APPENDIX E – WARD REPORTING

Ugu District Municipality has left Ward Committees solely as a function of Local Municipalities, which Local Municipalities will report on, in their annual reports.

APPENDIX F – WARD INFORMATION

Ward Title: Ward Name (Number) Capital Projects: Seven Largest in 2014/2015 (Full List at Appendix O)		
R' 000		
No.	Project Name and detail	Total Value
1	Bhobhoyi / Mkholombe Sanitation	7987
2	Harding Sanitation Scheme: P 3	48 764
3	Malangeni Low Cost Housing	43572
4	Margate Sewer Pipeline Replace	24562
5	Masinenge / Uvongo Sanitation	169343
6	Sanitation Refurbishment Phase 1	59000
7	Umzinto WWTW & Sewer Outfall	81100
8	Pennington Waterborne San Project	39082

APPENDIX G – RECOMMENDATIONS OF THE MUNICIPAL AUDIT\ COMMITTEE 2014/15

Municipal Audit Recommendations		
Date of Committee	Committee Recommendations during Year 2014/15	Recommendations adopted
29-Sep-14	Risk Register be approved and monitored for the period under review	Yes
	The annual Internal Audit Plan was approved for the financial year 2014/15	Yes
	Review and approval of internal audit charter	Yes
	Reviewed and recommended for council approval the Audit committee charter 2014/15	Yes
	Internal Audit findings and recommendations on Financial Discipline review were noted	Yes
	Reviewed section 71 Management Reports	Yes
22-Jan-15	The Draft AG Corrective Action Plan for 2015 was reviewed and is noted. That the start date be changed. That the matter on Revenue Management, Assets Management, Leave and VAT should be expanded and have more details.	Yes
	Section 71 reports were reviewed and noted	Yes
	Irregular Expenditure Register was reviewed	Yes
17-Mar-15	Reviewed Performance Management reports for quarters 1 and 2 as presented by the Internal Audit unit, noted the findings and recommended that the recommendations per the report be implemented.	Yes
27-Mar-15	Reviewed the Follow-up report on overtime management and a progress report on AG Management Corrective Action Plans and recommended that Management commits itself in resolving the issues, reports and submits relevant Portfolio of Evidence on time	Yes
	A report on the Write-Off of Outstanding Debt on Indigent Customer Accounts was noted. That the Write-Off of Outstanding Debt on Indigent Customer Accounts be written off as irrecoverable, subject to an independent verification process to verify the accuracy of the amount before forwarding same to Council.	Yes

24-Jun-15	AG Management corrective action plans and the 3rd quarter dashboard report were reviewed. That the Dashboard Report was noted and the report tabled was a fair assessment of the state of the Municipality.	Yes
	Internal Audit reports for the following areas were presented: • Supply Chain Management • Performance Management review quarter 3 • Investigations on Unauthorised, Irregular, Fruitless & Wasteful Expenditure (UIFWE) and • Progress on the implementation of the Risk Register (Risk mitigation Plans) The reports and recommendations thereof were reviewed and noted.	Yes
	Treasury reports were presented as follows: • Section 71 monthly budget reports • Status reports on deviations/irregular expenditure and • Status report on cash flow position	Yes
17-Aug-15	Internal Audit Reports were presented as follows: • Performance Management review for the 4th quarter • Unauthorised, Irregular, Fruitless and Wasteful Expenditure investigations • Cash Flow Management review • Asset Management review • Information Technology review • Recruitment and Retention review • Follow up on the implementation of the risk register The reports, findings and recommendations as well as the agreed action plans were noted.	Yes
28-Aug-15	That the Draft Annual Financial Statements for the financial year 2014/2015 be hereby forwarded by the Accounting Officer of the Municipality or the Entity, to the Auditor General within two months of the end of the Financial Year as provided for in terms of Section 122 read with Section 126 of the MFMA, and the Audit Committee directs that they be received by the Auditor General no later than 31 August 2015. That the Draft Annual Performance Reports as provided for in Section 46 of the Municipal Systems Act be forwarded to the Auditor General in terms of Section 46(2) of the Municipal Systems Act by 31 August 2015; and The Municipality's Draft Annual Report be forwarded by 31 August 2015 to the Auditor General together with the Draft Annual Financial Statements.	Yes

APPENDIX H – LONG TERM CONTRACTS AND PUBLIC PRIVATE PARTNERSHIPS

Ugu District Municipality did not have long term contract with any public or private sector institution during 2014/2015 financial year.

APPENDIX I – MUNICIPAL ENTITY/ SERVICE PROVIDER PERFORMANCE SCHEDULE

This information is provided in the South Coast development Agency and Ugu Tourism Association's annual report

APPENDIX J – DISCLOSURES OF FINANCIAL INTERESTS

This information is provided above under human resources

APPENDIX K: REVENUE COLLECTION PERFORMANCE BY VOTE AND BY SOURCE

Revenue Collection Performance by Vote						
R' 000						
Vote Description	Year -2013/2014	Current: Year 2014/2015			Year 2014/2015 Variance	
	Actual	Original Budget	Adjusted Budget	Actual	Original Budget	Adjustments Budget
EXECUTIVE & COUNCIL	2,460	1,184	1,264	2,630	-1,446	-1,366
FINANCE & ADMINISTRATION	209,744	139,918	144,277	144,813	-4,894	-536
INFRASTRUCTURE & ECONOMIC DEVELOPMENT	284,122	277,743	272,960	269,979	7,765	2,982
WATER	414,065	495,017	608,783	525,605	-30,587	83,178
WASTE WATER MANAGEMENT	104,357	111,090	111,440	103,169	7,922	8,271
PUBLIC SAFETY	6,201	5,891	11,288	7,277	-1,386	4,010
ENVIRONMENTAL PROTECTION	3,738	15,096	14,857	10,212	4,884	4,645
OTHER: MARKET	1,726	1,225	1,300	1,284	-59	16
SPORTS & RECREATION	468	600	360	432	168	-72
Example 10 - Vote 10						
Example 11 - Vote 11						
Example 12 - Vote 12						
Example 13 - Vote 13						
Example 14 - Vote 14						
Example 15 - Vote 15						
Total Revenue by Vote	**1,026,881**	**1,047,766**	**1,166,529**	**1,065,400**	**-17,635**	**101,129**

APPENDIX K (ii): REVENUE COLLECTION PERFORMANCE BY SOURCE

Revenue Collection Performance by Source						
R '000						
Description	2013/2014	2014/2015			2014/2015 Variance	
	Actual	Original Budget	Adjustments Budget	Actual	Original Budget	Adjustments Budget
Property rates						
Property rates - penalties & collection charges						
Service Charges - electricity revenue						
Service Charges - water revenue	221,007	273,459	288,709	274,273	0%	-5%
Service Charges - sanitation revenue	93,777	105,092	105,092	99,838	-5%	-5%
Service Charges - refuse revenue						
Service Charges - other						
Rentals of facilities and equipment	2,194	2,487	2,372	2,253	-10%	-5%
Interest earned - external investments	10,970	4,857	7,474	7,100	32%	-5%
Interest earned - outstanding debtors	21,969	3,425	3,425	3,254	-5%	-5%
Dividends received						
Fines						
Licences and permits						
Agency services						
Transfers recognised - operational	229,567	336,596	340,948	323,900	-4%	-5%
Other revenue	9,794	10,100	6,557	6,229	-62%	-5%
Gains on disposal of PPE						
Environmental Protection						
Total Revenue (excluding capital transfers and contributions)	**589,279**	**736,017**	**754,576**	**716,848**	**-2.67%**	**-5.26%**

APPENDIX L: CONDITIONAL GRANTS RECEIVED: EXCLUDING MIG

Conditional Grants: excluding MIG R' 000					
Details	Budget	Adjustments Budget	Actual	Variance	
				Budget	Adjustments Budget
Neighbourhood Development Partnership Grant					
DBSA			524		
IDC			45		
National Lottery			1892		
Public Transport Infrastructure and Systems Grant					
Rural Roads Asset Management	2430	2430	2944	121%	121%
Other Specify:					
National FMG Grant	1250	1250	1251	100%	100%
National DWA Grants	35300	63500	47546	135%	75%
National Local Government Grant	29934	33433	43016	144%	129%
Provincial CoGTA Grant	13310	4310	26036	196%	604%
Provincial DPW Grant	1368	1368	1042	76%	76%
Total	83592	106291	124296	149%	117%

COMMENT ON CONDITIONAL GRANTS EXCLUDING MIG:

The municipality receives conditional grants and subsidies from the National Government for various projects. The total grant income for 2014/15 was R354 444 364.32. All grants received were utilized as per Division of Revenue Act (DORA) condition.

