

# JOE GQABI DISTRICT MUNICIPALITY



## ACCOUNTING POLICY

## **1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS**

### **1.1. BASIS OF PREPARATION**

The consolidated financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The consolidated financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's consolidated financial statements, unless explicitly stated otherwise. The details of any changes in accounting policies are explained in the relevant notes to the consolidated financial statements.

### **1.2. PRESENTATION CURRENCY**

Amounts reflected in the consolidated financial statements are in South African Rand and at actual values. Financial values are rounded to the nearest one Rand.

### **1.3. GOING CONCERN ASSUMPTION**

These consolidated financial statements have been prepared on a going concern basis.

### **1.4. COMPARATIVE INFORMATION**

When the presentation or classification of items in the consolidated financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

### **1.5. AMENDED DISCLOSURE POLICY**

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the consolidated financial statements. The principal amendments to matters disclosed in the current consolidated financial statements include errors.

### **1.6. MATERIALITY**

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the consolidated financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total operating expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

### **1.7. CONSOLIDATED FINANCIAL STATEMENTS**

The Economic Entity's consolidated financial statements incorporate the financial statements of the parent entity, Joe Gqabi District Municipality, and its municipal entity, Joe Gqabi Economic Development Agency (SoC) Ltd, presented as a single entity and consolidated at the same reporting date as the parent entity.

Municipal entities are all controlled entities over which the Municipality has ownership control or effective control to govern the financial and operating policies of such controlled entities so as to benefit from its activities.

All inter-entity transactions and balances, unrealized gains and losses within the Economic Entity are eliminated upon consolidation. Where appropriate the accounting policies of controlled entities conform to the policies adopted by the Municipality.

### **1.8. PRESENTATION OF BUDGET INFORMATION**

The presentation of budget information is prepared in accordance with GRAP 24 and guidelines issued by National Treasury. The comparison of budget and actual amounts are disclosed as a separate additional financial statement, namely Statement of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2013 to 30 June 2014. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

- the approved and final budget amounts;
- actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Notes to the consolidated financial statements.

Explanations for material differences between the final budget amounts and actual amounts are included in the Notes to the consolidated financial statements.

The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

#### **1.9. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Economic Entity:

<b>Standard</b>	<b>Description</b>	<b>Effective Date</b>
GRAP 1 (May 2015)	Presentation of Financial Statements	1 April 2016
GRAP 16 (May 2015)	Investment Property	1 April 2016
GRAP 17 (May 2015)	Property, Plant and Equipment	1 April 2016
GRAP 31 (May 2015)	Intangible Assets	1 April 2016
GRAP 103 (May 2015)	Heritage Assets	1 April 2016

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

#### **1.10. LEASES**

##### **1.10.1 Economic Entity as Lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Economic Entity. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Economic Entity uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the

relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Economic Entity recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

#### **1.10.2 Economic Entity as Lessor**

Under a finance lease, the Economic Entity recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Economic Entity, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Economic Entity recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

#### **1.11. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from government organs. Unspent conditional grant are not considered to be financial instruments as there are no contractual arrangements as required per GRAP 104. Once the conditional grant becomes repayable to the donor due to conditions not met, the remaining portion of the unspent conditional grant is reclassified as payables, which is considered to be a financial instrument.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Economic Entity until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Economic Entity's interest, it is recognised as interest earned in the Statement of Financial Performance.

### 1.12. UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

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

### 1.13. PROVISIONS

Provisions are recognised when the Economic Entity has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

The Economic Entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The Economic Entity has a detailed formal plan for the restructuring identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented.
- (b) The Economic Entity 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.

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

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is de-recognised.

### 1.14. EMPLOYEE BENEFITS

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

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

#### **1.14.1 Post Retirement Medical Obligations**

The Economic Entity provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 70% as contribution and the remaining 30% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – "Employee Benefits" (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are recognised in the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the present value of the defined benefit obligation at the reporting date, minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly, plus any liability that may arise as a result of a minimum funding requirements. Payments made by the Economic Entity are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

#### **1.14.2 Long Service Awards**

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Economic Entity. The Economic Entity's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

#### **1.14.3 Ex gratia Gratuities**

Ex gratia gratuities are provided to employees that were not previously members of a pension fund. The Economic Entity's obligation under these plans is valued by independent qualified actuaries and the corresponding liability is raised. Payments made by the Economic Entity are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

#### **1.14.4 Provision for Staff Leave**

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee. Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term. Accumulated leave is vesting.

