



GREAT KEI
MUNICIPALITY

Great Kei Local Municipality
Annual Financial Statements
for the year ended June 30, 2020

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

General Information

Nature of business and principal activities

Great Kei Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no. 117 of 1998)

The municipality's operations are governed by:

-Municipal Finance Management Act no. 56 of 2003

-Municipal Structures Act no.117 of 1998

-Municipal Systems Act no. 32 of 2000 and various other acts and regulations.

List of councillors

Mayor

Cllr N. Tekile

Chief Whip

Cllr N Kantshashe

Councillors

Cllr NP Mgema

Cllr Dyani

Cllr L Mhlontlo

Cllr Z Tshali

Cllr W Sinqana

Cllr Z Nzuzo

Cllr T Njekanye

Cllr B Wood

Cllr SM Jacobs

Cllr T. Ndolose

Cllr T Plika

Grading of local authority

Grade 2

Accounting Officer

L.N. Mambila

Registered office

17 Main Street

Komga

4950

Bankers

Standard Bank Limited

Auditors

Auditor General of South Africa

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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The reports and statements set out below comprise the annual financial statements presented to the council:

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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
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
CIGFARO	Chartered Institute of Government, Finance, Audit and Risk Officers

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the year then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

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

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

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

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

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

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 4 to 64, which have been prepared on the going concern basis, were approved and signed by:

L.N. Mambila
Municipal Manager

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Financial Position as at June 30, 2020

Figures in Rand	Notes	2020	2019 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	3	32,560,402	32,354,876
Statutory receivables	4	15,760,119	14,070,834
Cash and cash equivalents	5	6,109,813	1,332,001
		54,430,334	47,757,711
Non-Current Assets			
Investment property	6	82,043,547	82,043,547
Property, plant and equipment	7	237,826,194	251,841,480
Intangible assets	8	-	1,113,012
Heritage assets	9	36,000	36,000
		319,905,741	335,034,039
Non-Current Assets		319,905,741	335,034,039
Current Assets		54,430,334	47,757,711
Total Assets		374,336,075	382,791,750
Liabilities			
Current Liabilities			
Payables from exchange transactions	10	61,696,257	63,208,955
VAT payable	11	5,582,490	3,621,695
Employee benefit obligation	12	2,128,583	4,922,454
Unspent conditional grants and receipts	20&13	6,185,659	350,057
		75,592,989	72,103,161
Non-Current Liabilities			
Employee benefit obligation	12	12,174,943	11,976,378
Provisions	14	16,470,113	16,124,114
		28,645,056	28,100,492
Non-Current Liabilities		28,645,056	28,100,492
Current Liabilities		75,592,989	72,103,161
Total Liabilities		104,238,045	100,203,653
Assets		374,336,075	382,791,750
Liabilities		(104,238,045)	(100,203,653)
Net Assets		270,098,030	282,588,097
Accumulated surplus		270,098,030	282,588,097

* See Note 34

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Financial Performance

Figures in Rand	Notes	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	15	14,542,646	17,285,096
Rental of facilities and equipment	16	472,244	276,735
Agency services		90,329	329,252
Licences and permits		436,482	650,433
Other income	17	533,432	1,081,920
Interest received - investment	18	5,954,972	8,367,651
Total revenue from exchange transactions		22,030,105	27,991,087
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	26,397,492	24,101,173
Transfer revenue			
Government grants & subsidies	20	59,378,193	61,065,761
Public contributions and donations		436,000	-
Fines, Penalties and Forfeits		300	3,800
Total revenue from non-exchange transactions		86,211,985	85,170,734
		22,030,105	27,991,087
		86,211,985	85,170,734
Total revenue	21	108,242,090	113,161,821
Expenditure			
Employee related costs	22	(49,390,776)	(51,699,065)
Remuneration of councillors	23	(4,553,553)	(4,778,929)
Depreciation and amortisation	24	(22,811,702)	(19,451,911)
Finance costs	25	(3,410,234)	(1,671,862)
Lease rentals on operating lease		(185,411)	(311,539)
Debt Impairment	26	(20,223,831)	(153,872)
Bulk purchases	28	(9,575,380)	(8,741,276)
Contracted services		(6,713,641)	(5,922,308)
General Expenses	29	(10,840,743)	(23,711,421)
Total expenditure		(127,705,271)	(116,442,183)
		-	-
Total revenue		108,242,090	113,161,821
Total expenditure		(127,705,271)	(116,442,183)
Operating deficit		(19,463,181)	(3,280,362)
Actuarial gains / (losses)		4,893,127	(942,894)
Gain on non-current assets held for sale or disposal groups		971,442	8,759,951
		5,864,569	7,817,057
Operating surplus/deficit		5,864,569	7,817,057
(Deficit) surplus before taxation		(13,598,612)	4,536,695
Taxation		-	-
(Deficit) surplus for the year		(13,598,612)	4,536,695

* See Note 34

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	278,081,310	278,081,310
Adjustments		
Correction of errors	(29,908)	(29,908)
Balance at July 1, 2018 as restated*	278,051,402	278,051,402
Changes in net assets		
Surplus for the year	4,536,695	4,536,695
Total changes	4,536,695	4,536,695
Restated* Balance at July 1, 2019	283,696,642	283,696,642
Changes in net assets		
Deficit for the year	(13,598,612)	(13,598,612)
Total changes	(13,598,612)	(13,598,612)
Balance at June 30, 2020	270,098,030	270,098,030
Note(s)	34	

* See Note 34

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Cash Flow Statement

Figures in Rand	Notes	2020	2019
Cash flows from operating activities			
Receipts			
Other receipts		4,356,196	4,944,780
Rates and services		18,790,484	10,009,964
Grants		59,378,193	61,065,760
Interest income		3,567,563	5,765,010
		<u>86,092,436</u>	<u>81,785,514</u>
Payments			
Employee costs		(56,193,638)	(52,091,136)
Suppliers		(21,436,464)	(22,774,962)
Finance costs		1,874,762	(4,524,110)
		<u>(75,755,340)</u>	<u>(79,390,208)</u>
Total receipts		86,092,436	81,785,514
Total payments		(75,755,340)	(79,390,208)
Net cash flows from operating activities	30	<u>10,337,096</u>	<u>2,395,306</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(6,575,334)	(10,003,943)
Proceeds on from insurance on damaged Buildings	7	-	8,923,481
Proceeds from sale of other assets	6	1,016,050	297,721
Net cash flows from investing activities		<u>(5,559,284)</u>	<u>(782,741)</u>
Cash flows from financing activities			
Movement in other financial liabilities		-	(846,997)
Net cash flows from financing activities		<u>-</u>	<u>(846,997)</u>
Net increase/(decrease) in cash and cash equivalents		4,777,812	765,568
Cash and cash equivalents at the beginning of the year		1,332,001	566,433
Cash and cash equivalents at the end of the year	5	<u>6,109,813</u>	<u>1,332,001</u>

* See Note 34

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	19,495,000	(173,000)	19,322,000	14,542,646	(4,779,354)	1
Rental of facilities and equipment	926,000	1,574,000	2,500,000	472,244	(2,027,756)	
Agency services	-	-	-	90,329	90,329	
Licences and permits	4,000,000	(2,000,000)	2,000,000	436,482	(1,563,518)	2
Other income	32,354,000	(296,000)	32,058,000	533,432	(31,524,568)	4
Interest received	5,026,000	(3,000,000)	2,026,000	5,954,972	3,928,972	5
Total revenue from exchange transactions	61,801,000	(3,895,000)	57,906,000	22,030,105	(35,875,895)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	29,000,000	(1,000,000)	28,000,000	26,397,492	(1,602,508)	6
Transfer revenue						
Government grants & subsidies	64,326,000	417,000	64,743,000	59,378,193	(5,364,807)	7
Public contributions and donations	-	-	-	436,000	436,000	
Fines, Penalties and Forfeits	5,000	-	5,000	300	(4,700)	
Total revenue from non-exchange transactions	93,331,000	(583,000)	92,748,000	86,211,985	(6,536,015)	
'Total revenue from exchange transactions'	61,801,000	(3,895,000)	57,906,000	22,030,105	(35,875,895)	
'Total revenue from non-exchange transactions'	93,331,000	(583,000)	92,748,000	86,211,985	(6,536,015)	
Total revenue	155,132,000	(4,478,000)	150,654,000	108,242,090	(42,411,910)	
Expenditure						
Employee related costs	(55,558,000)	2,234,000	(53,324,000)	(49,390,776)	3,933,224	
Remuneration of councillors	(4,600,000)	46,000	(4,554,000)	(4,553,553)	447	
Depreciation and amortisation	(18,500,000)	-	(18,500,000)	(22,811,702)	(4,311,702)	
Finance costs	(736,000)	-	(736,000)	(3,410,234)	(2,674,234)	
Debt Impairment	(13,000,000)	-	(13,000,000)	(20,223,831)	(7,223,831)	
Bulk purchases	(11,595,000)	-	(11,595,000)	(9,575,380)	2,019,620	
Contracted Services	(9,300,000)	9,300,000	-	-	-	
General expenses	(51,685,000)	21,855,000	(29,830,000)	(17,739,795)	12,090,205	
Total expenditure	(164,974,000)	33,435,000	(131,539,000)	(127,705,271)	3,833,729	
	(9,842,000)	28,957,000	19,115,000	(19,463,181)	(38,578,181)	
	-	-	-	-	-	
Deficit before taxation	(9,842,000)	28,957,000	19,115,000	(19,463,181)	(38,578,181)	
Surplus before taxation	(9,842,000)	28,957,000	19,115,000	(19,463,181)	(38,578,181)	
Taxation	-	-	-	-	-	