APPENDIX M: CAPITAL EXPENDITURE – NEW & UPGRADE/RENEWAL PROGRAMMES

Capital Expenditure - New Assets Programme* R '000							
Description	2013/2014	2014/2015			Planned Capital expenditure		
	Actual	Original Budget	Adjustment Budget	Actual Expenditure	FY + 1	FY + 2	FY + 3
Capital expenditure by Asset Class							
Infrastructure - Total	**232,079**	**252,516**		**297,372**	–	–	–
Infrastructure: Water - Total	209,620	229,238		275,684	–	–	–
Dams & Reservoirs							
Water purification							
Reticulation	209,620	229,238	290,194	275,684			
Infrastructure: Sanitation - Total	22,459	23,278		21,688	–	–	–
Reticulation							
Sewerage purification	22,459	23,278	22,829	21,688			
Recreational facilities							
Fire, safety & emergency							

Capital Expenditure - New Assets Programme* R '000							
Description	Year -1	Year 0			Planned Capital expenditure		
	Actual	Original Budget	Adjustment Budget	Actual Expenditure	FY + 1	FY + 2	FY + 3
Capital expenditure by Asset Class							
Heritage assets - Total	–	–			–	–	–
Buildings							
Other							
Investment properties - Total	–	–			–	–	–
Housing development							
Other							
Other assets	**13,138**	**29,490**		**16,671**	–	–	–
General vehicles		4,800	4,800	4,560			
Specialised vehicles							
Plant & equipment							
Computers - hardware/equipment	35	2,800	660	627			
Furniture and other office equipment	99	650	752	714			
Abattoirs							
Markets							
Civic Land and Buildings							
Other Buildings	3,088	21,240	11,337	10,770			
Other Land							
Surplus Assets - (Investment or Inventory)							
Other	9,915						
Intangibles	2,483	400		350	–	–	–
Computers - software & programming	2,483	400	368	350			
Other *(list sub-class)*							
Total Capital Expenditure on new assets	**247,700**	**282,406**		**314,392**	–	–	–
Specialised vehicles	–	–			–	–	–
Refuse							
Fire							
Conservancy							
Ambulances							

APPENDIX M (II): CAPITAL EXPENDITURE – UPGRADE/RENEWAL PROGRAMME

Capital Expenditure - Upgrade/Renewal Programme* R '000							
Description	Year -1	Year 0			Planned Capital expenditure		
	Actual	Original Budget	Adjustment Budget	Actual Expenditure	FY + 1	FY + 2	FY + 3
Capital expenditure by Asset Class							
Investment properties	–	–			–	–	–
Housing development							
Other							
Other assets	3,066	300		285	–	–	–
General vehicles							
Specialised vehicles							
Plant & equipment							
Computers - hardware/equipment							
Furniture and other office equipment							
Abattoirs							
Markets							
Civic Land and Buildings							
Other Buildings							
Other Land							
Surplus Assets - (Investment or Inventory)							
Other	3,066	300	300	285			
Agricultural assets	–	–			–	–	–
List sub-class							
Biological assets	–	–			–	–	–
List sub-class							
Intangibles	–	–			–	–	–
Computers - software & programming							
Other *(list sub-class)*							
Total Capital Expenditure on renewal of existing assets	61,320	54,560		86,075	–	–	–

APPENDIX N – CAPITAL PROGRAMME BY PROJECT 2014/2015

R million	Original Budget	Adjustment Budget	Un-audited Full Year Total	Original Budget variance	Adjusted Budget Variance
Capital Expenditure	138	135	133	4.00%	1.50%
	337	**422**	**341**	-1.10%	19.20%
Operating Expenditure	982	986	987	-0.50%	-0.10%
	726	**749**	**929**	-27.90%	-24.10%
Total expenditure	**1,063**	**1,170**	**1,270**	-19.40%	-8.50%
Water and sanitation	312	408	328	-5.10%	19.70%
Electricity		–	–		
Housing		–	–		
Roads, Pavements, Bridges and storm water		–	–		
Other	25	13	13	47.80%	1.20%
	138	**135**	**133**	4.00%	1.50%
External Loans	20	–	–	100.00%	
Internal contributions	4	–	–	100.00%	
Grants and subsidies	308	409	341	-10.80%	16.70%
Other		–			
	138	**141**	**141**	-1.80%	0.00%
External Loans		–	35		
Grants and subsidies	308	409	341	-10.80%	16.70%
Investments Redeemed					
Statutory Receipts (including VAT)					
Other Receipts					
	1,182	**1,189**	**1,192**	-0.80%	-0.20%
Salaries, wages and allowances	265	276	277	-4.60%	-0.60%
Cash and creditor payments	298	287	303	-1.80%	-5.90%
Capital payments	337	422	329	2.40%	22.00%
Investments made		–	–		
External loans repaid	20	19	17	14.00%	12.40%
Statutory Payments (including VAT)		–	–		
Other payments	19	15	13	32.40%	14.70%
	1,115	**1,198**	**1,183**	-6.10%	1.30%
Service charges: Water	394	394	320	18.70%	18.70%
Grants & subsidies: Water	298	298	206	31.00%	31.00%
Other revenue: Water	9	9	25	-187.30%	-187.30%
	700	**700**	**550**	21.40%	21.40%
Employee related costs: Water	159	159	284	-78.50%	-78.50%
Provision for working capital: Water	85	85	332	-290.10%	-290.10%
Repairs and maintenance: Water	36	36	0	100.00%	100.00%
Bulk purchases: Water	55	55	53	4.40%	4.40%
Other expenditure: Water	187	187	261	-39.30%	-39.30%
Total	**523**	**523**	**929**	-77.70%	-77.70%

APPENDIX O – CAPITAL PROGRAMME BY PROJECT BY WARD 2014/2015

Capital Programme by Project by Ward: 2014/2015 R' 000		
Capital Project	Ward(s) affected	Works completed (Yes/No)
Water		
Umzinto WWTW	Umdoni Local Municipality's ward 3 and 6	Yes
Sanitation/Sewerage		
Bhobhoyi/ Mkholombe Sanitation	Hibiscus Coast Local Municipality's ward 20 and 23	Yes
Harding Sanitation Scheme: P3	Umuziwabantu local Municipality's ward 3	Yes
Malangeni low coast Housing	Umdoni local municipality's ward 08 and 09	Yes
Margate Sewer Pipeline	Hibiscus Coast Local Municipality's ward 2 and 6	Yes
Masinenge/ uvongo sanitation	Hibiscus Coast Local Municipality's ward 03 and 19	Yes
Sanitation refurshment Phase 1	Ugu District municipality	NO
Umzinto WWTW & Sewer Outfall	Umdoni Local Municipality's Ward 03 and 06	Yes
Pennington Waterborne Sanitation Project	Umdoni Local Municipality's Ward 08	Yes

Table O

APPENDIX P – SERVICE CONNECTION BACKLOGS AT SCHOOLS AND CLINICS

Water and sanitation connection at schools and clinics is the function of the department of Education and Department of health respectively.

APPENDIX Q – SERVICE BACKLOGS EXPERIENCED BY THE COMMUNITY WHERE ANOTHER SPHERE OF GOVERNMENT IS RESPONSIBLE FOR SERVICE PROVISION

This appendix is not applicable to Ugu District Municipality

APPENDIX R – DECLARATION OF LOANS AND GRANTS MADE BY THE MUNICIPALITY

Declaration of Loans and Grants made by the municipality: Year 0			
All Organisation or Person in receipt of Loans */Grants* provided by the municipality	Nature of project	Conditions attached to funding	Value Year 0 R' 000
Ugu South Coast Tourism Entity	LED PROGRAMMES	N/A	11,044
Ugu Development Agency	LED PROGRAMMES	N/A	5,000

APPENDIX S – NATIONAL AND PROVINCIAL OUTCOMES FOR LOCAL GOVERNMENT

National and Provincial Outcomes for Local Government		
Outcome/Output	Progress to date	Number or Percentage Achieved
Output: Improving access to basic services	A number of communities have received water and sanitation • Sanitation delivery is now sitting at 85% • Water service delivery is currently sitting at 60%	70%
Output: Implementation of the Community Work Programme	This programme has only started during the 2014/2015 financial year with funding assistance from the national and provincial government. 60 community members were recruited and employed under this programme during 2014/2015 while looking forward at employing more during 2015/2016 financial year	30%
Output: Deepen democracy through a refined Ward Committee model	Atleast 90% of ward committee structure were established and functional during the 2014/2015 financial year	90%
Output: Administrative and financial capability	The municipal comes from difficult financial challenges during the previous years. An improvement was realised during the 2014/2015 financial year hence the attainment of the qualified audit opinion.	70%

Table S

VOLUME 2

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Provide infrastructure for supply of water, sewerage and sanitation
Grading of local authority	Grade 5
Chief Financial Officer (CFO)	S P Mbili
Accounting Officer	DD Naidoo
Registered office	28 Connor Street Port Shepstone KwaZulu-Natal 4240
Postal address	P. O. Box 33 Port Shepstone KwaZulu-Natal 4240
Bankers	ABSA Bank Limited First National Bank
Auditors	Auditor General Registered Auditors

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

Abbreviations

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

ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL

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

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

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

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

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

The accounting officer has reviewed the economic entity's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the economic entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the economic entity's external auditors.

