



**Harry Gwala District Municipality and its Municipal Entity
(Registration number DC 43)
Annual financial statements
for the year ended 30 June 2021**

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

General Information

Legal form of entity

Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the Republic of South Africa (Act 108 of 1996)

Nature of business and principal activities

The provision of services (water and sanitation) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.

Council

Executive Mayor	ZD Nxumalo
Deputy Mayor	NH Maphasa-Duma
Speaker	TN Jojozi
Member of the Executive Committee	BP Nzimande
Member of the Executive Committee	N Mavuka
Member of the Executive Committee	LA Zondi
Chief Whip	WB Dlamini
Councillors	NW Dladla
	SS Mavuma
	TG Soni
	V Ncukana
	VW Zaza
	ZS Nyide
	ZC Khumalo
	ZR Tshazi
	SJ Phakathi
	BC Mncwabe
	SV Zulu
	B Sibeni
	BL Marnce
	ZP Gcume
	L Nzimande
	MSD Mdunge
	KM Mkhize
	N Mhatu
	NC Siziba

Grading of local authority

Grade 4

Accounting Officer

Mrs AN Dlamini

Chief Finance Officer (CFO)

Mr M Mkatu

Registered office

Harry Gwala District Municipality Main office
40 Main street
Ixopo
3276

Business address

40 Main street
Ixopo
3276

Postal address

Private Bag X501

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

General Information

	Ixopo 3276
Controlling entity	Harry Gwala District Municipality
Bankers	First National Bank
Auditors	Auditor General
Preparer	The annual financial statements were internally compiled by: Mr T Guma Deputy Chief Financial Officer
Telephone number	039 834 8700
Website	http://www.harrygwaladm.gov.za/
Harry Gwala Development Agency board members	Mr RP Dittrich - Chairperson Mr DE Sithole Mr N Khanyile Ms CS Nqoko

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Index

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

	Page
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 12
Accounting Policies	13 - 37
Notes to the Annual Financial Statements	38 - 81

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

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Responsibilities and Approval

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

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

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

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

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the 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 economic entity's cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, she is satisfied that the economic entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The annual financial statements which have been prepared on the going concern basis, were approved by the accounting officer on 30 September 2021 and were signed on its behalf by:

Mrs AN Dlamini
Municipal Manager

Thursday, 30 September 2021

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2021	2020 Restated*	2021	2020 Restated*
Assets					
Current Assets					
Inventories	3	407 547	267 013	407 547	267 013
Receivables from exchange transactions	4	86 959	345 433	-	-
Receivables from non-exchange transactions	5	3 949 048	3 878 721	3 949 048	3 878 721
VAT receivable	6	17 045 817	23 248 765	16 721 080	22 720 168
Consumer debtors	7	26 855 758	30 724 354	26 855 758	30 724 354
Cash and cash equivalents	8	59 422 107	48 731 048	51 862 286	40 670 866
		107 767 236	107 195 334	99 795 719	98 261 122
Non-Current Assets					
Property, plant and equipment	9	2 571 852 259	2 361 838 835	2 551 393 943	2 340 494 071
Intangible assets	10	1 856 736	2 154 177	577 662	875 303
Investments in controlled entities	11	-	-	100	100
		2 573 708 995	2 363 993 012	2 551 971 705	2 341 369 474
Total Assets		2 681 476 231	2 471 188 346	2 651 767 424	2 439 630 596
Liabilities					
Current Liabilities					
Borrowings	12	-	4 555 057	-	4 555 057
Finance lease obligation	13	3 648 790	5 447 356	3 566 463	5 348 935
Payables from exchange transactions	14	99 019 450	111 424 143	97 152 861	107 361 314
Consumer deposits	15	2 033 520	1 866 952	2 033 520	1 866 952
Employee benefit obligation	16	1 566 000	770 000	1 566 000	770 000
Unspent conditional grants and receipts	17	1 489 231	16 791 948	134 760	15 486 481
		107 756 991	140 855 456	104 453 604	135 388 739
Non-Current Liabilities					
Borrowings	12	2 770 602	5 074 131	-	-
Finance lease obligation	13	1 341 253	4 940 820	1 337 568	4 904 225
Employee benefit obligation	16	22 981 999	17 708 999	22 981 999	17 708 999
Long term payables from exchange transactions	18	10 793 504	13 193 504	10 793 504	13 193 504
		37 887 358	40 917 454	35 113 071	35 806 728
Total Liabilities		145 644 349	181 772 910	139 566 675	171 195 467
Net Assets		2 535 831 882	2 289 415 436	2 512 200 749	2 268 435 129
Accumulated surplus		2 535 831 882	2 289 415 436	2 512 200 749	2 268 435 129

* See Note 41

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2021	2020 Restated*	2021	2020 Restated*
Revenue					
Revenue from exchange transactions					
Service charges	19	67 764 755	70 462 645	67 764 755	70 462 645
Other income	20	516 911	1 353 425	516 911	1 353 425
Interest received	21	13 187 947	18 987 942	13 111 858	18 828 904
Total revenue from exchange transactions		81 469 613	90 804 012	81 393 524	90 644 974
Revenue from non-exchange transactions					
Transfer revenue					
Government grants & subsidies	22	733 461 093	643 687 263	733 461 093	643 187 263
Public contributions and donations	23	4 692 678	5 863 241	4 692 678	5 863 241
Total revenue from non-exchange transactions		738 153 771	649 550 504	738 153 771	649 050 504
Total revenue	24	819 623 384	740 354 516	819 547 295	739 695 478
Expenditure					
Bulk purchases	25	(22 023 408)	(22 832 763)	(22 023 408)	(22 832 763)
Contracted services	26	(130 532 537)	(145 374 869)	(129 640 231)	(144 400 013)
Contribution to debt Impairment allowance	27	(32 079 320)	(41 387 540)	(31 733 887)	(41 387 540)
Depreciation and amortisation	28	(77 539 578)	(72 150 406)	(76 238 433)	(70 918 931)
Employee related costs	29	(227 286 903)	(204 113 467)	(216 963 200)	(194 229 571)
Finance costs	30	(1 007 991)	(2 422 169)	(995 437)	(2 395 627)
Inventory consumed	31	(5 844 988)	(5 399 724)	(5 844 988)	(5 399 724)
Lease rentals on operating lease	32	(51 226)	(57 613)	-	-
Operational costs	33	(58 405 530)	(58 816 939)	(56 906 633)	(55 607 138)
Remuneration of councillors	34	(7 812 672)	(7 701 853)	(7 812 672)	(7 701 853)
Transfer payments	35	-	-	(17 000 000)	(14 000 000)
Total expenditure		(562 584 153)	(560 257 343)	(565 158 889)	(558 873 160)
Operating surplus		257 039 231	180 097 173	254 388 406	180 822 318
Loss on disposal of assets		(6 496 389)	(1 708 544)	(6 496 389)	(1 652 682)
Actuarial gains/losses	16	(1 006 000)	3 828 225	(1 006 000)	3 828 225
Impairment loss on assets	36	(3 120 393)	(1 025 548)	(3 120 393)	(1 025 548)
		(10 622 782)	1 094 133	(10 622 782)	1 149 995
Surplus for the year		246 416 449	181 191 306	243 765 624	181 972 313

* See Note 41

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Economic entity		
Balance at 01 July 2019	2 108 224 130	2 108 224 130
Changes in net assets		
Surplus for the year	181 191 306	181 191 306
Total changes	181 191 306	181 191 306
Restated* Balance at 01 July 2020	2 289 415 433	2 289 415 433
Changes in net assets		
Surplus for the year	246 416 449	246 416 449
Total changes	246 416 449	246 416 449
Balance at 30 June 2021	2 535 831 882	2 535 831 882
Controlling entity		
Balance at 01 July 2019	2 086 462 816	2 086 462 816
Changes in net assets		
Surplus for the year	181 972 313	181 972 313
Total changes	181 972 313	181 972 313
Restated* Balance at 01 July 2020	2 268 435 125	2 268 435 125
Changes in net assets		
Surplus for the year	243 765 624	243 765 624
Total changes	243 765 624	243 765 624
Balance at 30 June 2021	2 512 200 749	2 512 200 749

* See Note 41

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2021	2020 Restated*	2021	2020 Restated*
Cash flows from operating activities					
Receipts					
Water, sanitation and other receipts		50 519 634	45 124 580	50 519 634	40 072 465
Grants		718 109 372	606 744 033	718 109 372	614 276 860
Interest income		3 087 482	6 355 495	3 011 393	6 196 457
		771 716 488	658 224 108	771 640 399	660 545 782
Payments					
Employee costs		(230 496 770)	(208 448 308)	(219 712 872)	(198 564 412)
Suppliers		(222 684 285)	(222 409 372)	(235 671 719)	(232 739 410)
Finance costs		(370 469)	(841 987)	(370 469)	(841 987)
		(453 551 524)	(431 699 667)	(455 755 060)	(432 145 809)
Net cash flows from operating activities	37	318 164 964	226 524 441	315 885 339	228 399 973
Cash flows from investing activities					
Purchase of property, plant and equipment	9	(291 988 236)	(233 383 443)	(291 764 765)	(233 043 490)
Proceeds from sale of property, plant and equipment	9	-	1 061 620	-	1 061 620
Purchase of other intangible assets	10	(191 428)	(176 169)	-	-
Net cash flows from investing activities		(292 179 664)	(232 497 992)	(291 764 765)	(231 981 870)
Cash flows from financing activities					
Repayment of borrowings		(6 858 586)	(4 101 623)	(4 555 057)	(4 101 623)
Movement in long term payables from exchange transactions		(2 400 000)	-	(2 400 000)	-
Movement in other financial liability		-	(2 748 584)	-	-
Finance lease payments		(6 035 655)	(10 032 003)	(5 974 097)	(10 008 428)
Net cash flows from financing activities		(15 294 241)	(16 882 210)	(12 929 154)	(14 110 051)
Net increase/(decrease) in cash and cash equivalents		10 691 059	(22 855 761)	11 191 420	(17 691 948)
Cash and cash equivalents at the beginning of the year		48 731 048	71 586 809	40 670 866	58 362 814
Cash and cash equivalents at the end of the year	8	59 422 107	48 731 048	51 862 286	40 670 866

* See Note 41

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Budget variance explanations note reference
Figures in Rand						
Economic entity						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	71 050 262	(5 558 235)	65 492 027	67 764 755	2 272 728	52
Other income	1 107 342	(373 950)	733 392	516 911	(216 481)	52
Interest received	17 919 375	(2 926 038)	14 993 337	13 187 947	(1 805 390)	52
Total revenue from exchange transactions	90 076 979	(8 858 223)	81 218 756	81 469 613	250 857	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	650 754 000	85 567 000	736 321 000	733 461 093	(2 859 907)	52
Public contributions and donations	-	-	-	4 692 678	4 692 678	52
Total revenue from non-exchange transactions	650 754 000	85 567 000	736 321 000	738 153 771	1 832 771	
Total revenue	740 830 979	76 708 777	817 539 756	819 623 384	2 083 628	
Expenditure						
Employee related costs	(222 746 265)	300 004	(222 446 261)	(227 286 903)	(4 840 642)	52
Remuneration of councillors	(8 018 021)	(320 721)	(8 338 742)	(7 812 672)	526 070	52
Depreciation and amortisation	(84 248 645)	100 000	(84 148 645)	(77 539 578)	6 609 067	52
Impairment loss	-	-	-	(3 120 393)	(3 120 393)	52
Finance costs	(4 384 590)	2 877 274	(1 507 316)	(1 007 991)	499 325	52
Lease rentals on operating lease	-	-	-	(51 226)	(51 226)	52
Debt Impairment	(26 555 855)	-	(26 555 855)	(32 079 320)	(5 523 465)	52
Bulk purchases	(18 632 323)	(3 530 734)	(22 163 057)	(22 023 408)	139 649	52
Contracted Services	(118 356 260)	(22 885 154)	(141 241 414)	(130 532 537)	10 708 877	52
Inventory consumed	(9 112 775)	(929 048)	(10 041 823)	(5 844 988)	4 196 835	52
Operational costs	(62 488 428)	(3 693 365)	(66 181 793)	(58 405 530)	7 776 263	52
Total expenditure	(554 543 162)	(28 081 744)	(582 624 906)	(565 704 546)	16 920 360	
Operating surplus	186 287 817	48 627 033	234 914 850	253 918 838	19 003 988	
Loss on disposal of assets and liabilities	-	-	-	(6 496 389)	(6 496 389)	52
Actuarial gains/losses	-	-	-	(1 006 000)	(1 006 000)	52
	-	-	-	(7 502 389)	(7 502 389)	
Surplus before taxation	186 287 817	48 627 033	234 914 850	246 416 449	11 501 599	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	186 287 817	48 627 033	234 914 850	246 416 449	11 501 599	

