



**Ntabankulu Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2020**

**AUDITOR GENERAL  
SOUTH AFRICA**

**23 MAR 2021**

# **Ntabankulu Local Municipality**

Annual Financial Statements for the year ended 30 June 2020

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The reports and statements set out below comprise the annual financial statements presented to the Auditor General.

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### **Abbreviations**

<b>ASSA</b>	<b>Actuarial Society of South Africa</b>
<b>BTO</b>	<b>Budget and Treasury Office</b>
<b>COGTA</b>	<b>Cooperative Governance and Traditional Affairs</b>
<b>CPI</b>	<b>Consumer Price Index</b>
<b>DEDEAT</b>	<b>Department of Economic Development, Environmental Affairs &amp; Tourism</b>
<b>DSRAC</b>	<b>Department of Sport, Recreation, Arts and Culture</b>
<b>EPWP</b>	<b>Expanded Public Works Programme</b>
<b>EXCO</b>	<b>Executive Committee</b>
<b>FBE</b>	<b>Free Basic Electricity</b>
<b>FMG</b>	<b>Financial Management Grant</b>
<b>GRAP</b>	<b>Generally Recognised Accounting Practice</b>
<b>INEP</b>	<b>Integrated National Electrification Program</b>
<b>IPD</b>	<b>Infrastructure, Planning and Development</b>
<b>LED</b>	<b>Local Economic Development</b>
<b>MPCC</b>	<b>Multi-purpose Community Centre</b>
<b>MFMA</b>	<b>Municipal Finance Management Act</b>
<b>MIG</b>	<b>Municipal Infrastructure Grant (Previously CMIP)</b>
<b>MPAC</b>	<b>Municipal Public Accounts Committee</b>
<b>SALGA</b>	<b>South African Local Government Association</b>
<b>SDL</b>	<b>Skills Development Levy</b>
<b>UIF</b>	<b>Unemployment Insurance Fund</b>
<b>VAT</b>	<b>Value Added Tax</b>

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# Ntabankulu Local Municipality

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## General Information

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### Legal form of entity

Municipality

### Nature of business and principal activities

Ntabankulu Local Municipality is a South African Category B municipality (Local Municipality) as defined by the Municipal Structure Act (Act no 117 of 1998). The municipality's operations are governed by the Municipal Finance Management Act (Act 56 of 2003), the Municipal Structures Act (Act 177 of 1998), Municipal Systems Act (Act 32 of 2000) and various legislations and regulations.

### Municipal Councillors

Cllr PT Sobuthongo. Mayor

Cllr V Matwasa. Speaker

Cllr S Menziwa. Chief Whip

### EXCO Members

Cllr S Menziwa. Portfolio Head: Infrastructure, Planning and Development

Cllr N Pikwa. Portfolio Head: Community Services

Cllr S Sophaqa. Portfolio Head: Corporate Services

Cllr M Ndabeni. Portfolio Head: Local Economic Development

Cllr N T Mbonomtsha. Portfolio Head: Budget and Treasury Services

Cllr N Ndoyisile

Cllr BZ Ndamase. MPAC Chairperson

### Other Councillors

Cllr B Betwayo

Cllr M Madadasa

Cllr F Ntshela

Cllr Z Makhosonke

Cllr M Nqwazi

Cllr M Dinwayo

Cllr P Mafilika

Cllr B Ndlebe

Cllr M Gwegani

Cllr T Msuthu

Cllr N Sobuthongo

Cllr S Ncekana

Cllr K Nomanzoyiya

Cllr E Diko

Cllr T Lubisi

Cllr N Daniel

Cllr Z Mtyaphi

Cllr N Sithunzi

Cllr S Sicwayi

Cllr M Mkizwana

Cllr N Njiva

Cllr M Mkhendani

Cllr N Pezisa

Cllr M Tshaka

Cllr N Ndamase

### Grading of the Municipality

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### Accounting Officer

Ms L Nonyongo

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## **Ntabankulu Local Municipality**

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### **General Information**

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<b>Chief Financial Officer (CFO)</b>	Mrs XN Venn
<b>Registered office</b>	Erf 85 Main Street Ntabankulu 5130
<b>Business address</b>	Erf 85 Main Street Ntabankulu 5130
<b>Postal address</b>	P.O. Box 234 Ntabankulu 5130
<b>Website</b>	<a href="http://www.ntabankulu.gov.za">www.ntabankulu.gov.za</a>
<b>Auditors</b>	Auditor General of South Africa Registered Auditors 63 Frere Road Vincent
<b>Attorneys</b>	Municipal Attorneys 1. Madlanga and Partners Inc Attorneys Office of Hyde Park, 1st Floor , Block A 2nd road, Strouthos place Hyde Park, Johannesburg 2. Guzana Inc Attorneys 4 Kort Street Carolina 1185 3. Vuba Attorneys 28 Guller Street Butterworth
<b>Bankers</b>	First National Bank 151 York Road, Mthatha

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## **Ntabankulu Local Municipality**

Annual Financial Statements for the year ended 30 June 2020

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

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The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report.

It is the responsibility of the Accounting Officer to ensure that the Annual Financial Statements fairly present the state of affairs of the municipality as at 30 June 2020 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.

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.

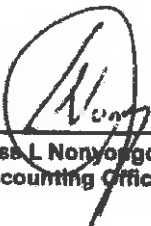
The Accounting Officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, she sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Annual Financial Statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement.

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

The Annual Financial Statements set out on pages 9 to 67, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 October 2020 and were signed by

  
\_\_\_\_\_  
Miss L. Nonyongo  
Accounting Officer

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# Ntabankulu Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Audit Committee Report

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

### Audit committee members and attendance

The audit committee consists of the members listed here under and should meet 4 times per annum as per its approved terms of reference. During the current financial year 6 meetings were held.

Name of member	Number of ordinary meetings attended	Number of special meetings attended
Mr G Labane (Chairperson)	4	2
Ms B Jojo	4	2
Mr M Nkosi	4	1
Mr Z Zulu	3	2
Ms K J Tubane	4	1

### Audit committee responsibility

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

### Overview

In adherence to the terms of the MFMA, the Audit Committee established and defined its composition, purpose and duties in the Audit Committee Charter. The Audit Committee reports that it complies with all legal and regulatory requirements as necessary under South African legislation. In fulfilling its duties, the Audit Committee:

- approved the internal audit plan;
- received and considered reports from internal auditors; and
- reviewed and discussed the Annual Financial Statements with the Accounting Officer and the Chief Financial Officer.

Following a review conducted by the Internal Audit Unit, and meeting the requirements of the terms of reference, the committee is satisfied that:

- Internal financial controls are effective however, not all material weaknesses in financial control have been identified; and
- The co-sourced internal audit function performed their duties as per the terms of reference contained in the Internal Audit Charter and addressed all components of the Internal Audit Plan and the external auditors of the municipality (Auditor General of South Africa), are independent.

### Internal Audit

Ntabankulu Local Municipality has a co-sourced Internal Audit Function. The Internal Audit Function provides the Audit Committee with assurance on the key areas of Ntabankulu Local Municipality's systems of internal control and risk management. The Internal Audit Plan and the Internal Audit Charter are annually reviewed and approved by the Audit Committee. Internal Audit provides assurance that Ntabankulu Local Municipality operates in a responsibly governed manner by performing the following functions:

- objectively assuring effectiveness of risk management and the internal control framework;
- analysing and assessing business processes and associated controls; and
- reporting audit findings and recommendations to management and the Audit Committee.

The Audit committee is of the opinion that Ntabankulu Local Municipality system of internal financial controls is effective and provides reasonable assurance that the financial records may be relied on for the preparation of the Annual Financial Statements.

The Audit Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the management of the municipality during the year under review.

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**Ntabankulu Local Municipality**  
Annual Financial Statements for the year ended 30 June 2020  
**Audit Committee Report**

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**Evaluation of the annual financial statements**

The Audit Committee has reviewed the Annual Financial Statements ended 30 June 2020 and concluded that it complies, in all material respects, with the requirements of GRAP. The committee recommended the approval of the Annual Financial Statements.


Furthermore, the Audit Committee recommended the adoption of the Annual Financial Statements. In this regard, the Committee:

- > Considered all facts and risks that may impact on the integrity of the Annual Financial Statements; and
- > Reviewed and commented on the Annual Financial Statements.

The Accounting Officer subsequently approved the Annual Financial Statements.

**Conclusion**

The committee is satisfied that it has considered and discharged its responsibilities in accordance with its mandate and terms of reference during the year.



\_\_\_\_\_  
Chairperson of the Audit Committee

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

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# **Ntabankulu Local Municipality**

Annual Financial Statements for the year ended 30 June 2020

## **Accounting Officer's Report**

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The Accounting Officer submits her report for the year ended 30 June 2020.

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

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

Ntabankulu Local Municipality is a South African category B municipality (local municipality) as defined by the Municipal Structures Act (Act no 117 of 1998). The Municipality's operations are governed by the Municipal Finance Management Act (Act 56 of 2003), the Municipal Structures Act (Act 177 of 1998), Municipal Systems Act (Act 32 of 2000) and various legislations and regulations.

The operating results for the year are fully set out in the attached Annual Financial Statements and do not in my opinion require any further comment.

Net deficit of the municipality was R 33,295,312 (2019: surplus R 4,444,816).

### **2. Going concern**

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

### **3. Subsequent events**

The Accounting Officer is not aware of any matter or circumstance arising since the end of the year financial period.

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# Ntabankulu Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
inventories	3	952,016	562,724
Receivables from exchange transactions	4	837,817	869,016
Receivables from non-exchange transactions	5	1,664,000	46,000
Statutory receivables	6	12,778,258	6,239,144
Cash and cash equivalents	7	5,154,719	19,361,654
		<b>21,386,810</b>	<b>27,078,538</b>
<b>Non-Current Assets</b>			
Investment property	8	31,207,652	29,220,228
Property, plant and equipment	9	337,163,670	380,302,949
Intangible assets	10	-	1,918
		<b>368,371,322</b>	<b>409,525,095</b>
<b>Total Assets</b>		<b>389,758,132</b>	<b>436,603,633</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	11	20,760,101	16,852,615
Unspent conditional grants and receipts	13	156,573	15,941,555
Payables from non-exchange transactions	14	598,935	1,794,182
Long service awards	12	234,108	476,171
		<b>21,749,717</b>	<b>35,064,523</b>
<b>Non-Current Liabilities</b>			
Provision for landfill site	15	808,131	1,223,682
Long service awards	12	2,366,037	2,185,869
		<b>3,174,168</b>	<b>3,409,551</b>
<b>Total Liabilities</b>		<b>24,923,885</b>	<b>38,474,074</b>
<b>Net Assets</b>		<b>364,834,247</b>	<b>398,129,559</b>
Accumulated surplus		364,834,247	398,129,559

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\* See Note 42 & 49

# Ntabankulu Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Financial Performance for the year ended 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	17	600,251	576,178
Rental of facilities and equipment	18	557,087	859,033
Interest received	19	3,089,993	2,837,040
Licences and permits	20	703,834	1,299,765
Sundry income	21	613,479	548,943
<b>Total revenue from exchange transactions</b>		<b>5,544,644</b>	<b>6,120,959</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	22	12,621,688	9,246,603
<b>Transfer revenue</b>			
Government grants & subsidies	23	203,484,993	193,906,344
Fines	24	835,300	618,900
<b>Total revenue from non-exchange transactions</b>		<b>216,941,981</b>	<b>203,771,847</b>
<b>Total revenue</b>	16	<b>222,486,625</b>	<b>209,892,806</b>
<b>Expenditure</b>			
Employee related costs	25	(66,318,377)	(59,819,862)
Remuneration of councillors	26	(11,653,587)	(11,240,159)
Depreciation and amortisation	27	(18,355,863)	(16,630,060)
Interest paid	28	(402,292)	(895,014)
Lease rentals on operating lease	29	(160,806)	(583,692)
Contribution allowance for impairment	30	(2,587,929)	(2,548,038)
Interest written off	6	(997,231)	-
General expenses	31	(52,396,950)	(51,298,585)
Repairs and maintenance	32	(3,899,152)	(2,314,380)
Auditors fees	33	(3,171,482)	(3,631,322)
Completed electrification transferred	34	(92,176,702)	(61,608,286)
<b>Total expenditure</b>		<b>(252,120,371)</b>	<b>(210,569,398)</b>
<b>Operating deficit</b>		<b>(29,633,746)</b>	<b>(676,592)</b>
Profit/(loss) on disposal of assets	35	247,257	(101,150)
Decrease/(increase) in provision for landfill site	15	455,076	(338,939)
Fair value adjustments	36	3,119,324	6,873,905
Actuarial gains/(losses)	12	117,925	(118,000)
Surplus on the transfer of land from inventory to investment property	8	-	702,319
Asset write off and investment property transfers	8&9	(7,117,726)	(1,445,357)
Inventory written off	3	(102,934)	-
Impairment loss: Infrastructure assets	9	(380,488)	(251,370)
		<b>(3,661,566)</b>	<b>5,121,408</b>
<b>(Deficit) surplus for the year</b>		<b>(33,295,312)</b>	<b>4,444,816</b>

\* See Note 42 & 49

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## Ntabankulu Local Municipality

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### Statement of Changes in Net Assets for the year ended 30 June 2020