The external auditors are responsible for independently reviewing and reporting on the economic entity's consolidated financial statements. The consolidated financial statements have been examined by the economic entity's external auditors and their report is presented on page 5.

The consolidated financial statements set out on pages 7 to 103, which have been prepared on the going concern basis, were
The consolidated financial statements set out on pages 7 to 103, which have been prepared
approved by the accounting officer on 30 September 2015 and were signed on its behalf by:

DD Naidoo
Municipal Manager

AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 30 June 2015.

Audit committee members and attendance

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

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 38(10)(1) of the PFMA and Treasury Regulation 3.1.

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

The effectiveness of internal control

The system of internal controls applied by the economic entity over financial and risk management is effective, efficient and transparent. In line with the PFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the consolidated financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective. The quality of in year management and monthly/quarterly reports submitted in terms of the PFMA and the Division of Revenue Act.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared by management by the management of the economic entity during the year under review.

Evaluation of consolidated financial statements

The audit committee has:

- reviewed and discussed the audited consolidated financial statements to be included in the annual report, with the Auditor-General and the ;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices (delete if not applicable);
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the consolidated financial statements, and are of the opinion that the audited consolidated financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

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

Auditor-General of South Africa

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

Mr. Paul Preston

Date: 28th January 2016

EXTERNAL AUDIT COMMITTEE

Members of the Audit Committee:

Mr. Paul Preston	Chairperson
Mr. Bheki Dladla	Member
Mrs. Chantel Elliott	Member
Mr. Imraan Lockhat	Member

Performance Audit Committee meetings took place on the following dates:

• 17 March 2015	PMS Review Quarter
• 17 March 2015	PMS Review Quarter 2
• 15 April 2014	PMS Report Quarter 2
• 20 June 2014	PMS Review 3rd Quarter
• 19 August 2014	PMS Q4 Review
• 19 August 2014	Quarter 4 PMS Report
• 22 January 2015	PMS Quarter 1 2014/2015
• 08 July 2015	PMS Quarter 3
• 17 August 2015	PMS Quarter 4
• 11 December 2015	PMS Review Quarter 1
• 1 December 2015	PMS Quarter Report

1. INTRODUCTION

In terms of section 62(1)(c) of the Municipal Finance Management Act (MFMA), No.56 of 2003, the Municipal Manager is the Accounting Officer and is responsible from managing the financial administration of the Municipality. The Audit Committee is appointed in terms of Section 166 of the MFMA, to assist and to advise the Mayor, the Speaker and the Municipal Manager of the Municipality. It is a shared service Audit Committee appointed by the Ugu District. It is afforded wide powers and obligations.

Meetings with the Political Leadership and with the Audit Committee took place at the Margate Hotel and in the Honourable Mayor's offices, on the following dates:-

2. MEMBERS AND MEETINGS OF THE AUDIT COMMITTEE

2.1 In terms of the Ugu District Municipality's Audit Committee Charter, the Audit Committee as at the 30 June 2015, included four external independent members. One is a Performance Management Specialist. None of the members were Councillors or the Municipal Manager. The Audit Committee meets at least four (4) times per annum as per its approved Charter and twice (2) a year as a Performance Audit Committee and did so for the year.

It met frequently with the Political Leadership, and specific members of the Political Leadership were invited to and attended Audit Committee meetings from time to time.

Meetings of a more informal nature with the Honourable Mayor, Speaker and Deputy Mayor took place regularly. These meetings included ongoing assessment of Statutory compliance, concerns with regard to the monthly financial statements, the Auditor General's interim Dashboard Reports and considered the Municipality's financial position, risk and compliance with its I.D.P. and pre-determined objectives.

The Audit Committee also sits as a Performance Audit Committee in respect of Section 40, 41, 43 and 46 of the Municipal Systems Act (MSA).

The Auditor General has visited the Municipality regularly and interacted purposefully with it and then determines a Quarterly Dashboard Report which has become a most useful and reliable tool in evaluating the performance of the Ugu District Municipality. An Audit Committee member is in attendance at the Auditor General's report back meetings to Councillors and Management with the Auditor General. This function is shared amongst the members of the Audit Committee.

Audit Committee members carefully reviewed and approved draft minutes of its own meetings. They met with one another and exchanged e-mails with the Manager: Internal Audit, between meetings as issues or concerns arose. An atmosphere of mutual trust and respect exists between the Audit Committee and Municipal Manager and he has had a number of confidential meetings with the Audit Committee members while all parties maintain independence.

2.2 The Auditor General tests the following in its Audit finding and the level of the Audit finding concerning a Municipality:-

2.2.1 Compliance with Legislation concerning the Municipality.

2.2.2 Possible material misstatements in the Draft Annual Financial Statements or in the consolidated Draft Annual Financial Statements.

2.2.3 Compliance with Performance Indicators and the alignment of the I.D.P. with the SDBIP, with the Performance targets set by the Municipality.

2.2.4 Performance in areas governed by the Key Performance Indicators, by accessing portfolios of evidence (POE's).

3. AUDIT COMMITTEE'S RESPONSIBILITIES AND FINDINGS

In discharging its responsibilities for the year ended 30 June 2015 the Audit Committee did the following:-

3.1 Audit Committee Meetings and Functions

The Audit Committee:-

- Reviewed the quality of the financial information, financial reports and consolidated annual financial reports and other reporting which was tabled regularly before the Audit Committee, which considered the monthly financial information sent to Treasury;
- Reviewed the draft annual financial statements and draft consolidated annual statements and the draft Performance Audit and consolidated Performance Audit information prior to submission to Council and to the Auditor-General and made prior recommendations on enhancing the quality of compliance and disclosure;
- Reviewed financial reports from time to time, and reviewed performance information to ensure they present a balanced credible and understandable assessment of the performance and going concern viability of the Municipality;
- Reviewed the Auditor General's draft management letter and final report in relation to the year ended June 2015;
- Discussed issues, materiality and queries arising from the Auditor General's Audit of the Municipality;
- Reviewed the management response with regard to the corrective action to be undertaken in response to any significant internal audit findings;
- Always dealt with matters arising from previous minutes;
- Reviewed the Performance Information Reports and has established that credible portfolios of evidence exist.
- Reviewed and recommended the Internal Audit Plan and Audit Committee Charters.
- Dealt with Risk and considered the Risk Register;
- Dealt with the Asset Register and Property Plant and Equipment generally;
- Dealt with Revenue Management and water billing at every meeting;
- Dealt at every meeting with Legislative and Statutory compliances in the various laws governing the Municipality;
- Considered possible misstatements in Annual Financial Statements;
- Participated in Performance Assessments for Senior Managers.

3.2 Performance Management

The Audit Committee, sitting as a Performance Audit Committee, considered matters relating to performance management as prescribed in terms of Regulation 14(4) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.
These responsibilities included:

- A review of the quarterly reports required to be submitted by internal audit and a mid-year Performance Review.
- Reviewed the Performance Management System and the pre-determined objectives and tested the functionality and corresponding compliance with the Municipal Systems Act and the MFMA.
- Focussed on the economy, effectiveness, efficiency, reliability and impact applicable to the Municipality's own key performance indicators and key performance areas and their alignment with the SDBIP and the relevant P.O.E.'s.
- Considered the application of Sections 40, 41, 43 and 46 of the MSA, with reference to the Municipalities' I.D.P. and reviewed these, prior to submission to the Council and the Auditor General and the levels of compliance.

Service delivery is calibrated and can be evaluated by considering the alignment of the I.D.P. with the SDBIP and the pre-determined objectives. Senior managers receive facts and information which they evaluate and report, based on such information and this must align with the Integrated Development Plan (I.D.P.), and the Key Performance areas and pre-determined objectives. If done properly, it is a very good system.

This is the essence of good governance and represents proper compliance with Section 195 of the Constitution of South Africa. The Municipality has improved its Compliance obligations in the last year.

3.3 Revenue

3.3.1 Water Billing and Consumer Debt have received administrative attention. A minimum monthly remittance by water users is required to sustain water revenue income. A revenue shortfall impacts on Ugu's viability as a going concern, and poses a pervasive risk.

3.3.2 Cash flow continues to be of material concern. The under-recovery in respect of water revenue and the anomalies in the billing system underpin this difficulty which therefore poses significant risk.