Great Kei Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(9,842,000)	28,957,000	19,115,000	(19,463,181)	(38,578,181)	

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	(4,643,000)	(4,643,000)	-	4,643,000	1
Receivables from exchange transactions	28,403,000	-	28,403,000	32,560,402	4,157,402	2
Statutory receivables	-	-	-	15,760,119	15,760,119	3
Employee benefit asset	1,001,874	(1,001,874)	-	-	-	
Consumer debtors	-	-	-	-	-	4
Cash and cash equivalents	3,550,000	10,254,000	13,804,000	6,109,813	(7,694,187)	5
	32,954,874	4,609,126	37,564,000	54,430,334	16,866,334	
Non-Current Assets						
Investment property	71,544,000	-	71,544,000	82,043,547	10,499,547	
Property, plant and equipment	278,365,000	(300,000)	278,065,000	237,826,194	(40,238,806)	
Heritage assets	-	-	-	36,000	36,000	
	349,909,000	(300,000)	349,609,000	319,905,741	(29,703,259)	
Liabilities						
Current Liabilities						
Payables from exchange transactions	(15,871,000)	(19,129,000)	(35,000,000)	61,696,261	96,696,261	12
VAT payable	-	-	-	5,582,490	5,582,490	
Employee benefit obligation	-	-	-	2,128,583	2,128,583	13
Unspent conditional grants and receipts	-	-	-	6,185,659	6,185,659	
Provisions	(1,054,000)	-	(1,054,000)	-	1,054,000	14
Consumer deposits	-	-	-	-	-	15
	(16,925,000)	(19,129,000)	(36,054,000)	75,592,993	111,646,993	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	12,174,943	12,174,943	
Provisions	3,000,000	-	3,000,000	16,470,113	13,470,113	
	3,000,000	-	3,000,000	28,645,056	25,645,056	
	(16,925,000)	(19,129,000)	(36,054,000)	75,592,993	111,646,993	
	3,000,000	-	3,000,000	28,645,056	25,645,056	
	-	-	-	-	-	
Total Liabilities	(13,925,000)	(19,129,000)	(33,054,000)	104,238,049	137,292,049	
Assets	382,863,874	4,309,126	387,173,000	374,336,075	(12,836,925)	
Liabilities	13,925,000	19,129,000	33,054,000	(104,238,049)	(137,292,049)	
Net Assets	396,788,874	23,438,126	420,227,000	270,098,026	(150,128,974)	
Net Assets						
Accumulated surplus						
Reserves						
Accumulated surplus	396,788,874	23,438,126	420,227,000	270,098,026	(150,128,974)	

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (No. 56 of 2003).

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

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

These accounting policies are consistent with the previous period.

1.1 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 municipality, 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.

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

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.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

1.2 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.2 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Item	Average useful life
Land	Indefinite
Infrastructure	
• Tarred roads and paving	30 – 80 years
• Access roads	3 – 5 years
• Electricity	7 – 50 years
Other property, plant and equipment	
• Buildings and related items	5 - 80 years
• Recreational facilities and related items	5 - 80 years
• Halls and related items	5 - 30 years
• Parks and gardens and related items	5 - 30 years
• Plant, machinery and other equipment	5 - 25 years
• Furniture, fittings and office equipment	5 - 10 years
• Motor vehicles	5 - 10 years
Landfill sites	4 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.2 Property, plant and equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

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

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

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

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 7).

1.3 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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.

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1.3 Intangible assets (continued)

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	3 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 7).

Intangible assets are derecognised:

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

1.4 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

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Accounting Policies

1.4 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.5 Financial instruments

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

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

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

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

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

A financial asset is:

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

A financial 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.

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.

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.

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1.5 Financial instruments (continued)

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.

Classification

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

Class	Category
Receivables from exchange transactions	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
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Employee benefit obligation	Financial liability measured at amortised cost
Provision for rehabilitation of landfill site	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at cost

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.

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.

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.

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Accounting Policies

1.5 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

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.

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 through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

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

Financial assets measured at cost:

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1.5 Financial instruments (continued)

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 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.

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

Financial liabilities

The 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.

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.

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.

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.

1.6 Impairment of cash-generating assets

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

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

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

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1.6 Impairment of cash-generating assets (continued)

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

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

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

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

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

Useful life is either:

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

1.7 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

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

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

1.8 Employee benefits

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

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Accounting Policies

1.8 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity recognise 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 entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

Post-employment benefits

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

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

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an 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.

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

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

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

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1.8 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

Post-employment benefit obligations are measured on a basis that reflects:

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

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

1.9 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus (deficit).

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.

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1.9 Provisions and contingencies (continued)

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.6 and 1.7.

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

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

1.10 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.

1.11 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.

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.

Great Kei Local Municipality

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Accounting Policies

1.11 Revenue from exchange transactions (continued)

Sale of goods

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

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality 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 municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

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

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

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

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

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

Interest

Revenue arising from the use by others of entity assets yielding interest 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 time apportionment basis taking into account the effective yield on the investment.

Service charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made 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 average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. The tariffs are determined per category of property usage and levied monthly based on the number of refuse containers on each property, regardless of whether or not the containers are emptied during the month.

1.12 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Great Kei Local Municipality

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Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

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

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

Rates, including collection charges, penalties and interest

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

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

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

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

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

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

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

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

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

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

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

1.13 Investment income

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

1.14 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note to the financial statements.

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.15 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.

1.16 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.

1.17 Irregular expenditure

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

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

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.

1.18 Budget information

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

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

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

The approved budget covers the fiscal period from 7/1/2019 to 6/30/2020.

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

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.

The budget is approved on an accrual basis by nature classification. Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant note 43 to the Annual Financial Statements.

Comparative information is not required.

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.19 Related parties

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

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

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

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

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

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

1.20 Events after reporting date

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

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

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

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

1.21 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.22 Statutory receivables

Identification

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

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

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

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

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.22 Statutory receivables (continued)

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

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

Accrued interest

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

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

Other charges

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

Impairment losses

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

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

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

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

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.22 Statutory receivables (continued)

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

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

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

Derecognition

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

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

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

1.23 Conditional grants and receipts

Revenue received from 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. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.24 Changes in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimates and errors, requirements except to the extent that it is impracticable to determine the period specific effects or accumulative effect of the change in policy. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective restatement is practicable. Details of the changes in accounting policy are disclosed in note to the annual financial statements.

Changes in accounting estimate are applied prospectively in accordance with GRAP 3 requirements. Details of changes in accounting estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in note to the financial statements.

1.25 Offsetting

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

Great Kei Local Municipality

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Notes to the Annual Financial Statements

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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 20: Related parties

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

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

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

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

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

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after April 1, 2019.

The municipality has adopted the standard for the first time in the 2020/2020 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 108: Statutory Receivables

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

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

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

The municipality has adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is not material.

2.2 Standards and Interpretations early adopted

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">• IGRAP 20: Accounting for Adjustments to Revenue	April 1, 2020	The impact of the is not material.
<ul style="list-style-type: none">• GRAP 1 (amended): Presentation of Financial Statements	April 1, 2020	The impact of the is not material.