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	394,332,714	394,332,714
Adjustments		
Correction of errors (Note 49)	(647,971)	(647,971)
<b>Balance at 01 July 2018 as restated*</b>	<b>393,684,743</b>	<b>393,684,743</b>
Changes in net assets		
Surplus for the year as previously reported	4,462,685	4,462,685
Correction of errors (Note 49)	(17,869)	(17,869)
<b>Total changes</b>	<b>4,444,816</b>	<b>4,444,816</b>
<b>Balance at 01 July 2019 as restated*</b>	<b>398,129,559</b>	<b>398,129,559</b>
Changes in net assets		
Deficit for the year	(33,295,312)	(33,295,312)
<b>Total changes</b>	<b>(33,295,312)</b>	<b>(33,295,312)</b>
<b>Balance at 30 June 2020</b>	<b>364,834,247</b>	<b>364,834,247</b>

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\* See Note 42 & 49

# Ntabankulu Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Cash Flow Statement for the year ended 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property Rates		11,783,263	7,266,251
Service Charges		551,237	369,614
Operating Grants		124,350,004	113,281,001
Capital Grants		61,686,007	95,824,993
Other Income		1,216,708	1,802,565
Rental		513,023	644,985
Interest Income		2,072,762	2,464,594
Fines		561,254	137,250
		202,734,258	221,771,253
<b>Payments</b>			
Suppliers and Employee costs		(143,267,974)	(128,519,865)
Interest paid		(162,791)	(677,586)
		(143,430,765)	(129,197,451)
<b>Net cash flows from operating activities</b>	37	<b>59,303,493</b>	<b>92,573,802</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(73,757,690)	(74,128,578)
Proceeds from sale of property, plant and equipment		247,262	124,225
<b>Net cash flows from investing activities</b>		<b>(73,510,428)</b>	<b>(74,004,353)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(14,206,935)</b>	<b>18,569,449</b>
Cash and cash equivalents at the beginning of the year		19,361,654	792,205
<b>Cash and cash equivalents at the end of the year</b>	7	<b>5,154,719</b>	<b>19,361,654</b>

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\* See Note 42 & 49

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**Ntabankulu Local Municipality**

Annual Financial Statements for the year ended 30 June 2020

**Statement of Comparison of Budget and Actual Amounts**

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	300,000	-	300,000	600,251	300,251	1
Rental of facilities and equipment	1,598,000	-	1,598,000	557,087	(1,040,913)	2
Licences and permits	2,300,000	(835,600)	1,464,400	703,834	(760,566)	3
Sundry income	1,968,000	301,000	2,269,000	613,479	(1,655,521)	4
Interest received - investment	1,750,000	300,000	2,050,000	3,069,993	1,019,993	5
<b>Total revenue from exchange transactions</b>	<b>7,916,000</b>	<b>(234,600)</b>	<b>7,681,400</b>	<b>5,544,644</b>	<b>(2,136,756)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	11,000,000	500,000	11,500,000	12,621,688	1,121,688	6
<b>Transfer revenue</b>						
Government grants & subsidies	184,145,000	19,403,767	203,548,767	203,484,993	(63,774)	im
Fines, Penalties and Forfeits	-	835,600	835,600	835,300	(300)	im
<b>Total revenue from non-exchange transactions</b>	<b>195,145,000</b>	<b>20,739,367</b>	<b>215,884,367</b>	<b>216,941,981</b>	<b>1,057,614</b>	
<b>Total revenue</b>	<b>203,061,000</b>	<b>20,504,767</b>	<b>223,565,767</b>	<b>222,486,625</b>	<b>(1,079,142)</b>	
<b>Expenditure</b>						
Employee related costs	(69,704,533)	2,737,317	(66,967,216)	(66,318,377)	648,839	im
Remuneration of councillors	(11,957,820)	-	(11,957,820)	(11,653,587)	304,233	im
Depreciation and amortisation	(20,000,000)	-	(20,000,000)	(18,355,863)	1,644,137	7
Finance costs	(100,000)	-	(100,000)	(402,292)	(302,292)	8
Lease rentals on operating lease	(800,000)	628,922	(171,078)	(190,896)	10,272	im
Debt Impairment	(2,600,000)	-	(2,600,000)	(2,587,929)	12,071	im
Bad debts written off	(7,000,000)	-	(7,000,000)	(1,203,607)	5,796,393	9
General Expenses	(62,630,029)	(2,593,578)	(65,223,607)	(52,190,574)	13,033,033	10
Repairs and maintenance	(5,585,000)	(708,500)	(6,293,500)	(3,899,152)	2,394,348	11
Audit fees	(3,000,000)	-	(3,000,000)	(3,171,482)	(171,482)	im
Completed electrification transferred	-	-	-	(92,176,702)	(92,176,702)	12
<b>Total expenditure</b>	<b>(183,377,382)</b>	<b>64,161</b>	<b>(183,313,221)</b>	<b>(252,120,371)</b>	<b>(68,807,150)</b>	
<b>Operating deficit</b>	<b>19,683,618</b>	<b>20,588,928</b>	<b>40,262,546</b>	<b>(29,633,746)</b>	<b>(69,886,292)</b>	
(Increase)/decrease landfill site provision	(1,000,000)	-	(1,000,000)	455,076	1,455,076	13
Fair value adjustments	-	-	-	3,119,324	3,119,324	14
Actuarial gains/losses	-	-	-	117,925	117,925	15
Asset write off	(10,000,000)	-	(10,000,000)	(7,117,726)	2,882,274	16
Inventory write off	-	-	-	(102,934)	(102,934)	17
Impairment loss. Infrastructure assets	(5,000,000)	-	(5,000,000)	(380,488)	4,618,512	18
	<b>(16,000,000)</b>	<b>-</b>	<b>(16,000,000)</b>	<b>(3,908,823)</b>	<b>12,091,177</b>	

## Ntabankulu Local Municipality

Annual Financial Statements for the year ended 30 June 2020

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts	Difference between final budget and actual	Reference
Figures in Rand						
<b>Deficit before taxation</b>	<b>3,683,618</b>	<b>20,568,928</b>	<b>24,252,546</b>	<b>(33,542,569)</b>	<b>(57,795,115)</b>	
<b>Deficit for the year from continuing operations</b>	<b>3,683,618</b>	<b>20,568,928</b>	<b>24,252,546</b>	<b>(33,542,569)</b>	<b>(57,795,115)</b>	
VAT Recovery	8,000,000	-	8,000,000	8,357,426	357,426	im
Transfer from internal reserves	53,156,152	-	53,156,152	-	(53,156,152)	19
Profit from disposal of assets	300,000	-	300,000	247,257	(52,743)	20
Capital Expenditure	(62,189,770)	(20,568,014)	<b>(82,757,784)</b>	(73,757,690)	9,000,094	21
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>2,950,000</b>	<b>914</b>	<b>2,950,914</b>	<b>(98,695,576)</b>	<b>(101,646,490)</b>	

im = Immaterial variances

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## Ntabankulu Local Municipality

Annual Financial Statements for the year ended 30 June 2020

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts	Difference between final budget and actual	Reference
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Figures in Rand

#### Material budget variances

**1. Service charges**

The service charges were under-budgeted for, only the actual receipts were considered on budget instead of considering the billing trends.

**2. Rental of facilities**

There was over-budgeting because the municipality had anticipated more revenue and billing on existing rentals. There were properties that were previously leased, the tenants moved out and the municipality is no longer billing those properties. There were delays in the appointment of an estate management company that was going to manage all municipal properties and ensure that the rentals are market related.

**3. Licences & Permits**

The difference is 52%, the calculation includes the actual for traffic fines which was budgeted on licences and permits. The budget was aligned to the trends on both revenues but the COVID-19 pandemic period made it difficult to reach the anticipated revenues.

**4. Sundry service**

The municipality could not dispose the land as anticipated and the other revenues were not collected. The lease of properties were budgeted twice but with different descriptions. The COVID-19 pandemic period had a negative impact on significant collection of other sundry services accounts.

**5. Interest received on investments**

Interest received was under-budgeted for as it was not in line with the billing and the ageing of receivables

**6. Property rates**

Property rates is under-budget for due to implementation of General Valuation roll and the first compulsory supplementary valuation roll. The increase in property rates revenue is due to implementation of general and supplementary valuation roll. When budgeting for property rates the municipality took into consideration the CPI as well as previous valuation roll without taking into consideration the current valuation roll. The property values have increased. The tariffs for levying of rates also increased during the year under review

**7. Depreciation**

The depreciation was anticipated to be slightly above the CPI since the municipality had planned to procure more assets, but the procurement processes were delayed to due lockdown as the result of COVID-19 pandemic. Also, there were assets that were under construction which the municipality anticipated to complete during the year that could not be completed due to the same reason

**8. Finance costs**

The finance costs were under budgeted for as the Municipality does not have cash backed reserves to fund non-cash items

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**Ntabankulu Local Municipality**

Annual Financial Statements for the year ended 30 June 2020

**Statement of Comparison of Budget and Actual Amounts**

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts	Difference between final budget and actual	Reference
Figures in Rand						
<b>9. Bad debts written-off</b>						
						The Municipality implemented an incentive strategy for its debtors in line with the revenue enhancement strategy. The call for ratepayers to participate in the 90/10 incentive scheme that was introduced in 2016 and 50/50 incentive scheme that was introduced in 2018 did not yield the anticipated results. Less than 10% of ratepayers responded to both schemes. The processes as outlined in the Credit Control policy were not undertaken to establish the write-off amount as an irrecoverable amount to be written off on the debtors. Included in this amount is an amount of interest written-off that is part of COVID 19 relief.
<b>10. General expenses</b>						
						The budgeted general expenses were more than the actual general expenses incurred. This was as a due to reduced municipal activities during the year resulting from the lockdown regulations.
<b>11. Repairs and maintenance</b>						
						There was underspending on repairs and maintenance, due to delays that were caused by lockdown regulations.
<b>12. Completed electrification transferred</b>						
						The transfer of completed electrification projects to Eskom were under-budgeted for as they were recurring from the previous years and the Municipality does not have backed cash reserves.
<b>13. Provision for landfill site</b>						
						The actual movements on the landfill site provision was less than the anticipated amount which resulted in overbudget. The provisions made for the current year was based on the prior year trends as per the Engineers reports.
<b>14. Fair value adjustments</b>						
						Fair value adjustment was not budgeted for as the Municipality does not have cash backed reserves to fund non-cash items
<b>15. Actuarial gains/losses</b>						
						Actuarial gains and losses were not budget for during the year. as the Municipality does not have cash backed reserves to fund non-cash items
<b>16. Asset write off</b>						
						The Asset write-off was over-budgeted for as the municipality was planning to write off assets that are still under Work-in -Progress for which construction that had been stopped or halted due to various reasons. However construction of some of these assets resumed towards the end of the current financial period.
<b>17. Inventory write off</b>						
						Inventory write off was not budgeted for as there was no inventory written off in the previous years, however during the inventory count it was determined that there were inventories that were identified as obsolete and the other were no longer in use.
<b>18. Impairment loss</b>						
						The impairment of Infrastructure assets was over-budgeted for as the municipality has anticipated to impair a lot of infrastructure assets, however the Engineers report has only identified a few assets to be impaired.

## Ntabankulu Local Municipality

Annual Financial Statements for the year ended 30 June 2020

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts	Difference between final budget and actual	Reference
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Figures in Rand

**19. Transfers from internal reserves**

Transfer from internal reserves were budget for, however the municipality could not make the actual reserves as anticipated.

**20. Profit on disposal of assets**

Profit on disposal of assets was over budgeted for as the municipality anticipated to make more profit than what was received. This was due to the auction processes.

**21. Capital expenditure**

The budget for capital expenditure included the VAT portion, however the actual amounts are VAT exclusive.

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# Ntabankulu Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

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

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

##### Trade receivables, loans and other receivables

##### Impairment testing

In calculating the impairment loss for receivables, the following were considered:

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

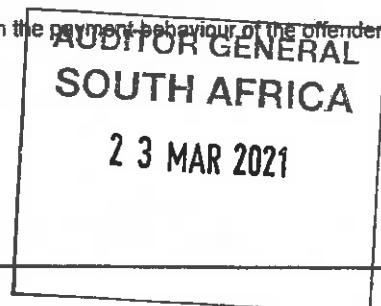
- The payments received from receivables for the year, with the exception of traffic fines.
- The age of the debt
- Current and 30 days were considered not to have past due date
- Receivables who were 60 days old were considered to be past due date but were not impaired

The municipality assessed the balances that were 60 days old for recoverability and believes that they are of good credit quality. The creation and the release of the impairment loss for receivables has been included in the Statement of Financial Performance.

For traffic fines the following additional assumptions are considered:

> Each individual ticket fine is considered as a receivable when it is raised.

> Impairment calculation will be based on the ticket fine raised and not on the payment behaviour of the offender.



## Ntabankulu Local Municipality

Annual Financial Statements for the year ended 30 June 2020

### Accounting Policies

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

##### Fair value estimation – Financial Instruments

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

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

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

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that Receivables are impaired. The impairment is measured as the difference between the Receivables carrying amount and Receivables recoverable amounts

##### Contingent Liabilities and Contingent Assets

Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or service potential will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs, except in the extremely rare circumstances where no reliable estimate can be made.