3.3.2.1 Leave was dealt with at high levels, including intervention by the Audit Committee, as it is noted that there is progress, and many checks, balances and controls are in place concerning leave. Mr. Imraan Lockhat was of great assistance in opening his office and allowing for and checking that leave balances as appeared in the Draft Annual Financial Statements, were properly reflected.

3.3.2.2 Water breaks and call outs and the urgency and overtime conundrum, were considered frequently.

3.3.2.3 The Audit Committee dealt extensively with the asset valuation of both immovable and movable assets as well as servitudes. Mrs. Chantel Elliott on behalf of the Audit Committee, was most helpful in the restatement of the assets reflected in the draft balance sheet and this contributed materially to the favourable outcome concerning the Municipality for the financial year.

3.4 Internal Control and Internal Audit

The External Audit Committee is responsible for the effective functioning of the Internal Audit activity, as provided for in Section 165 of the MFMA. Internal Audit reports functionally to the Audit Committee and administratively to the Accounting Officer. The Audit Committee:-

- has direct access to Internal Audit through a reporting relationship with Internal Audit. This underpins its independence from management;
- The Chairperson has conducted regular private telephone calls and exchanged e-mails, and had meetings with the Manager of Internal audit to allow for frank discussion of issues and concerns;
- evaluated the performance of internal audit by consideration of the relevant Internal Audit Plan and did so with reference to the Auditor General's Dashboard Reports, which reviewed internal audits' integrity;
- considered the scope of the internal auditor's review of internal control over financial reporting, and obtained reports on significant findings and recommendations, together with management's responses;
- evaluated controls over the overall operational and financial reporting environment and reviewed the effectiveness of the internal controls in conjunction with the Auditor General's Dashboard Findings;
- assessed the adequacy of performance of the internal audit function, and available internal audit resources;
- reviewed the frequency of dealing with corrective action taken in response to significant Auditor General's findings raised in the prior year;
- reviewed and approved the Internal Audit Charter, Internal Audit Plans and Internal Audit's findings with regard to internal control;
- at all Audit meetings discussed matters with respect to risk assessment, revenue impairment and asset management;
- discussed at length the challenges in water-billing and revenue management;
- discussed Property Plant and Equipment;
- discussed compliance with VAT;
- discussed GRAP;
- considered the valuation of, or of misstatements of the Municipality's Assets;
- considered internal audit reports at every Audit meeting;
- attended meetings concerning Performance Evaluation of Senior Managers.

3.5 Compliance and Ethics

From a review of various reports and discussions held at Audit Committee meetings the Audit Committee noted that a Fraud Prevention Strategy is in place. A code of conduct for municipal staff and Councillors in terms of the Municipal Systems Act is applied by the municipality. Declarations of interest in respect of risk posed by attempts to by-pass the Supply Chain Management process have been obtained from all persons contracting with the Municipality stating on oath that they are not in the employ of the State. Employees are subject to the same scrutiny.

The Audit Committee has reviewed the effectiveness of mechanisms for the identification and reporting of compliance with Statutory laws as set out in the Internal Audit Plan and relevant Regulations; and the findings of regulatory bodies or audit observations. It has tried to eliminate material misstatements from Draft Annual Financial and Consolidated Financial Reports forwarded to the Auditor General. Fraud is very difficult to detect at every level.

3.6 Section 71 (of the MFMA) Management Report

This is requested at each Audit Committee meeting. It is a report in a prescribed format due to be submitted to Treasury. It is most helpful in providing a contemporaneous indication of the financial health and economic state of the Municipality at any given time. Monthly Section 71 Management reports should be considered by the Counsel during the year.

3.7 The Consideration of the Auditor General's Report

The Auditor General has tabled its Final Management Report and Audit Finding in respect of the year under review. The Auditor General expressed an unqualified opinion with other matters.

The holistic approach by the Political leadership and management to the operational obligations and the corrective action in respect of the challenges at Ugu has improved. The information provided by the Municipality in respect of Revenue, Water Billing, Assets, its value of its assets, and with regard to Performance is regarded by the Auditor General, as credible and compliant in which formed the basis of its Audit Report.

3.8In-year reports submitted in terms of the MFMA
The quarterly performance management reports, the Council's approved budget, and the SDBIP, Internal Audit reports and the Annual Performance Reports have been called for by the Audit Committee. The Audit Committee reviewed these reports and was satisfied. The quarterly management reports and the minutes of the External Audit Committee reflects this. However, Performance Evaluation remains an area of concern.

3.9 Internal and External Audit Function

During the year under review, an audit plan was prepared based on the Internal Audit Plan, and on Annual Risk Assessment. The following is a list of received Internal Audit and Management's high levels of attention:

- Ethics
- Asset Management Review and Restatement of Asset Values
- Bi-annual reviews of Performance Management
- Cash Flow oversight and going concern issues
- Financial Discipline Review
- Overtime
- Water Revenue
- Fleet Management
- Audit Committee Review
- Follow Up Review: Revenue Management
- Information Technology
- Supply Chain Management discipline review
- Corrective Action Plans: A-G Management Report & Audit Reports
- Section 36, Section 12 and 17(1)(c) of Supply Chain Management Regulations
- Annual Financial Statements
- Fraud Prevention
- Statutory Compliance
- Risk/Risk Register
- Performance Management and the SDBIP
- The Internal Audit Plan
- VAT
- Property, Plant and Equipment
- Valuation of Fixed and Movable Assets and Servitudes
- GRAP
- Compliance with Legislation

An annual assessment of the Internal Audit Function had been completed the Audit Committee. The External Audit Committee is satisfied with the performance of the Internal Audit function and reports that all projects in terms of the approved risk based annual audit plan had been adequately provided to the Audit Committee as required by Law.

The Auditor General has stated in its Management letter and Dashboard Reports, that internal and external audit functions at the Municipality are conducted in a satisfactory manner.

4. EVALUATION OF ANNUAL FINANCIAL STATEMENTS

The Audit Committee reviewed on more than one occasion, the credibility of the draft annual financial statements and consolidated Annual Financial Statements and the Municipalities Performance Management for the year ended 30 June 2015 prior to submission to the Auditor General on the 31 August 2015. The Committee reviewed the accounting policies and practices and evaluated the draft annual financial statements and the draft consolidated Annual Financial Statements based on the information provided to the Committee and considered the integrity of the said statements complying in all material respects with the requirements of the MFMA and Treasury Regulations as well as the statements of Generally Recognised Accounting Practice (GRAP). Several proposals were made by the Audit Committee for amendments prior to submission to the Auditor General.

5. RESOLUTIONS

With reference to Treasury Circulars, the Audit Committee Resolved as follows, at its Audit Committee meetings for the year in question:-

1. To deal with necessary Corrective Action in terms of Section 131 of the MFMA at every meeting.
2. To deal with water billing and water revenue accounts at every meeting.
3. To monitor Performance Management.
4. To follow up with regard to the updating of an asset register, valuation of assets and Property Plant and Equipment generally.
5. To consider Ugu's viability as a going concern at each meeting.
6. To consideration of Section 71 Management Reports.
7. To consider VAT.
8. To interrogate supply chain management.
9. To comply with relevant Treasury Circulars.

6. AUDIT OUTCOME

The Auditor General awarded the District Municipality an unqualified Audit with other matters finding; which is a material improvement from the previous Qualified Audit.

7. THE POLITICAL LEADERSHIP

The Political Leadership has interacted purposefully with the Audit Committee. The Audit Committee believes that a sound relationship of trust has evolved. Since the previous Audit Report the Honourable Mayor, the Honourable Deputy Mayor, the Honourable Speaker and Counsellors have interacted at meetings of the Audit Committee in a concerned and informed manner. This involvement has been helpful in fulfilling the functions of the Audit Committee in terms of Section 166 of the MFMA, and has also given effect to Section 195 of the Constitution of South Africa. Some Councillors were invited to Audit Committee Meetings and this was most beneficial.

8. CONCLUSION

I would like to thank Mr. Dladla, Mr. Lockhat and Mrs. Elliott for making themselves available to serve on this Committee and the significant contribution in their interrogation and consideration of draft financial statements and the draft Performance Reports, is helpful to all concerned. This has been noted by the Auditor General. As an Audit Committee, we rely to a great extent on the Manager: Internal Audit and her staff in the Internal Audit Department for their support and assistance and, in particular, for the role they continue to play in improving the accounting and internal auditing systems and controls at Ugu District Municipality. We are indebted to them and the fine quality of the Board Packs. There has been robust discussion with the Council, specifically the Honourable Speaker, Madam Mayor and The Honourable Deputy Mayor. Councillor Mavundla, in particular has been most helpful. We are also grateful to the helpful (and sometimes emotional) input of the Municipal Manager and his integrity in all matters. The Chief Financial Officer and the Auditor General have given ongoing guidance, CoGTA, Treasury, Private Auditors and all other invitees to our meetings, including the external service providers, provide invaluable information to the Committee.