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Budget variance explanations note reference
--	-----------------	-------------	--------------	------------------------------------	--	---

Figures in Rand

Cash Flow Statement

Cash flows from operating activities

Receipts

Water, sanitation and other receipts	56 848 600	(3 373 929)	53 474 671	50 519 634	(2 955 037)	52
Grants	1 231 091 426	(513 258 939)	717 832 487	718 109 372	276 885	52
Interest income	7 681 377	(2 309 242)	5 372 135	3 087 482	(2 284 653)	52
	1 295 621 403	(518 942 110)	776 679 293	771 716 488	(4 962 805)	

Payments

Suppliers and employees	(922 889 650)	456 007 294	(466 882 356)	(453 181 053)	13 701 303	52
Finance costs	(4 384 590)	2 877 274	(1 507 316)	(370 469)	1 136 847	52
	(927 274 240)	458 884 568	(468 389 672)	(453 551 522)	14 838 150	

Net cash flows from operating activities	368 347 163	(60 057 542)	308 289 621	318 164 966	9 875 345	
---	--------------------	---------------------	--------------------	--------------------	------------------	--

Purchase of property, plant and equipment	(271 221 430)	(64 320 927)	(335 542 357)	(291 988 236)	43 554 121	
Purchase of other intangible assets	-	-	-	(191 428)	(191 428)	

Net cash flows from investing activities	(271 221 430)	(64 320 927)	(335 542 357)	(292 179 664)	43 362 693	
---	----------------------	---------------------	----------------------	----------------------	-------------------	--

Cash flows from financing activities

Repayment of borrowings	1 369 757	(1 369 757)	-	(15 294 241)	(15 294 241)	
Net increase/(decrease) in cash and cash equivalents	98 495 490	(125 748 226)	(27 252 736)	10 691 061	37 943 797	
Cash and cash equivalents at the beginning of the year	12 921 643	35 809 335	48 730 978	48 731 048	70	
Cash and cash equivalents at the end of the year	111 417 133	(89 938 891)	21 478 242	59 422 109	37 943 867	

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Budget variance explanations note reference
Figures in Rand						
Controlling entity						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	71 050 262	(5 558 235)	65 492 027	67 764 755	2 272 728	52
Other income	807 342	(73 950)	733 392	516 911	(216 481)	52
Interest received	17 739 375	(2 836 038)	14 903 337	13 111 858	(1 791 479)	52
Total revenue from exchange transactions	89 596 979	(8 468 223)	81 128 756	81 393 524	264 768	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	650 754 000	82 067 000	732 821 000	733 461 093	640 093	52
Public contributions and donations	-	-	-	4 692 678	4 692 678	52
Total revenue from non-exchange transactions	650 754 000	82 067 000	732 821 000	738 153 771	5 332 771	
Total revenue	740 350 979	73 598 777	813 949 756	819 547 295	5 597 539	
Expenditure						
Employee related costs	(210 144 895)	4	(210 144 891)	(216 963 200)	(6 818 309)	52
Remuneration of councillors	(8 018 021)	(320 721)	(8 338 742)	(7 812 672)	526 070	52
Transfer payments	-	(17 000 000)	(17 000 000)	(17 000 000)	-	52
Depreciation and amortisation	(83 487 199)	-	(83 487 199)	(76 238 433)	7 248 766	52
Impairment loss	-	-	-	(3 120 393)	(3 120 393)	52
Finance costs	(4 372 590)	2 880 274	(1 492 316)	(995 437)	496 879	52
Debt Impairment	(26 555 855)	-	(26 555 855)	(31 733 887)	(5 178 032)	52
Bulk purchases	(18 632 323)	(3 530 734)	(22 163 057)	(22 023 408)	139 649	52
Contracted Services	(117 356 260)	(22 800 154)	(140 156 414)	(129 640 231)	10 516 183	52
Inventory Consumed	(8 814 575)	(929 048)	(9 743 623)	(5 844 988)	3 898 635	52
Operational costs	(59 544 998)	(671 365)	(60 216 363)	(56 906 633)	3 309 730	
Total expenditure	(536 926 716)	(42 371 744)	(579 298 460)	(568 279 282)	11 019 178	
Operating surplus	203 424 263	31 227 033	234 651 296	251 268 013	16 616 717	
Loss on disposal of assets	-	-	-	(6 496 389)	(6 496 389)	52
Actuarial gains/losses	-	-	-	(1 006 000)	(1 006 000)	52
	-	-	-	(7 502 389)	(7 502 389)	
Surplus before taxation	203 424 263	31 227 033	234 651 296	243 765 624	9 114 328	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	203 424 263	31 227 033	234 651 296	243 765 624	9 114 328	

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Budget variance explanations note reference
--	-----------------	-------------	--------------	------------------------------------	--	---

Figures in Rand

Cash Flow Statement

Cash flows from operating activities

Receipts

Water, sanitation and other receipts	57 955 942	(4 005 616)	53 950 326	50 519 634	(3 430 692)	52
Grants	1 231 091 426	(498 270 426)	732 821 000	718 109 372	(14 711 628)	52
Interest income	7 681 377	(2 309 242)	5 372 135	3 011 393	(2 360 742)	52
	1 296 728 745	(504 585 284)	792 143 461	771 640 399	(20 503 062)	

Payments

Suppliers and employees	(922 889 650)	457 164 977	(465 724 673)	(455 384 587)	10 340 086	52
Finance costs	(4 384 590)	2 877 274	(1 507 316)	(370 469)	1 136 847	52
	(927 274 240)	460 042 251	(467 231 989)	(455 755 056)	11 476 933	

Net cash flows from operating activities	369 454 505	(44 543 033)	324 911 472	315 885 343	(9 026 129)	
---	--------------------	---------------------	--------------------	--------------------	--------------------	--

Cash flows from investing activities

Purchase of property, plant and equipment	(271 221 430)	(64 320 927)	(335 542 357)	(291 764 767)	43 777 590	
---	---------------	--------------	----------------------	---------------	-------------------	--

Cash flows from financing activities

Repayment of borrowings	(1 369 757)	1 369 757	-	(4 555 057)	(4 555 057)	
Movement in other cash item	(104 427)	(1 799 171)	(1 903 598)	(2 400 000)	(496 402)	
Finance lease payments	-	-	-	(5 974 097)	(5 974 097)	

Net cash flows from financing activities	(1 474 184)	(429 414)	(1 903 598)	(12 929 154)	(11 025 556)	
---	--------------------	------------------	--------------------	---------------------	---------------------	--

Net increase/(decrease) in cash and cash equivalents	96 758 891	(109 293 374)	(12 534 483)	11 191 422	23 725 905	
--	------------	---------------	---------------------	------------	-------------------	--

Cash and cash equivalents at the beginning of the year	12 921 643	27 749 233	40 670 876	40 670 866	(10)	
--	------------	------------	-------------------	------------	-------------	--

Cash and cash equivalents at the end of the year	109 680 534	(81 544 141)	28 136 393	51 862 288	23 725 895	
---	--------------------	---------------------	-------------------	-------------------	-------------------	--

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Consolidation/Entity combinations

Basis of consolidation

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

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

Consolidated annual financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

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

The revenue and expenses of a controlled entity are included in the consolidated annual financial statements from the transfer date or acquisition date as defined in the Standards of GRAP on Transfer of functions between entities under common control or Transfer of functions between entities not under common control. The revenue and expenses of the controlled entity are based on the values of the assets and liabilities recognised in the controlling entity's annual financial statements at the acquisition date.

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

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.4 Consolidation/Entity combinations (continued)

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

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

1.5 Significant judgements and sources of estimation uncertainty

In the process of applying its accounting policies, and in preparing the annual financial statements, management is required to make various judgements, including estimates and assumptions, that may affect the determination of the reporting framework, affect amounts represented in the annual financial statements and as well as related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

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

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

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The economic entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including entity specific, together with economic factors.

Useful lives of waste and water network and other assets

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

Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 16.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

The economic entity used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the the estimated allowance based on the consumer debtors methodology.

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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.

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

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.6 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Buildings	Straight line	
• Office		30 years
Transport assets	Straight line	
• Motor vehicles		7 years
• Trailers and accessories		10 years
• Trucks		10 years
Furniture and office equipment	Straight line	
• Office equipment (including fax machines)		7 years
• Office furniture		10 years
• Paintings, sculptures, ornaments (home and office)		10 years
Computer equipment	Straight line	
• Computer hardware including operating systems		5 years
• Networks		10 years
• Computer software		5 years
Dams/structure	Straight line	
• Concrete		100 years
• Earth		50 years
River	Straight line	
• Structure: Weir		50 years
• Borehole Establishment		30 years
Pump Stations	Straight line	
• Structure- buildings		55 years
• Structure-Clarifiers		55 years
• Structure-Filters		55 years
• Electrical		20 years
• Mechanical		15 years
• Containers - Diesel		15 years
• Structure - Carports		15 years
Perimeter protection	Straight line	
• Palisade - Concrete		25 years
• Palisade -Steel / Razor wire / Weld mesh		15 years
Reservoirs	Straight line	
• Structure - Concrete		50 years
• Structure - Galaxy		30 years
• Structure - Steel Tank		30 years
• Structure - Jojo		15 years
• Electrical		20 years
• Mechanical		15 years
Underground: Chambers & Manholes	Straight line	
• Chambers		30 years
• Manholes		30 years
Water purification works	Straight line	
• Structure		55 years
• Ponds		55 years
• Electrical		20 years
• Mechanical		15 years
Spring protection	Straight line	
• Spring		20 years
• Jojo tank		15 years
• Reticulation		40 years

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.6 Property, plant and equipment (continued)

Sewerage pump stations	Straight line	
• Structure - Buildings		55 years
• Structure - Reactors		55 years
• Structure - Drying Beds		55 years
• Structure - Clarifiers chambers		35 years
• Structure - Maturation Ponds		35 years
• Electrical		20 years
• Mechanical		15 years
• Containers - Diesel		15 years
• Structure - Carports, ect		15 years
• Rising mains		40 years
• Gravity mains		40 years
Other machinery and equipment	Straight line	
• Audiovisual equipment		10 years
• Building air conditioning systems		5 years
• Domestic equipment		5 years
• Kitchen appliances		10 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.

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 economic entity. 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 economic entity assesses at each reporting date whether there is any indication that the economic entity 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 economic entity 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.

The economic entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 9).

The economic entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

1.7 Intangible assets

An asset is identifiable if it either:

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

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

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.7 Intangible assets (continued)

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

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

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

Internally generated 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	Depreciation method	Average useful life
Computer software, other	Straight line	5 years

1.8 Investments in controlled entities

Economic entity annual financial statements

Investments in controlled entities are consolidated in the economic entity annual financial statements. Refer to the accounting policy on Consolidations (Note 1.4).

Controlling entity annual financial statements

In the municipality's separate annual financial statements, investments in investments in controlled entities are carried at cost.

The municipality applies the same accounting for each category of investment.

Investments in controlled entities that are accounted for in accordance with the accounting policy on Financial instruments in the consolidated annual financial statements, are accounted for in the same way in the controlling entity's separate annual financial statements.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Financial instruments

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

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

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

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

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

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

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

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

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

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

A financial asset is:

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

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

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

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

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Financial instruments (continued)

Classification

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

Class	Category
Short-term Investment Deposits	Financial asset measured at amortised cost
Bank Balances and Cash	Financial asset measured at amortised cost
Consumer Debtors	Financial asset measured at amortised cost
Other Debtors	Financial asset measured at amortised cost

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
Long-term borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Consumer Deposit	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Finance leases	Financial liability measured at amortised 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.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 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 amortised cost.
- Financial instruments at cost.

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

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

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

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Financial instruments (continued)

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.

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

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

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

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

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

1.10 Tax

Value Added Tax

The Municipality accounts for Value Added Tax on the payments basis.

1.11 Leases

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

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

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.11 Leases (continued)

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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

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

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.12 Inventories

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

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

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

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

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

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

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the economic entity.