Contingent assets arise from unplanned or other unexpected events that are not wholly within the control of the entity and give rise to the possibility of an inflow of economic benefits or service potential to the entity. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements

##### Residual Values, useful lives and impairment of Property Plant and Equipment

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted (where required) annually

Where significant parts (components of an item of property, plant and equipment) have different useful lives or depreciation methods to the item itself, these parts are accounted for as separate items of property, plant and equipment

The carrying amounts of Property, Plant and Equipment are reviewed for impairment annually and when events or changes in circumstances indicate that the carrying amounts may not be recoverable. If any such indication exists and where the carrying amount exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amounts

##### Allowance for doubtful debts

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

**Ntabankulu Local Municipality**

Annual Financial Statements for the year ended 30 June 2020

**Accounting Policies****1.4 Investment property**

Investment property is recognised as an asset when it is probable that the future economic benefits that are associated with the property will flow to the entity, and the cost of the property can be reliably measured. Investment properties comprise properties held for earning rental income or for capital appreciation or both. This does not include properties held for the supply of services or for administrative purposes.

Investment Property is measured initially at its cost (transaction costs shall be included in this initial measurement). Where an Investment Property is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition. After initial recognition, investment property is held at the fair value model except in cases where the municipality cannot reliably determine the fair value thereof.

A gain or loss arising from a change in the fair value of investment property shall be included in surplus or deficit for the period in which it arises. Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The differences between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of financial performance in the period of derecognition.

**Fair value - Investment Property**

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

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

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

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

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

**1.5 Property, plant and equipment**

Property, plant and equipment is recognised when it is probable future economic benefits will flow to the entity and the cost can be measured reliably. Property, Plant & Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment includes all directly attributable costs that are incurred in order to bring the asset into a location and condition necessary to enable it to operate as intended by management and includes the cost of materials and direct labour.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised if the cost can be measured reliably and it is probable that the future economic benefits associated with the item will flow to the municipality. If a replacement part is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. When significant parts of property, plant and equipment are required to be replaced at intervals, the municipality recognises such part as individual assets with specific useful life and depreciates them accordingly. Likewise, when a major inspection is performed, the cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance expenditure is recognised as an expense in the year it is incurred.

Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease and depreciated over the estimated useful life of the asset on the same basis as owned assets. If the Municipality does not have reasonable certainty that it will obtain ownership of the leased asset at the end of the lease term, the asset is depreciated over the shorter of its lease term and its useful life.

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Annual Financial Statements for the year ended 30 June 2020

**Accounting Policies**

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

Land is not depreciated as it is deemed to have an indefinite life. Depreciation on other assets is calculated using the straight line basis over the estimated useful life of each part of the Property, Plant and Equipment from when it is available to operate as intended by management.

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	25 - 30 Years
Furniture	Straight line	5 - 7 Years
Motor vehicles	Straight line	4 - 7 Years
Office equipment	Straight line	5 - 7 Years
IT equipment	Straight line	3 - 5 Years
Computer software	Straight line	2 - 5 Years
<b>Infrastructure</b>		
Landfill site	Straight line	30 - 55 years
Culverts and ditch drains	Straight line	20 - 60 years
Traffic signs	Straight line	5 - 20 years
Electricity infrastructure	Straight line	15 - 40 years
Traffic barriers	Straight line	10 - 30 years
Roads & paving	Straight line	3 - 50 years
Recreational facilities	Straight line	10 - 60 years
Bridges	Straight line	60 - 80 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted (where required) annually. Where significant parts (components of an item of property, plant and equipment) have different useful lives or depreciation methods to the item itself, these parts are accounted for as separate items of property, plant and equipment.

The carrying amounts of Property, Plant and Equipment are reviewed for impairment annually and when events or changes in circumstances indicate that the carrying amounts may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amounts.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is included in operating surplus. Items or part of an item of property, plant and equipment are derecognised at the earlier of the date of disposal or the date when no future economic benefits are expected from its use. Gains or losses on derecognition of items of property, plant and equipment are included in the statement of financial performance. The gain or loss is the difference between the net disposal proceeds and the carrying amount of the asset.

**1.6 Intangible assets**

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.

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 arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale
- there is an intention to complete and use or sell it
- there is an ability to use or sell it
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset
- the expenditure attributable to the asset during its development can be measured reliably.

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Annual Financial Statements for the year ended 30 June 2020

### Accounting Policies

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#### 1.6 Intangible assets (continued)

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

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

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

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

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

Computer software and other	Straight line	5 years
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Intangible assets are derecognised:

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

#### 1.7 Financial instruments

Financial assets and liabilities are recognised on the municipality's statement of financial position when the Municipality becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value at date of acquisition. Subsequent to initial recognition financial instruments are measured as set out below;

##### Receivables from exchange transactions

Receivables from exchange transactions are subsequently measured at amortised cost using the effective interest rate method less provision for impairment. At each reporting date, the municipality assesses whether there is any objective evidence that trade and other receivables are impaired. A provision for impairment of trade and other receivables is raised in the statement of financial performance, when there is objective evidence that the municipality will not be able to collect all amounts due, in accordance with the original terms agreed upon. The amount of the provision is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The municipality takes the impairment of trade receivables directly to the carrying amount of the asset and recognises the impairment in profit and loss.

##### Receivables from non-exchange transaction

Receivables from non-exchange transactions arise through a contractual commitment by a third party to transact with the municipality, without the municipality giving the third party any value that approximates the contractual amount. Receivables from non-exchange are subsequently measured at cost, where cost is the amount contractually receivable.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and call deposits. Cash on hand is initially recognised at fair value and subsequently measured at fair value. Deposits are carried at amortised cost. However, due to their short-term nature, the amortised cost normally approximates its fair value.

##### Financial liabilities at amortised cost

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred, when the municipality become party to the contractual provisions. Borrowings are subsequently stated at amortised cost using the effective interest rate method. Any difference between the cost and the redemption value is recognised in the statement of financial position over the period of the borrowings as interest.

##### Payables from exchange transactions and unspent conditional grants liabilities

Payables from exchange transactions are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method

**Ntabankulu Local Municipality**

Annual Financial Statements for the year ended 30 June 2020

**Accounting Policies**

**1.7 Financial instruments (continued)**

**Payables from non-exchange transactions**

Payables from non-exchange transactions arise when the municipality has an obligation to return the grant funds and/or receipts transferred to it by any third parties, through a non-exchange transaction, if conditions of the grant have not been met (conditional grants). A non-exchange transaction is a transaction where an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

When funds are received as per stipulations of the grant contract, they give rise to a present obligation. A present obligation arising from a non-exchange transaction, that meets the definition of a liability shall be recognised as a liability when, and only when: it is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation, and reliable estimate can be made of the amount of the obligation.

Payables from exchange transactions are initially measured at fair value and are subsequently measured at cost. Where fair value is the best estimate of the amount required to settle the present obligation at the reporting date and cost is the cashoutflow payable to the third upon unsuccessful discharge of grant conditions.

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

**Offset**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legal enforceable right to set-off the recognised amounts, and the intention is to settle on a net basis or to realise the asset and settle the liability simultaneously.

**Derecognition**

A financial asset, or portion of a financial asset, is derecognised where:

- The rights to receive cash flows from the asset have expired
- The municipality has transferred the right to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without any material delay to a third party;
- The municipality has transferred substantially all the risks and rewards of the asset, and
- The municipality has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

**Impairment of financial assets**

Financial assets, other than those financial assets classified as fair value through the statement of financial performance, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted. If any such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is recognised in the surplus or deficit.

**1.8 Leases**

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

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



## **Accounting Policies**

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### **1.8 Leases (continued)**

#### **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 difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

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.

### **1.9 Inventories**

Inventories acquired through an exchange transaction are initially stated at cost. 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. Cost is determined using the First In First Out method. Inventories acquired through a non-exchange transaction are initially measured at fair value as at the date of acquisition.

All inventories are subsequently measured at lower of cost and net realisable value. The net realisable value of inventories is the estimate of the selling price in the ordinary course of business, less the estimated selling expenses.

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

#### **1.10 Impairment of cash-generating assets**

At each reporting date, the Municipality reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of financial performance. Where it is not possible to estimate the recoverable amount of an individual asset, the municipality estimates the recoverable amount of the cash-generating unit to which the asset belongs.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, if related objectively to an event occurring after the impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying value that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The reversal is recognised in the statement of financial performance. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying value, less any residual value, on a systematic basis over its remaining useful life.

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

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

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

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

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## Ntabankulu Local Municipality

Annual Financial Statements for the year ended 30 June 2020

### Accounting Policies

#### 1.11 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:

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

#### 1.12 Employee benefits

##### Long-service bonus awards employment benefit

##### Long service employment benefit

Ntabankulu offers bonuses for every 5 years of completed service from 10 years to 45 years. The liability recognised in respect of the long-service bonus awards is the present value of the obligation at the reporting date. The benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms of maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the Statement of Financial Performance, in the period in which they arise. Current service costs are recognised immediately in surplus and deficit.

##### Short-term employee benefits

Short-term employee benefits are those that are due to be settled within twelve months after the end of the period in which the services have been rendered. Remuneration of employees is charged to the Statement of Financial Performance. A provision is made for accumulated leave, incentive bonuses and other short-term employee benefits.

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**Accounting Policies****1.12 Employee benefits (continued)****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.

**Defined benefit plans**

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

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

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

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

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

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

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

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

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

**1.13 Value Added Tax (VAT)**

The Ntabankulu Local Municipality is a registered VAT Vendor in terms of the VAT Act of 1991.

**1.14 Provisions and contingencies**

Provisions are recognised when:

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risk and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects the risks specific to the liability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

## Ntabankulu Local Municipality

Annual Financial Statements for the year ended 30 June 2020

### Accounting Policies

#### 1.15 Commitments

Commitments represent goods/services that have been ordered, but no delivery has taken place at the reporting date. These amounts are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance as risks and rewards of ownership has not been transferred to the municipality prior delivery therein. However, are disclosed as part of the disclosure notes.

The commitments disclosed in the disclosure note are the aggregate amount of capital and current expenditure approved and contracted for at the reporting date, to the extent that the amount has not been recorded in the financial statements. A distinction is made between capital and current commitments

Other commitments for which disclosure is necessary to achieve a fair presentation will be disclosed in a note 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.

#### 1.16 Revenue from exchange transactions

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipalities activities. Revenue is reduced for customer returns, rebates and other similar allowances.

Service charges and licenses and permits are recognised in the statement of financial performance when the significant risks and rewards of ownership have been transferred to the customer.

Revenue from services rendered is recognised by reference to stage of completion.

Commission income is recognised in the statement of financial performance performance as revenue when it becomes due to the municipality.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

Rental of facilities and equipment revenue arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term.

#### 1.17 Revenue from non-exchange transactions

Revenue from non-exchange transactions arise where the municipality will receive resources and provide no or nominal consideration directly in return. These constitute government grants, property rates, fines and penalties.

Government grants pertain to funds and/or subsidies received or receivable by the municipality from other state organs. These include conditional and non-conditional grants. Conditional grants arise where the municipality has a conditional obligation to pay cash or another financial asset to the grantor, upon unsuccessful discharge of the grantor's conditions. Non-conditional grants are grants received or receivable for the municipality's operational needs, with no obligation to pay cash or another financial asset to the grantor.

Non-conditional government grants are recognised as revenue when received and conditional government grants received and recognised as an asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow, the revenue shall be measured at the amount of the increase in net assets recognised by the entity.

Subsequently, as an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset or expense, it shall reduce the carrying amount of the liability recognised and recognise an amount of revenue equal to that reduction.

Property rates satisfy the definition of "non-exchange transaction", because the homeowner transfers resources to the government without receiving approximately equal value directly in exchange.

An Municipality shall recognise an asset in respect of property rates when the taxable event occurs and the asset recognition criteria are met and, to the extent that an asset (cash or receivables) is recognised, the municipality shall also recognise the amount as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

**Ntabankulu Local Municipality**

Annual Financial Statements for the year ended 30 June 2020

**Accounting Policies****1.17 Revenue from non-exchange transactions (continued)**

Fines and penalties are economic benefits or service potential received or receivable by an entity from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws or regulations.

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. And, to the extent that an asset is recognised, the municipality shall also recognise the amount as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

In instances where a defendant reaches an agreement with a prosecutor that includes the payment of a penalty instead of being tried in court, the payment thus received or receivable shall be recognised as fine revenue.

**1.18 Investment income**

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

**1.19 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.

**1.20 Comparative figures**

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

**1.21 Unauthorised expenditure**

Unauthorised expenditure means:

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

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

**1.22 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.

**1.23 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the 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.

Irregular expenditure is equal to the value of the irregular expenditure incurred unless it is impracticable to determine, in which case reasons therefore are provided in note 41

## Ntabankulu Local Municipality

Annual Financial Statements for the year ended 30 June 2020

### Accounting Policies

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#### 1.24 Budget information

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

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

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

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

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

#### 1.25 Related parties

The municipality, in the ordinary course of business, entered into various sale and purchase transactions on an arm's length basis at market rates with related parties. The municipality is presumed to be related to all other government entities within the national sphere by virtue of its classification as a Category B municipality. Only transactions that are not carried out on an arm's length basis are disclosed. Key personnel are limited to the S56 employees only.

#### 1.26 Events after reporting date

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

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

The Municipality is not aware of any events after the reporting dates.

#### 1.27 Statutory receivables

##### Identification

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

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

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

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

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

##### Recognition

The municipality recognises statutory receivables as follows

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

**Ntabankulu Local Municipality**

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**Accounting Policies****1.27 Statutory receivables (continued)****Initial measurement**

The municipality initially measures statutory receivables at their transaction amount. The statutory receivables shall be measured initially in accordance with the applicable Standard of GRAP. The amount determined on initial measurement in accordance with another Standard of GRAP is the same as the transaction amount described in this Standard.