#### **1.14.5 Staff Bonuses Accrued**

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

#### **1.14.6 Provision for Performance Bonuses**

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

#### **1.14.7 Pension and retirement fund obligations**

The Economic Entity provides retirement benefits for its employees and councillors. Defined contribution plans are post-employment benefit plans under which the Economic Entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are recognised in the Statement of Financial Performance in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are recognised in the Statement of Financial Performance in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

#### **1.14.8 Other Short-term Employee Benefits**



When an employee has rendered service to the Economic Entity during a reporting period, the Economic Entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

## **1.15. PROPERTY, PLANT AND EQUIPMENT**

### **1.15.1 Initial Recognition**

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 year. The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the Economic Entity, and the cost or fair value of the item can be measured reliably. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded 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 the Economic Entity. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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.

Where an asset is acquired by the Economic Entity for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

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 assets acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Economic Entity expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

### **1.15.2 Subsequent Measurement – Cost Model**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Economic Entity replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits or service potential associated with the asset.

### 1.15.3 Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives:

	<b>Years</b>		<b>Years</b>
<b><u>Infrastructure</u></b>		<b><u>Other</u></b>	
Water	7 – 118	Special Vehicles	10 – 16
Sewerage	8 – 101	Motor vehicles	5 – 17
		Office Equipment	5 – 15
<b><u>Land and Buildings</u></b>		Furniture and Fittings	7 – 20
Buildings	20 – 30	Tool and Equipment	5 – 15
		Computer Equipment	3 – 17
		Fire Engines	5 – 12
		Plant and Equipment	15 – 20
		Leasehold Improvements	20

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

### 1.15.4 De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

## **1.16. INTANGIBLE ASSETS**

### **1.16.1 Initial Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

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

The Economic Entity recognises an Intangible asset in its Statement of Financial Position only 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.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the Economic Entity intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Economic Entity has the resources to complete the project;
- it is probable that the Economic Entity will receive future economic benefits or service potential; and
- the Economic Entity can measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are initially recognised at cost.

Where an intangible asset 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 is not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

### **1.16.2 Subsequent Measurement – Cost Model**

Intangible assets are subsequently carried at cost less accumulated amortisation and any accumulated impairments losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

### **1.16.3 Amortisation and Impairment**

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are

significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

<u>Intangible Assets</u>	<u>Years</u>
Computer Software	3 -10

#### **1.16.4 De-recognition**

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### **1.17. INVESTMENT PROPERTY**

#### **1.17.1 Initial Recognition**

Investment property is recognised as an asset when, and only 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 includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

At initial recognition, the Economic Entity measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is measured at cost.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Economic Entity accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### **1.17.2 Subsequent Measurement – Cost Model**

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

#### **1.17.3 Depreciation and Impairment – Cost Model**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

<u>Investment Property</u>	<u>Years</u>
Buildings	20 - 30

#### **1.17.4 De-recognition**

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### **1.18. IMPAIRMENT OF NON-FINANCIAL ASSETS**

#### **1.18.1 Cash-generating assets**

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

The Economic Entity assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Economic Entity estimates the asset's recoverable amount.

In assessing whether there is any indication that an asset may be impaired, the Economic Entity considers the following indications:

- (a) External sources of information
  - During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
  - Significant changes with an adverse effect on the Economic Entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Economic Entity operates or in the market to which an asset is dedicated.
  - Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- (b) Internal sources of information
  - Evidence is available of obsolescence or physical damage of an asset.
  - Significant changes with an adverse effect on the Economic Entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans

to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The re-designation 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 shall only occur when there is clear evidence that such a re-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Economic Entity estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

### 1.18.2 Non-cash-generating assets

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

The Economic Entity assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Economic Entity estimates the asset's recoverable service amount.

In assessing whether there is any indication that an asset may be impaired, the Economic Entity considers the following indications:

- (a) External sources of information
  - Cessation, or near cessation, of the demand or need for services provided by the asset.
  - Significant long-term changes with an adverse effect on the Economic Entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Economic Entity operates.
- (b) Internal sources of information
  - Evidence is available of physical damage of an asset.
  - Significant long-term changes with an adverse effect on the Economic Entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
  - A decision to halt the construction of the asset before it is complete or in a usable condition.
  - Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss is recognised in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches, depending on the nature of the asset in question:

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

- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, 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 usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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.