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

1.13 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).

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

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

A cash-generating unit is the smallest identifiable group of assets 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 economic entity; or
- the number of production or similar units expected to be obtained from the asset by the economic entity.

Identification

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

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

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

Value in use

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

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.14 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 economic entity; or
- the number of production or similar units expected to be obtained from the asset by the economic entity.

1.15 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 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 recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

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 measures 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 recognises 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.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Employee benefits (continued)

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

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 (both funded and unfunded) 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.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit 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 benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating 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.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.17 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.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.17 Commitments (continued)

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.

1.18 Revenue from exchange transactions

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

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

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

Measurement

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

Water and sanitation

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

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

Tariff charges

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

Interest

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

1.19 Revenue from non-exchange transactions

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

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

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

Measurement

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

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:

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

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

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

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

Other grants and donations

Other grants and donations are recognised as revenue when:

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

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

1.20 Investment income

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

1.21 Borrowing costs

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

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

1.22 Comparative figures

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

1.23 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.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.24 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.

1.25 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.

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

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

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

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

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

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. Irregular expenditure is disclosed on note 48 inclusive of VAT.

1.26 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.26 Segment information (continued)

Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

1.27 Research and development expenditure

Expenditure on research is recognised as an expense when it is incurred.

An asset arising from development is recognised when:

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

1.28 Budget information

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

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

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

The approved budget covers the fiscal period from 2020/07/01 to 2021/06/30.

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

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

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

Comparative information is not required.

1.29 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.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.29 Related parties (continued)

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 economic entity, including those charged with the governance of the economic entity in accordance with legislation, in instances where they are required to perform such functions.

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

The economic entity is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the economic entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the economic entity is exempt from the disclosures in accordance with the above, the economic entity discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.30 Events after reporting date

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

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

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

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

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 July 2021 or later periods:

GRAP 104 (amended): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

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

The economic entity expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

Guideline: Guideline on the Application of Materiality to Financial Statements

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP & References to pronouncements used in the Guideline.

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

The economic entity expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

3. Inventories

Water for distribution	407 547	267 013	407 547	267 013
------------------------	---------	---------	---------	---------

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
4. Receivables from exchange transactions				
Prepayments - fuel	86 959	-	-	-
Department of Education	-	345 433	-	-
	86 959	345 433	-	-

Trade and other receivables impaired

As of 30 June 2021, trade and other receivables of R 345 433 (2020: R -) were impaired and provided for.

The amount of the provision was R 345 433 as of 30 June 2021 (2020: R -).

The ageing of these receivables is as follows:

Over 12 months	345 433	-	-	-
----------------	---------	---	---	---

Reconciliation of provision for impairment of trade and other receivables

Provision for impairment	345 433	-	-	-
--------------------------	---------	---	---	---

5. Receivables from non-exchange transactions

SARS overpayment	73 121	-	73 121	-
Other debtors	3 875 927	3 878 721	3 875 927	3 878 721
	3 949 048	3 878 721	3 949 048	3 878 721

Receivables from non-exchange transactions impaired

As of 30 June 2021, other receivables from non-exchange transactions of R 2 830 820 (2020: R 2 830 820) were impaired and provided for.

The amount of the provision was R - as of 30 June 2021 (2020: R 2 830 820).

The ageing of these receivables is as follows:

Over 12 months	-	2 830 820	-	2 830 820
----------------	---	-----------	---	-----------

The receivables provided for are as follows:

Unauthorised expenditure	5 979	5 979	5 979	5 979
Debtor-Kokstad deposits	105 753	105 753	105 753	105 753
Councillors laptops	94 045	94 045	94 045	94 045
ACB/debtors	424 247	424 247	424 247	424 247
Cyclone construction - Farmers market	2 000 000	2 000 000	2 000 000	2 000 000
Councillors bursary	19 537	19 537	19 537	19 537
SARS - debtors/salaries	181 259	181 259	181 259	181 259
Subtotal	2 830 820	2 830 820	2 830 820	2 830 820
	(2 830 820)	(2 830 820)	(2 830 820)	(2 830 820)
	-	-	-	-

6. VAT receivable

VAT	17 045 817	23 248 765	16 721 080	22 720 168
-----	------------	------------	------------	------------

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
7. Consumer debtors				
Gross balances				
Water	143 824 114	124 123 802	143 824 114	124 123 802
Value Added Tax	22 303 787	19 370 300	22 303 787	19 370 300
Sewerage	65 050 504	57 169 732	65 050 504	57 169 732
	231 178 405	200 663 834	231 178 405	200 663 834
Less: Allowance for impairment				
Water	(124 899 993)	(102 988 767)	(124 899 993)	(102 988 767)
Value Added Tax	(19 417 838)	(15 956 094)	(19 417 838)	(15 956 094)
Sewerage	(60 004 816)	(50 994 619)	(60 004 816)	(50 994 619)
	(204 322 647)	(169 939 480)	(204 322 647)	(169 939 480)
Net balance				
Water	18 924 121	21 135 035	18 924 121	21 135 035
Value Added Tax	2 885 949	3 414 206	2 885 949	3 414 206
Sewerage	5 045 688	6 175 113	5 045 688	6 175 113
	26 855 758	30 724 354	26 855 758	30 724 354
Water				
Current (0 -30 days)	8 942 576	12 962 874	8 942 576	12 962 874
31 - 60 days	3 028 648	2 858 784	3 028 648	2 858 784
61 - 90 days	2 745 635	3 544 282	2 745 635	3 544 282
91 - 120 days	3 077 428	3 304 879	3 077 428	3 304 879
>120 days	126 029 827	101 452 984	126 029 827	101 452 984
Less: Allowance for impairment	(124 899 993)	(102 988 768)	(124 899 993)	(102 988 768)
	18 924 121	21 135 035	18 924 121	21 135 035
Value Added Tax				
Current (0 -30 days)	1 471 007	2 304 290	1 471 007	2 304 290
31 - 60 days	482 438	480 470	482 438	480 470
61 - 90 days	440 438	574 208	440 438	574 208
91 - 120 days	509 259	534 215	509 259	534 215
>120 days	19 400 645	15 477 117	19 400 645	15 477 117
Less: Allowance for impairment	(19 417 838)	(15 956 094)	(19 417 838)	(15 956 094)
	2 885 949	3 414 206	2 885 949	3 414 206
Sewerage				
Current (0 -30 days)	2 662 158	4 162 733	2 662 158	4 162 733
31 - 60 days	1 074 867	1 298 510	1 074 867	1 298 510
61 - 90 days	1 063 320	1 441 080	1 063 320	1 441 080
91 - 120 days	1 169 737	1 396 085	1 169 737	1 396 085
>120 days	59 080 423	48 871 324	59 080 423	48 871 324
Less: Allowance for impairment	(60 004 817)	(50 994 619)	(60 004 817)	(50 994 619)
	5 045 688	6 175 113	5 045 688	6 175 113

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
7. Consumer debtors (continued)				
Summary of debtors by customer classification				
Consumers				
Current (0 -30 days)	7 179 107	12 239 279	7 179 107	12 239 279
31 - 60 days	3 587 576	3 455 759	3 587 576	3 455 759
61 - 90 days	3 465 547	4 279 088	3 465 547	4 279 088
91 - 120 days	4 126 788	4 271 773	4 126 788	4 271 773
>120 days	188 258 502	150 438 972	188 258 502	150 438 972
	206 617 520	174 684 871	206 617 520	174 684 871
Less: Allowance for impairment	(204 322 647)	(169 939 480)	(204 322 647)	(169 939 480)
	2 294 873	4 745 391	2 294 873	4 745 391
Industrial/ commercial				
Current (0 -30 days)	1 634 868	2 036 749	1 634 868	2 036 749
31 - 60 days	357 245	478 686	357 245	478 686
61 - 90 days	502 760	507 920	502 760	507 920
91 - 120 days	446 719	522 129	446 719	522 129
>120 days	11 482 947	11 034 257	11 482 947	11 034 257
	14 424 539	14 579 741	14 424 539	14 579 741
National and provincial government				
Current (0 -30 days)	4 261 766	5 153 869	4 261 766	5 153 869
31 - 60 days	641 132	703 319	641 132	703 319
61 - 90 days	281 087	772 562	281 087	772 562
91 - 120 days	182 918	441 276	182 918	441 276
>120 days	4 769 445	4 328 195	4 769 445	4 328 195
	10 136 348	11 399 221	10 136 348	11 399 221
Total				
Current (0 -30 days)	13 075 740	19 429 897	13 075 740	19 429 897
31 - 60 days	4 585 953	4 637 764	4 585 953	4 637 764
61 - 90 days	4 249 393	5 559 570	4 249 393	5 559 570
91 - 120 days	4 756 424	5 235 178	4 756 424	5 235 178
>120 days	204 510 895	165 801 425	204 510 895	165 801 425
	231 178 405	200 663 834	231 178 405	200 663 834
Less: Allowance for impairment	(204 322 647)	(169 939 480)	(204 322 647)	(169 939 480)
	26 855 758	30 724 354	26 855 758	30 724 354
Less: Allowance for impairment				
Current (0 -30 days)	(6 340 358)	(9 766 338)	(6 340 358)	(9 766 338)
31 - 60 days	(3 381 265)	(3 133 565)	(3 381 265)	(3 133 565)
61 - 90 days	(3 272 738)	(3 858 149)	(3 272 738)	(3 858 149)
91 - 120 days	(3 917 313)	(3 827 738)	(3 917 313)	(3 827 738)
>120 days	(187 410 973)	(149 353 690)	(187 410 973)	(149 353 690)
	(204 322 647)	(169 939 480)	(204 322 647)	(169 939 480)
Total debtor past due but not impaired				
Current (0 -30 days)	6 735 383	9 663 559	6 735 383	9 663 559
31 - 60 days	1 204 688	1 504 199	1 204 688	1 504 199
61 - 90 days	976 279	1 701 421	976 279	1 701 421
91 - 120 days	838 738	1 407 440	838 738	1 407 440

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
7. Consumer debtors (continued)				
>121 days	17 100 670	16 447 735	17 100 670	16 447 735
	26 855 758	30 724 354	26 855 758	30 724 354

Reconciliation of allowance for impairment

Balance at beginning of the year	(169 939 480)	(150 710 112)	(169 939 480)	(150 710 112)
Contributions to allowance	(34 383 167)	(19 229 368)	(34 383 167)	(19 229 368)
	(204 322 647)	(169 939 480)	(204 322 647)	(169 939 480)

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2 712	983	300	300
Bank balances	3 279 922	10 258 245	2 589 175	9 616 287
Short-term deposits	56 139 473	38 471 820	49 272 811	31 054 279
	59 422 107	48 731 048	51 862 286	40 670 866

Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral for Eskom account	-	200 000	-	200 000
--	---	---------	---	---------

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020

8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
FNB Ixopo branch account number 62022648169	2 479 379	9 616 287	2 799 177	2 589 175	9 616 287	2 799 177
FNB call account number 6 2032587331	7 782 131	14 849 005	5 13 547	7 782 131	14 849 005	5 13 547
FNB call account number 62095523281	202 000	1 755 268	1 356 057	202 000	1 755 268	1 356 057
FNB call account number 62138538692	2 003	3 585 474	18 656 530	2 003	3 585 474	18 656 530
FNB call account number 62398395204	2 203	2 000	27 061 010	2 203	2 000	2 203
FNB call account number 62434145331	6 183	336 355	4 484	6 183	336 355	4 484
FNB call account number 6 2434147072	2 130	14 346	3 149 929	2 130	14 346	3 149 929
FNB call account number 62434151239	2 545	8 390 008	3 602	2 545	8 390 008	3 602
FNB call account number 6 2414264797	7 938	4 320	5 983	7 938	4 320	5 983
Investec bank call account number 50006688425	20 266 621	2 117 496	4 823 284	20 266 621	2 117 496	4 823 284
Nedbank fixed term account number 7881166592	20 999 051	-	-	20 999 051	-	-
FNB Ixopo branch account number 62313233504	690 747	641 958	1 621 637	690 747	641 958	1 621 637
Standard Bank Kloof branch account number 251660419	819 919	826 903	833 833	819 919	826 903	833 833
FNB Ixopo branch account number 62372506306	4 077 975	3 153 001	241 690	4 077 975	3 153 001	241 690
Standard Bank Kloof branch account number 254472435	872 909	2 383 576	10 409 473	872 909	2 383 576	10 409 473
FNB call account number 62478289989	1 095 859	1 054 061	117 257	1 095 859	1 054 061	117 257
Total	59 309 593	48 730 058	71 597 493	59 419 389	48 730 058	44 538 686