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">• GRAP 104 (amended): Financial Instruments	April 1, 2099	Unlikely there will be a material impact
<ul style="list-style-type: none">• Guideline: Guideline on Accounting for Landfill Sites	April 1, 2099	Unlikely there will be a material impact
<ul style="list-style-type: none">• Guideline: Guideline on the Application of Materiality to Financial Statements	April 1, 2099	Unlikely there will be a material impact
<ul style="list-style-type: none">• GRAP 34: Separate Financial Statements	April 1, 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">• GRAP 35: Consolidated Financial Statements	April 1, 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">• GRAP 36: Investments in Associates and Joint Ventures	April 1, 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">• GRAP 37: Joint Arrangements	April 1, 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">• GRAP 38: Disclosure of Interests in Other Entities	April 1, 2020	Unlikely there will be a material impact

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- GRAP 110 (as amended 2016): Living and Non-living Resources April 1, 2020 Unlikely there will be a material impact

3. Receivables from exchange transactions

Trade debtors	73,834,082	65,833,676
Debt impairment	(41,416,200)	(33,621,320)
Sundry debtors	142,520	142,520
	32,560,402	32,354,876

Non-current assets

30 June 2020

Consumer debtors by debtor type

	0-30 Days	60-90 Days	120 Days +	Total
Government	-	270,734	189,585	1,841,285
Residents and other	-	2,679,086	2,508,972	67,149,968
Industries	-	1,565,031	159,479	1,625,515
	-	4,514,851	2,858,036	70,616,768
				77,989,655

Consumer debtors by revenue type

	0-30 Days	60-90 Days	120 Days +	Total
Electricity	2,134,339	477,863	2,121,904	4,734,106
Refuse removal	2,374,481	2,374,572	68,144,699	72,893,752
Sundries	6,031	5,601	350,165	361,797
	4,514,851	2,858,036	70,616,768	77,989,655

30 June 2019

Consumer debtors by debtor type

	0-30 Days	60-90 Days	120 Days +	Total
Government	112,778	151,068	1,594,513	1,858,359
Residents	1,984,682	2,908,907	57,914,768	62,808,357
Industries	278,959	436,159	5,498,458	6,213,576
	2,376,419	3,496,134	65,007,739	70,880,292

Consumer debtors by revenue type

	0-30 Days	60-90 Days	120 Days +	Total
Electricity	505,740	641,794	5,018,904	6,166,438
Refuse removal	1,794,470	2,774,203	59,778,169	64,346,842
Sundry	76,208	80,137	210,666	367,011
	2,376,418	3,496,134	65,007,739	70,880,291

There were no trade and other receivables pledged as security.

Reconciliation of provision for impairment of trade and other receivables

Opening balance	33,621,319	39,826,558
Provision for impairment	7,794,880	(6,205,239)
	41,416,199	33,621,319

4. Statutory receivables

Fines	214,798	214,498
Consumer debtors - Rates	81,283,445	67,165,509
Debt impairment	(65,738,124)	(53,309,173)
	15,760,119	14,070,834

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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4. Statutory receivables (continued)

Current assets 32,560,402 32,354,876

30 June 2020

Consumer debtors by debtor type	0-30 Days	90 Days	120 Days +	Total
Government	374,950	345,177	5,964,015	6,684,142
Residents and others	3,874,752	3,496,967	49,257,956	56,629,675
Industries	396,866	349,624	4,910,075	5,656,565
	4,646,568	4,191,768	60,132,046	68,970,382

30 June 2019

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	297,155	351,155	5,049,909	5,698,219
Residents	2,671,098	3,025,083	39,313,482	45,009,663
Industries	322,040	375,914	3,768,455	4,466,409
	3,290,293	3,752,152	48,131,846	55,174,291

Reconciliation of provision for impairment of statutory receivables

Opening balance	53,094,674	47,351,300
Provision for impairment	12,428,651	5,743,374
	65,523,325	53,094,674

5. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,246	4
Bank balances	140,874	138,373
Short-term deposits	5,967,693	1,193,624
	6,109,813	1,332,001

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

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

Great Kei Local Municipality

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5. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2020	June 30, 2019	June 30, 2018
Standard Bank - Primary Bank - 280720963	201,028	141,876	696,075	140,874	138,373	555,574
Standard Bank - Call account - 285973452	85,648	85,958	49	85,648	7,510	49
Standard Bank - Call account - 388528672-004	141,002	5,402	724	141,002	5,402	724
Standard Bank - Call account - 388527544-402	6,993	13,767	-	6,993	13,767	-
Standard Bank - Call account - 388529768-402	3,598,850	813,582	491	3,598,850	813,582	491
Standard Bank - Call account - 388528672-002	62,693	353,151	8,617	62,693	353,151	8,617
Standard Bank - Call account - 388523786-002	2,033,325	213	977	2,033,326	213	977
FNB Fixed Maturity Notice	39,182	-	-	39,182	-	-
Total	6,168,721	1,413,949	706,933	6,108,568	1,331,998	566,432

6. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	82,043,547	-	82,043,547	82,043,547	-	82,043,547

Reconciliation of investment property - 2020

	Opening balance	Total
Investment property	82,043,547	82,043,547

Reconciliation of investment property - 2019

	Opening balance	Total
Investment property	82,043,547	82,043,547

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Great Kei Local Municipality

(Registration number EC123)

Annual Financial Statements for the year ended June 30, 2020

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7. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	82,819,489	-	82,819,489	82,819,489	-	82,819,489
Buildings	144,784,649	(78,624,105)	66,160,544	145,634,741	(76,065,397)	69,569,344
Infrastructure	255,797,173	(182,043,361)	73,753,812	253,731,235	(166,225,318)	87,505,917
Other property, plant and equipment	12,047,232	(8,481,023)	3,566,209	11,990,139	(7,494,550)	4,495,589
Work in progress	9,185,593	-	9,185,593	4,986,658	-	4,986,658
Finance lease assets	1,443,220	(1,423,573)	19,647	1,443,220	(1,423,573)	19,647
Landfill site asset	9,480,679	(7,159,779)	2,320,900	9,521,012	(7,076,176)	2,444,836
Total	515,558,035	(277,731,841)	237,826,194	510,126,494	(258,285,014)	251,841,480

Great Kei Local Municipality

(Registration number EC123)

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Total
Land	82,819,489	-	-	-	-	82,819,489
Buildings	69,569,344	-	-	(3,327,691)	(81,109)	66,160,544
Infrastructure	87,505,917	-	1,926,442	(15,542,891)	(135,656)	73,753,812
Other property, plant and equipment	4,495,589	449,957	-	(1,017,146)	(362,191)	3,566,209
Work in progress	4,986,658	6,125,377	(1,926,442)	-	-	9,185,593
Finance lease asset	19,647	-	-	-	-	19,647
Landfill site asset	2,444,836	-	-	(83,603)	(40,333)	2,320,900
	251,841,480	6,575,334	-	(19,971,331)	(619,289)	237,826,194

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	82,819,489	-	-	-	-	82,819,489
Buildings	70,640,263	-	(11,200)	2,229,271	(3,288,990)	69,569,344
Infrastructure	88,353,453	-	(10,519)	12,010,561	(12,847,578)	87,505,917
Other property, plant and equipment	3,997,725	1,567,824	(621,609)	-	(448,351)	4,495,589
Work in progress	10,790,371	8,436,119	-	(14,239,832)	-	4,986,658
Finance lease assets	19,647	-	-	-	-	19,647
Landfill site asset	2,528,439	-	-	-	(83,603)	2,444,836
	259,149,387	10,003,943	(643,328)	-	(16,668,522)	251,841,480

Compensation received for losses on property, plant and equipment – included in operating profit.

Buildings	-	(8,912,282)
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Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand 2020 2019

7. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Finance lease assets 19,647 19,647

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

8. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	8,175,455	(8,175,455)	-	8,175,455	(7,062,443)	1,113,012

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software	1,113,012	(1,113,012)	-

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	3,770,029	(2,657,017)	1,113,012

Great Kei Local Municipality

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9. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	36,000	-	36,000	36,000	-	36,000

Reconciliation of heritage assets 2020

Art Collections, antiquities and exhibits	Opening balance 36,000	Total 36,000
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Reconciliation of heritage assets 2019

Art Collections, antiquities and exhibits	Opening balance 36,000	Total 36,000
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Details of the asset:

The municipality owns the following heritage asset:

- Mayoral Gold Palted Brass Chain.