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Mr Paul Preston

Chairperson: Ugu District Municipality
Shared Services Audit Committee

Date:______________________

Statement of Financial Position as at 30 June 2015

		Economic entity		Controlling entity	
Figures in Rand	Note(s)	2015	2014 Restated*	2015	2014 Restated*
Assets					
Current Assets					
Inventories	3	14 426 468	8 069 415	14 426 468	8 069 415
Current portion of long-term receivables	4	51 855	32 042	51 855	32 042
Operating lease asset	5	28 410	57 450	28 410	57 450
Receivables from non-exchange transactions	6	50 960 422	13 839 444	50 504 488	13 445 694
VAT receivable	7	-	6 175 240	-	6 069 735
Receivables from exchange transactions	8	96 287 685	131 242 751	95 058 018	130 457 632
Cash and cash equivalents	9	272 701 623	171 968 175	259 074 427	160 671 371
		434 456 463	331 384 517	419 143 666	318 803 339
Non-Current Assets					
Investment property	10	29 403 251	14 600 000	29 403 251	14 600 000
Property, plant and equipment	11	4 216 908 161	4 149 547 648	4 216 197 090	4 148 921 729
Intangible assets	12	8 980 880	9 624 048	8 933 645	9 599 572
Investments	13	-	-	200	100
Long-term receivables	4	270 644	7 404	270 644	7 404
		4 255 562 936	4 173 779 100	4 254 804 830	4 173 128 805
Total Assets		4 690 019 399	4 505 163 617	4 673 948 496	4 491 932 144
Liabilities					
Current Liabilities					
Current-portion of long-term liabilities	14	18 915 505	18 268 969	18 915 505	18 268 969
Current portion of finance lease obligation	15	3 063 785	3 361 417	3 063 785	3 361 417
Operating lease liability	5	69 605	68 687	50 643	59 991
Payables from exchange transactions	16	153 477 796	103 747 684	153 649 041	102 392 482
VAT payable	17	494 751	-	855 061	-
Consumer deposits	18	20 034 005	19 724 662	20 034 005	19 724 662
Unspent government grants and receipts	19	21 365 817	48 333 089	21 365 817	48 333 089
Provisions	20	20 031 894	16 569 571	19 761 585	16 399 479
Bank overdraft	9	26 152 189	3 343 474	26 152 189	3 343 474
		263 605 347	213 417 553	263 847 631	211 883 563
Non-Current Liabilities					
Long-term liabilities	14	144 531 365	162 157 394	144 531 365	162 157 394
Finance lease obligation	15	-	3 206 864	-	3 206 864
Retirement benefit liabilities	21	15 250 105	13 524 137	15 250 105	13 524 137
Other long-term employee benefits	22	13 234 057	11 076 109	13 234 057	11 076 109
		173 015 527	189 964 504	173 015 527	189 964 504
Total Liabilities		436 620 874	403 382 057	436 863 158	401 848 067
Net Assets		4 253 398 525	4 101 781 560	4 237 085 338	4 090 084 077
Accumulated surplus		4 229 652 782	4 101 781 560	4 213 339 595	4 090 084 077

Statement of Financial Performance

Figures in Rand	Note(s)	Economic entity 2015	Economic entity 2014 Restated*	Controlling entity 2015	Controlling entity 2014 Restated*
Revenue					
Revenue from exchange transactions					
Service charges	23	320 233 605	333 560 621	320 233 605	333 560 621
Rental of facilities and equipment	24	2 430 265	2 193 961	2 430 265	2 193 961
Other revenue	25	16 990 226	9 117 707	14 980 970	8 390 268
Interest received	26	19 476 014	14 162 737	18 995 968	13 820 590
Total revenue from exchange transactions		359 130 110	359 035 026	356 640 808	357 965 440
Revenue from non-exchange transactions					
Transfer revenue					
Government grants & subsidies	27	722 408 093	664 515 026	722 408 093	664 515 026
Municipal grants	28	4 595 000	2 654 360	-	-
Total revenue from non-exchange transactions		727 003 093	667 169 386	722 408 093	664 515 026
Total revenue		1 086 133 203	1 026 204 412	1 079 048 901	1 022 480 466
Expenditure					
Employee related costs	29	(274 840 244)	(246 106 222)	(267 421 308)	(242 287 019)
Remuneration of councillors	30	(9 145 959)	(7 937 980)	(8 689 921)	(7 784 080)
Depreciation and amortisation	31	(171 709 530)	(171 476 235)	(171 552 378)	(171 347 499)
Impairment loss/ Reversal of impairments	32	(161 924 814)	(15 540 159)	(161 924 814)	(15 540 159)
Finance costs	33	(12 812 729)	(15 817 647)	(12 812 707)	(15 817 647)
Lease rentals on operating lease		(2 129 624)	(2 013 144)	(1 877 034)	(2 013 144)
Debt Impairment	34	(17 799)	(25 601)	-	-
Repairs and maintenance		(52 638 101)	(17 172 608)	(52 560 496)	(17 098 564)
Bulk purchases	35	(52 626 127)	(46 954 224)	(52 626 127)	(46 954 224)
Contracted services	36	(19 964 400)	(19 677 186)	(19 827 306)	(19 579 400)
Transfers and Subsidies	37	(54 691 759)	(111 491 830)	(70 735 501)	(122 009 680)
General Expenses	38	(118 677 235)	(111 397 831)	(108 703 466)	(104 221 200)
Total expenditure		(931 178 321)	(765 610 667)	(928 731 058)	(764 652 616)
Operating surplus		154 954 882	260 593 745	150 317 843	257 827 850
Gain (loss) on disposal of assets and liabilities		862 083	(1 378 271)	883 418	(1 334 421)
Fair value adjustments	39	(4 200 000)	(10 400 000)	(4 200 000)	(10 400 000)
		(3 337 917)	(11 778 271)	(3 316 582)	(11 734 421)
Surplus for the year		151 616 965	248 815 474	147 001 261	246 093 429

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Economic entity		
Balance at 01 July 2013	3 852 966 086	3 852 966 086
Changes in net assets		
Surplus for the year	248 815 474	248 815 474
Total changes	248 815 474	248 815 474
Opening balance as previously reported	2 163 506 920	2 163 506 920
Adjustments		
Correction of errors	1 914 528 897	1 914 528 897
Balance at 01 July 2014 as restated*	4 078 035 817	4 078 035 817
Changes in net assets		
Surplus for the year	151 616 965	151 616 965
Total changes	151 616 965	151 616 965
Balance at 30 June 2015	4 229 652 782	4 229 652 782
Note(s)		
Controlling entity		
Balance at 01 July 2013	3 843 990 648	3 843 990 648
Changes in net assets		
Surplus for the year	246 093 429	246 093 429
Total changes	246 093 429	246 093 429
Opening balance as previously reported	2 151 809 437	2 151 809 437
Adjustments		
Correction of errors	1 914 528 897	1 914 528 897
Balance at 01 July 2014 as restated*	4 066 338 334	4 066 338 334
Changes in net assets		
Surplus for the year	147 001 261	147 001 261
Total changes	147 001 261	147 001 261
Balance at 30 June 2015	4 213 339 595	4 213 339 595

Cash Flow Statement

		Economic entity		Controlling entity	
Figures in Rand	Note(s)	2015	2014	2015	2014
Cash flows from operating activities					
Receipts					
Sale of goods and services		336 045 600	282 822 583	292 287 820	269 785 370
Grants		706 253 174	666 995 710	706 253 174	666 995 710
Interest income		19 476 014	14 162 737	18 995 968	13 820 590
		1 061 774 788	963 981 030	1 017 536 962	950 601 670
Payments					
Employee costs		(283 970 388)	(254 044 202)	(277 215 804)	(243 331 442)
Finance costs		(12 812 729)	(15 817 647)	(12 812 707)	(15 817 647)
Other payments		(340 032 887)	(274 765 529)	(303 433 886)	(277 273 372)
		(636 816 004)	(544 627 378)	(593 462 397)	(536 422 461)
Undefined difference compared to the cash generated from operations note		4 863 812	-	4 863 812	-
Net cash flows from operating activities	40	429 822 596	419 353 652	428 938 377	414 179 209
Cash flows from investing activities					
Purchase of property, plant and equipment	11	(326 367 156)	(299 767 961)	(327 739 977)	(299 572 424)
Proceeds from sale of property, plant and equipment	11	883 349	-	885 269	-
Purchase of other intangible assets	12	(2 514 806)	(2 482 808)	(2 479 944)	(2 469 150)
Proceeds from sale of other intangible assets	12	1 920	33 662	-	31 068
Purchase of financial assets		-	-	(100)	-
Decrease / (Increase) in current portion of long-term receivables		(19 813)	19 382	(19 813)	19 382
Decrease / (Increase) in long-term receivables		(263 240)	62 888	(263 240)	62 888
Cash flow on acquisition of municipal entity	41	1 729 684	-	-	-
Net cash flows from investing activities		(326 550 062)	(302 134 837)	(329 617 805)	(301 928 236)
Cash flows from financing activities					
Repayment of other financial liabilities		(16 979 493)	(18 759 657)	(16 979 493)	(18 759 657)
Finance lease payments		(3 504 496)	(4 720 607)	(3 504 496)	(4 720 607)
Net cash flows from financing activities		(20 483 989)	(23 480 264)	(20 483 989)	(23 480 264)
Net increase/(decrease) in cash and cash equivalents		82 788 545	93 738 551	78 836 583	88 770 709
Cash and cash equivalents at the beginning of the year		168 624 701	74 886 150	157 327 897	68 557 188
Cash and cash equivalents at the end of the year	9	251 413 246	168 624 701	236 164 480	157 327 897