An impairment loss is recognised immediately in surplus or deficit.

The Economic Entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an 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 an 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. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. 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. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

## **1.19. INVENTORIES**

### **1.19.1 Initial Recognition**

Inventories comprise of current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are recognised as an asset if, and only if, 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 inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Water inventory is being measured by multiplying the cost per kilo litre of purified water by the amount of water in storage.



Where inventory is acquired by the Economic Entity for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

#### **1.19.2 Subsequent Measurement**

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. 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.

The basis of allocating cost to inventory items is the weighted average method.

Water inventory is measured annually at the reporting date by way of dip readings and the calculated volume in the distribution network.

### **1.20. FINANCIAL INSTRUMENTS**

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange and non-exchange transactions) and non-current investments. The future utilization of Unspent Conditional Grants is evaluated in order to determine whether it is treated as financial instruments.

#### **1.20.1 Initial Recognition**

Financial instruments are initially recognised when the Economic Entity becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If finance charges in respect of financial assets and financial liabilities are significantly different from similar charges usually obtained in an open market transaction, adjusted for the specific risks of the Economic Entity, such differences are immediately recognised in the period it occurs, and the unamortised portion adjusted over the period of the loan transactions.

## 1.20.2 Subsequent Measurement

Financial assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial liabilities are categorised as either at fair value or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation.

### 1.20.2.1 Receivables

Receivables are classified as financial assets at amortised cost, and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Economic Entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Economic Entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Economic Entity. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

#### 1.20.2.2 Payables and Annuity Loans

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, and are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

#### 1.20.2.3 Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Economic Entity categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities carried at amortised cost.

#### 1.20.2.4 Non-Current Investments

Investments which include investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

### **1.20.3 De-recognition of Financial Instruments**

#### 1.20.3.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Economic Entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Economic Entity has transferred substantially all the risks and rewards of the asset, or (b) the Economic Entity has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Economic Entity has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred

nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Economic Entity's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Economic Entity could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Economic Entity's continuing involvement is the amount of the transferred asset that the Economic Entity may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Economic Entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### **1.20.3.2 *Financial Liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

#### **1.20.4 *Offsetting of Financial Instruments***

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

### **1.21. REVENUE**

#### **1.21.1 *Revenue from Non-Exchange Transactions***

Revenue from non-exchange transactions refers to transactions where the Economic Entity received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred, meet the criteria for recognition as an asset. A corresponding liability is recognised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Revenue from public contributions and donations 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 qualifies for recognition and first becomes available for use by the Economic Entity. Where public contributions have been received, but the Economic Entity has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Economic Entity.

All unclaimed deposits are initially recognised as a liability until 36 months expires, when all unclaimed deposits into the Economic Entity's bank account will be treated as revenue. This policy is in line with prescribed debt principle as enforced by law.

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.

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

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

#### **1.21.2 Revenue from Exchange Transactions**

Revenue from exchange transactions refers to revenue that accrued to the Economic Entity directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable.

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.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

At the time of initial recognition the full amount of revenue is recognised where the Economic Entity has an enforceable legal obligation to collect, unless the individual collectability is considered to be improbable. If the Economic Entity does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

Service charges relating to water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Where the Economic Entity was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. The provisional estimates of consumption are recognised as revenue when 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.

Service charges relating to sanitation (sewerage) are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage. In the case of residential property a fixed monthly tariff is levied and in the case of commercial property a tariff is levied based on the number of sewerage connection on the property. Service charges based on a basic charge as per Council resolution.

Interest revenue is recognised using the effective interest rate method.

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

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

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

The amount of revenue arising on a transaction is usually determined by agreement between the Economic Entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the Economic Entity.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either;

- The prevailing rate for a similar instrument of an issuer with a similar credit rating;
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

## **1.22 TRANSFER OF FUNCTION (Economic Entity as the acquirer)**

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an Economic Entity's objectives, either by providing economic benefits or service potential.

A transfer of functions is the reorganisation and/or the re-allocation of functions between Municipalities by transferring functions between Municipalities or into another entity.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the Economic Entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the Economic Entity or from other rights and obligations.

The Economic Entity accounts for each transfer of functions between entities not under common control by applying the acquisition method. Applying the acquisition method requires:

- (a) identifying the acquirer (Economic Entity);
- (b) determining the acquisition date;
- (c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
- (d) recognising the difference between (c) and the consideration transferred to the seller.