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment

Economic entity	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13 672 272	-	13 672 272	13 672 272	-	13 672 272
Buildings	62 915 741	(19 395 085)	43 520 656	61 305 605	(17 338 865)	43 966 740
Machinery and equipment	4 567 128	(2 115 222)	2 451 906	2 507 744	(1 896 960)	610 784
Furniture and office equipment	6 247 098	(4 494 899)	1 752 199	6 783 837	(5 192 504)	1 591 333
Transport assets	28 989 917	(11 509 994)	17 479 923	15 694 360	(8 877 625)	6 816 735
Computer equipment	10 269 990	(4 561 483)	5 708 507	8 575 606	(3 669 305)	4 906 301
Infrastructure: information and communication	483 520	(347 561)	135 959	595 725	(349 127)	246 598
Infrastructure	3 070 029 407	(589 417 509)	2 480 611 898	2 818 558 211	(539 604 682)	2 278 953 529
Community	5 048 079	(2 431 262)	2 616 817	5 048 079	(2 201 826)	2 846 253
Leased assets	11 498 677	(7 596 555)	3 902 122	26 208 762	(17 980 472)	8 228 290
Total	3 213 721 829	(641 869 570)	2 571 852 259	2 958 950 201	(597 111 366)	2 361 838 835

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Controlling entity	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13 672 272	-	13 672 272	13 672 272	-	13 672 272
Buildings	36 390 881	(12 468 732)	23 922 149	34 780 745	(11 347 831)	23 432 914
Machinery and equipment	4 224 646	(2 004 665)	2 219 981	2 165 262	(1 806 300)	358 962
Furniture and office equipment	5 559 023	(3 954 656)	1 604 367	6 095 762	(4 682 684)	1 413 078
Transport assets	28 989 917	(11 509 994)	17 479 923	15 694 360	(8 877 625)	6 816 735
Computer equipment	9 216 394	(3 987 939)	5 228 455	7 745 479	(3 220 039)	4 525 440
Infrastructure: information and communication	483 520	(347 561)	135 959	595 725	(349 127)	246 598
Infrastructure	3 070 029 407	(589 417 509)	2 480 611 898	2 818 558 211	(539 604 682)	2 278 953 529
Community	5 048 079	(2 431 262)	2 616 817	5 048 079	(2 201 826)	2 846 253
Leased assets	11 498 677	(7 596 555)	3 902 122	26 208 762	(17 980 472)	8 228 290
Total	3 185 112 816	(633 718 873)	2 551 393 943	2 930 564 657	(590 070 586)	2 340 494 071

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Economic entity - 2021

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	13 672 272	-	-	-	-	-	13 672 272
Buildings	43 966 740	1 610 136	-	-	(2 056 220)	-	43 520 656
Machinery and equipment	610 784	2 158 284	-	-	(317 162)	-	2 451 906
Furniture and office equipment	1 591 333	736 241	(17 662)	-	(556 359)	(1 354)	1 752 199
Transport assets	6 816 735	14 387 057	-	-	(3 723 869)	-	17 479 923
Computer equipment	4 906 301	2 820 700	(105 590)	-	(1 910 229)	(2 675)	5 708 507
Infrastructure: information and communication	246 598	-	(27 608)	-	(80 898)	(2 133)	135 959
Infrastructure	2 278 953 529	270 275 818	(6 345 527)	4 692 678	(63 964 554)	(3 000 046)	2 480 611 898
Community	2 846 253	-	-	-	(229 436)	-	2 616 817
Leased assets	8 228 290	-	-	-	(4 211 982)	(114 186)	3 902 122
	2 361 838 835	291 988 236	(6 496 387)	4 692 678	(77 050 709)	(3 120 394)	2 571 852 259

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Economic entity - 2020

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	13 672 272	-	-	-	-	-	-	13 672 272
Buildings	45 969 934	-	-	-	-	(2 003 194)	-	43 966 740
Machinery and equipment	567 209	244 233	-	-	11 835	(212 493)	-	610 784
Furniture and office equipment	1 645 812	684 263	(1 799)	-	5 452	(742 395)	-	1 591 333
Transport assets	3 056 838	-	(244 553)	5 855 141	233 977	(2 084 668)	-	6 816 735
Computer equipment	3 560 237	2 883 998	(111 173)	-	27 843	(1 454 604)	-	4 906 301
Infrastructure: information and communication	329 853	-	(92)	-	1	(83 164)	-	246 598
Infrastructure	2 110 921 825	229 570 949	(2 329 606)	-	2 070	(58 186 161)	(1 025 548)	2 278 953 529
Community	3 077 759	-	-	-	(2 070)	(229 436)	-	2 846 253
Leased assets	13 991 558	1 295 912	(82 941)	-	(279 112)	(6 697 127)	-	8 228 290
	2 196 793 297	234 679 355	(2 770 164)	5 855 141	(4)	(71 693 242)	(1 025 548)	2 361 838 835

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Controlling entity - 2021

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	13 672 272	-	-	-	-	-	13 672 272
Buildings	23 432 914	1 610 136	-	-	(1 120 901)	-	23 922 149
Machinery and equipment	358 962	2 158 284	-	-	(297 265)	-	2 219 981
Furniture and office equipment	1 413 078	736 241	(17 662)	-	(525 936)	(1 354)	1 604 367
Transport assets	6 816 735	14 387 057	-	-	(3 723 869)	-	17 479 923
Computer equipment	4 525 440	2 597 229	(105 590)	-	(1 785 949)	(2 675)	5 228 455
Infrastructure: information and communication	246 598	-	(27 608)	-	(80 898)	(2 133)	135 959
Infrastructure	2 278 953 529	270 275 818	(6 345 527)	4 692 678	(63 964 554)	(3 000 046)	2 480 611 898
Community	2 846 253	-	-	-	(229 436)	-	2 616 817
Leased assets	8 228 290	-	-	-	(4 211 982)	(114 186)	3 902 122
	2 340 494 071	291 764 765	(6 496 387)	4 692 678	(75 940 790)	(3 120 394)	2 551 393 943

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Controlling entity - 2020

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	13 672 272	-	-	-	-	-	-	13 672 272
Buildings	24 500 788	-	-	-	1	(1 067 875)	-	23 432 914
Machinery and equipment	549 415	-	-	-	11 835	(202 288)	-	358 962
Furniture and office equipment	1 398 672	684 263	(1 799)	-	5 452	(673 510)	-	1 413 078
Transport assets	3 056 838	-	(244 553)	5 855 141	233 977	(2 084 668)	-	6 816 735
Computer equipment	3 137 610	2 788 278	(55 311)	-	27 843	(1 372 980)	-	4 525 440
Infrastructure: information and communication	329 853	-	(92)	-	1	(83 164)	-	246 598
Infrastructure	2 110 921 825	229 570 949	(2 329 606)	-	2 070	(58 186 161)	(1 025 548)	2 278 953 529
Community	3 077 759	-	-	-	(2 070)	(229 436)	-	2 846 253
Leased assets	13 991 558	1 295 912	(82 941)	-	(279 112)	(6 697 127)	-	8 228 290
	2 174 636 590	234 339 402	(2 714 302)	5 855 141	(3)	(70 597 209)	(1 025 548)	2 340 494 071

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

Furniture and office equipment	-	6 900	-	6 900
Transport assets	-	1 030 408	-	1 030 408
Computer equipment	-	15 413	-	15 413
Other property, plant and equipment	-	8 900	-	8 900
	-	1 061 621	-	1 061 621

Reconciliation of Work-in-Progress Economic entity - 2021

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020

9. Property, plant and equipment (continued)

	Included within Infrastructure		Total	
Opening balance	667 183 610		667 183 610	
Additions/capital expenditure	263 335 142		263 335 142	
Written off - Vandalised Horseshoe sanitation project	(3 467 689)		(3 467 689)	
Transferred to completed items	(195 216 917)		(195 216 917)	
	731 834 146		731 834 146	

Reconciliation of Work-in-Progress Economic entity - 2020

	Included within Infrastructure		Total	
Opening balance	626 122 629		626 122 629	
Additions/capital expenditure	228 551 343		228 551 343	
Written off - Retentions prior period error	(3 372 695)		(3 372 695)	
Transferred to completed items	(184 117 667)		(184 117 667)	
	667 183 610		667 183 610	

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Contracted services	34 962 910	20 283 643	34 962 910	20 283 643
Materials consumed	319 282	5 399 724	319 282	5 399 724
Other	19 098	40 547	-	-
	35 301 290	25 723 914	35 282 192	25 683 367

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.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

10. Intangible assets

Economic entity	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	2 671 768	(815 032)	1 856 736	3 838 578	(1 684 401)	2 154 177

Controlling entity	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 066 025	(488 363)	577 662	2 424 263	(1 548 960)	875 303

Reconciliation of intangible assets - Economic entity - 2021

	Opening balance	Additions	Amortisation	Total
Computer software, other	2 154 177	191 428	(488 869)	1 856 736

Reconciliation of intangible assets - Economic entity - 2020

	Opening balance	Additions	Amortisation	Total
Computer software, other	2 435 173	176 169	(457 165)	2 154 177

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

10. Intangible assets (continued)

Reconciliation of intangible assets - Controlling entity - 2021

	Opening balance	Amortisation	Total
Computer software, other	875 303	(297 641)	577 662

Reconciliation of intangible assets - Controlling entity - 2020

	Opening balance	Amortisation	Total
Computer software, other	1 197 027	(321 724)	875 303

11. Investments in controlled entities

Name of company	Held by	% holding 2021	% holding 2020	Carrying amount 2021	Carrying amount 2020
Harry Gwala Development Agency	Harry Gwala District Municipality	100,00 %	100,00 %	100	100

The carrying amounts of controlled entities are shown net of impairment losses.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
12. Borrowings				
At amortised cost				
Ithala Development Finance Corporation (IDFC) The loan is interest free and repayable upon receiving funds from KZN department of Education	2 770 602	5 074 131	-	-
ABSA loan The loan bears a nominal fixed interest rate of 11.59 % compounded bi-annually. The loan is redeemable in twenty equal installments bi-annually in arrears on 30 June and 31 December each year until 30 June 2021.	-	4 555 057	-	4 555 057
	2 770 602	9 629 188	-	4 555 057
Total other financial liabilities	2 770 602	9 629 188	-	4 555 057
Non-current liabilities				
At amortised cost	2 770 602	5 074 131	-	-
Current liabilities				
At amortised cost	-	4 555 057	-	4 555 057
13. Finance lease obligation				
Minimum lease payments due				
- within one year	3 974 990	6 072 324	3 892 663	5 973 903
- in second to fifth year inclusive	1 352 475	5 278 047	1 348 789	5 241 452
	5 327 465	11 350 371	5 241 452	11 215 355
less: future finance charges	(337 422)	(962 195)	(337 422)	(962 195)
Present value of minimum lease payments	4 990 043	10 388 176	4 904 030	10 253 160
Present value of minimum lease payments due				
- within one year	3 648 790	5 447 356	3 566 463	5 348 935
- in second to fifth year inclusive	1 341 253	4 940 820	1 337 567	4 904 225
	4 990 043	10 388 176	4 904 030	10 253 160
Non-current liabilities	1 341 253	4 940 820	1 337 568	4 904 225
Current liabilities	3 648 790	5 447 356	3 566 463	5 348 935
	4 990 043	10 388 176	4 904 031	10 253 160

It is economic entity policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 2-4 years and the average effective borrowing rate was 12% (2020: 12%).