**Subsequent measurement**

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

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

**Derecognition**

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

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

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

**Impairment losses**

The municipality assesses at each reporting date whether there is any indication that an impairment loss should be recognised by comparing the carrying amount of the receivable to the cash flows the municipality expects to receive. The cash flows are discounted if the time value of money is material. While there are specific indicators that identify the need to assess if an impairment loss exists, municipalities should also consider the effect of delayed payment and whether this affects the carrying amount of the receivable.

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**2. New standards and interpretations**

**2.1 Standards and interpretations effective and adopted in the current year**

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	01 April 2019	The impact of the Standard is not material. The adoption of this Standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the financial statements.
• GRAP 108: Statutory Receivables	01 April 2019	

**2.2 Standards and interpretations issued, but not yet effective**

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	Not yet effective	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	Not yet effective	Unlikely there will be a material impact
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact

**3. Inventories**

Consumables	952,016	562,724
Inventory written off	102,934	
Inventories recognised as an expense during the year	562,724	528,348

**Inventory pledged as security**

No inventory was pledged as security.



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**4. Receivables from exchange transactions**

Rentals receivables	1,435,361	1,315,311
Refuse receivables	2,396,018	1,920,976
Sundry receivables	331,140	230,535
Allowance for impairment - refuse	(2,174,430)	(1,748,402)
Allowance for impairment - rentals	(925,390)	(849,404)
Allowance for impairment - sundry	(224,882)	-
	<b>837,817</b>	<b>869,016</b>

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

Trade and other receivables which are less than 2 months past due are not considered to be impaired. At 30 June 2020, R 101,293 (2019: R 290,923) were past due but not impaired.

The ageing of receivables from exchange transactions is as follows:

June 2020	Refuse	Rentals	Sundry	Total
Current-30 days	56,008	47,360	5,653	109,021
31-60 days	54,972	47,067	-	102,039
61-90 days	54,699	46,921	-	101,620
91-120 days	53,887	46,683	-	100,570
121-150 days	53,560	46,654	-	100,214
151 - 180 days	52,657	46,654	-	99,311
> 180 days	2,070,235	1,154,022	224,882	3,449,139
	<b>2,396,018</b>	<b>1,435,361</b>	<b>230,535</b>	<b>4,061,914</b>

June 2019	Refuse	Rental	Sundry	Total
Current-30 days	52,540	48,113	-	100,653
31-60 days	47,502	47,348	-	94,850
61-90 days	48,284	47,137	-	95,421
91-120 days	47,494	46,965	-	94,459
121-150 days	50,616	46,960	-	97,576
151 - 180 days	46,064	46,895	-	92,959
> 180 days	1,628,476	1,031,893	276,535	2,936,904
	<b>1,920,976</b>	<b>1,315,311</b>	<b>276,535</b>	<b>3,512,822</b>

**Trade and other receivables allowance for impairment**

As of 30 June 2020, the contribution towards allowance for impairment amounted to of R 726,896 (2019: R 340,345)

The amount is made up of the following.

	2020	2019
Rental	75,985	205,824
Refuse	426,028	134,521
Sundry	224,882	-

**Reconciliation of provision for impairment of trade and other receivables**

Opening balance	2,597,806	2,257,461
Provision for impairment	726,896	340,345
	<b>3,324,702</b>	<b>2,597,806</b>

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<b>5. Receivables from non-exchange transactions</b>		
LGSETA grant allocation	1,664,000	46,000

The amount relates to the LGSETA grant allocation that was not yet received at year end

### 6. Statutory receivables

VAT Receivables	8,834,363	3,456,589
Customer receivable - Rates	16,886,039	14,842,841
Customer receivable - Interest	5,021,914	3,542,008
Interest written off	(997,231)	-
Customer receivable - Traffic fines	3,053,089	2,556,589
Allowance for impairment - Rates	(13,607,536)	(12,402,763)
Allowance for impairment - Interest	(3,767,737)	(3,333,931)
Allowance for impairment - Traffic fines	(2,644,643)	(2,422,189)
	<b>12,778,268</b>	<b>6,239,144</b>

#### Statutory receivables past due but not impaired

Statutory receivables which are less than 2 months past due are not considered for allowance for impairment. At 30 June 2020, R 640,143 (2019: R 439,319) were past due but not impaired.

The ageing of statutory receivables is as follows:

June 2020	Rates	Customer Interest	Traffic Fines	Total
Current-30 days	595,697	86,386	33,800	715,883
31-60 days	565,644	84,300	19,500	669,444
61-90 days	537,801	80,593	25,300	643,694
91-120 days	535,059	78,150	46,000	659,209
121 - 150 days	527,421	75,985	36,900	640,306
151-180 days	474,343	74,179	38,100	586,622
> 180 days	13,650,074	3,539,461	2,853,489	20,043,024
	<b>16,886,039</b>	<b>4,019,054</b>	<b>3,053,089</b>	<b>23,958,182</b>

June 2019	Rates	Customer Interest	Traffic Fines	Total
Current-30 days	392,861	69,672	43,100	505,633
31-60 days	326,871	69,148	45,800	441,819
61-90 days	330,640	66,488	45,500	442,628
91-120 days	341,226	66,439	15,600	423,265
121-150 days	354,985	63,854	41,400	460,239
151-180 days	332,712	62,559	51,300	446,571
> 180 days	12,763,548	3,143,848	2,313,889	18,221,283
	<b>14,842,841</b>	<b>3,542,008</b>	<b>2,556,589</b>	<b>20,941,438</b>

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# Ntabankulu Local Municipality

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### 6. Statutory receivables (continued)

#### Statutory receivables allowance for impairment

The current year contribution to allowance for impairment loss amounted to R 1,861,033 (2019: R 2,207,694).

The contribution to allowance for impairment is made up of the following:

Rates	2020	2019
Traffic fines	1,204,773	1,524,857
Customer interest	222,453	478,500
	433,087	204,337
<b>Reconciliation of provision for impairment of statutory receivables</b>		
Opening balance		
Increase in provision for impairment	18,158,883	15,951,190
	1,861,033	2,207,693
	<b>20,019,916</b>	<b>18,158,883</b>

The following prescripts authorises the municipality to charge and collect funds to fund its mandate. The resulting receivables are therefore classified as statutory receivables to be disclosed as such under GRAP 108 disclosures. These are:

- Section 229(1) of the Constitution of the Republic of South Africa
- Municipal Systems Act
- Section 75A of the Systems Act
- Section 74(1) of the Systems Act
- Section 75(1) of the Systems Act
- Section 75(2) of the Systems Act
- Value Added Tax Act
- Municipal Properties Rates Act
- Administrative Adjudication of Road Traffic Offences Act

The following statutory receivables have been identified by the municipality:

Non-exchange transactions:

- VAT receivable.
- Rates receivables.
- Traffic fines receivables.
- Interest on outstanding refuse and rates payments.

The method to determine the amount chargeable for the above transactions are documented in Annexure I of the Ntabankulu Local Municipality Tariffs Policy which is promulgated and approved annually.

All interest on overdue accounts is charged at an interest rate of 5% per annum as per par 6.5 of the Ntabankulu Local Municipality Credit control and debt collection policy. However, during the current year, interest charges raised during the year were written off by Council as a way of easing the impact of COVID-19 related expenditure on ratepayers.

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## Ntabankulu Local Municipality

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#### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	40,372	52,238
Bank balances	335,862	1,131,638
Investment balances	4,778,485	18,177,778
	<b>5,154,719</b>	<b>19,361,654</b>

Cash at bank earns interest at floating rates based on daily deposit rates. Short term deposit are made for varying periods depending on the immediate cash requirements and interest at respective short term deposit rate. The municipal accounts are held at FNB.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
Main Account: Current	4,474,929	1,131,638	1,616	335,862	1,131,636	1,616
Operations - Call Account	1,054	1,000	2,431	1,054	1,000	2,431
VAT Call Account	1,000	1,000	1,262	1,000	1,000	1,262
Credit Account- FNB	857	-	-	-	-	-
Municipal Support Institution - FNB Call Account	1,000	1,000	-	1,000	1,000	-
<b>Grant accounts</b>						
INEP - FNB Call Account	400,000	3,146,691	-	400,000	3,146,691	-
FMG - FNB Call Account	1,000	1,000	17,526	1,000	1,000	17,526
MIG - FNB Call Account	8,329,077	14,896,140	-	3,981,928	14,896,140	-
DEDEAT - FNB Call Account	1,031	1,000	61,021	1,029	1,000	61,021
DSRAC - FNB Call Account	180,372	50,200	370,256	180,372	50,200	370,256
EPWP - FNB Call Account	1,398	1,000	-	1,398	1,000	-
Solidarity Fund- FNB Cheque Account	1,000	-	-	1,000	-	-
Traffic Fines - FNB Call Account	1,050	1,007	3,869	1,050	1,007	3,869
Solidarity Fund- FNB Money on Call Account	128,318	-	-	128,318	-	-
Municipal Disaster Management- FNB Money on Call Account	417,295	-	-	1,295	-	-
Small Town Revitalisation - FNB Call Account	74,455	74,303	256,676	74,455	74,303	256,676
COGTA - Electrification - FNB Call Account	3,634	3,482	2,243	3,634	3,439	2,243
<b>Total</b>	<b>14,017,470</b>	<b>19,309,461</b>	<b>716,900</b>	<b>5,114,395</b>	<b>19,309,416</b>	<b>716,900</b>

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#### 8. Investment property

	2020		2019	
	Cost / Valuation	Carrying value	Cost / Valuation	Carrying value
Investment property	31,207,652	- 31,207,652	29,220,228	- 29,220,228

#### Reconciliation of investment property - June 2020

	Fair Value at 01 July 2019	Transfers	Fair value adjustments	Fair Value at 30 June 2020
Investment property	29,220,228	(1,131,900)	3,119,324	31,207,652

#### Reconciliation of Investment Property - June 2019

	Fair Value at 01 July 2018	Derecognition	Transfers	Fair value adjustments	Fair Value at 30 June 2019
Investment property	22,262,725	(651,561)	935,159	6,673,905	29,220,228

#### Pledged as security

No items of investment property are pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. The investment property was valued during the 2020 financial year using Fair Value model as prescribed in GRAP 16. The determination of fair value was supported by market evidence. The fair value of the investment property was determined by an independent valuer who is registered as a professional associated valuer.

Investment property balance as at 30 June 2020 consists of both vacant land and improved properties. Properties that were found not to be owned by the Ntabankulu local municipality anymore as per the deeds office are transferred out of Investment Property.

#### Amounts recognised in surplus or deficit

##### Surplus/(Deficit) on transfer of land from inventory to investment property

Fair value of property on transfer to investment property	-	943,059
Inventory cost price of land	-	(240,740)
	-	<b>702,319</b>

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**9. Property, plant and equipment**

	2020			2019		
	Cost/ Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/ Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2,033,539	-	2,033,539	2,033,539	-	2,033,539
Buildings	137,700,369	(43,691,426)	94,008,943	117,680,048	(39,352,365)	78,327,683
Machinery	1,177,186	(595,975)	581,211	1,177,186	(428,298)	748,888
Furniture & Fittings	3,169,746	(2,430,854)	738,892	2,949,988	(2,240,776)	709,212
Motor vehicles	5,988,916	(3,738,363)	2,250,553	5,776,409	(3,927,953)	1,848,456
IT equipment	5,124,821	(2,922,495)	2,202,326	3,321,971	(2,336,710)	885,261
Infrastructure	190,307,213	(76,886,471)	113,420,742	164,151,575	(64,389,537)	99,762,038
Work in Progress	115,418,063	-	115,418,063	189,336,705	-	189,336,705
Landfill site	7,090,307	(580,906)	6,509,401	7,090,307	(439,140)	6,651,167
<b>Total</b>	<b>468,010,160</b>	<b>(130,846,490)</b>	<b>337,163,670</b>	<b>493,417,728</b>	<b>(113,114,779)</b>	<b>380,302,949</b>

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**9. Property, plant and equipment (continued)**  
**Reconciliation of property, plant and equipment - June 2020**

	Opening balance	Additions	Disposals	Transfers	Write offs	Depreciation	Impairment loss	Total
Infrastructure	99,762,038	-	-	26,487,874	(253,600)	(12,211,043)	(364,527)	113,420,742
Land	2,033,539	-	-	-	-	-	-	2,033,539
Landfill site	6,651,167	-	-	-	-	(141,766)	-	6,509,401
Buildings	78,327,683	-	-	20,034,820	(7,623)	(4,329,976)	(15,961)	94,008,943
Machinery	748,888	-	-	-	-	(167,677)	-	581,211
Furniture & Fittings	708,212	219,759	-	-	-	(190,079)	-	738,892
Motor vehicles	1,848,456	1,129,727	-	-	-	(727,625)	-	2,250,553
IT equipment	885,261	1,802,850	-	-	-	(585,785)	-	2,202,326
Work in Progress	189,336,705	70,505,354	-	(138,699,396)	(5,724,600)	-	-	115,418,063
	<b>380,302,949</b>	<b>73,757,690</b>	<b>(5)</b>	<b>(92,176,702)</b>	<b>(5,985,823)</b>	<b>(16,353,951)</b>	<b>(380,488)</b>	<b>337,163,670</b>

**Work-in-progress transfers**

Included in the total of R138 699,396 for work-in-progress transfers is an amount of R92,176,702 relating to electrification projects that were constructed by the Municipality and transferred to ESKOM as the custodian of Electricity Function as per the agreements signed by the Municipality, the Department of Energy and Eskom.