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
10. Payables from exchange transactions		
Trade payables	35,019,127	37,037,177
Payments received in advance	10,044,234	9,049,361
Deposits received	(235,812)	409,799
Salary suspense account	15,947,342	15,975,564
Retentions	921,366	737,054
	61,696,257	63,208,955

11. VAT payable

Tax refunds payables	5,582,490	3,621,695
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12. Employee benefit obligations

Bonuses

Bonuses are paid out to all employees, excluding some senior managers, in the month of their birthdays each year and are based on a 13th monthly basic.

Defined benefit plan

The obligation in respect of the long service awards is valued every year by Independent qualified actuaries. The last actuarial valuation was performed on 30 June 2020 by One Pangaea Financial using the projected unit credit method that is in line with GRAP 25.

Long service awards to eligible employees are paid for services rendered by employees of 5 years and longer in five year intervals. The service awards are paid as per the municipality's policy which complies with the minimum thresholds per the collective agreement signed by the Bargaining Council. The basis on which this was calculated is as follows:

- After 5 Conitnuous Years of Service - 2% of Basic Annual Salary and 5 days of accumulative leave
- After 10 Conitnuous Years of Service - 3% of Basic Annual Salary and 10 days of accumulative leave
- After 15 Conitnuous Years of Service - 4% of Basic Annual Salary and 15 days of accumulative leave
- After 20 Conitnuous Years of Service - 5% of Basic Annual Salary and 15 days of accumulative leave
- After 25 Conitnuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave
- After 30 Conitnuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave
- After 35 Conitnuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave
- After 40 Conitnuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave
- After 45 Conitnuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave

The estimated contribution for the next financial year.

Current service cost	979,769	922,437
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Other defined contribution pension funds

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019		
12. Employee benefit obligations (continued)				
The amounts recognised in the statement of financial position are as follows:				
Carrying value				
Present value of the defined benefit obligation-wholly unfunded	(8,854,004)	(12,324,918)		
Leave pay accrual	(4,401,330)	(3,752,592)		
Bonus accrual	(1,048,192)	(821,322)		
Asset not recognised	-	-		
	(14,303,526)	(16,898,832)		
Retirement benefit asset	-	-		
Retirement benefit obligation	2,128,583	4,922,454		
Non-current liabilities	(12,174,943)	(11,976,378)		
Current liabilities	(2,128,583)	(4,922,454)		
	(14,303,526)	(16,898,832)		
Reconciliation of employee benefits - 2020				
	Opening balance	Additions	Utilised during the year (movement)	Total
Bonus accrual	821,321	1,048,193	(821,321)	1,048,193
leave pay accrual	4,254,676	4,401,330	(4,254,676)	4,401,330
	5,075,997	5,449,523	(5,075,997)	5,449,523
Reconciliation of employee benefits - 2019				
	Opening balance	Additions	Utilised during the year (movement)	Total
Bonus accrual	1,348,936	821,321	(1,348,936)	821,321
leave pay accrual	3,259,509	3,752,552	(3,259,509)	3,752,552
	4,608,445	4,573,873	(4,608,445)	4,573,873
Changes in the present value of the defined benefit obligation are as follows:				
Opening balance	12,324,918	9,956,000		
Benefits paid	(348,540)	(444,504)		
Net expense recognised in the statement of financial performance	(3,122,374)	2,813,422		
	8,854,004	12,324,918		
Net expense recognised in the statement of financial performance				
Current service cost	979,769	922,437		
Past service cost	1,085,053	881,092		
Interest cost	(4,127,411)	597,005		
Actuarial (gains) losses	(1,240,188)	(1,050,211)		
Curtailment	200,334	200,203		
Settlement	598,230	1,870,821		
Assets not recognised	(618,161)	(607,925)		
	(3,122,374)	2,813,422		

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand 2020 2019

12. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rate	14.29 %	8.93 %
Consumer price inflation	9.06 %	- %
Health care cost inflation	10.06 %	- %
Net discount rate	3.84 %	- %

The long term discount rate was determined as the average of the BEASSA yield curve whilst the CPI was determined from the difference in averages in the Nominal and Real Bond.

Other assumptions

Mortality rate

The value of the liabilities is particularly sensitive to the assumed rate of healthcare cost inflation. The table below sets out the sensitivity of the valuation result due to higher and lower mortality rates by increasing and decreasing mortality rates by 20%. The effect is as follows:

	-20% Mortality rate	Valuation Assumption	+20% Mortality rate
Total Accrued Liability	5,835,089	6,207,680	6,665,136
Interest Cost	346,561	368,870	396,110
Service Cost	814,743	869,488	933,230
	-	-	-

Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

The effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows:

	-1% Medical aid inflation	Valuation assumption	+1% Medical aid inflation
Total Accrued Liability	5,368,450	6,207,680	7,244,668
Interest Cost	748,084	869,488	1,016,022
Service Cost	297,435	368,870	460,823
	-	-	-

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	1,476,845	1,045,519
Effect on defined benefit obligation	7,244,668	5,368,450

Long service award inflation:

	2020 R	2019 R	2018 R
Defined benefit obligation	8,854,004	12,324,918	9,955,824
Plan assets	-	-	-

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
13. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	4,028,672	314,619
Finance Management Grant	128,854	-
other	-	-
EPWP Grant	616	35,438
Intergrated National electrification Programme (INEP)	2,027,517	-
	6,185,659	350,057

Movement during the year

Balance at the beginning of the year	350,057	673,904
Additions during the year	21,257,000	16,699,000
Income recognition during the year	(15,071,335)	(17,022,847)
Surrendered to National Revenue Fund	(350,063)	-
	6,185,659	350,057

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 20 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

14. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
Environmental rehabilitation	16,124,114	345,999	16,470,113

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	14,071,642	2,052,472	16,124,114

Environmental rehabilitation provision

The obligation for the environmental rehabilitation results from the onus imposed by the Environmental Conservation Act No.73 of 1989 to rehabilitate landfill sites after use. The provision for the rehabilitation of the landfill sites relate to the obligation to rehabilitate the landfill site used for waste disposal.

The landfill sites are nearing the end of their useful lives and the Municipality is still using the existing landfill site for waste disposals because the planned arrangement of utilising the ADM's site which is in Butterworth did not continue for long as planned. However the Municipality had applied for the renewal of the licence for the existing landfill site from the Department of Economic Development and Environmental Affairs and Tourism to continue using it as a short-term measure, but that has not been granted yet due to long processes that are followed by the Department.

15. Service charges

Sale of electricity	6,603,806	8,765,326
Refuse removal	7,938,840	8,519,770
	14,542,646	17,285,096

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
16. Rental of facilities and equipment		
Premises		
Premises	472,244	246,460
Facilities and equipment		
Rental of facilities	-	30,275
Premises	472,244	246,460
Garages and parking	-	-
Facilities and equipment	-	30,275
	472,244	276,735
17. Other income		
Handling / payroll commission	69,125	44,148
Building plan fees	255,595	624,492
Clearance fees	834	33,410
Burial and cemetery fees	6,566	2,247
Tender documents	17,870	106,639
Skills levy refund	106,900	160,712
Connection fees - electricity	76,542	110,272
	533,432	1,081,920
18. Interest revenue		
Interest revenue		
Bank	455,531	281,199
Interest charged on trade and other receivables	5,499,441	8,086,452
	5,954,972	8,367,651
	5,954,972	8,367,651

The amount included in Investment revenue arising from exchange transactions amounted to R 3,552,301 (2019 R 5 247 162).

The amount included in Investment revenue arising from non-exchange transactions amounted to R 2,387,408 (2019 R 2 202 352).

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
19. Property rates		
Rates revenue		
Property rates	26,397,492	24,101,173
Valuations		
Commercial	168,991,000	168,991,000
Industrial	530,000	530,000
Multipurpose	8,280,000	8,280,000
Residential	2,060,120,634	2,060,120,634
Municipal	76,560,051	76,560,051
Churches	880,000	880,000
Schools	27,100,000	27,100,000
Small holdings and farms	1,053,130,737	1,053,130,737
State	47,787,000	47,787,000
Public benefit organisation	32,468,000	32,468,000
Vacant	685,174,561	685,174,561
Public service infrastructure	233,471,496	233,471,496
	4,394,493,479	4,394,493,479

General valuations on land and buildings are performed every 4 years and supplementary valuations are performed annually. The last general valuation came into effect on 01 September 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis.