Interest rates are linked to prime at the contract date. All leases escalate at CPI% p.a and no arrangements have been entered into for contingent rent.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
14. Payables from exchange transactions				
Trade payables	15 648 727	38 132 253	14 172 785	34 563 570
Accrued fuel	7 281	12 934	-	-
Retentions	59 167 706	50 595 075	59 167 706	50 595 075
Accrued leave pay	15 468 261	13 772 762	15 087 645	13 294 300
Debtors with credit balance	7 617 846	7 861 544	7 617 846	7 861 544
Other payables	1 106 879	1 046 825	1 106 879	1 046 825
Payroll third party payments accrued	2 750	2 750	-	-
	99 019 450	111 424 143	97 152 861	107 361 314

15. Consumer deposits

Water	2 033 520	1 866 952	2 033 520	1 866 952
-------	-----------	-----------	-----------	-----------

16. Employee benefit obligations

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(12 700 999)	(9 955 999)	(12 700 999)	(9 955 999)
Present value of the defined benefit obligation-partly or wholly funded	(11 847 000)	(8 523 000)	(11 847 000)	(8 523 000)
	(24 547 999)	(18 478 999)	(24 547 999)	(18 478 999)
Non-current liabilities	(22 981 999)	(17 708 999)	(22 981 999)	(17 708 999)
Current liabilities	(1 566 000)	(770 000)	(1 566 000)	(770 000)
	(24 547 999)	(18 478 999)	(24 547 999)	(18 478 999)

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2021 by Mr C Weiss Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Keyhealth
- LA Health
- Samwumed
- Fedhealth

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	9 955 999	11 438 391	9 955 999	11 438 391
Benefits paid	-	(55 842)	-	(55 842)
Net expense recognised in the statement of financial performance	2 745 000	(1 426 550)	2 745 000	(1 426 550)
	12 700 999	9 955 999	12 700 999	9 955 999

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020

16. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	978 000	1 071 675	978 000	1 071 675
Interest cost	1 145 000	1 120 572	1 145 000	1 120 572
Actuarial (gains) losses	622 000	(3 618 797)	622 000	(3 618 797)
	2 745 000	(1 426 550)	2 745 000	(1 426 550)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10,72 %	11,50 %	10,72 %	11,50 %
Expected increase in healthcare costs	7,19 %	7,41 %	7,19 %	7,41 %
Net-of-health-care-cost-inflation discount rate	3,29 %	3,81 %	3,29 %	3,81 %

Long service awards

The municipality operate an unfunded defined benefit plan for all its employees. Under the plan a Long-service Award is payable after 10 years thereafter to employees. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2021 by Mr C Weiss, Fellow of the Actuarial Society of South Africa.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	8 523 000	7 501 821	8 523 000	7 501 821
Benefits paid	(770 000)	(262 872)	(770 000)	(262 872)
Net expense recognised in the statement of financial performance	4 094 000	1 284 051	4 094 000	1 284 051
	11 847 000	8 523 000	11 847 000	8 523 000

Net expense recognised in the statement of financial performance

Current service cost	932 000	880 782	932 000	880 782
Interest cost	621 000	612 697	621 000	612 697
Actuarial (gains)/ losses	384 000	(209 428)	384 000	(209 428)
Policy changes	2 157 000	-	2 157 000	-
	4 094 000	1 284 051	4 094 000	1 284 051

Key assumptions used

Discount rate	9,53 %	7,63 %	9,53 %	7,63 %
Salary cost inflation rate	5,87 %	4,16 %	5,87 %	4,16 %
Net effective discount rate	3,46 %	3,33 %	3,46 %	3,33 %
Expected retirement age - females	62	62	62	62
Expected retirement age - males	62	62	62	62

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
17. Unspent conditional grants and receipts				
Unspent conditional grants and receipts comprises of:				
Unspent conditional grants and receipts				
Department of higher education and training grant	288 612	251 406	-	-
Development bank of South Africa	1 065 859	1 054 061	-	-
Development planning shared services grant	134 760	486 481	134 760	486 481
Cogta water intervention grant	-	15 000 000	-	15 000 000
	1 489 231	16 791 948	134 760	15 486 481

See note 22 for reconciliation of grants from National/Provincial Government.

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

18. Long term payables from exchange transactions

During the 2018/2019 financial year the municipality entered into an arrangement with the Special Investigating Unit (SIU) to repay the amount owed by the municipality in monthly installment of R200 000. There is no interest charged on the outstanding balance. The amount payable after 12 months was therefore reclassified to non - current liabilities.

19. Service charges

Sale of water	54 002 748	54 157 319	54 002 748	54 157 319
Sewerage and sanitation charges	13 762 007	16 305 326	13 762 007	16 305 326
	67 764 755	70 462 645	67 764 755	70 462 645

20. Other income

Staff recoveries	-	601 923	-	601 923
Clearance certificate	1 026	982	1 026	982
Tender documents	432 651	750 520	432 651	750 520
Management fees	83 234	-	83 234	-
	516 911	1 353 425	516 911	1 353 425

21. Investment revenue

Interest revenue

Interest on outstanding debtors	10 100 465	12 632 447	10 100 465	12 632 447
Interest on investments	3 087 482	6 355 495	3 011 393	6 196 457
	13 187 947	18 987 942	13 111 858	18 828 904

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
22. Government grants and subsidies				
Operating grants				
Equitable share	417 623 000	345 308 887	417 623 000	345 308 887
Expanded public works programme	5 195 000	5 316 000	5 195 000	5 316 000
Radical agrarian socio-economic transformation	-	500 000	-	-
Financial management grant	1 000 000	1 000 000	1 000 000	1 000 000
Local Govt. sector education training authority	665 372	416 385	665 372	416 385
Municipal infrastructure grant	3 523 533	9 808 060	3 523 533	9 808 060
Water services infrastructure grant	-	8 536 633	-	8 536 633
Rural roads asset management system grant	2 245 000	2 358 000	2 245 000	2 358 000
Energy efficient and demand management grant	-	7 000 000	-	7 000 000
Disaster management grant	-	596 000	-	596 000
Development planning shared services grant	351 721	331 991	351 721	331 991
	430 603 626	381 171 956	430 603 626	380 671 956
Capital grants				
Rural Bulk Infrastructure grant	22 381 000	20 000 000	22 381 000	20 000 000
Municipal Infrastructure grant	205 476 467	191 051 940	205 476 467	191 051 940
Water services infrastructure grant	60 000 000	51 463 367	60 000 000	51 463 367
Cogta accelerated water intervention grant	15 000 000	-	15 000 000	-
	302 857 467	262 515 307	302 857 467	262 515 307
	733 461 093	643 687 263	733 461 093	643 187 263

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal infrastructure grant

Balance unspent at beginning of year	-	23 237 887	-	23 237 887
Current-year receipts	209 000 000	200 860 000	-	200 860 000
Conditions met transferred to revenue (current year allocation - capital)	(205 476 467)	(191 051 940)	-	(191 051 940)
Conditions met transferred to revenue (current year allocation - operational)	(3 523 533)	(9 808 060)	-	(9 808 060)
Repayment of unspent portion	-	(23 237 887)	-	(23 237 887)
	-	-	-	-

Conditions still to be met - remain liabilities (see note 17).

The municipal infrastructure grant is used to construct water and sewerage infrastructure as part of the upgrading of informal settlement areas.

Water services infrastructure grant - drought relief

Balance unspent at beginning of year	-	20 000 000	-	20 000 000
Repayment of unspent portion	-	(20 000 000)	-	(20 000 000)
	-	-	-	-

Water services infrastructure grant

Current-year receipts	60 000 000	60 000 000	-	60 000 000
-----------------------	------------	------------	---	------------

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
22. Government grants and subsidies (continued)				
Conditions met transferred to revenue (current year allocation - capital)	(60 000 000)	(51 463 367)	-	(51 463 367)
Conditions met transferred to revenue (current year allocation - operational)	-	(8 536 633)	-	(8 536 633)
	-	-	-	-

The water services infrastructure grant is used to facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services.

Regional bulk infrastructure grant

Current-year receipts	22 381 000	20 000 000	22 381 000	20 000 000
Conditions met - transferred to revenue	(22 381 000)	(20 000 000)	(22 381 000)	(20 000 000)
	-	-	-	-

Regional bulk infrastructure grant is utilised to address water infrastructure projects approved.

Financial management grant

Current-year receipts	1 000 000	1 000 000	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)	(1 000 000)	(1 000 000)
	-	-	-	-

Financial management grant is used to implement financial management reforms required by the MFMA.

Radical agrarian socio-economic transformation (RASET)

Current-year receipts	-	500 000	-	-
Conditions met - transferred to revenue	-	(500 000)	-	-
	-	-	-	-

Conditions still to be met - remain liabilities (see note 17).

The purpose of the grant is to provide fresh fruit, vegetables and maas to the schools in Harry Gwala District.

Department of higher education and training grant

Balance unspent at beginning of year	251 406	8 284 233	-	-
Repayment of unspent portion	-	(8 201 504)	-	-
Bank charges	(9 318)	(8 500)	-	-
Interest received	46 524	177 177	-	-
	288 612	251 406	-	-

Conditions still to be met - remain liabilities (see note 17).

The purpose of this grant is provide funding through National Skills Fund for the capacitation of the youth with skills.

Development Bank of South Africa

Balance unspent at beginning of year	1 054 061	1 054 061	-	-
Interest received	12 938	-	-	-
Bank charges	(1 140)	-	-	-
	1 065 859	1 054 061	-	-

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020

22. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 17).

The purpose of this grant is to capacitate co-operatives through jobs fund projects.

Expanded public works programme

Current-year receipts	5 195 000	5 316 000	5 195 000	5 316 000
Conditions met - transferred to revenue	(5 195 000)	(5 316 000)	(5 195 000)	(5 316 000)
	-	-	-	-

Conditions still to be met - remain liabilities (see note 17).

Expanded public works programme grant is used to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas.

Rural roads asset management system grant

Current-year receipts	2 245 000	2 358 000	2 245 000	2 358 000
Conditions met - transferred to revenue	(2 245 000)	(2 358 000)	(2 245 000)	(2 358 000)
	-	-	-	-

Rural roads asset management system grant is utilised to assess traffic management initiatives.

Development planning shared services grant

Balance unspent at beginning of year	486 481	818 472	486 481	818 472
Conditions met - transferred to revenue	(351 721)	(331 991)	(351 721)	(331 991)
	134 760	486 481	134 760	486 481

Conditions still to be met - remain liabilities (see note 17).

The grant received from COGTA is to be utilised in developing shared municipal services.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
22. Government grants and subsidies (continued)				
Sihleza maize production project grant				
Balance unspent at beginning of year	-	242 413	-	242 413
Repayment of unspent portion	-	(242 413)	-	(242 413)
	-	-	-	-
Conditions still to be met - remain liabilities (see note 17).				
Signage grant				
Balance unspent at beginning of year	-	98 112	-	98 112
Repayment of unspent portion	-	(98 112)	-	(98 112)
	-	-	-	-
Conditions still to be met - remain liabilities (see note 17).				
Energy efficiency demand side management grant				
Current-year receipts	-	7 000 000	-	7 000 000
Conditions met - transferred to revenue	-	(7 000 000)	-	(7 000 000)
	-	-	-	-
Cogta accelerated water intervention grant				
Balance unspent at beginning of year	15 000 000	-	15 000 000	-
Current-year receipts	-	15 000 000	-	15 000 000
Conditions met - transferred to revenue	(15 000 000)	-	(15 000 000)	-
	-	15 000 000	-	15 000 000
Conditions still to be met - remain liabilities (see note 17).				
Disaster management grant				
Current-year receipts	-	596 000	-	596 000
Conditions met - transferred to revenue	-	(596 000)	-	(596 000)
	-	-	-	-
23. Public contributions and donations				
Assets received from other organs of state	4 692 678	5 863 241	4 692 678	5 863 241
24. Revenue				
Service charges	67 764 755	70 462 645	67 764 755	70 462 645
Other income	516 911	1 353 425	516 911	1 353 425
Interest received	13 187 947	18 987 942	13 111 858	18 828 904
Government grants & subsidies	733 461 093	643 687 263	733 461 093	643 187 263
Public contributions and donations	4 692 678	5 863 241	4 692 678	5 863 241
	819 623 384	740 354 516	819 547 295	739 695 478