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**9. Property, plant and equipment (continued)**  
**Reconciliation of property, plant and equipment - June 2019**

	Opening balance	Additions	Disposals	Transfers received	Transfers	Prior period errors	Write offs	Depreciation	Impairment loss	Total
Infrastructure	95,209,269	-	-	15,953,041	-	140,114	(31,299)	(11,257,717)	(251,370)	99,762,038
Land	2,033,539	-	-	-	-	-	-	-	-	2,033,539
Landfill site	6,792,932	-	-	-	-	-	-	-	-	6,651,167
Buildings	80,153,630	-	-	2,301,705	-	-	(133,946)	(141,765)	-	78,327,683
Machinery	862,217	54,366	-	-	-	-	-	(167,697)	-	748,888
Furniture & Fittings	711,683	213,400	-	-	-	-	(1,654)	(214,217)	-	709,212
Motor vehicles	1,433,835	1,209,738	(204,532)	-	-	-	-	(590,586)	-	1,848,456
IT equipment	646,014	500,000	-	-	-	-	(193)	(260,561)	-	885,261
Work in Progress	197,196,690	72,151,075	-	-	(79,412,959)	-	(598,102)	-	-	189,336,705
	<b>385,039,809</b>	<b>74,128,579</b>	<b>(204,532)</b>	<b>18,254,746</b>	<b>(79,412,959)</b>	<b>140,114</b>	<b>(765,194)</b>	<b>(16,626,248)</b>	<b>(251,370)</b>	<b>380,302,949</b>

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	2020	2019
<b>9. Property, plant and equipment (continued)</b>		
<b>Project name and reasons for delays</b>	<b>2020</b>	<b>2019</b>
<b>Land and buildings</b>		
<b>Multipurpose centre</b> In July 2019 a new contractor was procured for the completion of the project. The duration of the project was planned to end in May 2020. However due to the COVID-19 lockdown the project implementation was disturbed. Completion is now anticipated by end September 2020.	37,375,155	27,058,303
<b>Noncoloza access road</b> Project was not completed due to budgetary constraints. The contractor under quoted for the project and as such failed to complete it. The project will not be continuing.	-	3,364,962
<b>Mpoza Pre-school</b> Project was planned for implementation and completion in the 2019/20 financial year. The tender was advertised twice as the first call for tenders did not receive responsive tenders due to a poorly scoped BOQ by Department of Public Works. The contractor for the implementation of the project was only appointed in August 2020. The project has been planned and budgeted in the 2020/2021 financial year.	633,625	633,625
<b>Madwaba Pre-school</b> The contractor for the completion of the project was appointed in October 2019. The project was planned for completion by June 2020. However, delays were experienced due to inclement weather, delayed delivery of roof material and the COVID-19 lockdown. The project will be completed by end August 2020.	2,107,241	822,974
<b>Bulelani Pre-school</b> The project has since been completed.	-	848,745
<b>Bhayi to Ntlangano access road</b> The project has since been completed.	-	6,512,172
<b>Solar street lights</b> The poles that were installed by the service provider were found to be faulty and were therefore removed. Their expenditure was then written-off.	-	677,980
<b>Lalashé access road</b> Designs recommended an alternative route which required the construction of a bridge and as such caused the project to be more expensive than what was budgeted for. The project will no longer be implemented and has been written-off during the year.	-	1,683,761
<b>Ntabankulu internal streets</b> The project did not have significant progress due to the contractor's cash flow problems. The project also required additional funding which the municipality requested from Provincial Treasury in August 2018 and the funds were approved in February 2019. After that the project has been progressing at a very slow pace due to poor performance of the contractor.	54,939,475	46,865,563
<b>Small town revitalisation</b> The funder, Office of the Premier, withdrew their funding support. The municipality is now in an effort to seek funding support in other government institutions.	7,043,470	7,043,470
<b>Caba Community Hall</b> The project was initially delayed by poor performance from the contractor. The contractor also abandoned the site, an intention to terminate the contract was issued to the contractor. Another contractor will be appointed during the 2020/2021 financial year and the completion date for the project will be revised.	2,942,004	2,138,142

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<b>9. Property, plant and equipment (continued)</b>		
Mazeni Community Hall- The project was initially delayed by poor performance from the contractor. The contractor also abandoned the site, however the contractor returned to site and continued with the construction of the hall. The contractor also applied for extra time and the project completion date moved to August 2020.	1,950,912	1,111,991
Vulindlela to Mbhotshongweni access road Phase 1 The contractor experienced delays due to the following:	1,656,600	-
- Rain delays which led to site being inaccessible, - Nation Lockdown due to COVID-19, - Additional quantities relating to earthworks and more materials were excavated than anticipated		
Extension of time will be granted upon the contractor's request.		
Sidewalks and Landscaping – Ntabankulu Main Street The project was delayed by the Nation Lockdown due to COVID-19. The contractor applied for extra time and the project completion date moved to 30 June 2020, subsequent to that, penalties will be evoked.	2,823,201	-

#### Reconciliation of Work-in-Progress June 2020

	Infrastructure	Electrification	Buildings and other PPE	Total
Opening balance	70,392,480	64,412,049	54,532,177	189,336,706
Additions/capital expenditure	19,914,367	30,893,234	19,697,753	70,505,354
Transfers out	(18,795,376)	(94,629,408)	(25,274,613)	(138,699,397)
WIP written off	(5,048,724)	(675,875)	-	(5,724,599)
	<b>66,462,747</b>	<b>-</b>	<b>48,955,317</b>	<b>115,418,064</b>

Included under write offs of work-in-progress are the following R1,683,741 for Lalashe Access Road written off due to the fact that the designs recommended an alternative route which required the construction of a bridge and as such caused the project to be more expensive than what was budgeted for, R3,364,962 for Noncolosa to Habhu Access Road written off due to the service provider pulling off the site due to under-quoting, and R675,875 for Solar Powered Street Lights - Section 1 written off due to termination of the contract as the service provider failed to execute the project completion

#### Reconciliation of Work-in-Progress June 2019

	Infrastructure	Electrification	Buildings and other PPE	Total
Opening balance	68,043,499	83,642,845	45,510,346	197,196,690
Additions/capital expenditure	16,450,048	44,378,595	11,321,432	72,151,075
Transfers out	(13,502,966)	(63,608,288)	(2,301,704)	(79,412,958)
Transferred to completed items	(598,101)	-	-	(598,101)
	<b>70,392,480</b>	<b>64,414,152</b>	<b>54,530,074</b>	<b>189,336,706</b>

#### Pledged as security

No items of property, plant and equipment are pledged as security

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#### 10. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	288,787	(288,787)	-	288,787	(286,869)	1,918

#### Reconciliation of intangible assets - June 2020

	Opening balance	Derecognition	Amortisation	Total
Computer software	1,918	(3)	(1,915)	-

#### Reconciliation of intangible assets - June 2019

	Opening balance	Amortisation	Total
Computer software	7,666	(5,748)	1,918

#### Pledged as security

No intangible assets are pledged as security.

#### 11. Payables from exchange transactions

Trade payables	4,831,794	8,582,616
Receivables with credit balance	153,571	155,504
Accruals	1,856,424	1,803,986
Accrued leave pay	6,078,165	4,015,442
Accrued bonus	1,419,166	1,221,513
Retention fees	6,286,609	905,292
Staff creditors	134,372	168,262
	<b>20,760,101</b>	<b>16,852,616</b>

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#### 12. Long service awards

An independent, statutory actuarial valuation is performed on an annual basis by One Pangaea Expertise & Solutions.

The long service award is determined using the Projected Unit Credit Method. This liability is based on actuarial assumptions about the future. The approach taken in this valuation has been made with reference to the guidelines issued by the Actuarial Society of South Africa (ASSA), in particular, the Advisory Practice Note 207 as issued by ASSA, and is consistent with the requirements of GRAP 25.

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

Carrying value		
Opening balance	(2,662,040)	(2,204,077)
Current service cost	(332,225)	(303,448)
Current interest cost	(199,976)	(188,750)
Benefit payments	476,171	152,235
Actuarial gain (loss)	117,925	(118,000)
	<b>(2,600,145)</b>	<b>(2,662,040)</b>
Non-current liabilities	2,366,037	2,185,869
Current liabilities	234,108	476,171
	<b>2,600,145</b>	<b>2,662,040</b>

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

Current service cost	(332,225)	(303,448)
Interest cost	(199,976)	(188,750)
Actuarial (gains) losses	117,925	(118,000)
Benefit payments*	476,171	152,235
	<b>61,895</b>	<b>(457,963)</b>

\*The amount represents the actual benefit payments made during the year in respect of long service awards.

#### Key assumptions used

The key assumptions used in the valuation are as follows.

Discount rates used	8.20 %	8.25 %
Consumer Price Index (CPI)	3.16 %	4.47 %
Expected increase in salaries	4.16 %	5.47 %
Net discount rate	3.88 %	2.64 %

The discount rate is determined using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2020 is 8.25% per annum, and the yield on inflation-linked bonds of a similar term was about 4.40% per annum. This implies an underlying expectation of inflation of 3.16% per annum  $([1 + 8.20\% - 0.5\%] / [1 + 4.40\%] - 1)$ .

It is assumed that the salary inflation would exceed general inflation by 1.0% per annum i.e. 4.16% per annum.

The relative levels of the discount rate and salary inflation are important. The valuation assumes a net discount factor of 3.88% per annum  $([1 + 8.20\%] / [1 + 4.16\%] - 1)$ .

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### 12. Long service awards (continued)

#### Other assumptions

#### Demographic and mortality assumption

Normal retirement age (years)

Mortality

63

SA85-90

63

SA85-90

#### Withdrawals

#### Age

20

25

30

35

40

45

50

55

60+

Withdrawal  
rates

(Female)

16.0%

12.0%

10.0%

8.0%

6.0%

4.0%

2.0%

1.0%

0%

Withdrawal  
rates

(Male)

24.0%

18.0%

15.0%

10.0%

6.0%

4.0%

2.0%

1.0%

0%

#### Membership information

Number of employees

Average annual salary (R)

Average age (years)

Average past service (years)

30 June

2020

144

221,092

41.94

8.90

30 June

2019

144

198,423

41.49

8.57

#### Benefit structure

#### Completed service (Years)

5

10

15

20

25, 30, 35, 40, and 45

Long Service  
Bonus Awards  
(Days  
Accumulated)

5

10

15

15

15

Long Service  
Bonus Awards  
(% of Annual  
Salary)

2%

3%

4%

5%

6%

Determination of cash  
bonus  
R

$(5/250^* + 2\%) \times \text{Annual Salary}$

$(10/250^* + 3\%) \times \text{Annual Salary}$

$(15/250^* + 4\%) \times \text{Annual Salary}$

$(15/250^* + 5\%) \times \text{Annual Salary}$

$(15/250^* + 6\%) \times \text{Annual Salary}$

\*A day of accumulated leave is worth 1/250 of the annual salary.

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### 13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

EPWP		
Finance Management Grant - FMG	371	-
Free Basic Electricity - INEP	-	784
Municipal Infrastructure Grant - MIG	-	3,194,473
DSRAC	-	12,621,853
Small town revitalisation Grant	81,948	50,191
DEDEAT	73,170	73,170
	1,084	1,084
	<b>156,573</b>	<b>15,941,555</b>

This liability relates to conditional grants, which arise where the municipality has a conditional obligation to pay cash or another financial asset to the grantor, upon unsuccessful discharge of the grantor's conditions. The values disclosed above represents funds received for which the municipality has not yet satisfied the grant conditions. The nature and extent of the government grants is recognised in the Financial Statements.

See note 23 for reconciliation of grants from National/Provincial Government.

### 14. Payables from non-exchange transactions

	June 2020	June 2019
Salaries third party payments	49,786	1,123,458
Receivables with credit balance	549,149	670,724
	<b>598,935</b>	<b>1,794,182</b>

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<b>15. Provision for landfill site</b>		
Provision - Landfill site	808,131	1,223,682
	<b>808,131</b>	<b>1,223,682</b>

#### Reconciliation of provisions - June 2020

	Opening Balance	Increase / (decrease) in provision	Interest cost	Total
Provision for landfill site	1,223,682	(455,076)	39,525	808,131

#### Reconciliation of provisions - June 2019

	Opening Balance	Increase / (decrease) in provision	Interest cost	Total
Provision for landfill site	856,065	338,939	28,678	1,223,682

The Ntabankulu landfill site is situated some 900 meters north of the Ntabankulu Central Business District. It is located on Portion 87 of ERF 1966 in the Ntabankulu Commonage. This landfill is licensed in terms of National Environmental Management Act. The landfill site has an area of 8 500 square metres. The expected closure year is 2066.

It is estimated that the site will not be rehabilitated within 1 year from reporting date and thus there are no short-term portion associated with this provision. The timing of the outflow of resources relating this provision is uncertain, but management expects the timing to be in line with the legal requirements subsequent to the expected closure date of the site as indicated below.

The discount rate was deduced from the average of the Zero-Coupon Yield Curve (Nominal Bond) over the entire durations applicable in the future. The annualised long-term discount rate at 27 June 2020 was 11.28% p.a. The consumer price inflation of 6.61% p.a. was obtained from the differential between the averages of the Nominal Bond of 11.28% p.a. and the Real Bond 4.38% p.a. (Zero Yield Curves).