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

20. Government grants and subsidies

Unconditional grants

Equitable share	42,659,063	38,153,634
Cogta grant	-	1,148,000
Disaster management Grant (COVID relief)	417,000	-
1% Relief Grant - National Treasury on audit fees	1,230,795	1,935,219
	44,306,858	41,236,853

Capital grants

Municipal Infrastructure Grant	7,224,322	10,803,452
Finance Management Grant	2,286,146	2,416,833
Expanded Public Works Programme	1,188,384	4,608,624
Intergrated Electrification Programme	4,372,483	1,999,999
	15,071,335	19,828,908
	59,378,193	61,065,761

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	15,036,635	19,828,908
Unconditional grants received	42,309,000	39,301,634
	57,345,635	59,130,542

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
20. Government grants and subsidies (continued)		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	314,619	2,070
Current-year receipts	11,253,000	11,116,000
Conditions met - transferred to revenue	(7,224,322)	(10,803,451)
Surrendered to National Revenue Fund	(314,625)	-
	4,028,672	314,619

Conditions still to be met - remain liabilities (see note 13).

The grant is allocated for the construction of infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.

Intergrated National Electrification Programme

Balance unspent at beginning of year	-	669,634
Current-year receipts	6,400,000	2,000,000
Conditions met - transferred to revenue	(4,372,483)	(2,000,000)
Surrendered to National Revenue Fund	-	(669,634)
	2,027,517	-

Conditions still to be met - remain liabilities (see note 13).

The Intergrated National Electrification Programme Grant is provided by the Department of Energy to facilitate for the upgrading of electrical infrastructure within the municipality.

Financial Management Grant

Balance unspent at beginning of year	-	2,137
Current-year receipts	2,415,000	2,415,000
Conditions met - transferred to revenue	(2,286,146)	(2,417,137)
	128,854	-

Conditions met.

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

EPWP Grant

Balance unspent at beginning of year	35,438	35,375
Current-year receipts	1,189,000	1,168,000
Conditions met - transferred to revenue	(1,188,384)	(1,132,624)
Surrendered to National Revenue Fund	(35,438)	(35,313)
	616	35,438

Conditions met.

Cogta grant is a financial assistance grant received from the Provincial Department of Corporate Governance and Traditional Affairs. Cogta paid a portion of the municipality's Eskom debt.

Great Kei Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
20. Government grants and subsidies (continued)		
Cogta grant		
Current-year receipts	-	1,148,000
Conditions met - transferred to revenue	-	(1,148,000)
	-	-
Conditions still to be met - remain liabilities (see note 13).		
Provide explanations of conditions still to be met and other relevant information.		
Intergrated National Electrification Grant (INEP)		
Current-year receipts	6,400,000	-
Conditions met - transferred to revenue	(4,372,483)	-
	2,027,517	-
Conditions still to be met - remain liabilities (see note 13).		
Provide explanations of conditions still to be met and other relevant information.		
21. Revenue		
Service charges	14,542,646	17,285,096
Rental of facilities and equipment	472,244	276,735
Agency services	90,329	329,252
Licences and permits	436,482	650,433
Other income	533,432	1,081,920
Interest received	5,954,972	8,367,651
Property rates	26,397,492	24,101,173
Government grants & subsidies	59,378,193	61,065,761
Public contributions and donations	436,000	-
Fines, Penalties and Forfeits	300	3,800
	108,242,090	113,161,821
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	14,542,646	17,285,096
Rental of facilities and equipment	472,244	276,735
Agency services	90,329	329,252
Licences and permits	436,482	650,433
Other income	533,432	1,081,920
Interest received	5,954,972	8,367,651
	22,030,105	27,991,087
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	26,397,492	24,101,173
Transfer revenue		
Government grants & subsidies	59,378,193	61,065,761
Public contributions and donations	436,000	-
Fines, Penalties and Forfeits	300	3,800
	86,211,985	85,170,734

The donation above relates to service delivery motor vehicles donated by Buffalo City Metropolitan Municipality.

Great Kei Local Municipality

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Figures in Rand	2020	2019
22. Employee related costs		
Basic	38,514,652	36,206,262
Bonus	226,871	2,792,713
Medical aid - company contributions	2,857,041	2,320,827
UIF	220,114	233,898
SDL	308,543	432,778
Other payroll levies	12,499	34,318
Leave pay provision charge	1,114,692	905,639
Pension	3,267,508	4,852,474
Travel, motor car, accommodation, subsistence and other allowances	1,375,939	1,413,749
Overtime payments	454,534	437,557
Long-service awards	(270,474)	69,027
Acting allowances	35,096	440,287
Housing benefits and allowances	666,127	964,099
Post employment benefits expense	607,634	595,437
	49,390,776	51,699,065

Included in compensation for employees above is remuneration of senior management disclosed per individual portfolios below:

Remuneration of Municipal Manager - L.N. Mambila

Acting allowance	-	110,073
Annual Remuneration	739,532	123,255
Bonus provision	40,000	10,000
Housing subsidy	216,511	36,085
Travel Allowance	216,511	36,085
	1,212,554	315,498

Remuneration of Chief Financial Officer - A. Lwana

Annual Remuneration	461,431	-
Bonus provision	-	-
Housing allowance	67,461	-
Leave	-	-
Travel allowance	202,382	-
	731,274	-

Remuneration of Director: Strategic Services - M. Mtalo

Annual Remuneration	625,052	625,053
Housing allowance	156,029	156,029
Other	-	-
Bonus provision	65,000	60,000
Car Allowance	168,029	168,029
	1,014,110	1,009,111

Remuneration of Chief Financial Officer - S. Mini

Acting allowance	-	5,270
Annual remuneration	-	572,965
Bonus provision	64,000	44,000
Housing allowance	-	154,027
Contributions to UIF, Medical and Pension Funds	-	44,000
Travel allowance	-	15,407
Leave	71,122	-

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand

	2020	2019
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22. Employee related costs (continued)

	135,122	835,669
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The Chief Financial Officer was paid her terminal emoluments in July 2020.

Remuneration of Director: Technical and Community Services - O. Kwababana

Annual Remuneration	625,053	625,053
Housing allowance	168,029	168,029
Bonus provision	48,000	48,000
Travel allowance	168,029	168,029
	1,009,111	1,009,111

Remuneration of Director - Corporate Services - J.A. Gomomo

Annual Remuneration	-	572,965
Housing allowance	-	154,027
Leave	113,020	-
Bonus provision	65,000	44,000
Travel allowance	-	154,027
	178,020	925,019

The Corporate service director was paid his terminal emoluments in July 2020.

Great Kei Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
23. Remuneration of councillors		
Mayor/Speaker	789,653	1,190,968
Councillors	2,423,321	2,381,358
Councillors' allowances	1,340,580	1,206,603
	4,553,554	4,778,929
Remuneration of Mayor (Speaker) - N.W. Tekile		
Basic allowance	558,940	1,015,576
Other allowances	230,713	175,392
	789,653	1,190,968
Remuneration of Mayor (Speaker) - L.D. Tshetsha		
Basic allowance	-	121,036
Other allowances	-	43,859
	-	164,895
Remuneration of Chief Whip - L. Ndabambi-Gavumente		
Basic allowance	-	59,163
Other allowances	-	13,671
	-	72,834
Remuneration of Chief Whip - N. Kantshashe		
Basic allowance	227,002	189,168
Other allowances	120,067	100,056
	347,069	289,224
The salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the constitution.		
The Mayor is a full-time councillor and is provided with an office and secretarial support, The Mayor also holds the position of the Council Speaker.		
24. Depreciation and amortisation		
Property, plant and equipment	21,698,690	16,792,263
Intangible assets	1,113,012	2,659,648
	22,811,702	19,451,911
25. Finance costs		
Non-current borrowings	-	73,546
Trade and other payables	560,832	249,041
Interest from provisions	2,849,402	1,349,275
	3,410,234	1,671,862
26. Debt impairment		
Bad debts written off	20,223,831	153,872