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
24. Revenue (continued)				
The amount included in revenue arising from exchanges of goods or services are as follows:				
Service charges	67 764 755	70 462 645	67 764 755	70 462 645
Other income	516 911	1 353 425	516 911	1 353 425
Interest received	13 187 947	18 987 942	13 111 858	18 828 904
	81 469 613	90 804 012	81 393 524	90 644 974
The amount included in revenue arising from non-exchange transactions is as follows:				
Transfer revenue				
Government grants & subsidies	733 461 093	643 687 263	733 461 093	643 187 263
Public contributions and donations	4 692 678	5 863 241	4 692 678	5 863 241
	738 153 771	649 550 504	738 153 771	649 050 504
25. Bulk purchases				
Water	22 023 408	22 832 763	22 023 408	22 832 763
26. Contracted services				
Outsourced Services				
Administrative and Support Staff	12 742 900	14 273 911	12 742 900	14 273 911
Burial Services	43 971	22 426	43 971	22 426
Business and Advisory	35 497 559	16 928 234	35 497 559	16 928 234
Catering Services	58 509	536 450	58 509	536 450
Cleaning Services	623 644	321 132	623 644	321 132
Security Services	28 493 498	23 327 554	27 784 849	22 691 041
Sewerage Services	1 169 300	4 336 516	1 169 300	4 336 516
Water Takers	1 661 295	3 380 763	1 661 295	3 380 763
Consultants and Professional Services				
Business and Advisory	5 257 490	15 713 034	5 257 490	15 713 034
Legal Cost	6 586 943	7 178 187	6 433 384	6 880 391
Contractors				
Audio-visual Services	-	5 000	-	5 000
Catering Services	50 382	189 950	50 382	189 950
Electrical	-	6 086 957	-	6 086 957
Employee Wellness	10 705	13 226	10 705	13 226
Event Promoters	-	5 063 031	-	5 063 031
Maintenance of Buildings and Facilities	1 814 469	1 702 884	1 784 371	1 662 337
Maintenance of Equipment	22 718 397	11 704 191	22 718 397	11 704 191
Maintenance of Unspecified Assets	10 460 142	6 917 115	10 460 142	6 917 115
Rural roads site supervision and consulting	2 494 621	2 049 565	2 494 621	2 049 565
Sewerage Services	848 712	25 624 743	848 712	25 624 743
	130 532 537	145 374 869	129 640 231	144 400 013

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
27. Contribution to debt Impairment allowance				
Contributions to debt impairment provision	31 266 856	20 077 345	30 921 423	20 077 345
Bad debts written off	812 464	21 310 195	812 464	21 310 195
	32 079 320	41 387 540	31 733 887	41 387 540
28. Depreciation and amortisation				
Property, plant and equipment	77 050 710	71 693 241	75 940 793	70 597 207
Intangible assets	488 868	457 165	297 640	321 724
	77 539 578	72 150 406	76 238 433	70 918 931

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
29. Employee related costs				
Basic	134 416 745	115 271 422	126 616 896	107 829 953
Bonus	8 865 205	8 187 843	8 463 667	7 832 700
Social contributions - medical aid	9 488 033	8 553 594	9 177 469	8 220 132
Unemployment insurance fund	822 242	724 857	770 011	671 784
Leave pay provision charge	3 120 935	3 359 754	3 206 822	3 208 470
Health care retirement benefit	2 123 000	2 136 405	2 123 000	2 136 405
Social contributions - pension fund	19 965 302	17 004 676	18 184 712	15 505 407
Social contribution - SALGBC	45 665	39 172	45 665	39 172
Travel, motor car, accommodation, subsistence and other allowances	21 964 890	19 430 677	21 900 072	19 380 481
Overtime payments	15 879 052	22 042 781	15 879 052	22 042 781
Long-service awards	3 920 952	1 423 488	3 920 952	1 423 488
Housing benefits and allowances	569 935	487 209	569 935	487 209
	221 181 956	198 661 878	210 858 253	188 777 982

Remuneration of municipal manager

Annual Remuneration	924 917	924 917	924 917	924 917
Car Allowance	191 181	191 181	191 181	191 181
Cell phone allowance	19 449	19 449	19 449	19 449
Housing allowance	57 106	57 106	57 106	57 106
Rural allowance	58 901	58 901	58 901	58 901
Contributions to UIF	1 813	1 785	1 813	1 785
Contributions to medical aid	56 997	53 634	56 997	53 634
Contributions to SALGBC	119	111	119	111
	1 310 483	1 307 084	1 310 483	1 307 084

Remuneration of chief finance officer

Annual Remuneration	627 571	629 634	627 571	629 634
Car Allowance	174 720	174 720	174 720	174 720
Cell phone allowance	19 449	19 449	19 449	19 449
Housing allowance	54 241	54 241	54 241	54 241
Rural allowance	42 933	42 933	42 933	42 933
Contributions to UIF	1 813	1 785	1 813	1 785
Contributions to medical aid	38 056	35 852	38 056	35 852
Contributions to SALGBC	119	111	119	111
	958 902	958 725	958 902	958 725

Remuneration of social services executive director

Annual Remuneration	659 247	221 008	659 247	221 008
Car Allowance	187 200	62 400	187 200	62 400
Cell phone allowance	42 933	14 311	42 933	14 311
Rural allowance	19 449	6 483	19 449	6 483
Contributions to UIF	1 813	595	1 813	595
Contributions to SALGBC	119	38	119	38
Contributions to Medical	48 000	-	48 000	-
	958 761	304 835	958 761	304 835

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
29. Employee related costs (continued)				
Remuneration of corporate services executive director				
Annual Remuneration	692 000	695 395	692 000	695 395
Car Allowance	174 720	174 720	174 720	174 720
Rural allowance	42 933	42 933	42 933	42 933
Cell phone allowance	19 449	19 449	19 449	19 449
Contributions to UIF	1 813	1 785	1 813	1 785
Contributions to medical aid	28 246	24 332	28 246	24 332
Contributions to SALGBC	119	112	119	112
	959 280	958 726	959 280	958 726
Remuneration of water services executive director				
Annual Remuneration	671 479	671 479	671 479	671 479
Car Allowance	174 720	174 720	174 720	174 720
Cell phone allowance	19 449	19 449	19 449	19 449
Housing allowance	48 248	48 248	48 248	48 248
Rural allowance	42 933	42 933	42 933	42 933
Contributions to UIF	1 813	1 785	1 813	1 785
Contributions to SALGBC	119	112	119	112
	958 761	958 726	958 761	958 726
Remuneration of infrastructure executive director				
Annual Remuneration	744 687	749 295	744 687	749 295
Car Allowance	149 760	149 920	149 760	149 920
Rural allowance	42 933	42 933	42 933	42 933
Cell phone allowance	19 449	19 449	19 449	19 449
Contributions to UIF	1 813	1 785	1 813	1 785
Contributions to SALGBC	118	111	118	111
	958 760	963 493	958 760	963 493
Remuneration of board members				
Directors' fees	456 420	249 324	-	-
Directors' travel	104 989	136 453	-	-
	561 409	385 777	-	-
Remuneration of Chief Executive Officer - Harry Gwala Development Agency				
Annual Remuneration	1 357 351	1 357 351	-	-
Car Allowance	120 000	120 000	-	-
Contributions to UIF, Medical and Pension Funds	295 838	112 586	-	-
13th Cheque	123 113	123 113	-	-
	1 896 302	1 713 050	-	-

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020

29. Employee related costs (continued)

Remuneration of chief financial officer - Harry Gwala Development Agency

Annual Remuneration	971 903	971 903	-	-
Car Allowance	120 000	120 000	-	-
Contributions to UIF, Medical and Pension Funds	244 779	233 622	-	-
13th Cheque	90 992	90 992	-	-
Acting Allowance	-	17 787	-	-
	1 427 674	1 434 304	-	-

30. Finance costs

External borrowings	370 469	823 902	370 469	823 902
Overdue accounts	-	18 085	-	18 085
Finance leases	637 522	1 580 182	624 968	1 553 640
	1 007 991	2 422 169	995 437	2 395 627

31. Inventory consumed

Consumables:Standard Rated	64 975	84 623	64 975	84 623
Consumables:Zero Rated	5 104 687	4 661 542	5 104 687	4 661 542
Materials and supplies	675 326	653 559	675 326	653 559
	5 844 988	5 399 724	5 844 988	5 399 724

32. Lease rentals on operating lease

Equipment

Printing machines and car rental	51 226	57 613	-	-
----------------------------------	--------	--------	---	---

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
33. Operational costs				
Advertising	1 302 920	1 408 166	1 286 396	1 365 500
Auditors remuneration	3 960 578	4 343 697	3 467 197	3 832 960
Bank charges	263 738	235 961	255 167	225 333
Cleaning	29 492	14 611	-	-
Computer expenses	18 696	18 042	-	-
Program expenses - Farm produce	-	445 768	-	-
Fines and penalties	-	112 963	-	-
Hire	139 440	-	139 440	-
Insurance	1 251 326	1 023 366	1 207 847	858 086
Financial system support	291 100	162 933	-	-
Vehicle expenses	5 170 149	2 538 920	5 170 149	2 538 920
Motor vehicle licence and registrations	542 396	198 918	542 396	198 918
Fuel and oil	6 883 097	7 019 529	6 869 597	7 007 735
Printing and stationery	512 840	788 962	455 219	777 203
Protective clothing	3 282 173	4 289 624	3 262 420	4 289 624
Software expenses	3 796 302	3 598 489	3 796 302	3 598 489
Staff welfare	549 066	577 515	548 296	575 506
Subscriptions and membership fees	134 606	385 452	116 202	385 452
Telephone and fax	4 999 723	4 809 356	4 769 285	4 598 847
Transport	645 946	246 539	645 946	236 739
Training	522	74 679	-	-
Travel and accomodation	1 484 537	3 716 671	1 416 377	3 309 732
Electricity	17 294 014	16 839 462	17 294 014	16 839 462
Tourism development	-	437 183	-	-
Event registration fees	93 065	163 003	93 065	83 003
Rental of offices	2 152 982	1 762 621	2 096 439	1 670 216
Hygiene services	33 401	22 300	-	-
Skills development levy	1 363 546	1 397 560	1 296 246	1 331 764
Support to small farmers	79 963	69 459	74 373	63 349
Signage	-	22 500	-	22 500
Enterprise development expenses	-	294 890	-	-
SALGA fees	2 104 260	1 797 800	2 104 260	1 797 800
	58 379 878	58 816 939	56 906 633	55 607 138

34. Remuneration of councillors

Executive Major	662 220	553 990	662 220	553 990
Deputy Executive Mayor	755 877	785 369	755 877	785 369
Executive Committee Members	1 555 312	1 146 929	1 555 312	1 146 929
Speaker	755 879	758 170	755 879	758 170
Councillors	3 236 467	3 269 278	3 236 467	3 269 278
Meeting allowance	246 990	495 618	246 990	495 618
Travelling allowance	599 927	692 499	599 927	692 499
	7 812 672	7 701 853	7 812 672	7 701 853

35. Transfer payments

Harry Gwala Development Agency	-	-	17 000 000	14 000 000
--------------------------------	---	---	------------	------------

36. Impairment of assets

Impairments				
Property, plant and equipment	3 120 393	1 025 548	3 120 393	1 025 548

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
37. Cash generated from operations				
Surplus	246 416 449	181 191 306	243 765 624	181 972 313
Adjustments for:				
Depreciation and amortisation	77 539 578	72 150 406	76 238 433	70 918 931
Loss on disposal of assets	6 496 389	1 708 544	6 496 389	1 652 682
Finance costs - Finance leases	637 522	1 580 182	624 968	1 553 640
Impairment deficit	3 120 393	1 025 548	3 120 393	1 025 548
Debt impairment	32 079 320	41 387 540	31 733 887	41 387 540
Movements in retirement benefit assets and liabilities	6 069 000	(461 213)	6 069 000	(461 213)
Assets received from other organs of state	(4 692 678)	(5 863 241)	(4 692 678)	(5 863 241)
Other non-cash items	(3)	393 620	(4)	7 650
Changes in working capital:				
Inventories	(140 534)	(19 303)	(140 534)	(19 303)
Receivables from exchange transactions	258 474	5 052 114	-	-
Consumer debtors	(28 210 724)	(45 178 527)	(27 865 291)	(45 178 527)
Other receivables from non-exchange transactions	(70 327)	2 779 776	(70 327)	2 779 776
Payables from exchange transactions	(12 404 694)	8 030 078	(10 208 456)	5 028 071
VAT	6 202 948	2 550 980	5 999 088	2 407 575
Unspent conditional grants and receipts	(15 302 717)	(39 902 303)	(15 351 721)	(28 910 403)
Consumer deposits	166 568	98 934	166 568	98 934
	318 164 964	226 524 441	315 885 339	228 399 973

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
38. Commitments				
Authorised capital expenditure				
Already contracted for but not provided for				
• Property, plant and equipment	341 137 756	464 077 447	341 137 756	464 077 447
Total capital commitments				
Already contracted for but not provided for	341 137 756	464 077 447	341 137 756	464 077 447
Authorised operational expenditure				
Already contracted for but not provided for				
• Expenditure Harry Gwala Development Agency	13 026	30 800	-	-
• Coordination for Harry Gwala Sport Development Programmes and Cultural Activities	3 350 189	3 350 189	3 350 189	3 350 189
	3 363 215	3 380 989	3 350 189	3 350 189
Total operational commitments				
Already contracted for but not provided for	3 363 215	3 380 989	3 350 189	3 350 189
Total commitments				
Total commitments				
Authorised capital expenditure	341 137 756	464 077 447	341 137 756	464 077 447
Authorised operational expenditure	3 363 215	3 380 989	3 350 189	3 350 189
	344 500 971	467 458 436	344 487 945	467 427 636
Operating leases - as lessee (expense)				
Minimum lease payments due				
- within one year	51 226	13 919	-	-
- in second to fifth year inclusive	-	43 694	-	-
	51 226	57 613	-	-

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
39. Contingencies				
Contingent liabilities				
Sifiso Gregory Mkize	-	-	-	21 295
Matatiele Local Municipality	2 941 249	2 941 249	2 941 249	2 941 249
Mdlebeni Trading (Pty) Ltd	10 000	1 604 000	10 000	1 604 000
Unitrade 1047 CC T/A Isidingo Security Services	26 000 000	26 000 000	26 000 000	26 000 000
Unlawful arrest and detention	710 000	710 000	710 000	710 000
Water scheme project	150 000	-	150 000	-
Litigation by former employee	1 074 482	1 074 482	-	-
	30 885 731	32 329 731	29 811 249	31 276 544

Sifiso Gregory Mkize

This is a claim was settled during the 2020/2021 financial year.