#### 16. Revenue

Service charges	600,251	576,178
Rental of facilities and equipment	557,087	859,033
Licences and permits	703,834	1,299,765
Sundry revenue	613,479	548,943
Interest received - Investment	3,069,993	2,837,040
Property rates	12,621,688	9,246,603
Government grants and subsidies	203,484,993	193,906,344
Fines and penalties	835,300	618,900
	<b>222,486,626</b>	<b>209,892,806</b>

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

Service charges	600,251	576,178
Rental of facilities and equipment	557,087	859,033
Licences and permits	703,834	1,299,765
Sundry income	613,479	548,943
Interest received - investment	3,069,993	2,837,040
	<b>5,544,644</b>	<b>6,120,959</b>

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### 16. Revenue (continued)

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

Property rates	12,621,688	9 246,603
Government grants and subsidies	203,484,993	193,906,344
Fines and penalties	835,300	618,900
	<b>216,941,981</b>	<b>203,771,847</b>

### 17. Service charges

Refuse removal	600,251	576,178
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The amounts disclosed above for revenue from service charges are in respect of services rendered which are billed to the customers on a monthly basis. The tariffs are approved by council at the beginning of each financial year.

### 18. Rental of facilities and equipment

Premises		
Rental revenue from investment properties	527,119	841,064
Rental revenue from halls	29,968	17,969
	<b>557,087</b>	<b>859,033</b>

### 19. Interest received

Interest revenue		
Interest received	2,072,762	1,880,103
Interest charged on trade and other receivables	997,231	956,937
	<b>3,069,993</b>	<b>2,837,040</b>

### 20. Licences and permits

Traffic and business licence revenue	703,834	1,299,765
--------------------------------------	---------	-----------

### 21. Sundry income

Insurance income	84,279	35,097
Other municipal revenue	529,200	513,846
	<b>613,479</b>	<b>548,943</b>

### 22. Property rates

#### Rates received

Residential	1 277,368	955,220
Commercial	1,284,166	1,076,507
State	10,080,154	7,214,876
	<b>12,621,688</b>	<b>9,246,603</b>

#### Valuations

The new general Valuation roll and the compulsory Supplementary Valuation Roll (SV1) was implemented on the 1st of July 2019

In accordance with section 17(h) of the Municipal Properties Rates Act the first R15 000 of the market value of residential properties are exempted from assessment rates.

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<b>23. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	122,571,477	108,982,000
Finance Management Grant	2,435,784	1,969,530
Extended Public Works Programme	1,620,629	1,909,000
Municipal Disaster Relief Grant	417,000	-
DSRAC	468,243	378,140
LGSETA grant	1,664,000	-
	<b>129,177,133</b>	<b>113,238,670</b>
<b>Capital grants</b>		
Municipal infrastructure Grant	39,785,853	29,059,147
Electrification Grant - INEP	30,000,000	48,585,086
Provincial Treasury internal streets	4,522,007	2,411,993
COGTA - Electrification	-	611,448
	<b>74,307,860</b>	<b>80,667,674</b>
	<b>203,484,993</b>	<b>193,906,344</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Conditional grants received	80,913,516	84,924,344
Unconditional grants received	122,571,477	108,982,000
	<b>203,484,993</b>	<b>193,906,344</b>
<b>Municipal Disaster Relief Grant</b>		
Balance unspent at beginning of year	417,000	-
Current-year receipts	(417,000)	-
Conditions met - transferred to revenue	-	-
Conditions still to be met - remain liabilities (see note 13).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Extended Public Works Program</b>		
Current-year receipts	1,621,000	1,909,000
Conditions met - transferred to revenue	(1,620,629)	(1,909,000)
	<b>371</b>	
Conditions still to be met - remain liabilities (see note 13).		
<b>Finance Management Grant - FMG</b>		
Balance unspent at beginning of year	784	31
Current-year receipts	2,435,000	1,970,000
Conditions met - transferred to revenue	(2,435,784)	(1,969,530)
	<b>-</b>	<b>78</b>

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# Ntabankulu Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>23. Government grants and subsidies (continued)</b>		
<b>Electrification Grant - INEP</b>		
Balance unspent at beginning of year	3,194,473	47,559
Current-year receipts	30,000,000	51,732,000
Conditions met - transferred to revenue	(30,000,000)	(48,585,086)
Transferred to equitable share	(3,194,473)	-
	-	<b>3,194,473</b>
Conditions still to be met - remain liabilities (see note 13).		
<b>Municipal Infrastructure Grant - MIG</b>		
Balance unspent at beginning of year	12,621,853	-
Current-year receipts	27,164,000	41,681,000
Conditions met - transferred to revenue	(39,785,853)	(29,059,147)
	-	<b>12,621,853</b>
Conditions still to be met - remain liabilities (see note 13).		
<b>Department of Cooperative Governance &amp; Traditional Affairs (COGTA)</b>		
Balance unspent at beginning of year	-	611,448
Conditions met - transferred to revenue	-	(611,448)
	-	-
Conditions still to be met - remain liabilities (see note 13).		
<b>Department of Sport Recreational Arts and Culture (DSRAC)</b>		
Balance unspent at beginning of year	50,191	28,331
Current-year receipts	500,000	400,000
Conditions met - transferred to revenue	(468,243)	(378,140)
	<b>81,948</b>	<b>50,191</b>
Conditions still to be met - remain liabilities (see note 13).		
<b>Small Town Revitalisation</b>		
Balance unspent at beginning of year	73,170	73,170
<b>Provincial Treasury Internal Streets</b>		
Current-year receipts	4,522,007	2,411,993
Conditions met - transferred to revenue	(4,522,007)	(2,411,993)
	-	-
Conditions still to be met - remain liabilities (see note 13).		
The grant is from Provincial Treasury utilised to fund the project on Ntabankulu Internal Streets.		
The Municipality utilises its own funds and reimbursed by Provincial Treasury and therefore the municipality will not have unspent grant		

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## Notes to the Annual Financial Statements

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<b>23. Government grants and subsidies (continued)</b>		
<b>DEDEAT</b>		
Balance unspent at beginning of year	1,084	1,084
Conditions still to be met - remain liabilities (see note 13).		
<b>24. Fines</b>		
Traffic fines	835,300	618,900
<b>25. Employee related costs</b>		
Basic salaries	42,138,840	39,190,982
Bonus	3,436,095	3,799,357
Car allowance	4,468,034	3,839,121
Contribution to Bargaining Council	16,701	16,371
Housing benefits and allowances	2,946,195	2,786,735
Long-service awards	269,696	276,207
Medical aid - company contributions	2,806,963	2,638,633
Standby allowance	346,822	269,440
Provident and pension fund	5,550,987	5,238,203
SDL	481,289	505,735
Cellphone allowance	39,309	33,752
UIF	331,626	296,890
Acting allowances	414,825	460,049
Leave pay provision charge	2,607,267	(506,361)
Overtime	463,728	976,748
	<b>66,318,377</b>	<b>59,819,862</b>
In the previous year, the leave accrual was included in the bonus accrual. This amount was reclassified in the current year in line with the GRAP disclosure requirements. The reclassification did not result in any changes to the total employee cost amount.		
<b>26. Remuneration of councillors</b>		
Salaries and other allowances	9,112,439	8,792,105
Motor vehicle allowance	2,541,148	2,448,054
	<b>11,653,587</b>	<b>11,240,159</b>
<b>27. Depreciation and amortisation</b>		
Property, plant and equipment	18,353,948	16,624,311
Intangible assets	1,915	5,749
	<b>18,355,863</b>	<b>16,630,060</b>
<b>28. Interest paid</b>		
Long service awards	199,976	188,750
Trade and other payables	202,316	706,264
	<b>402,292</b>	<b>895,014</b>

# Ntabankulu Local Municipality

Annual Financial Statements for the year ended 30 June 2020

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### 29. Lease rentals on operating lease

Equipment		
Contractual amounts	160,806	583,692

The operating lease payments are for a contract where the municipality acts as the lessee in the agreement.

The municipality will make the following lease payments from contracts that have defined lease payments and terms.

Within 1 year	-	160,806
Between 1 and 5 years	-	-
After 5 years	-	-
	-	160,806

The lease payments are in respect of equipment being leased over a period of 28 months ending on 1 November 2019.

### 30. Contribution allowance for impairment

Contributions to debt impairment provision	2,587,929	2,548,038
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Contribution allowance for impairment relates to receivables.

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<b>31. General expenses</b>		
Advertising fees	849 780	447,270
Agriculture LED	898,942	1,830,604
Audit Committee fees		
Back to School	1,025,120	414,102
Bad debts write off	177,065	291,429
Bank charges	206,376	164,216
Capacity Building	44,482	91,620
Local integrated transport plan	836,580	1,033,897
Consulting and professional fees	188,500	-
Council Support Administration	2,480,995	2,245,539
DSRAC Community	30,630	263,818
Expanded Public Works	406,176	378,140
Electricity Expenditure	1,436,433	1,909,000
EPWP Community	883,234	1,271,915
Financial Management Grant Expenditure	3,651,966	1,497,991
Financial Management fees	696,000	1,331,394
General Valuation Expenditure	2,269,761	1,496,696
Asset Valuation	184,725	558,631
Hygienic Services Administration	810,097	3,500
IT expenses	376,160	811,051
Indigent Support	1,080,114	607,017
Disaster management (COVID-19)	2,802,836	3,218,992
Insurance	735,795	-
Integrated Development Plan	477,040	408,170
Internal Audit Expense	1,987,963	3,166,219
Legal fees	330,036	771,606
Living the dream	735,493	1,432,624
Licence fees	39,750	57,380
Marketing and Communication	755,327	1,036,758
Sitting Allowance - Traditional leaders	666,050	482,696
Occupational Health & Safety	190,840	100,056
Other expenses	878,690	706,136
Performance Management System expense	820,704	520,173
Post & Telecommunication expenses	63,985	47,700
Printing & Stationery	5,760,393	7,254,682
Public Amenities	875,807	1,078,189
Public Participation	240,475	25,146
SALGA Levy	524,459	484,568
Security (Guarding of municipal property)	661,363	721,571
Special Development expenses	3,241,036	3,066,966
Special Programs	525,000	169,830
Tourism, Arts and Culture	1,208,651	309,417
Town Planning Expenses	412,695	361,817
Travelling & Subsistence	-	34,696
Vehicle Fuel & Oil	5,900,669	5,461,945
Ward Committee Sitting	1,151,513	1,313,665
Waste management expenses	2,197,065	2,044,274
	678,177	375,479
	<b>52,396,960</b>	<b>61,298,585</b>

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**32. Repairs and Maintenance**

Buildings repairs and maintenance	394,008	525,736
Street lights	864,747	25,680
Roads infrastructure	2,556,916	1,731,814
Vehicles	81,728	-
Equipment	1,753	31,150
	<b>3,899,152</b>	<b>2,314,380</b>

No repairs and maintenance were effected on investment property during the year.

**33. Auditors' remuneration**

Fees	3,171,482	3,631,322
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**34. Completed electrification transferred**

Completed electrification expenses	92,176,702	61,608,286
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**35. Profit/(loss) on disposal of assets**

Property, plant and equipment	247,257	(101,150)
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**36. Fair value adjustments**

Investment property (Fair value model)	3,119,324	6,673,905
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**37. Net Cash flow from operating activities**

(Deficit) surplus	(33,295,312)	4,444,816
<b>Adjustments for:</b>		
Depreciation and amortisation	18,355,863	16,630,060
(Profit)/loss on disposal of assets	(247,257)	101,150
Completed Electrification project expensed	92,176,702	61,608,286
Actuarial (gains)/losses	(117,925)	118,000
Bad debts written off	206,376	164,216
Fair value adjustments	(3,119,324)	(6,673,905)
Asset write off and investment property transfers	7,117,726	1,445,357
Interest written off	997,231	-
Allowance impairment	2,587,929	2,548,038
Impairment loss Infrastructure assets	380,488	251,370
(Decrease)/increase in provision for landfill site	(455,076)	338,939
Contribution provisions- Leave and bonus	2,260,376	(1,274,920)
Surplus on Transfer of land to Investment Property	-	(702,319)
Interest on landfill site and long service awards	239,524	217,428
Increase in long term service awards	(143,946)	323,917
<b>Changes in working capital:</b>		
Receivables from exchange transactions and statutory receivables	(4,921,676)	(3,255,203)
Inventory	(389,292)	206,364
Receivables from non-exchange transactions	(1,618,000)	(46,000)
Payables from exchange transactions	1,647,089	267,620
VAT	(5,377,774)	1,330,499
Payables from non exchange transactions	(1,195,247)	(649,561)
Unspent conditional grants and receipts	(15,784,982)	15,179,650
	<b>59,303,493</b>	<b>92,673,802</b>

## Ntabankulu Local Municipality

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<b>38. Commitments</b>		
<b>Authorised capital expenditure</b>		
Already contracted for but not provided for		
• Property, plant and equipment	51,330,913	60,860,083
<b>Total capital commitments</b>		
Already contracted for but not provided for	51,330,913	60,860,083
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	51,330,913	60,860,083

This committed expenditure relates to property, plant and equipment and will be financed by retained surpluses, existing cash resources, funds internally generated, and government grants.

#### Operating leases - as lessee

There is no operating lease commitments. The operating lease contract lapsed during the year.