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019	
27. Repairs and Maintenance			
Repairs and maintenance on different class of assets			
Maintenance of equipment	183,969	16,097	
Buildings	-	164,558	
Other assets	168,044	496,417	
	352,013	677,072	
28. Bulk purchases			
Electricity - Eskom	9,575,380	8,741,276	
<p>The Municipality incurred distribution losses of 17% which is above the acceptable norm. The losses are due to penalties imposed by eskom for exceeding the maximum demand. The distribution losses are disclosed below:</p>			
Electricity losses			
	Number 2020	Number 2019	
Units purchased	8,481,914	8,731,535	9,575,380
Units sold	(7,040,703)	(7,056,561)	(7,948,372)
Total loss	1,441,211	1,674,974	1,627,008
Comprising of:			
Technical losses	1,441,211	1,674,974	1,627,008
Percentage Loss:			
Technical losses	19 %	19 %	19 %
29. General expenses			
Advertising	2,822	110,047	
Auditors remuneration	2,728,824	3,932,454	
Bank charges	348,960	434,638	
Commission paid	135,102	30,724	
Conferences and seminars	64,408	18,779	
Electricity	180,108	-	
Fuel and oil	1,403,379	859,825	
Hire	-	14,490	
Insurance	817,788	651,439	
Electrical materials purchased	404,818	1,144,374	
Life saving services	231,948	-	
Motor vehicle expenses	114,509	55,915	
Other expenses	-	1,016,091	
Postage and courier	25,166	267,864	
Delivery services	236,328	212,192	
Protective clothing	201,517	209,949	
Refuse-Lanfillsite expense	-	2,184,664	
I.T related expenses	237,601	511,575	
Subscriptions	746,486	1,233,381	
Telephone costs	1,860,242	3,196,240	
Training	-	-	
Travel - local	53,952	182,535	
Ward Committee expense	745,380	965,981	
Water	301,405	6,478,264	
	10,840,743	23,711,421	

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
30. Cash generated from operations		
(Deficit) surplus	(13,598,612)	4,536,695
Adjustments for:		
Depreciation and amortisation	22,811,702	19,451,911
Actuarial gains / (losses)	(4,893,127)	942,894
Loss on sale of assets and liabilities	(971,442)	(8,759,951)
Debt impairment	25,508,827	(2,765,344)
Donations	(436,000)	-
Movements in employee benefit obligation	(2,595,306)	2,334,388
Movements in provisions	345,999	2,052,472
Changes in working capital:		
Receivables from exchange transactions	(20,460,368)	(24,557,277)
Other receivables from non-exchange transactions	(1,689,285)	(7,847,259)
Payables from exchange transactions	(1,512,700)	15,570,324
VAT	1,991,806	1,760,300
Unspent conditional grants and receipts	5,835,602	(323,847)
	10,337,096	2,395,306

31. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	32,560,402	32,560,402
Statutory receivables	15,760,119	15,760,119
Cash and cash equivalents	6,109,813	6,109,813
	54,430,334	54,430,334

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	61,969,260	61,969,260
Employee benefit obligation	14,303,526	14,303,526
Provision for rehabilitation of landfill site	16,470,113	16,470,113
	92,742,899	92,742,899

2019

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	32,323,865	32,323,865
Statutory receivables	14,070,834	14,070,834
Cash and cash equivalents	1,332,001	1,332,001
	47,726,700	47,726,700

Financial liabilities

Great Kei Local Municipality

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Financial instruments disclosure (continued)		
	At amortised cost	Total
Trade and other payables from exchange transactions	63,208,960	63,208,960
Employee benefit obligation	16,898,832	16,898,832
Provision for rehabilitation of landfill site	16,124,114	16,124,114
	96,231,906	96,231,906
32. Commitments		
Authorised expenditure		
Already contracted for but not provided for		
• Construction Contracts	10,048,519	4,136,436
• Community Service Contracts	75,396	93,250
• Other	4,439,537	5,466,733
	14,563,452	9,696,419
Total capital commitments		
Already contracted for but not provided for	14,563,452	9,696,419
Total commitments		
Total commitments		
Authorised capital expenditure	14,563,452	9,696,419

This committed expenditure relates to plant and equipment and other expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated and grant funds.

Great Kei Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
33. Contingencies		
Contingent liabilities		
Pending legal claims	1,900,000	1,900,000

Pending legal claims

1. IODENE GEZA// GREAT KEI LOCAL MUNICIPALITY AND ANOTHER EC/EL/RC228/15C

An interdict application was brought against the municipality where a member of the Iodene Geza a member of the Public who opened a case of assault against a former GKM Traffic Officer (Mr Denzil Fillis) while he was an employee and he resigned in April 2016.

The municipality will incur approximately R400 000, 00 (Four Hundred Thousand Rand) on legal fees including fees of applicant's attorneys. The municipal legal expenses provided for under payables R 294 219, 44. The municipality has requested the Amathole District Municipality to assist on this matter due to financial constraints.

2. JETVEST // GREAT KEI MUNICIPALITY

This is an application that was brought by Jetvest where a defendant has lodged an amended claim against the municipality in reconvention.

The municipality will incur approximately R1 000 000 (One Million Rand) and the legal fees including fees of applicant's attorneys. The municipality has requested the Amathole District Municipality to assist on this matter due to financial constraints.

3. GREAT KEI LOCAL MUNICIPALITY // VAN DALEN MATTER

This is an application that was brought by a former employee of the Municipality Mr Van Dalen on unfair labour practice by the employer in relation to his dismissal.

The municipality will incur approximately R500 000 (Five Hundred Thousand Rand) and the legal fees including fees of applicant's attorneys. The municipal legal expenses provided for under payables R229 601, 19. The municipality has requested the Amathole District Municipality to assist on this matter due to financial constraints.

4. CHINTSA RATEPAYERS ASSOCIATION // GREAT KEI LOCAL MUNICIPALITY AND OTHERS CASE NO. 2613/19

This is an application that was brought by the Chintsa Ratepayers Association seeking the municipality to interdict the informal land grabs by community members and building of illegal structures on municipal commonage.

In this matter the municipality will incur approximately on legal fees including fees of applicant's attorneys. The municipal legal expenses provided for under payables R123 257, 43.

Great Kei Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand 2020 2019

34. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2018

	Note	As previously reported	Correction of error	Restated
Cash and cash equivalents		550,317	16,116	566,433
Property plant and equipment		265,032,706	(6,476,854)	258,555,852
Payables from exchange transactions		52,073,447	(46,027)	52,027,420
Accumulated surplus		(286,124,255)	6,506,765	(279,617,490)
		31,532,215	-	31,532,215

The opening balances for 2018 have restated as follows:

1. The restatement is as a result of MVR Investment that was reconciled as from 30 June 2017 to 30 June 2020 and unknown transactions were reallocated. The restated also affected the Department of Transport payable account under payables from Additional text exchange transactions.

2019

	Note	As previously reported	Correction of error	Reclassification	Restated
Receivables from exchange transactions	3	15,279,168	17,044,697	-	32,323,865
Statutory receivables	4	21,835,402	(7,764,568)	-	14,070,834
Cash and cash equivalents	5	13,804,453	(12,472,452)	-	1,332,001
Property Plant and Equipment	7	256,250,911	(2,793,267)	-	253,457,644
Investment properties		82,043,547	-	-	82,043,547
Intangible Assets		1,113,012	-	-	1,113,012
Heritage assets		36,000	-	-	36,000
Trade and other payables from exchange transaction	10	(60,294,048)	(10,207,818)	4,573,914	(65,927,952)
Vat payable		(282,261)	(2,961,375)	-	(3,243,636)
Unspent conditional grants	13	(35,375)	(314,682)	-	(350,057)
Provision for Landfill sites		(16,124,114)	-	-	(16,124,114)
Employee benefit obligation		(12,324,918)	-	(4,573,914)	(16,898,832)
Accumulated surplus		(301,301,777)	17,097,520	-	(284,204,257)
		-	(2,371,945)	-	(2,371,945)

Statement of financial performance

Great Kei Local Municipality

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2019

34. Prior-year adjustments (continued)

2019

	Note	As previously reported	Correction of error	Reclassification	Restated
Service charges		(17,999,471)	(313,857)	-	(18,313,328)
Rental of facilities and equipment		(239,872)	(38,225)	-	(278,097)
Licences and permits		(740,320)	89,887	-	(650,433)
Other income		(993,917)	(314,440)	-	(1,308,357)
Interest received - investment		(13,414,024)	5,258,753	-	(8,155,271)
Property rates		(18,228,973)	(5,872,348)	-	(24,101,321)
Government grants & subsidies		(69,878,527)	10,747,985	-	(59,130,542)
Commision received		(14,136)	(128,128)	-	(142,264)
Fines, penalties and forfeits		(186,988)	183,188	-	(3,800)
Employee related costs		51,750,420	437,543	-	52,187,963
Remuneration of councillors		2,024,012	2,699,789	-	4,723,801
Depreciation and amortisation		20,484,987	(585,036)	-	19,899,951
Finance costs		1,566,389	(54,490)	-	1,511,899
Lease rentals on operating lease		139,023	172,516	-	311,539
Debt Impairment		(1,221,138)	1,160,509	-	(60,629)
Bulk purchases		8,741,275	641,844	-	9,383,119
Contracted services		-	-	5,989,276	5,989,276
General Expenses		22,155,311	8,708,037	(5,989,276)	24,874,072
Gain or loss on sale of non-current assets		(178,982)	(8,698,044)	-	(8,877,026)
Acturial gain or loss		1,009,893	(66,999)	-	942,894
Surplus for the year		(15,225,038)	14,028,484	-	(1,196,554)

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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34. Prior-year adjustments (continued)

The comparative figures for 2019 have been restated as a result of:

STATEMENT OF FINANCIAL POSITION:

Receivables from exchange and Statutory receivables

The restatement was due to non-billing of debtors on the financial management system for the month of June 2019, The provision for impairment was also not recognised as at June 2019.