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Controlling entity					
Statement of Financial Performance					
Revenue					
Revenue from exchange transactions					
Service charges	378 550 964	15 250 000	393 800 964	320 233 605	(73 567 359)
Rental of facilities and equipment	2 486 519	(114 925)	2 371 594	2 430 265	58 671
Other income	5 215 072	50 000	5 265 072	14 980 970	9 715 898
Interest received - investment	8 025 321	2 400 000	10 425 321	18 995 968	8 570 647
Total revenue from exchange transactions	394 277 876	17 585 075	411 862 951	356 640 808	(55 222 143)
Revenue from non-exchange transactions					
Transfer revenue					
Government grants & subsidies	648 345 000	99 029 836	747 374 836	722 408 093	(24 966 743)
Total revenue	1 042 622 876	116 614 911	1 159 237 787	1 079 048 901	(80 188 886)
Expenditure					
Personnel	(249 471 702)	(9 749 358)	(259 221 060)	(267 421 308)	(8 200 248)
Remuneration of councillors	(10 254 226)	(639 250)	(10 893 476)	(8 689 921)	2 203 555
Depreciation and amortisation	(64 022 419)	-	(64 022 419)	(171 552 378)	(107 529 959)
Impairment loss/ Reversal of impairments	(21 019 155)	-	(21 019 155)	(161 924 814)	(140 905 659)
Finance costs	(18 950 359)	-	(18 950 359)	(12 812 707)	6 137 652
Lease rentals on operating lease	(1 936 000)	(178 000)	(2 114 000)	(1 877 034)	236 966
Repairs and maintenance	(48 704 835)	9 076 585	(39 628 250)	(52 560 496)	(12 932 246)
Bulk purchases	(49 500 000)	(5 575 862)	(55 075 862)	(52 626 127)	2 449 735
Contracted Services	(24 683 880)	395 950	(24 287 930)	(19 827 306)	4 460 624
Transfers and Subsidies	(106 753 172)	(7 679 175)	(114 432 347)	(70 735 501)	43 696 846
General Expenses	(118 164 274)	(6 584 569)	(124 748 843)	(108 703 466)	16 045 377
Other materials	(8 184 000)	(1 551 199)	(9 735 199)	-	9 735 199
Total expenditure	(721 644 022)	(22 484 878)	(744 128 900)	(928 731 058)	(184 602 158)
Operating surplus	320 978 854	94 130 033	415 108 887	150 317 843	(264 791 044)
Gain on disposal of assets and liabilities	-	-	-	883 418	883 418
Fair value adjustments	-	-	-	(4 200 000)	(4 200 000)
	-	-	-	(3 316 582)	(3 316 582)
Surplus before taxation	320 978 854	94 130 033	415 108 887	147 001 261	(268 107 626)

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Statement of Financial Position					
Assets					
Current Assets					
Inventories	8 621 840	-	8 621 840	14 426 468	5 804 628
Current portion of long-term receivables	60 485	-	60 485	51 855	(8 630)
Operating lease asset	-	-	-	28 410	28 410
Receivables from non-exchange transactions	29 116 836	(24 000 000)	5 116 836	50 504 488	45 387 652
Receivables from exchange transactions	66 130 366	30 460 000	96 590 366	95 058 018	(1 532 348)
Cash and cash equivalents	105 753 381	92 723 075	198 476 456	259 074 427	60 597 971
	209 682 908	99 183 075	308 865 983	419 143 666	110 277 683
Non-Current Assets					
Investment property	22 500 000	-	22 500 000	29 403 251	6 903 251
Property, plant and equipment	2 480 458 565	(193 234 000)	2 287 224 565	4 216 197 090	1 928 972 525
Intangible assets	11 912 875	-	11 912 875	8 933 645	(2 979 230)
Investments	-	-	-	200	200
Long-term receivables	129 598	-	129 598	270 644	141 046
	2 515 001 038	(193 234 000)	2 321 767 038	4 254 804 830	1 933 037 792
Total Assets	2 724 683 946	(94 050 925)	2 630 633 021	4 673 948 496	2 043 315 475
Liabilities					
Current Liabilities					
Current portion of long-term liabilities	18 740 711	-	18 740 711	18 915 505	174 794
Finance lease obligation	-	-	-	3 063 785	3 063 785
Operating lease liability	-	-	-	50 643	50 643
Payables from exchange transactions	169 437 179	-	169 437 179	153 649 041	(15 788 138)
VAT payable	-	-	-	855 061	855 061
Consumer deposits	19 580 348	-	19 580 348	20 034 005	453 657
Unspent conditional grants and receipts	-	-	-	21 365 817	21 365 817
Provisions	1 944 973	70 723	2 015 696	19 761 585	17 745 889
Bank overdraft	-	-	-	26 152 189	26 152 189
	209 703 211	70 723	209 773 934	263 847 631	54 073 697
Non-Current Liabilities					
Long-term liabilities	150 077 000	-	150 077 000	144 531 365	(5 545 635)
Retirement benefit liabilities	29 742 307	196 375	29 938 682	15 250 105	(14 688 577)
Other long-term employee benefits	-	-	-	13 234 057	13 234 057
	179 819 307	196 375	180 015 682	173 015 527	(7 000 155)
Total Liabilities	389 522 518	267 098	389 789 616	436 863 158	47 073 542
Net Assets	2 335 161 428	(94 318 023)	2 240 843 405	4 237 085 338	1 996 241 933

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Net Assets					
Net Assets Attributable to Owners of Controlling Entity					
Reserves					
Accumulated surplus	2 335 161 428	(94 318 023)	2 240 843 405	4 237 085 338	1 996 241 933

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Cash Flow Statement					
Cash flows from operating activities					
Receipts					
Sale of goods and services	299 208 400	13 020 290	312 228 690	292 287 820	(19 940 870)
Grants	648 345 000	57 628 000	705 973 000	706 253 174	280 174
Interest income	4 857 467	1 928 767	6 786 234	18 995 968	12 209 734
	952 410 867	72 577 057	1 024 987 924	1 017 536 962	(7 450 962)
Payments					
Employee costs	(265 083 550)	(13 341 853)	(278 425 403)	(277 215 804)	1 209 599
Finance costs	(18 951 859)	3 925 185	(15 026 674)	(12 812 707)	2 213 967
Other payments	(298 062 068)	8 681 032	(289 381 036)	(303 453 699)	(14 072 663)
	(582 097 477)	(735 636)	(582 833 113)	(593 482 210)	(10 649 097)
Net cash flows from operating activities	370 313 390	71 841 421	442 154 811	424 054 752	(18 100 059)
Cash flows from investing activities					
Purchase of property, plant and equipment	(336 966 128)	(45 258 000)	(382 224 128)	(326 118 407)	56 105 721
Proceeds from sale of property, plant and equipment	-	-	-	885 269	885 269
Purchase of other intangible assets	-	-	-	(2 479 944)	(2 479 944)
Purchase of financial assets	-	-	-	(100)	(100)
Decrease / (Increase) in long-term receivables	-	-	-	(263 240)	(263 240)
Net cash flows from investing activities	(336 966 128)	(45 258 000)	(382 224 128)	(327 976 422)	54 247 706
Cash flows from financing activities					
Repayment of financial liabilities	(19 740 711)	365 289	(19 375 422)	(16 979 493)	2 395 929
Finance lease payments	-	-	-	(3 504 496)	(3 504 496)
Proceeds from new loans raised	20 000 000	(20 000 000)	-	-	-
Net cash flows from financing activities	259 289	(19 634 711)	(19 375 422)	(20 483 989)	(1 108 567)
Net increase/(decrease) in cash and cash equivalents	33 606 551	6 948 710	40 555 261	75 594 341	35 039 080
Cash and cash equivalents at the beginning of the year	156 050 000	-	156 050 000	157 327 897	1 277 897
Cash and cash equivalents at the end of the year	189 656 551	6 948 710	196 605 261	232 922 238	36 316 977

ACCOUNTING POLICIES

1. Presentation of Consolidated Financial Statements

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

These consolidated 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.