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<b>39. Contingencies</b>				
<b>Plaintiff</b>	<b>Reference</b>	<b>Case Number</b>	<b>June 2020</b>	<b>June 2019</b>
Droder Trading CC	(i)	627/12	625,000	625,000
Droder Trading CC	(ii)	628/12	525,000	525,000
Nontombi Gcaba	(iii)	2760/2019	300,000	-
Somdaka Funeral Palour	(iv)	N/A	-	70,000
SAMWU	(v)	457/2015	575,000	575,000
Siphokazi Cekwana	(vi)	513/2015	6,950,000	6,950,000
Hlaliso Investments	(vii)	N/A	-	602,600
Ingenious Information Systems	(viii)	N/A	-	279,833
Lwandlulubomvu Community	(ix)	852/2016	200,000	200,000
Fortymen Sigcawu	(x)	851/2016	200,000	200,000
IMATU OBO Nyembezi	(xi)	ECD 031716	-	-
Lindokuhle Khumalo and Sipehelele Khumalo	(xii)	B315/2015	240,000	240,000
Khulile Nyombolo	(xiii)	N/A	200,000	200,000
Simlindile Nodo	(xiv)	N/A	-	33,890
Yolisa Sikuzza	(xv)	80/2019	15,350	-
			<b>9,830,350</b>	<b>10,501,323</b>

**i. Droder Trading CC vs NLM (Case number 627/12)**

An Applicant entered in to an agreement with the first and the second Respondents, the agreement was that the Applicant will supply the second Respondent with the building material and the first Respondent will effect payment within 60 days or alternatively within a reasonable time upon presentation of the invoice. The Applicant complied with its obligations however, the first Respondent failed to effect payment within the agreed period. The case went to Court in February 2020 but there is no clear outcome. The matter remains pending.

**ii. Droder Trading CC vs NLM (Case number 628/12)**

An Applicant entered in to an agreement with the first and the second Respondents, the agreement was that the Applicant will supply the second Respondent with the building material and the first Respondent will effect payment within 60 days or alternatively within a reasonable time upon presentation of the invoice. The Applicant complied with its obligations however, the first Respondent failed to effect payment within the agreed period. The matter is pending and the attorneys are awaiting a trial date.

**iii. Nontombi Gcaba vs NLM (Case number: 2760/2019)**

The Applicants are seeking a declaration to declare the recent evictions and demolition orders of their illegally constructed structures as illegal, and to have the Court Order evicting them rescinded. The matter remains pending at year end.

**iv. Somdaka Funeral Palour vs NLM (Case number: Not yet available)**

NLM had entered into a lease agreement with Somdaka funeral parlour and eventually an offer to purchase the property was made between the parties. Mr Somdaka failed to pay the purchase price as per the agreement, as well as the rent. The case was settled during the 2020 financial year.

**v. SAMWU vs NLM (Case number 457/2015)**

Non-payment of the Provident fund. SAMWU has not been attending the proceedings and the matter remains stagnant.

**vi. Siphokazi Cekwana vs NLM (Case number: 513/2015)**

The Municipality hosted an event on the 26th of March 2015 at Ntabankulu Sportsfield where Miss Siphokazi Cekwana was attending. It is alleged that at about 15h30 on that day a storm hit the area at which the event took place as a result of which the tent collapsed injuring Siphokazi Cekwana on the right foot. A summons has been issued and the legal team has filed an appearance to defend and a plea will be filed.

**vii. Hlaliso Investments vs NLM (Case number: Not yet available)**

NLM entered into an agreement with Hlaliso Investments for the provision of Material for the building of the Hawker Stalls the contract was cancelled due to poor performance. Hlaliso Investments sent a letter to the Municipality challenging the cancellation of the contract. A letter was sent to Hlaliso Investments attorneys and no response has been received yet. The case is still dormant.

**viii. Ingenious Information Systems vs NLM (Case number: Not yet available)**

We owed Ingenious Information Systems R254,833 for their services rendered but which were disputed by the Municipality. Correspondence was sent to the Ingenious Information Systems attorneys and the matter remains dormant at year end.



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#### 39. Contingencies (continued)

##### ix. Lwandlelubomvu Community vs NLM (Case number:852/2016)

This was a Land Claims Court interdict by the Community preventing the Municipality from developing land under a land claim in terms of the Land Rights Development Act, 1995. The matter has been closed based on the fact that the municipality applied for a demolition order and all the illegal structures were demolished.

##### x. Fortymen Sigcawu vs NLM (Case number: 851/2016)

Interdict against people invading land belonging to the Municipality. The municipality applied for a demolition order and all the illegal structures were demolished. The matter remains pending until the Land Claims matter is finalised.

##### xi. IMATU OBO Nyembezi vs NLM (Case number: ECD 031716)

Unfair labour practice on promotion. The matter has been referred the Labour Court for review through the Municipal legal team. The matter remains pending.

##### xii. Lindokuhle Khumalo and Sipehelele Khumalo vs NLM (Case number B316/2016)

The Khumalos are trading on the side walk next to Lewis Stores, they were informed of the unlawfulness of their actions but none the less continued to trade and as a result of that they were arrested and detained. On their release they went back to the same spot where they were advised that it was not open for business and continued to trade, when they were told once again that what they were doing was in contravention to our Municipal By-laws, they laid a charge they applied for a protection order against our Municipal Official for harassment. The matter remains pending.

##### xiii. Khulile Nyombolo vs NLM (Case number 66/2017)

Mr Nyombolo is claiming the Municipality an amount of R200,000 for the alleged unlawful arrest, unlawful detention and the legal representation fees. The pleadings have been exchanged in this matter and the matter remains pending.

##### xiv. Simlindle Nodo vs NLM (Case number: Not yet available)

Mr S Nodo has put a claim against the Municipality for an amount of R33,980 for loss or theft of materials that were kept in his office during his tenure as Director Corporate Services at the Municipality. The matter was settled during the year.

##### xv. Yolisa Sikuza vs NLM (Case number 80/2019)

The Plaintiff has put a claim against the Municipality for an amount of R15,350 for services rendered to the municipality in respect of craftwork. The municipality will file a plea and the matter remains pending at year end.

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### 40. Related parties

#### Remuneration of management

Refer to note 41 for remuneration of management.

#### Councillors/Mayoral committee members

2020

Name	Remuneration	Motor vehicle allowance	Other allowances	Total
Cllr PT Sobuthongo: Mayor	537,889		381,038	918,927
Cllr V Matwasa: Speaker	429,983	172,172	90,053	692,208
Cllr S Menziwa: Chief Whip	218,769	90,048	79,343	388,160
Cllr N Pikwa: Portfolio Head: Community Services	234,908	90,048	59,416	384,372
Cllr S Sophaqa: Portfolio Head: Corporate Services	218,769	90,048	71,536	380,353
Cllr M Ndabeni: Portfolio Head: Local Economic Development	218,668	90,048	72,654	381,370
Cllr N T Mbonomtsha: Portfolio Head Budget and Treasury Services	215,493	90,048	73,958	379,499
Cllr N Ndoyisile	234,908	90,048	54,536	379,492
Cllr BZ Ndamase: MPAC Chairperson	232,438	87,405	63,974	383,817
Cllr B Betwayo	177,672	68,108	45,360	291,140
Cllr M Madadasa	177,672	68,108	45,360	291,140
Cllr F Ntshole	177,672	68,108	46,300	292,080
Cllr Z Makhosonke	177,672	68,108	44,153	289,933
Cllr M Nqwazi	228,012	87,405	52,918	368,335
Cllr M Dinwayo	177,672	68,108	45,360	291,140
Cllr P Maflika	161,432	68,108	41,643	271,183
Cllr B Ndlebe	177,672	68,108	44,848	290,628
Cllr M Gweqani	161,533	68,108	61,030	290,671
Cllr T Msuthu	161,533	68,108	61,541	291,182
Cllr N Sobuthongo	177,672	68,108	44,847	290,627
Cllr S Ncekana	211,873	87,405	69,610	368,888
Cllr K Nomanzoyiya	177,672	68,108	45,359	291,139
Cllr E Diko	177,672	68,108	50,087	295,867
Cllr T Lubisi	177,672	68,108	47,480	293,260
Cllr N Daniel	177,672	68,108	44,847	290,627
Cllr Z Mtyaphi	159,554	68,108	43,013	270,675
Cllr N Sithunzi	177,672	68,108	33,560	279,340
Cllr S Sicwayi	177,672	68,108	47,002	292,782
Cllr M Mkizwana	161,432	68,108	41,642	271,182
Cllr N Njiva	177,672	68,108	45,360	291,140
Cllr M Mkhandanisi	177,672	68,108	44,847	290,627
Cllr N Pezisa	177,672	68,108	44,847	290,627
Cllr M Tshaka	177,672	68,108	44,847	290,627
Cllr N Ndamase	174,547	68,108	47,894	290,549
	<b>6,982,165</b>	<b>2,541,159</b>	<b>2,130,263</b>	<b>11,653,587</b>

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### 40. Related parties (continued)

2019

Name	Remuneration	Motor vehicle allowance	Other allowances	Total
Cllr PT Sobuthongo: Mayor	518,324	-	347,600	865,924
Cllr V Matwasa: Speaker	413,835	165,550	115,259	694,644
Cllr S Menziwa: Chief Whip	210,684	86,585	81,320	378,589
Cllr N Pikwa: Portfolio Head: Community Services	225,873	86,585	74,948	387,406
Cllr S Sophaqa: Portfolio Head: Corporate Services	210,684	86,585	77,910	375,179
Cllr M Ndabeni: Portfolio Head: Local Economic Development	210,861	86,585	69,311	366,757
Cllr N T Mbonomtsha: Portfolio Head Budget and Treasury Services	207,689	86,585	71,220	365,494
Cllr N Ndooyisile	225,873	86,585	53,231	365,689
Cllr BZ Ndamase: MPAC Chairperson	224,844	84,043	35,001	343,888
Cllr B Betwayo	170,838	65,488	44,331	280,657
Cllr M Madadasa	170,838	65,488	44,331	280,657
Cllr F Ntshela	170,838	65,488	44,331	280,657
Cllr Z Makhosonke	170,838	65,488	43,819	280,145
Cllr M Nqwazi	219,242	86,364	51,847	357,253
Cllr M Dinwayo	170,838	65,488	43,820	280,146
Cllr P Mafilika	158,233	65,488	54,323	278,044
Cllr B Ndlebe	170,838	65,488	44,331	280,657
Cllr M Gweqani	155,649	65,488	59,564	280,701
Cllr T Msuthu	166,930	65,488	48,250	280,668
Cllr N Sobuthongo	167,005	65,488	42,955	275,448
Cllr S Ncekana	204,052	86,364	49,924	340,340
Cllr K Nomanzoyiya	170,838	65,488	44,331	280,657
Cllr E Diko	170,838	65,488	44,843	281,169
Cllr T Lubisi	170,838	65,488	50,326	286,652
Cllr N Daniel	170,838	65,488	44,330	280,657
Cllr Z Mtyaphi	138,359	65,488	39,040	242,887
Cllr N Sithunzi	162,414	65,488	45,317	273,219
Cllr S Sicwayi	170,838	65,488	45,776	282,102
Cllr M Mkizwana	166,944	65,488	47,725	280,157
Cllr N Njiva	170,838	65,488	44,331	280,657
Cllr M Mkhandanisi	170,838	65,488	43,819	280,145
Cllr N Pezise	170,838	65,488	43,782	280,108
Cllr M Tshaka	170,838	65,488	43,782	280,108
Cllr N Ndamase	173,013	65,488	34,197	272,698
	<b>6,723,079</b>	<b>2,448,055</b>	<b>2,089,026</b>	<b>11,240,159</b>

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### 41. Executive management remuneration

#### June 2020

	Basic salaries	Medical aid	Other allowances	13th Cheque	Acting allowance	Total
Miss L Nonyongo - Municipal Manager	1,058,039	34,657	182,406	32,876	-	1,307,978
Mr S Matiwane - Director Community Services	617,329	-	374,951	77,845	-	1,070,125
Ms N Ndiaku - Director Strategic Services	617,329	-	374,951	77,845	-	1,070,125
Mrs V N Venn - Chief Financial Officer	662,936	-	329,298	77,845	-	1,070,079
Mr P L Mpendulo - Director Infrastructure Planning and Development	701,439	40,266	284,400	48,007	-	1,074,112
Ms S N Ntshahla - Director Corporate Services	730,689	33,275	256,035	48,007	-	1,068,006
	<b>4,387,761</b>	<b>108,198</b>	<b>1,802,041</b>	<b>362,425</b>	<b>-</b>	<b>6,660,425</b>

#### June 2019

	Basic salaries	Medical aid	Other allowances	13th cheque	Acting allowance	Total
Miss L Nonyongo - Municipal Manager	728,412	19,090	116,701	8,219	-	872,422
Mr S Matiwane - Director Community Services	529,962	-	312,203	30,774	18,626	891,565
Ms N Ndiaku - Director Strategic Services	529,962	-	312,203	30,774	-	872,939
Mrs V N Venn - Chief Financial Officer	503,965	-	260,512	24,619	-	789,096
Mr P L Mpendulo - Director Infrastructure Planning and Development	659,274	37,714	273,117	32,005	-	1,002,110
Ms S N Ntshahla - Director Corporate Services	512,543	23,240	159,121	12,002	-	706,906
Mr B Same - Acting Director Community Service	-	-	-	-	31,053	31,053
L Mkula - Acting Strategic Director	-	-	-	-	28,516	28,516
K Nonkondlo - Acting Corporate Services	-	-	-	-	81,105	81,105
N Mdutyana - Acting Chief Financial Officer	-	-	-	-	61,293	61,293
	<b>3,464,118</b>	<b>80,044</b>	<b>1,433,857</b>	<b>138,393</b>	<b>220,593</b>	<b>5,337,005</b>

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#### 42. Comparative figures

Certain comparative figures have been reclassified in order to achieve fair presentation. In the previous year, funeral commission income was disclosed separately in the statement of financial performance as services rendered. In the current year, the funeral commission income was included as part of sundry income as the amount included other income items. Completed electrification expenses were disclosed separately in the statement of financial performance and excluded from general expenses.