Cash and cash equivalents

During the 2019 financial year the municipality changed financial management systems from Venus to SEBATA EMS, as a result the transactions from the previous system were not migrated to the new system. A reconciliation of bank transactions had to be effected and mistatements were rectified.

Property, Plant and Equipment

The restatement was due to the Additions for 2019 that were understated by R4 798 589 and depreciation and impairment was understated by R669 617.

Trade and other payables from exchange transactions

During the 2019 financial year the municipality changed financial management systems from Venus to SEBATA EMS, as a result the transactions from the previous system were not migrated to the new system. Transactions in relation to employee related costs and remunerations of councillors were not migrated for January and June 2019 and thus affected the Salary Control Account. A reconciliation of creditors transactions had to be effected and mistatements were rectified.

VAT

During the 2019 financial year the municipality changed financial management systems from Venus to SEBATA EMS, as a result the transactions from the previous system were not migrated to the new system. Transactions in relation to payables from exchange transactions and also receivables from exchange transactions were migrated and VAT Output and Input had to be reconciled and mistatements corrected.

Defined benefit obligation

The restatement is due to leave pay and bonus accrual reclassification from payables from exchange transactions to defined benefit obligation as per GRAP 25.

Unspent conditional grants

The restated amount is the unspent portion of MIG grant, the reconciliation for 2019 year could not be reconciled as transactions could not be extracted from the system. This was rectified and reconciliation was performed.

STATEMENT OF FINANCIAL PERFORMANCE:

Service charges

The restatement was due to non-billing of debtors on the financial management system for the month of June 2019, The provision for impairment was also not recognised as at June 2019

Rental of facilities and equipment

The restatement was due to non-billing of debtors on the financial management system for the month of June 2019, The provision for impairment was also not recognised as at June 2019

Other income

During the current financial year the municipality identified that there was an invoice relating to WIP that was disputed due to the amount not reflective of the work done. The invoice was erroneously not recorded at year end and it has subsequently been corrected

Interest received - investment

Great Kei Local Municipality

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2019

34. Prior-year adjustments (continued)

This is due to a restatement of insurance proceeds for the damaged municipal offices which was incorrectly allocated to interest and has since been rectified.

Property rates

The restatement was due to non-billing of debtors on the financial management system for the month of June 2019. The provision for impairment was also not recognised as at June 2019.

Government grants & subsidies

The restated amount is the revenue recognition transactions in relation to the unspent portion of MIG grant. The reconciliations for 2019 year could not be reconciled as transactions could not be extracted from the system as well as missing grants receipts on the ledger. This was rectified and reconciliation was performed.

Employee related costs

During the 2019 financial year the municipality changed financial management systems from Venus to SEBATA EMS, as a result the transactions from the previous system were not migrated to the new system. Transactions in relation to employee related costs and remunerations of councillors were not migrated for January and June 2019 and thus affected the Salary Control Account.

Remuneration of councillors

During the 2019 financial year the municipality changed financial management systems from Venus to SEBATA EMS, as a result the transactions from the previous system were not migrated to the new system. Transactions in relation to employee related costs and remunerations of councillors were not migrated for January and June 2019 and thus affected the Salary Control Account. The remuneration for councillors was incorrectly mapped to the Employee related cost and this has been correctly classified.

Debt impairment

This was due to non-recognition of provision for impairment for Trade and other receivables from exchange transactions and receivables from non-exchange transactions as at June 2019.

General expenses and contracted services

During the 2019 financial year the municipality changed financial management systems from Venus to SEBATA EMS, as a result the transactions from the previous system were not migrated to the new system. Transactions were incorrectly classified and in order to comply with the disclosure requirements of the current period, these expenditures have been reclassified.

Contracted services have been reclassified from general expenses.

Accumulated surplus

Accumulated surplus balance has been restated due to corrections done in the prior year balances.

CASH FLOW STATEMENT

As a result of the errors noted above the cashflow from operating, investing and financing activities had been revised.

Great Kei Local Municipality

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Notes to the Annual Financial Statements

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35. Related parties

Relationships

Accounting Officer

Mayor

Chief Whip

Councillors

Refer to accounting officer's report note

Cllr N.W. Tekile (Speaker)

Cllr N. Kantshashe

Cllr N. P. Mgema

Cllr N. Dyani

Cllr L. Plika

Cllr L. Mhlontlo

Cllr B. Wood

Cllr S. Jacobs

Cllr T. Ndolose

Cllr Z. Nzuzo

Cllr W. Sinqana

Cllr Z. Tshali

Cllr M. Njekanye

Members of key management

Chief Financial Officer

Ms S. Mini

Mr A. Lwana

Director Technical and Community Services

Ms O. Kwababana

Director Strategic Services

Mr M. Mtalo

Director Corporate Services

Mr JA Gomomo

Councillors and executive management received salaries for services rendered relating to their employment within the Municipality. Refer to notes 23 and 24. No other related party transactions took place during the year.

Remuneration of management

36. Unauthorised expenditure

Opening balance as previously reported

10,087,564 57,041,535

Opening balance as restated

10,087,564 **57,041,535**

Add: Unauthorised Expenditure - current period

8,501,609 -

Less: Amount written off - current

- (46,953,971)

Closing balance

18,589,173 **10,087,564**

Incident - The remaining prior year expenditure has been submitted to council for investigation in terms of s32 of the MFMA. The current year unauthorised expenditure relates mainly to under estimation on non-cash items i.e. depreciation and amortization on assets, debt impairment etc.

37. Fruitless and wasteful expenditure

Opening balance as previously reported

1,100,626 2,511,084

Opening balance as restated

1,100,626 **2,511,084**

Less: Amount written off - current

- (3,172,995)

Expenditure incurred in the current year

1,118,314 1,762,537

Closing balance

2,218,940 **1,100,626**

Incident - Fruitless and Wasteful expenditure incurred is mainly due to interest and penalties charged because of late payments of suppliers. The late payment of suppliers is as a result of the municipality currently facing financial constraints.

Great Kei Local Municipality

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38. Irregular expenditure		
Opening balance as previously reported	10,341,979	16,692,776
Add: Irregular Expenditure - current year	670,767	77,000
Less: Amounts recovered /transferred to receivables for recovery	11,012,746	16,769,776
Add: Irregular Expenditure - current	-	-
Add: Irregular Expenditure - prior period	-	-
Less: Amount written off - current	-	(6,427,797)
Closing balance	11,012,746	10,341,979

Particulars that lead to the incurrence of irregular expenditure

The municipality incurred expenditure to the value of R670 767 on an expired contract.

The irregular expenditure amount for prior year was reported to council for a re-investigation as the write off process was not in accordance to s32 of the MFMA and National Treasury Circulars, a council committee was appointed and thus Municipal Public Accounts Committee (MPAC) was appointed to re-investigate the causes of the expenditure and the recoverability thereof. The committee has not yet concluded with the investigations. The current year irregular expenditure was incurred due to non-compliance with Supply Chain Management principles.

Cases under investigation

Non compliance with MFMA	-	75,267
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Awards to close family members of persons in the service of the state

Part of the prior year irregular expenditure incurred, the municipality made awards to close family members of persons in the service of the state. The wife of the director of PLM Quantity Surveyors is employed by Amathole District Municipality.

Employee in service of the state

Mrs Z Poto - Amathole District Municipality (Technician)	-	603,369
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39. Deviation from supply chain management regulations

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

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

The Accounting Officer has not deviated with supply chain management regulations.

40. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by the finance department with the assistance of operating divisions, under policies approved by the accounting officer.