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Changes in accounting policy and comparability

Accounting policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2014 and 30 June 2015 the municipality has adopted the accounting framework as set out in Note 2. The details of any resulting changes in accounting policy and comparative restatements are set out in the relevant Notes to the annual financial statements.

The municipality changes an accounting policy only if the change:

- Is required by a Standard of GRAP; or
- Results in the annual financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions, on the municipality's financial position, financial performance or cash flow.

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables / Held to maturity investments and/or loans and receivables

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

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

Allowance for slow moving, damaged and obsolete stock

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

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Useful lives of waste and water network and other assets

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

Post retirement benefits

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

The economic entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the economic entity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 21.

Allowance for doubtful debts

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

1.4 Going concern assumption

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

1.5 Budget information

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

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

The approved budget covers the fiscal period from 2014-07-01 to 2015-06-30.

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

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

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

The consolidated financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the consolidated financial statements. Refer to note 54 & 55.

Comparative information is not required.

1.6 Consolidation Basis of consolidation

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

The consolidated financial statements incorporate the financial statements of the controlling entity and all controlled entity, including special purpose entities, which are controlled by the controlling entity.

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

The results of controlled entities, are included in the consolidated financial statements from the effective date of acquisition or date when control commences to the effective date of disposal or date when control ceases. The difference between the proceeds from the disposal of the controlled entity and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the controlled entity recognised in net assets in accordance with the Standard of GRAP on The Effects of Changes in Foreign Exchange Rates, is recognised in the consolidated statement of financial performance as the surplus or deficit on the disposal of the controlled entity.

An investment in an entity is accounted for in accordance with the Standards of GRAP on Financial Instruments from the date that it ceases to be a controlled entity, unless it becomes an associate or a jointly controlled entity, in which case it is accounted for as such. The carrying amount of the investment at the date that the entity ceases to be a controlled entity is regarded as the fair value on initial recognition of a financial asset in accordance with the Standards of GRAP on Financial Instruments.

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

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

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

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

Minority interests in the net assets of the economic entity are identified and recognised separately from the controlling entity's interest therein, and are recognised within net assets. Losses applicable to the minority in a consolidated controlled entity may exceed the minority interest in the controlled entity's net assets. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make an additional investment to cover the losses. If the controlled entity subsequently reports surpluses, such surpluses are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

Minority interests in the surplus or deficit of the economic entity is separately disclosed.

The economic entity accounts for entity combinations using the acquisition method of accounting. The cost of the entity combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the entity combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

Contingent consideration is included in the cost of the combination at fair value as at the date of acquisition. Subsequent changes to the assets, liability or equity which arise as a result of the contingent consideration are not affected against goodwill, unless they are valid measurement period adjustments.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3 Business combinations are recognised at their fair values at acquisition date.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the economic entity assesses the classification of the acquiree's assets and liabilities and reclassifies them where the classification is inappropriate for economic entity purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Non-controlling interest arising from an entity combination is measured either at their share of the fair value of the assets and liabilities of the acquiree or at fair value. The treatment is not an accounting policy choice but is selected for each individual entity combination, and disclosed in the note for entity combinations.

In cases where the economic entity held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in surplus or deficit for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other net assets are recognised in surplus or deficit as a reclassification adjustment.

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree.

Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

Goodwill arising on acquisition of foreign entities is considered an asset of the foreign entity. In such cases the goodwill is translated to the functional currency of the economic entity at the end of each reporting period with the adjustment recognised in net assets.

1.7 Investment property

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

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

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

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

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

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

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

The carrying amount of an item of investment property is derecognised on disposal. The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value. The fair value of investment property reflects market conditions at the reporting date.
A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

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

Once the entity 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.

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

1.8 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the economic entity applied deemed cost to Property, Plant and Equipment, where the acquisition cost of an asset could not be determined.

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

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

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

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

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

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

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

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

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

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

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

Item	Average useful life
Land	Indefinite
Buildings	
Improvements	5 to 30 years
Infrastructure	
• Security measures	7 to 25 years
• Sewerage	7 to 60 years
• Water	5 to 100 years
Community	
• Sports facilities	5 to 30 years
• Other facilities	5 to 30 years
Other	
• Computer equipment	3 to 10 years
• Furniture and fittings	3 to 15 years
• Office equipment	4 to 15 years
• Plant and equipment	2 to 15 years
• Specialised vehicles	10 to 15 years
• Other movable assets	5 to 15 years

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

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

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

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

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

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

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

1.9 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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.

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	**Useful life**
Computer software, other	2 to 5 years
Intangible assets under development	Infinitive

Intangible assets are derecognised:

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.10 Investments in controlled entities

Economic entity consolidated financial statements

The economic entity financial statements include those of the controlling entity and its controlled entities. The revenue and expenses of the controlled entities are included from the effective date of acquisition.

On acquisition the economic entity recognises the controlled entity's identifiable assets, liabilities and contingent liabilities at fair value, except for assets classified as held-for-sale, which are recognised at fair value less costs to sell.

Controlling entity consolidated financial statements

In the municipality's separate financial statements, investments in investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in controlled entity is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the controlled entity.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

1.11 Financial instruments

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

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

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

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

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

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

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

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

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

However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life

of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

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

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

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

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

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

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

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions. Loans payable are financial liabilities, other than short-term payables on normal credit terms.
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

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

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

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

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

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

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

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

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

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

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

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

Class	**Category**
Long-term receivables	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

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

Class	**Category**
Annuity loans	Financial liability measured at amortised cost
Finance lease liability	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at fair value

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Reclassification

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

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting. The entity derecognises a financial asset only when:

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

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

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

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

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to
the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

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

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

Presentation

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

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

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

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.12 Tax

Value added tax

The Municipality accounts for value added tax on the payments basis in accordance with section 15(2)(a) of the value added tax act (Act No 89 of 1991).

The entities accounts for value added tax on the invoice basis in accordance with section 15(1) of the value added tax act (Act No 89 of 1991).

1.13 Leases

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

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

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

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

Operating leases - lessor

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

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

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis. The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis. Income for leases is disclosed under revenue in statement of financial performance.
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.

1.14 Inventories

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

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

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

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

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

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

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

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

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

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

Consumable stores, maintanance stores, and water:

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that the municipality expects to realise from the sale on inventory in the ordinary course of business). In general, the basis of determining cost is the weighted average cost of commodities. If Inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

Water inventory:

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the Inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the First In First Out Method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Redundant and slow-moving Inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such Inventory at the lower of cost and net realisable value are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any write-down of Inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of Inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of Inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.15 Impairment of cash-generating assets

Cash-generating assets are those assets held by the economic entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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

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

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

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

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

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.
Useful life is either:

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the economic entity:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Reversal of impairment loss

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

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

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

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

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

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

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

Redesignation

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

1.16 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the economic entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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

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

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

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

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

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

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Useful life is either:

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

Identification

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

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

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

Value in use

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

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.
1.16 Impairment of non-cash-generating assets (continued) Reversal of an impairment loss
The economic entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the economic entity estimates the recoverable service amount of that asset.

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

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.
After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the

non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

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

1.17 Employee benefits

Short-term employee benefits

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

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

Defined contribution plans

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

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

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.

Other post retirement obligations

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

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

1.18 Provisions and contingent assets and contingent liabilities

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

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

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

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

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

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

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

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating deficits.
If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the economic entity

No obligation arises as a consequence of the sale or transfer of an operation until the economic entity is committed to the sale or transfer, that is, there is a binding arrangement.

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

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

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

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

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

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

Where a fee is received by the economic entity for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the economic entity considers that an outflow of economic resources is probable, an economic entity recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.19 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.20 Revenue from exchange transactions

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

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

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

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

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

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

1.20 Revenue from exchange transactions (continued) Rendering of services

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

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

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

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

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

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

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

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Service charges

Service charges are levied in terms of approved tariffs.

Service charges from water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property and water consumption, using the tariffs approved by the Council, and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Finance income

Interest earned on investments is recognised in the statement of financial performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the statement of financial performance:

(i) Interest earned on unspent conditional grants is allocated directly to the creditor: Unspent conditional grants, if the grant conditions indicate that interest is payable to the funder.

Rentals received

Revenue from the rental of facilities and equipment is recognised on a straight?line basis over the term of the lease agreement.

Tariff charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant advertised tariff. This includes the issuing of licences and permits.

1.21 Revenue from non-exchange transactions

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

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

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

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

Government grants

Government grants are recognised as revenue when:

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

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

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

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

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the statement of financial performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Public contributions and donations received

Public contributions and donations received are recognised as revenue when:

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

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

Assets acquired from non-exchange transactions are measured at fair value in accordance with the Standards of GRAP.

Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

1.22 Investment income

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

1.23 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale. Borrowing costs are recognised as an expense in the period in which they are incurred.

1.24 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.

1.25 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.

1.26 Irregular expenditure

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

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

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

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

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

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

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

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

1.27 Related parties

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

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

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

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

1.28 Comparative figures

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

Current year comparative

In accordance with GRAP 1 Budgeted Amounts have been provided and forms part of the annual financial statements.

Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

Budget information

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the accounting policies adopted by the council for the preparation of these annual financial statements. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over or under spending on line items. The annual budget figures included in the annual financial statements are for the municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan.

1.29 Events after reporting date

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

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

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

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

Statement of Financial Position as at 30 June 2015

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

2. New standards and interpretations

2.1 Standards and Interpretations early adopted

The economic entity has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 107: Mergers	01 April 2015	The impact of the amendment is not material.
GRAP 20: Related parties	01 April 2016	Municipality has only resolved to adopt the disclosure requirements as per GRAP 20. The information is therefore included in the financial statements. The Municipality has not adopted the whole GRAP 20.

2.2 Standards and interpretations issued, but not yet effective

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 July 2015 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 18: Segment Reporting	01 April 2015	The impact of the amendment is not material.
GRAP 105: Transfers of functions between entities under common control	01 April 2015	The impact of the amendment is not material.
IGRAP 11: Consolidation – Special purpose entities	01 April 2015	The impact of the amendment is not material.
IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2015	The impact of the amendment is not material.
GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2015	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
GRAP32: Service Concession Arrangements: Grantor	01 April 2016	Not yet effective
GRAP108: Statutory Receivables	01 April 2016	Not yet effective
IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	Not yet effective
DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP	01 April 2016	Not yet effective

Notes to the Consolidated Financial Statements

2. New standards and interpretations (continued)

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 July 2015 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 106: Transfers of functions between entities not under common control	01 April 2015	The impact of the amendment is not material

3. Inventories

Consumable stores	7 322 970	1 332 919	7 322 970	1 332 919
Maintenance materials	6 673 837	6 287 305	6 673 837	6 287 305
Water	429 661	438 534	429 661	438 534
Other goods held for resale	-	10 657	-	10 657
	14 426 468	8 069 415	14 426 468	8 069 415

Inventories are held for own use, and the damaged or obsolete stock has been written down to lower of cost or net realisable value where necessary.

The cost of water production for the year amounted to R1,87 per kilolitre (2014: R1,78 per kilolitre).

No inventories have been pledged as collateral for liabilities of the municipality.

4. Long-term receivables

At amortised cost				
Sundry loans The sundry loans are not secured and are interest free. The average term of these loans 1 to 5 years.	310 271	3 893	310 271	3 893
Relocation costs Relocation costs are interest free and are recoverable from the employee when the agreed terms of employment contract are not honoured. The average term of these loans are 3 years.	12 228	35 553	12 228	35 553
	322 499	39 446	322 499	39 446
Impairments	-	-	-	-
	322 499	39 446	322 499	39 446
Non-current assets At amortised cost	270 644	7 404	270 644	7 404
Current assets At amortised cost	51 855	32 042	51 855	32 042

Notes to the Consolidated Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014
5. Operating lease asset (accrual)				
Current assets	28 410	57 450	28 410	57 450
Current liabilities	(69 605)	(68 687)	(50 643)	(59 991)
	(41 195)	(11 237)	(22 233)	(2 541)

Operating leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of non-cancellable operating leases the current assets and current liabilities (accrual) have been recognised as above.

Notes to the Consolidated Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014
5. Operating lease asset (accrual) (continued)				
Operating lease asset				
Balance at beginning of year	57 450	43 785	57 450	43 785
Operating lease revenue recorded	968 235	889 586	968 235	889 586
Operating lease revenue from smoothing	(997 275)	(875 921)	(997 275)	(875 921)
Total operating lease asset	28 410	57 450	28 410	57 450

Lease arrangements

The Municipality as lessor

Operating leases relate to property owned by the municipality with lease terms of between 1 to 3 years, with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Amounts receivable under operating leases

At the reporting date the following minimum lease payments were receivable under non-cancellable operating leases for property, plant and equipment, which are receivable as follows:

Up to one year	443 024	934 117	443 024	934 117
Two to five years	901 844	228 287	901 844	228 287
Total	1 344 868	1 162 404	1 344 868	1 162 404

The impact of charging the escalations in operating leases on a straight-line basis over the term of the lease has been a decrease in current year income of R28 410 (2014: R57 450).

The following restrictions (if any) have been imposed by the municipality in terms of the (specify) lease agreements:

(i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.

(ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.

(iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

Operational lease accrual

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13.

Operating lease accrual				
Balance at beginning of year	68 687	69 008	59 991	34 011
Operating lease expenses	1 670 175	199 870	1 836 764	686 812
Operating lease payments from smoothing	(1 669 257)	(200 191)	(1 846 112)	(660 832)
Total operating lease accrual	69 605	68 687	50 643	59 991

Leasing arrangements

The Municipality as lessee

Operating leases relate to property, plant and equipment with lease terms not longer than 5 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

Notes to the Consolidated Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

5. Operating lease asset (accrual) (continued)

Amounts pay able under operating lease

At the reporting date the municipality had outstanding commitments under non-cancellable operating leases for property, plant and equipment, which fall due as follows:

Within one year	1 319 516	1 265 010	827 632	849 670
In the second to third years, inclusive	1 001 582	1 073 789	415 667	477 272
Over three years	751 357	725 051	165 443	128 534
	3 072 455	3 063 850	1 408 742	1 455 476

The following payments have been recognised as an expense in the Statement of Financial Performance:

Minimum lease payments	2 003 351	1 173 754	1 836 763	686 812

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Office equipment

The following restrictions have been imposed on the municipality in terms of the lease agreements on office equipment:

(i) The equipment shall remain the property of the lessor.

(ii) The hirer shall not sell, sublet, cede, assign or delegate any of its rights or obligations on the equipment.

(iii) The equipment shall be returned in good order and condition to the lessor upon termination of the agreement.

(iv) The municipality is obliged to enter into a maintenance agreement with the lessor for the equipment rented.

6. Receivables from non-exchange transactions

Payments made in advance	14 169 625	11 661 262	14 169 625	11 661 262
Government grants and subsidies	24 842 210	236 950	24 842 210	236 950
Municipal grants	455 934	393 750	-	-
Insurance claims	122 367	122 367	122 367	122 367
Municipal entities	50 979	66 846	50 979	66 846
Sundry deposits	808 432	808 432	808 432	808 432
Sundry debtors	10 510 875	549 837	10 510 875	549 837
	50 960 422	13 839 444	50 504 488	13 445 694

The average credit period for government grants and subsidies is dependent on the government department involved and the nature of the claim. No interest is charged on outstanding government grants and subsidies. The subsidies are payable to the municipality due to allocations made in the DORA or based on agreements between the municipality and the relevant departments.

Insurance claims are amounts which are claimable in terms of the insurance contract entered into by the municipality. The average waiting period depends on the nature of the claim. No interest is charged on outstanding insurance claims.

Sundry receivables are in respect of debits outstanding at year-end on normal business transactions entered into by the municipality.

The average credit period for receivables is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate, charged by the municipality's banker, plus one percent per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of receivables.

Notes to the Consolidated Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2015	2014	2015	2014

6. Receivables from non-exchange transactions (continued)

The municipality does not hold deposits or other security for its receivables.

None of the receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of receivables approximate their fair values.

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2015, R 10 737 228 (2014: R 8 633 318) were past due but not impaired.

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

3 months past due	10 737 228	8 633 318	10 737 228	8 633 318

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	8 918 964	1 962 583	8 918 964	1 962 583
Contributions	-	9 545 502	-	9 545 502
Amounts written off as uncollectable	(6 053 415)	(2 589 121)	(6 053 415)	(2 589 121)
	2 865 549	8 918 964	2 865 549	8 918 964

The Provision for Impairment on receivables exists predominantly due to the possibility that these amounts may not be recovered. The receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a receivable, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to most of these being sundry in nature.

The following Loans and Receivables are included in the total amount of the provision for impairment:

Government subsidy claims	1 613 200	1 613 200	1 613 200	1 613 200
Sundry debtors	2 865 549	9 818 965	-	9 818 965
Total provision for impairment on receivables from non-exchange transactions	4 478 749	11 432 165	1 613 200	11 432 165

7. VAT receivable

VAT	-	6 175 240	-	6 069 735

The municipality has identified that amount vat output has been overstated during the prior financial periods. Therefore balances of Vat have been accordingly restated retrospectively. (See note: 46)

VAT is payable on the payments basis. Once payment is received from customers/receivables, VAT is paid over to SARS.

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