VAT receivables and receivables from non exchange transactions have been reclassified in line with GRAP 108: Statutory receivables.

The effects of the reclassification are as follows:

#### Statement of financial position

	Note	As previously reported	Correction of error	Reclassification	Restated*
VAT receivable		3,462,238	(5,649)	(3,456,589)	-
Receivables from non-exchange transactions	5	2,782,555	46,000	(2,782,555)	46,000
Statutory receivables	6	-	-	6,239,144	6,239,144
		<b>6,244,793</b>	<b>40,351</b>	<b>-</b>	<b>6,285,144</b>

#### Statement of financial performance

	Note	As previously reported	Correction of error	Reclassification	Restated*
Services rendered		71,083	-	(71,083)	-
Sundry income	21	431,856	46,004	71,083	548,943
Employee related costs	25	58,811,231	-	1,008,631	59,819,862
General expenses	31	113,915,502	-	(62,616,917)	51,298,585
Completed electrification transferred	34	-	-	61,608,286	61,608,286
<b>Employee related cost</b>					
Standby allowance	25	282,018	-	(12,578)	269,440
Overtime	25	964,170	-	12,578	976,748
Bonus	25	3,292,996	-	506,361	3,799,357
Leave pay provision charge	25	-	-	(506,361)	(506,361)

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### 43. Risk management

#### Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cashflow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timely basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

#### Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counter parties are monitored regularly.

Potential concentrations of credit risk consist mainly of variable rate deposit investments, long-term receivables, consumer receivables, other receivables, bank and cash balances.

#### Investments/Bank, cash and cash equivalents

The municipality limits its counter party exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with First National Bank. No investments with a tenure exceeding twelve months are made.

#### Trade and other receivables

Trade and other receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an on going basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

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

	2020	2019
Receivables from exchange transactions	837,817	869,016
Receivables from non-exchange transactions	1,664,000	46,000
Cash and cash equivalents	5,154,719	19,361,654

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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	2020	2019
<b>44. Unauthorised expenditure</b>		
Opening balance as previously reported	78,415,143	77,380,353
Add: Unauthorised expenditure - current	69,009,944	1,034,790
<b>Closing balance</b>	<b>147,425,087</b>	<b>78,415,143</b>

Unauthorised expenditure amounting to R69,009,944 in the current year is due to under-budgeting for a transfer of completed electrification projects to Eskom, this is a non-cash item. Unauthorised expenditure is reported to Council and referred to MPAC for investigation on a quarterly basis. Previous periods including the current year unauthorised expenditure will be treated in terms of the municipal policy and be reported as legislated.

#### 45. Fruitless and wasteful expenditure

Opening balance as previously reported	1,216,530	593,380
Add: Fruitless and wasteful expenditure - current	162,791	677,586
Add: Fruitless and wasteful expenditure discovered in current year and relates to previous years	4,040,837	-
Less: Amounts recoverable - prior period	-	-
Less: Amount written off - current	(1,222,109)	(54,436)
<b>Closing balance</b>	<b>4,198,049</b>	<b>1,216,530</b>

#### Incident

An amount of R4,203,507 was incurred as fruitless and wasteful expenditure. R162,791 is the amount of interest incurred due to SARS dispute and late payments, and R4,040,837 relates to work-in progress projects that were discontinued and written off by Council.

The fruitless and wasteful expenditure written off amount off R1,222,109 was investigated and approved by council during the year.

Expenditure identified in the current year include those listed below:

Interest on overdue payments and work-in-progress that has been written off	<b>Disciplinary steps taken/criminal proceedings</b> Fruitless and wasteful expenditure has been reported on a quarterly basis and handed over to the MPAC for investigation and treatment
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Fruitless and wasteful expenditure incurred has increased significantly because of work-in-progress that was written off in the current year.

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<b>46. Irregular expenditure</b>		
Opening balance as previously reported	94,302,520	83,826,803
Add: Irregular expenditure - current year	2,438,210	10,475,717
	<b>96,740,730</b>	<b>94,302,520</b>
Add: Irregular expenditure - prior period		
Less: Amounts recoverable - current	(78,007,296)	
Less: Amounts written off - prior period		
<b>Closing balance</b>	<b>18,733,434</b>	<b>94,302,520</b>

Included in the irregular expenditure opening balance are the amounts dating back from 2010/11 financial year until 2018/19 financial year. Council referred irregular expenditure to the Municipal Public Accounts Committee for investigation (MPAC). An independent company was appointed to investigate and make recommendations to the MPAC on treatment of irregular expenditure, this resulted in irregular expenditure investigated per project. Irregular expenditure report was also taken to the financial misconduct board. Recommendations of both the MPAC and Financial misconduct board will be implemented.

#### Irregular expenditure written off

Irregular expenditure amounted to R94,302,520 at the beginning of the financial year. MPAC investigated irregular expenditure through an independent firm and an amount of R78,007,296 was declared irrecoverable and was written off by council. As part of MPAC report consequence was suggested and council approved. The treatment of irregular expenditure was reported to COGTA, Treasury and the Auditor General.

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

##### Contributions to organised local government

Current year subscription / fee	661,363	721,571
Amount paid - current year	(661,363)	(721,571)
	-	-

##### Audit fees

Current year subscription / fee	3,171,482	3,631,322
Amount paid - current year	(3,171,482)	(3,631,322)
	-	-

##### VAT

VAT receivable	8,834,363	3,456,589
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All VAT returns have been submitted by the due date throughout the year

##### Councillors' arrear consumer accounts

There is only one councillor who owns a property in the urban area and as at 30 June 2020, there was no outstanding arrear amount over 30 days.

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#### 48. Deviation from supply chain management regulations

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

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

The following are deviations done during the 2019-20 financial year:

Supplier: Teo Trading Enterprises

Description of goods: Fumigation of municipal premises

Description of Deviation: An emergency as it was impossible to follow proper SCM processes due to the outbreak of the COVID-19 pandemic which led to national lockdown.

Amount: R195,500.

Supplier: Ndiphatise Trading Enterprise

Description of goods: Procurement of sanitising booth

Description of Deviation: An emergency as it was impossible to follow proper SCM processes due to the outbreak of the COVID-19 pandemic which led to national lockdown.

Amount: R149,550.

Supplier: Nomafusi Projects CC

Description of goods: Procurement of sanitisers

Description of deviation: An emergency as it was impossible to follow proper SCM processes due to the outbreak of the COVID-19 pandemic which led to national lockdown.

Amount: R143,808.

Supplier: Gadalani Trading

Description of goods: Procurement of face shields, wall mounted dispensers and sanitising spray bottles

Description of deviation: An emergency as it was impossible to follow proper SCM processes due to the outbreak of the COVID-19 pandemic which led to national lockdown.

Amount: R83,697.

Supplier: Teo Trading Enterprises

Description of goods: Re-fumigation of municipal premises

Description of deviation: An emergency as it was impossible to follow proper SCM processes due to the outbreak of the COVID-19 pandemic which led to national lockdown.

Amount: R148,994.

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### 49. Prior period errors

#### Property, plant and equipment and depreciation expense

Infrastructure assets were understated in the prior year by R296 243 due to over-payment on retention fees for Lufafa via Siyaya access road, Ndikini access road and the retention fees for Madwakazana Access Road (Phase 2) that was not raised at all. The depreciation expense of these assets was also understated by R5,963.

There was also an overstatement of infrastructure assets by R158,069 due to the payment of retention fees for T107 via Mbangweni access road that were incorrectly capitalised to the asset. The depreciation expense for T107 via Mbangweni access road was also overstated by R7,903.

The net effect of the correction of this error is an increase in Property, plant and equipment by R140,115 and a decrease in the depreciation expense by R1,940.

#### Trade and other payables

Retention fees for Madwakazana Access Road (Phase 2) was not raised and retention fees for Lufafa via Siyaya and Ndikini Access Roads were overpaid resulting to the understatement of the prior year retention fees and the related infrastructure assets. Retention fees paid for T107 via Mbangweni Access Road were incorrectly capitalized to the asset resulting to duplication of the retention fees capitalised. Correction of this error resulted to the increase of prior year Payables from exchange transactions by R138,175.

#### Payables from non-exchange transactions

Payables from non-exchange transactions were understated in the prior year by R477,784 due to duplication of accrual transactions which occurred while adjusting accruals during the 2017/2018 financial period.

Correction of this error resulted to an increase in payables from exchange transaction by R477,784 and a decrease in accumulated surplus by the same amount.

#### Long service awards and actuarial gains

In the previous year the actuarial loss was understated by R236,000 as a result of an error in processing the adjustment. This error also resulted in the long service awards being understated by R236,000. The error has been corrected retrospectively.

#### Interest received and receivables from non-exchange transactions

In the previous year the interest on receivables was understated by R170,187. This error also resulted in the interest received being understated by R170,187. The error has been corrected retrospectively.

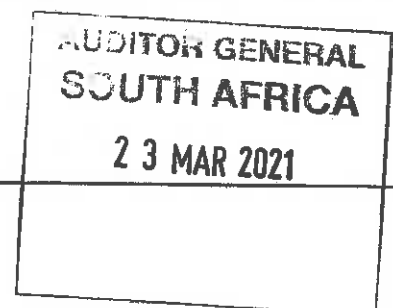
#### Sundry income and receivables from exchange transactions

In the previous year, sundry income was understated due to the funeral commission that was due to be recognised in June 2019 to the amount of R5,653. The amount was recognised subsequent to year end. This resulted in receivables from exchange transactions being understated. The error was corrected retrospectively.

#### Sundry income and receivables from non-exchange transactions

Receivables from non-exchange transactions were understated by R46,000 in the prior year due to non-recognition of LGSETA grant that LGSETA had committed to pay in tranches upon the municipality meeting the suspensive conditions. The conditions were met, however LGSETA was not raised as a debtor. There was also an understatement of VAT output and revenue by R5,649 and R40,351 respectively due to the receivable that was not recognised. Correction of this error resulted in increase of prior year receivables from non-exchange transactions, VAT receivables and sundry income. The error was corrected retrospectively.

The correction of the error results in adjustments as follows:



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**49. Prior period errors (continued)**

<b>Statement of financial position</b>	
Increase in property, plant and equipment	140,115
Increase in payables from exchange transactions	(138,175)
Increase in long service awards	(236,000)
Increase in payables from non-exchange transactions	(477,784)
Increase in receivables from non-exchange transactions	48,000
Increase in receivables from exchange transactions	5,653
Decrease in statutory receivables	(5,649)
Increase in opening accumulated surplus	647,971
	<b>(17,869)</b>
<b>Statement of financial performance</b>	
Decrease in depreciation expense	1,940
Increase in actuarial losses	(236,000)
Increase in interest received	170,187
Increase in sundry income	46,004
	<b>(17,869)</b>

**50. Going concern**

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

**51. Events after the reporting date**

The Accounting Officer is not aware of any material events that occurred after year end.

**52. Impact of COVID-19 pandemic**

At the end of March 2020, the COVID-19 virus was declared a pandemic by the World Health Organisation and by the South African Government. South Africa entered into lockdown on 26th March 2020, which meant that businesses that were not seen as essential had to shut down.

This then meant any facilities that are normally rented out by the municipality had to be shut down and the affordability customers was negatively affected as such debt collection reduced even further. COVID-19 had a significant impact on the amounts as disclosed on the annual financial statements. The affected areas were mainly debtors, cash and cash equivalent, debtor's impairment.

All areas of society were affected by the global pandemic as a result of the COVID-19 virus. South African government announced the national state of disaster and further gazetted regulations implementing National lockdown Level 5. The declaration of the national state of disaster as published in Gazette No 43096 on the 15th March 2020 and extended thereafter has had an impact which meant that businesses that were not seen as essential had to shut down.

COVID-19 had a significant impact on the amounts as disclosed on the annual financial statements. The affected areas were mainly debtors, cash and cash equivalent, debtor's impairment.

The municipality continued to provide services during the national state of national disaster and raised revenue in accordance with services provided under both exchange and non-exchange revenue. Management has assessed that there have been no material changes in revenue raised for services. The nationwide lockdown has had a negative impact on the entity's recovery of income generated. The municipality in its assessment of impairment has considered the consumers risk profile and payment history.

Management has considered the impact of COVID-19 and that there have been no material changes in the use of asset that would require a change in the expected useful life of assets.

No material information has come to the attention of management to suggest that there is a going concern issue. The financial statements for the year ended 30 June 2020 have been prepared under the going concern assumption.

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### 52. Impact of COVID-19 pandemic (continued)

The President on 26 March 2020 in terms of Section 27(1) of the Disaster Management Act announced a lockdown due to the COVID-19 pandemic. The pandemic has impacted many industries including the public sector-local government, provincial and national government. The Municipality has put in place measures to adhere to the safety requirements and protection of staff and customers and the public at large to mitigate the health risks associated with the pandemic.

In response to the pandemic a total amount of R921,619 was incurred by the municipality for COVID-19 related procurement as at 30 June 2020. The expenditure is broken down as follows:

Description	2020	2019
Fumigation, cleaning and disinfecting municipality offices and re-disinfecting and fumigation of municipality offices and Elucingweni Hall	357,494	-
Sanitizing booth, 15 electric dispensers	149,550	-
Generator and street Light at Phakade road block	88,200	-
Sanitizers, spray containers, handwash, faceshield, wall mounted soap dispenser, surgical gloves, palm gloves, cloth masks and faceshields	326,375	-
	<b>921,619</b>	<b>-</b>

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