Mdlebeni Trading (Pty) Ltd

In this matter, the service provider was claiming the amount of R 1 254 000 from the Municipality for an alleged breach of contract. The Municipality is attempting to locate the company in order to arrange a pretrial conference since its previous attorneys of record have withdrawn.

Water scheme project

This is a matter where the Khuzwayo family has demanded payment of R 2 000 000.00 as compensation for the Municipality's construction of a treatment plant on parts of its property. The Municipality may have to pay reasonable compensation to the family which would be far less than what they have demanded. In the interim, we are awaiting further instructions regarding whether the Municipal council has decided to proceed with the proposed acquisition of the property.

Unitrade 1047 CC T/A Isidingo Security Services

This is a claim for damages arising from an alleged breach of contract against the Municipality in relation to a tender award. A summons was issued out of the High Court, Durban Local Division and the matter is currently pending in the Durban High Court awaiting a set down for trial. The matter was defended by the Municipality.

Unlawful arrest and detention

This matter is in relation to the unlawful arrest and detention of a certain Mr Mdladla. Mr Mdladla alleges that on or about 12 November 2017, acting under the instructions of immediate supervisor Mr Mbona, instructed him to deliver a Jojo tank to a designated area.

Whilst acting on his instruction he was unlawfully arrested and detained by members of the SAPS, following false charges of theft. Mr Mdladla further alleges that he was released after six hours and that since his arrest and subsequent to his release he has not been summoned to appear in court. As a result, Mr Mdladla now claims damages in the amount of R500 000.00. The matter is now at the stage of discovery and we need to liaise with municipal official who will depose to the Municipality discovery affidavit.

Matatiele Local Municipality

Harry Gwala District Municipality is disputing the amount raised as a debtor by Matatiele Local Municipality. An agreement is yet to be reached between the two municipalities.

Litigation by former employee

The liability might arise as a result of a litigation claim against Harry Gwala Development Agency by a former employee.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020

40. Related parties

Relationships

Controlling entity

Harry Gwala District Municipality

Controlled entities

Refer to note 11

Related party transactions

Transfer payments

Harry Gwala Development Agency

17 000 000

14 000 000

Remuneration of management

Management class: Board members

*Refer to note 29 "Employee related costs"

Management class: Councillors

Refer to note 34 "Remuneration of councillors"

Management class: Executive management

*Refer to note 29 "Employee related costs"

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
41. 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				
Controlling entity - 2020				
	Note	As previously reported	Correction of error	Restated
Accumulated Surplus		(2 280 756 150)	(8 589 287)	2 289 345 437
VAT Receivable	6	6 899 640	16 349 125	23 248 765
Payables from exchange transactions	14	(101 503 237)	(9 920 907)	(111 424 144)
Consumer deposits	15	(1 863 257)	(3 694)	(1 866 951)
Long term payables from exchange transactions	18	(11 661 265)	(1 532 239)	(13 193 504)
Unspent conditional grants and receipts	17	(20 251 021)	3 459 073	(16 791 948)
Plant and machinery	9	372 855	237 929	610 784
		(2 408 762 435)		- (2 408 762 435)

Statement of financial performance

Controlling entity - 2020

	Note	As previously reported	Correction of error	Re-classification	Restated
Debt impairment		-	-	41 387 540	41 387 540
Bad debts written off		21 306 501	3 694	(21 310 195)	-
Contribution to debt Impairment allowance	26	22 058 340	(1 980 995)	(20 077 345)	-
Operational costs	33	58 804 273	255 768	(243 102)	58 816 939
Depreciation and amortisation	28	72 144 102	6 304	-	72 150 406
Contracted services	26	145 131 767	-	243 102	145 374 869
Surplus (deficit) for the year		319 444 983	(1 715 229)	-	317 729 754

Errors

The following prior period errors adjustments occurred:

VAT receivable

During the 2019/2020 financial year and the years prior to that, the municipality erroneously accounted for provision for doubtful debts inclusive of VAT in the statement of financial performance. This resulted in the over statement of contribution to debt Impairment allowance and accumulated surplus by R1 980 995,54 and R13 975 098,37 respectively and a corresponding understatement of VAT receivable by 15 956 093,91.

The municipality identified invoices older than five years that were not claimed from SARS in the the priors years. These invoices are no longer claimable as S16(3) of the VAT act prohibits claiming invoices older than five years from date of issue. This resulted in the downward adjustment of VAT receivable by R31 976,42 and a corresponding increase of the accumulated surplus by the same amount.

The Harry Gwala Development Agency omitted expenditure relating to conditional grants. This error of omission resulted in the understatement of VAT receivable by R385 966.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020

41. Prior-year adjustments (continued)

Trade and other payables from exchange transactions

The Municipality failed to honour its monthly subscriptions for workmen's compensations to the department of labour for a number of years. During the 2020/2021 financial year the municipality accounted for and settled the long outstanding debt using monthly instalments. This error of omission resulted in the understatement of other payables and expenditure by 5 194 350,75.

The municipality reviewed the creditors control account against the creditors listing and noted that there was an understatement of trade and other payables amounting to R1 267 482,62 and accumulated surplus with the same amount.

The Harry Gwala Development Agency omitted expenditure relating to conditional grants. This error of omission resulted in the understatement of payables from exchange transactions by R3 459 073.

Consumer deposits

During the 2019/2020 financial year the municipality erroneously wrote off amount of R3 694 for consumer deposits. The write off resulted in the understatement of consumer deposits liability and bad debts written off by R3 964.

Unspent conditional grants and receipts

The Harry Gwala Development Agency omitted expenditure relating to conditional grants. This error of omission resulted in the understatement of Unspent conditional grants and receipts by R3 459 073..

PPE- Plant and Machinery

During the 2019/2020 financial year, the Harry Gwala Development Agency erroneously expensed amounts paid that were capital in nature. This error resulted in the understatement of additions to Property plant and equipment by R244 233 and an understatement of depreciation expense by R6 304.

Long term payables from exchange transactions

Upon comparison of the creditors statement from the Special Investigating Unit and the accounting records of the municipality, the municipality realised that certain invoices were not accounted for in the accounting records of the municipality. This error of omission resulted in the understatement of the balance outstanding for SIU and a corresponding understatement of expenditure in the prior years.

42. Comparative figures

Certain comparative figures have been reclassified.

43. Risk management

Financial risk management

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

Liquidity risk

The economic entity's risk to liquidity is a result of the funds available to cover future commitments. The economic entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020

43. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, 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 counter-party.

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

Financial instrument	Economic entity - 2021	Economic entity - 2020	Controlling entity - 2021	Controlling entity - 2020
Interest rate swap	59 422 107	48 731 048	51 862 286	40 670 866
Fixed interest loan to X Ltd	30 891 765	34 948 508	30 804 806	34 603 075

Market risk

Interest rate risk

As the economic entity has no significant interest-bearing assets, the economic entity's income and operating cash flows are substantially independent of changes in market interest rates.

The economic entity's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the economic entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the economic entity to fair value interest rate risk.

44. Going concern

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the municipality continue to receive conditional grants and equitable share allocations as gazetted for the ongoing operations for the municipality.

We draw attention to the fact that at 30 June 2021, the municipality's current liabilities exceed the current assets.

45. Events after the reporting date

Harry Gwala Municipality Council set on 26 August 2021 to resolve the irregular, fruitless and wasteful expenditure. Investigations were performed by MPAC with help of the appointed service providers and council took a resolution to write off the irregular, fruitless and wasteful expenditure. The write off resulted in the decrease of irregular expenditure, fruitless and wasteful expenditure by R62 462 885 and R321 508 respectively...

46. Unauthorised expenditure

Opening balance as previously reported	-	476 372 363	-	476 372 363
Opening balance as restated	-	476 372 363	-	476 372 363
Less: Approved/condoned/authorised by council	-	(476 372 363)	-	(476 372 363)
Closing balance	-	-	-	-

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
47. Fruitless and wasteful expenditure				
Opening balance as previously reported	2 805 131	4 523 597	2 206 040	4 037 469
Correction of prior period error	(1 884 532)	-	(1 884 532)	-
Opening balance as restated	920 599	4 523 597	321 508	4 037 469
Add: Expenditure identified - current	108 500	-	108 500	-
Add: Expenditure identified - prior period	8 090 292	2 319 003	8 090 292	2 206 040
Less: Amount written off - prior period	(321 508)	(4 037 469)	(321 508)	(4 037 469)
Closing balance	8 797 883	2 805 131	8 198 792	2 206 040

The municipality overstated the fruitless and wasteful expenditure due to the incorrect classification of expenditure incurred in the services rendered by Bhungane Built-in Environment and incorrect computation of SARS interest and penalties. The correction of this error resulted in the decrease of fruitless and wasteful expenditure reported in the 2019/2020 financial year by R1 884 532.

During the 2020/2021 performance audit, the Auditor General identified a claim amounting to R8 090 291,58 paid to SSR Security, trading as Mahlubi Transport and Plant Hire for standing time due to delays encountered on the construction of Gala Bulk pipeline from Sappi's-Ngudwini Dam to J8. These delays were mainly caused by challenges encountered during the sourcing of materials abroad by the material supplier (NRB Piping Systems (Pty) Ltd). The Auditor General cited that this claim could have been avoided had the municipality adequately planned the implementation of project and the sourcing of materials therefore the expenditure was deemed fruitless and wasteful.

The municipality failed to provide proof of delivery of water supplied to certain schools in Umzimkhulu. The expenditure amounting to R108 500 paid to Cha Luke Trading (Pty) Ltd was deemed fruitless and wasteful.

48. Irregular expenditure

Opening balance as previously reported	100 635 002	628 508 748	62 462 885	598 531 266
Opening balance as restated	100 635 002	628 508 748	62 462 885	598 531 266
Add: Irregular Expenditure - current	68 556 550	70 657 520	68 556 550	62 462 885
Less: Amount written off - prior period	(62 462 885)	(598 531 266)	(62 462 885)	(598 531 266)
Closing balance	106 728 667	100 635 002	68 556 550	62 462 885
Nature of irregular expenditure incurred				
Competitive bidding process not followed	63 652 205	55 387 849	63 652 205	47 684 585
Incorrect use of CIDB grading status for Potentially Emerging (PE) contractors	1 483 518	14 026 976	1 483 518	14 026 976
Awards made to suppliers with tax matters that are not in order	129 200	751 325	129 200	751 325
False declarations by suppliers	770 373	-	770 373	-
Total payments exceeding contract value	2 521 254	-	2 521 254	-
Overspending of budget by Harry Gwala Development Agency	-	491 370	-	-
	68 556 550	70 657 520	68 556 550	62 462 886

Irregular expenditure relating to competitive bidding process resulted from old contracts awarded to consultants for multi-year projects. All payments made to these suppliers are classified as irregular expenditure during the financial year incurred. In addition an amount of R30 997 406,59 was transferred from deviations during the 2020/2021 audit due to Auditor General citing the inappropriate use of SCM regulation 36 (1a)(i).