Great Kei Local Municipality

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40. Risk management (continued)

Liquidity risk

The Municipality's risk relates to funds available for future commitments. The Municipality manages liquidity risk through ongoing review of future commitments, projected grant receipts and cash forecasting. Cash flow forecasts are prepared and borrowing facilities are monitored.

Credit risk

Credit risk consists mainly of cash deposits, cash and cash equivalents, derivative, financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis and the impact of Covid-19 pandemic has negatively affected the municipal cashflows i.e. low levels of collection from customers in relation to debt owed from receivables from exchange and non exchange transactions. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

The carrying amount of financial assets represent the Municipality's maximum exposure to credit risk in relation to these assets.

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

Financial instrument	2020	2019
Receivables from exchange transactions	32,529,391	32,292,854
Receivables from non exchange transactions	15,760,119	14,070,834
Short term deposits	6,109,813	1,195,698

Market risk

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. The Munic

Interest rate risk

The municipality has no significant interest bearing assets. The municipality's income and operating cashflows are substantially independent of changes in market interest rates.

Balances with banks, deposits, call accounts and current accounts attract interest at rates that vary with the South African prime rate. The Municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the statement of financial performance.

Trade debtors in arrears are charged interest at a rate of Prime plus 1% per month.

Surplus funds are invested with banks in interest bearing accounts refer note 5 to the annual financial statements.

Price risk

The municipality is not exposed to commodity price risk, as it does not hold commodities on an open market platform.

41. Auditors' remuneration

Fees	2,728,824	3,932,454
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Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
42. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	1,832,770	667,440
Current year subscription / fee	627,630	1,165,330
	2,460,400	1,832,770
Audit fees		
Opening balance	3,290,558	519,034
Current year subscription / fee	3,555,193	4,706,773
Amount paid - previous years	(1,876,560)	(1,935,219)
	4,969,191	3,290,588
PAYE and UIF		
Opening balance	12,996,596	7,483,187
Current year subscription / fee	8,238,824	8,072,541
Amount paid - current year	(9,307,838)	(2,559,132)
	11,927,582	12,996,596
Pension and Medical Aid Deductions		
Opening balance	1,599,294	3,571,459
Current year subscription / fee	12,339,793	11,608,661
Amount paid - current year	(12,282,073)	(13,580,826)
	1,657,014	1,599,294
VAT		
VAT payable	5,582,490	3,621,695

The municipality is on a cash or payment basis for VAT purposes and is classified as Category C. .

43. Budget differences

Material differences between budget and actual amounts

Statement of Financial Performance

Revenue from exchange transactions

1. Service Charges – are lower than they were anticipated due to increase in indigent subsidy granted.
2. Licenses and permits are budgeted for at **R1 488 350**, the actual received for this service is less than it was budgeted to be received. This is due to reduction of classes for drivers licence testing and learners testing.
3. Rental of Facilities and equipment – difference is caused by the fact that during the year the municipality entered into a new lease rental for one of its properties that was not budgeted for.
4. Other income received is below what was budgeted due to over budgeting on some of items under this vote i.e sale of municipal residential plots and bad debts recovered had no or minimal movement during the year.
5. Interest received – Interest has been over budgeted but could not be realised due to financial constraints as the municipality did not have surplus funds to invest.

Great Kei Local Municipality

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43. Budget differences (continued)

Revenue from non-exchange transactions

6. Property rates are over budget and this will be rectified to equal total billed for the year in 2018/19 FY

7. Government Grants and subsidies, under budgeted due to grants that are not gazetted e. g Treasury payment toward AG debt on behalf of the municipality.

Expenditure

8. Personnel costs are below budget due to the higher than expected vacancy rate during the period. There were also vacant funded positions that were not filled during this period due to cash flow constraints..

9. Remuneration of councillors is over budget, the variance is only less than 10% of the budgeted amount..

10. Depreciation and amortisation was under budgeted.

11. Finance costs are under budget, this is due to finance charges on fair value adjustments and finance leases

12. Debt impairment is under budget, municipality has anticipated less on this item due to high rate of non-payment o creditors.

13. Bulk electricity is over budget, this is due to lower than expected usage of electricity during the year.

14. General Expenses are below budget, due to a lower than expected expenditure during the year caused by cash flow problems, but the increase is due to accruals raised at year end.

15. Loss on disposal of assets and liabilities is over budget, this item has not been budgeted for.

16. Actuarial gains/losses are over budget by they were not provided for in the budget

Statement of Financial Position

Assets

1. Inventories – is uder budget because the municipality has written off the stores balance due to cash flow constraints.

2. Receivables from exchange transactions – are below budget due to debt impairment caused by low collection rate.

3. Receivables from non-exchange transactions - are below budget due to increase in debt impairment caused by low collection rate.

4. VAT receivable is under budget due to refunds prevoisly claimed that have been disallowed by SARS .

5. Cash and cash equivalent is over budget by due to cash flow constraints.

6. Investment properties – The municipality updated its asset register and there were no movements in investment properties.

7. Property, Plant & Equipment – These were over budgeted due to Intangible assets over budgeted.

Liabilities

Current Liabilities

10. Other Financial Liabilities (actual is over budget) due to write off of long term portion to short term portion.

11. Finance lease obligation – there was no budget for leases.

12. Payable from exchange transactions underbudgeted - Payable from exchange increased because the municipality cannot meet its obligations on time due to cash flow problems.

Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

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43. Budget differences (continued)

13. Employee benefit obligation – underbudgeted – not budgeted for during budget not budgeted for.
14. Provisions over budgeted , there are no movements .
- 15.VAT payable – underbudgeted by as the municipality did not anticipate the raised assessment from VAT audit .

Non-Current Liabilities

16. Other financial liabilities – over budgeted as tere was no movement ,the balance was transferred to short term portion of loan. Provisions for longterm was underbudgeted due to increase in provision for landfilsite rehabilitation .
17. Finance lease obligation and employee benefit obligation underbudgeted – not provided for during budget process
Unspent Conditional grants is underbudgeted due to Energy grant not fully spent.

Cash Flow Statement

1. Sale of goods and services – actual is less than budget, there is a high rate of non – payments of municipal accounts by customers.
2. Grants - were received in full during the year, however the difference is due to subsidy from Treasury.
- 3.Employee costs – is over budget due non – filling of funded vacant posts which are as a result of cash flow constraints.
4. Suppliers – Actual is lower than budget because of cash flow constraints.
5. Finance costs – Actual is over budget due to finance costs charged on late payment of DBSA loan.
6. Purchase of Property Plant and Equipment – Actual is less than budget due to financial constraints the municipality experienced during the year..
8. Repayment of other financial liabilities – actual was lower than budget.

44. Going concern

We draw attention to the fact that at June 30, 2020, the municipality had an accumulated surplus (deficit) of R 270,098,030 and that the municipality's total assets exceed its liabilities by R 270,098,030.

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

However the municipality has noted that it is unable to meet its obligations on time due to cash flow constraints. The management of the municipality has assessed the financial status of the municipality and are confident that the municipal will continue with the operations in the forceable future, given the above, and that we are a government institution with legislated funding that enable us to provide services to the communities.

Below are the Short term measures / plans that will be undertaken in the next twelve months:

Equitable Share; conditional grants; vat refunds from SARS and collection of rates and other services will be utilized to fund the current operations of the municipality.

The municipality has plans in place to fund specifically the outstanding creditors as at the end of June 2020 and the source of funding is the sale of vacant residential plots

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44. Going concern (continued)

The implementation of cost containment measures is also an enabler for the municipality to ensure spending within the municipality is limited.

Impact of COVID-19 Pandemic

On the 23rd of March 2020, his Excellency President Cyril Ramaphosa pronounced a national lockdown due to the Covid-19 pandemic. On 30th March 2020 the Minister of Finance issued a conditional Exemption Notice in terms of section 177(1)(b) of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) (MFMA), in order to facilitate and enable the performance of legislative responsibilities by municipalities and municipal entities during the national state of disaster.

Thus, there will not be any prior year information regarding expenditure in lieu of Covid-19.

Covid-19 had a significant impact on the amounts as disclosed on the Annual Financial Statements. The affected areas were mainly debtors, cash and cash equivalents, debtor's impairment and spending particularly on capital grants which the municipality under performed and resulted to unspent conditional grants. The municipality has applied for roll over to National Treasury.

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

45. Events after the reporting date

There was a significant event that occurred after the reporting date, where a burglary took place at the municipal traffic department (station) on the 23rd July 2020 and a safe that kept money was allegedly stolen with an undisclosed amount of money.