by the municipality 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 municipality considers that an outflow of economic resources is probable, an municipality 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.

1.13 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.

1.14 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.

1.14 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

1.15 Revenue from non-exchange transactions

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

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

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

Government grants

Government grants are recognised as revenue when:

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

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

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

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

1.15 Revenue from non-exchange transactions (continued)

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.16 Investment income

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

1.17 Borrowing costs

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

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

1.18 Comparative figures

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

Comparative figures in the Statement of Financial Position has been reclassified in respect of prior year adjustments.

Comparative figures in the Statement of Financial Performance have been reclassified in respect of prior year adjustments.

1.19 Unauthorised expenditure

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

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act Act (No. 56 of 2003). All unauthorised expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

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

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

1.21 Irregular expenditure

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

1.21 Irregular expenditure (continued)

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

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

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

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

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

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

1.22 Budget information

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

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

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

The approved budget covers the fiscal period from 7/1/2015 to 6/30/2016.

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

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

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

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

Accounting Policies

1.23 Related parties (continued)

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

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.24 Events after reporting date

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

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

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

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

1.25 Going concern assumption

These financial statements have been prepared on the assumption that the municipality will continue to operate as a goining concern for at least the next 12 months