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	2 104 260	1 797 800	2 104 260	1 797 800
Amount paid - current year	(2 104 260)	(1 797 800)	(2 104 260)	(1 797 800)
	-	-	-	-

Material losses

Water losses	6 561 224	9 554 273	6 561 224	9 554 273
--------------	-----------	-----------	-----------	-----------

The water losses of 28.3% (2019/20 :31.2 %) is calculated on the system input volume of 2 994 815 kl (2019/20 : 4 337 061kl) purchased at an average price of R7.73 (2019/20 : R7.05) per kl and total units sold amounting to 2 146 015,4 kl (2019/20 : 2 981 800kl). Total water stock losses amounts to 848 800 kl (2019/20 : 1 355216kl)

The following are the major root causes for the water losses:

- High increase in water carting due to COVID 19, water being delivered by water carters is deemed as water losses.
- Ageing infrastructure around the District also causes water losses, there are still asbestos pipes that are under ground and they keep bursting most of the times.
- Informal settlements around the District that have water connections but they are not billed therefore they are deemed as water losses.
- Illegal connections especially in rural areas and informal settlements

Audit fees

Opening balance	-	11 942	-	11 942
Current year subscription / fee	3 960 578	4 343 697	3 467 197	3 832 960
Amount paid - current year	(3 960 578)	(4 343 697)	(3 467 197)	(3 832 960)
Amount paid - previous years	-	(11 942)	-	(11 942)
	-	-	-	-

PAYE and UIF

Opening balance	-	2 143 105	-	2 143 105
Current year subscription / fee	37 274 431	34 531 760	35 332 294	32 654 420
Amount paid - current year	(37 274 431)	(34 531 760)	(35 332 294)	(32 654 420)
Amount paid - previous years	-	(2 143 105)	-	(2 143 105)
	-	-	-	-

Pension and Medical Aid Deductions

Opening balance	-	2 974 751	-	2 974 751
Current year subscription / fee	29 453 335	26 201 461	27 362 181	24 368 730
Amount paid - current year	(29 453 335)	(26 201 461)	(27 362 181)	(24 368 730)
Amount paid - previous years	-	(2 974 751)	-	(2 974 751)
	-	-	-	-

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020

50. 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 expenses incurred as listed hereunder have been approved:

SABC Vuka Sizwe	-	104 420	-	104 420
Mayoral radio slots in Ukhozi FM from August 2019 to January 2020.				
John Dilika Construction	-	1 200 000	-	1 200 000
Emergency emptying of 600 VIP toilets in Horseshoe LGS Projects	-	1 200 000	-	1 200 000
Emergency emptying of 600 VIP toilets in Horseshoe Shemuntu and Sons	-	600 000	-	600 000
Emergency emptying of 300 VIP toilets in Horseshoe SSR Security T/A Mahlubi Transport and plant hire	-	16 537 868	-	16 537 868
Emergency construction of rising main from Pumpstation to Water Treatment Works at Underberg as there was no water for a period of a month in Underberg and Himville				
KRN Investments	-	961 912	-	961 912
Procurement of protective gear for the COVID-19 pandemic.				
Mandanci Construction	-	409 219	-	409 219
Procurement of protective gear for the COVID-19 pandemic.				
SSR Security T/A Mahlubi Transport and plant hire	-	250 470	-	250 470
Supply and delivery of water in uMzimkhulu satellite during COVID-19 pandemic.				
Shemuntu and Sons	-	180 000	-	180 000
Supply and delivery of water in Dr Nkosazana Dlamini zuma satellite during COVID-19 pandemic				
Shemuntu and Sons	-	21 200	-	21 200
Emergency high-pressure sewer jetting in Fairview Ixopo satellite.				
Shemuntu and Sons	-	53 000	-	53 000
Emergency high-pressure sewer jetting in uMzimkhulu satellite.				
Radio Igagasi 99.5	-	57 500	-	57 500
Mayoral radio slot on Igagasi Fm delivering municipal budget and IDP as no gatherings were allowed during COVI-19 lockdown				
KZN FM 99.3	-	30 000	-	30 000
Mayoral radio slot on KZN FM 93,3 delivering municipal budget and IDP as no gatherings were allowed during COVI-19 lockdown				
KZN FM 99.3	-	30 000	-	30 000
Mayoral radio slot on KZN FM 93,3 delivering municipal adjustment budget and municipal service delivery issues as no gatherings are allowed during COVI-19				
Fegsa projects and con	-	98 500	-	98 500
12-ton truck to deliver water around uMzimkhulu schools before they reopened during COVID-19.				

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020
50. Deviation from supply chain management regulations (continued)				
Cha Luke Trading 12-ton truck to deliver water around uMzimkhulu schools before they reopened during COVID-19.	-	252 000	-	252 000
Njane Trading Emergency spring protection in Emadungeni	-	73 900	-	73 900
Thando's catering (pty) ltd Emergency spring protection in Nkalokazi Madungeni	-	49 600	-	49 600
HGDA deviations Emergency procurement of goods and services as well as sole providers of goods and services.	35 874	82 823	-	-
Macingwane's Security & Gardening Water tanker hire for supplying water in school around Ubuhlebezwe.	92 275	-	92 275	-
Macingwane's Security & Gardening Water tanker hire for supplying water in school around Dr NDZ	165 025	-	165 025	-
FEGSA Projects and Construction Water tanker hire for supplying water in school around Umzimkhulu	98 000	-	98 000	-
Cha Luke Trading (Pty)Ltd Water tanker hire for supplying water in school around Umzimkhulu	350 000	-	350 000	-
Belebele Trading And Services Water tanker hire for supplying water in school around Dr NDZ	7 000	-	7 000	-
FEGSA Projects and Construction Water tanker hire for supplying water in school around Umzimkhulu	63 000	-	63 000	-
Cha Luke Trading (Pty)Ltd Water tanker hire for supplying water in school around Umzimkhulu.	210 000	-	210 000	-
Cha Luke Trading (Pty)Ltd Water tanker hire to supply water around Harry Gwala District area for the month of November 2020.	196 000	-	196 000	-
Cha Luke Trading (Pty)Ltd Water tanker hire for supplying water in school around UMzimkhulu	203 000	-	203 000	-
	1 420 174	22 192 412	1 384 300	22 109 589

51. Covid-19 impact on financial operations

On 15 March 2020, the President of South Africa, in a national address, announced the declaration of the Covid-19 (also known as the Coronavirus) pandemic as a "national disaster". Significant consequential announcements have been made, relating to restrictions on movement, business activity, travel and other matters, all in the interests of preventing an escalation of the national disaster and alleviating, containing and minimising the effects of the national disaster. These announcements had an impact on Harry Gwala District Municipality including amongst others:

- Decrease in the collection rate on consumers debtors. The payment patterns of consumers were considered when the impairment assessment of debtors was performed.
- Increase in the number of supply chain management deviations resulting from the urgent need to supply water to communities and as well schools through water tankers.

The economic hardships resulting from the on-going Coronavirus pandemic continue to affect the payment patterns especially that of domestic consumers. The municipality is also faced with challenges in implementing credit and debt control measures such as water restrictions to defaulting consumers to encourage them to pay for services.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020

52. Budget differences

Material differences between budget and actual amounts

Service Charges - The variance is within acceptable limits.

Other Income - actual revenue is lower than the budgeted amount due to lower receipts on the sale of tender documents. The decrease resulted from more suppliers downloading tender documents for free on the municipal website as opposed to buying hard copies printed by the municipality.

Interest on outstanding debtors - The variance is within acceptable limits

Interest on outstanding on investments - under performed due to accelerated expenditure on conditional grants. Most grants were ahead with the expenditure throughout the year resulting in lower funds available in call accounts to accrue interest.

Government Grants and Subsidies - The variance is within acceptable limits. The small variance resulted from discretionary grants received that were not budgeted for.

Public contributions and donations - The variance resulted from MISA boreholes donated to the municipality during financial. These donations were not budgeted for as the information was not available at the time of budgeting.

Employee related costs - The over performance on employee related costs resulted from underbudgeting for new posts. Furthermore non cash items such current service costs and interest costs on provisions for employee benefit obligations were underbudgeted. The actual amounts are determined by actuarial scientists and this information is not available at the time of budgeting.

Remuneration of Councillors - The variance is within acceptable limits. The under performance resulted from council meetings, executive committee meetings and portfolio committee meetings being held online, this resulted in the reduction of reimbursements for councillors travelling costs.

Debt Impairment - The over performance resulted from the higher contribution to bad debts impairment than initially budgeted for. The municipality is struggling to collect from household consumer debtors

Depreciation and Impairment loss - The variance is within acceptable limits and the actual amount is lower than the budgeted amounts.

Finance Charges - The variance is within acceptable limits. The actual amount is lower than the budgeted amount due to the expiry of one of the Afrent vehicle rental contracts. The municipality decided to own vehicles going forward instead of leasing.

Bulk Purchases - The variance is within acceptable limits and the actual amount is lower than the budgeted amount.

Contracted services - The variance is within acceptable limits and the actual expenditure is lower than the budget. The municipality is continuously identifying cost drivers to try and minimise expenditure so that the municipality moves towards achieving the goal of eliminating the unfunded budget.

Inventory Consumed - The variance is within acceptable limits and the actual amount is lower than the budgeted amounts.

Operational Costs - The variance is within acceptable limits and the actual amount is lower than the budgeted amounts.

Actuarial gains and loss - These non cash items were not budgeted for.

Gains/ losses on disposal of assets - There was no budgeted allocated for gains or losses on disposal of assets.

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2021	2020	2021	2020

53. Segment information

General information

Identification of segments

The economic entity is organised and reports to management on the basis of three major functional areas: Trading services, Community services and Governance and administration. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

Aggregated segments

The economic entity operates throughout the Harry Gwala District in KwaZulu Natal. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout the Harry Gwala District were sufficiently similar to warrant aggregation.

Types of goods and/or services by segment

These reportable segments as well as the goods and/or services for each segment are set out below:

Reportable segment

Governance and administration
Community services
Trading services

Goods and/or services

Administration and support services
Disaster, health and environmental services
Water and sanitation

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

53. Segment information (continued)

Segment surplus or deficit, assets and liabilities

Controlling entity - 2021

	Governance and administration	Community services	Trading services	Total
Revenue				
Revenue from non-exchange transactions	419 288 372	3 875 254	314 990 145	738 153 771
Revenue from exchange transactions	3 568 957	-	77 824 568	81 393 525
Total segment revenue	422 857 329	3 875 254	392 814 713	819 547 296
Entity's revenue				819 547 296
Expenditure				
Bulk Purchases	-	-	22 023 408	22 023 408
Debt Impairment	812 464	-	30 921 423	31 733 887
Contracted Services	53 409 825	946 622	74 853 542	129 209 989
Depreciation and Amortisation	9 427 853	1 765 054	65 045 526	76 238 433
Employee Related Cost	74 972 161	27 128 590	114 862 452	216 963 203
Finance costs	995 437	-	-	995 437
Inventory Consumed	21 153	399 866	5 423 969	5 844 988
Operational Cost	38 154 386	837 455	18 345 033	57 336 874
Remuneration of Councillors	7 812 670	-	-	7 812 670
Transfers and Subsidies	-	17 000 000	-	17 000 000
Actuarial gains/(losses)	1 006 000	-	-	1 006 000
Loss on Disposal of Fixed and Intangible Assets	123 668	27 192	6 345 530	6 496 390
Impairment Loss	118 526	1 821	3 000 046	3 120 393
Total segment expenditure	186 854 143	48 106 600	340 820 929	575 781 672
Total segmental surplus/(deficit)				243 765 624

Harry Gwala District Municipality and its Municipal Entity

(Registration number DC 43)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

	Governance and administration	Community services	Trading services	Total
53. Segment information (continued)				
Assets				
Segment assets	103 004 640	8 550 250 2 540 139 415	2 651 694 305	
Total assets as per Statement of financial Position				2 651 694 305
Liabilities				
Segment liabilities	137 460 036	-	2 033 520	139 493 556
Total liabilities as per Statement of financial Position				139 493 556

Measurement of segment surplus or deficit, assets and liabilities

Basis of accounting for transactions between reportable segments

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.