As of the acquisition date, the Economic Entity recognises the identifiable assets acquired and the liabilities assumed. The identifiable assets acquired and liabilities assumed meets the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements* and the recognition criteria in the applicable Standards of GRAP at the acquisition date. In addition, the identifiable assets acquired and liabilities assumed are part of what the Economic Entity and the acquiree (or its former owners) agreed in the binding arrangement.

The Economic Entity measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

The Economic Entity subsequently measures and account for assets acquired and liabilities assumed in accordance with other applicable Standards of GRAP.

### 1.23. RELATED PARTIES

The Economic Entity resolved to adopt the disclosure requirements as per GRAP 20 – “Related Party Disclosures”.

A related party is a person or an entity:

- with the ability to control or jointly control the other party,
- or exercise significant influence over the other party, or vice versa,
- or an entity that is subject to common control, or joint control.

The following are regarded as related parties of the Economic Entity:

- (a) A person or a close member of that person’s family is related to the Economic Entity if that person:
  - has control or joint control over the Economic Entity.
  - has significant influence over the Economic Entity. Significant influence is the power to participate in the financial and operating policy decisions of the Economic Entity.
  - is a member of the management of the Economic Entity or its controlling entity.
- (b) An entity is related to the Economic Entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member).
  - both entities are joint ventures of the same third party.
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - the entity is a post-employment benefit plan for the benefit of employees of either the Economic Entity or an entity related to the Economic Entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
  - the entity is controlled or jointly controlled by a person identified in (a).
  - a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Economic Entity. A person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or



- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Management (formerly known as "Key Management") includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Economic Entity, including:

- (a) all members of the governing body of the Economic Entity;
- (b) a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the Economic Entity;
- (c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the Economic Entity; and
- (d) the senior management team of the Economic Entity, including the chief executive officer or permanent head of the Economic Entity, unless already included in (a).

Management personnel include:

- (a) All directors or members of the governing body of the Economic Entity, being the Executive Mayor, Speaker and members of the Mayoral Committee.
- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting Economic Entity being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the Economic Entity in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Economic Entity for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Economic Entity.

The Economic Entity operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed

#### **1.24. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.25. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (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 (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.26. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.27. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Economic Entity. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Economic Entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

#### **1.28. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

In the process of applying the Economic Entity's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the consolidated financial statements:

##### **1.28.1 *Post retirement medical obligations, Long service awards and Ex gratia gratuities***

The cost of post retirement medical obligations, long service awards and ex-gratia gratuities are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 4 of the consolidated financial statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

### **1.28.2 Impairment of Receivables**

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

### **1.28.3 Property, Plant and Equipment**

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Economic Entity referred to buildings in other municipal areas to determine the useful life of buildings. The Economic Entity also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

### **1.28.4 Intangible Assets**

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Reference was made to intangibles used within the Economic Entity and other municipalities to determine the useful life of the assets.

### **1.28.5 Investment Property**

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Economic Entity referred to buildings in other municipal areas to determine the useful life of buildings.
- The Economic Entity also consulted with professional engineers and qualified valuers to support the useful life of buildings.

#### **1.28.6 Provisions and Contingent Liabilities**

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

#### **1.28.7 Revenue Recognition**

Accounting Policy 1.21.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.21.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Economic Entity.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.). Specifically, whether the Economic Entity, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Economic Entity is satisfied that recognition of the revenue in the current year is appropriate.

#### **1.28.8 Provision for Performance bonuses**

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

#### **1.28.9 Componentisation of Infrastructure assets**

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

#### **1.29. SOUTH AFRICAN REVENUE SERVICES (VALUE ADDED TAX)**

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

#### **1.30. CAPITAL COMMITMENTS**

Capital commitments disclosed in the consolidated financial statements represents the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

### **1.31. EVENTS AFTER REPORTING DATE**

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the consolidated 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).

If non-adjusting events after the reporting date are material, the Economic Entity discloses the nature and an estimate of the financial effect.

### **1.32 BORROWING COSTS**

The Economic Entity recognises all borrowing costs as an expense in the period in which they are incurred.

### **1.33 TAXATION**

#### ***1.33.1 Current tax assets and liabilities***

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset. Current tax liabilities/(assets) for the current and prior periods are measured at the amount expected to be paid to/(recovered from) the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

#### ***1.33.2 Deferred tax assets and liabilities***

Deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

### **1.33.3 Tax expenses**

Current and deferred taxes are recognised as income or an expense and included in surplus/deficit for the period. Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.