

Blue Crane Route Local Municipality

Audit Report

For the year ended 30 June 2018

Report of the auditor-general to the Eastern Cape Provincial Legislature and council on Blue Crane Route Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Blue Crane Route Municipality set out on pages ... to ..., which comprise statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Blue Crane Route Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2017 (Act No.03 of 2017) (DORA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. I draw attention to note 46 to the financial statements, which indicates that current liabilities exceed current assets, net deficits been realised in the current and prior year, high level of water and electricity losses and debt and credit payment ratio's not in the norm. As stated in note 46, these events or conditions, along with the other matters as set forth in note 46, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised expenditure

9. As disclosed in note 48 to the financial statements, the municipality incurred unauthorised expenditure of R1,6 million (2016-17 R8 million), mainly due to overspending on budget votes.

Irregular expenditure

10. As disclosed in note 50 to the financial statements, the municipality incurred irregular expenditure of R12 million (2016-17 R15,1 million), mainly due to contravention of supply chain management regulations.

Material losses

11. As disclosed in note 27 to the financial statements, the municipality incurred material electricity losses of R9,1 million (2016-2017: R11 million), which represents 19% (2016-17: 22%) of total electricity purchased and material water losses of R5,6 million (2016-17: R6,5 million), which represents 48% (2016-17: 48%) of total water purchased.

Allowance for impairment

12. As disclosed in note 33 to the financial statements, the municipality incurred material losses of R8,9 million (2016-17: R13,4 million), as a result of a write-off of irrecoverable trade debtors.

Restatement of corresponding figures

13. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors in the financial statements of the municipality identified at, and for the year ended 30 June 2018.

Other matter paragraph

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

15. The supplementary information set out on pages 71 to 87 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

17. In preparing the financial statements, the accounting officer is responsible for assessing the Blue Crane Route Municipality's ability to continue as a going concern, disclosing, as

applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018:

Development priorities	Pages in the annual performance report
Key performance area (KPA) 2: basic service delivery and infrastructure development	x – x

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

24. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

KPA 2: basic service delivery and infrastructure development

KPI 23: number of days per week household and business refuse is collected

25. I was unable to obtain sufficient appropriate audit evidence for target, number of days per week on which household and business refuse is collected, that clearly measured the predetermined nature and required level of performance and method of calculation. This was due to a lack of proper systems and processes to ensure that the method of calculation is clearly defined. I was unable to test whether the target for this indicator was clearly defined by alternative means.

KPI 29: number of water samples taken for chemical bacteriological analysis

26. The planned target for this indicator was not specific in clearly identifying the nature and required level of performance as it did not provide a breakdown of the target per the different categories of tests to be performed.

KPI 21: number of kilometres of gravel roads upgraded to paved roads in Nelsig, Khanyiso, Millennium Park, Old location and Bhongweni

27. The planned target for this indicator was not specific in clearly identifying the nature and required level of performance as it did not provide a breakdown of the target per the different areas.

Various indicators

28. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance for the indicators listed as reported in the annual performance report. This was due to measures not being appropriately disclosed and non-submission of corroborating evidence. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance:

- KPI 15 - Number of transformers purchased
- KPI 16 – Recloser procured for Somerset East Main substation
- KPI 17 – 4MVA transformer refurbished in SE main substation
- KPI 31 - Number of roadblocks conducted at National roads in BCRM area
- KPI 32 – Number of pounds constructed
- KPI 21 – Number of kilometres of gravel roads upgraded to paved roads in Nelsig, Khanyiso, Millennium Park, Old location and Bhongweni.

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information in paragraphs 19 to 22 of this report.

Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information on the key performance area of basic service delivery and infrastructure development. As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

32. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

33. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Human resource management

35. Financial interest was not disclosed by the municipal manager within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.

36. Financial interest was not disclosed by the senior manager within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.

Expenditure management

37. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
38. Reasonable steps were not taken to prevent irregular expenditure amounting to R12 million as disclosed in note 50 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM regulations.
39. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R1,6 million, as disclosed in note 48 of the annual financial statements, as required by section 62(1)(d) of the MFMA.

Asset management

40. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
41. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Procurement and contract management

42. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required number of price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
43. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5. Similar non-compliance was also reported in the prior year.

Other information

44. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the mayor's foreword, executive summary, governance, organisational development performance and financial performance. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.
45. Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
46. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report¹, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

47. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

48. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the key performance area of service delivery and infrastructure development and the findings on compliance with legislation included in this report.
49. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process of planning, budgeting, implementation and reporting and this impacted the financial and performance management systems, resulting in material findings identified on compliance and performance information.
50. The municipality does not have a performance management system in place for employees other than managers directly reporting to the municipal manager. There are also no proper processes in place to ensure that annual declarations are signed by all the employees before the deadline date.
51. The municipality did not properly monitor compliance with the policies as evidenced by material findings on performance information and compliance. Management also did not timeously monitor adherence to the audit action plan, which resulted in a number of repeat findings reported.
52. The municipality did not have a proper record management system to maintain information that supported the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information.
53. The financial statements submitted for auditing contained material misstatements, that were subsequently corrected as proper systems of monthly review were not implemented to ensure that misstatements are prevented, detected and corrected timeously. The annual performance report also contained material misstatements due to a lack of proper review, which includes scrutinising and verifying the supporting evidence for each target reported in the annual performance report.

54. The municipality did not have adequate processes in place to detect or prevent non-compliance with laws and regulations, which resulted in material non-compliance findings being reported. More emphasis needs to be placed in the area of adherence with unauthorised, irregular expenditure and compliance with SCM regulations.

Auditor - General

East London

30 November 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Blue Crane Route Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - obtain sufficient appropriate audit evidence regarding the financial information of the municipality to express an opinion on the financial statements. I am responsible for the direction, supervision and performance of the audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

DETAILS REPORT OF THE AUDIT COMMITTEE

1. BACKGROUND AND OVERVIEW

This report is submitted during a term of a newly appointed Audit Committee which commenced its term from 01 July 2018. Four members of the Audit Committee were appointed.

By and large, the matters reported in this report pertain to the year that ended 30 June 2018. Assistance was sought from two of the returning members in the committee, who served during the period that ended 30 June 2018.

2. RESPONSIBILITIES OF THE AUDIT COMMITTEE

The Audit Committee of the Blue Crane Route Municipality was appointed in terms of MFMA Section 166 which states:

- (1) Each municipality and each municipal entity must have an audit committee, subject to subsection (6).
- (2) An audit committee is an independent advisory body which must—
 - (a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to—
 - (i) internal financial control and internal audits;
 - (ii) risk management;
 - (iii) accounting policies;
 - (iv) the adequacy, reliability and accuracy of financial reporting and information;
 - (v) performance management;
 - (vi) effective governance;
 - (vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;
 - (viii) performance evaluation; and
 - (ix) any other issues referred to it by the municipality or municipal entity

Furthermore, paragraph 14 (2)(a) of the Municipal Planning and Performance Management Regulations requires a municipality to appoint and budget for a performance audit committee.

The Committee was appointed as Performance Audit Committee of the municipality

3. AUDIT COMMITTEE CHARTER & AUDIT COMMITTEE ANNUAL WORKPLAN

Along with the review of the Audit Committee charter, the committee developed an annual workplan which guided its work for the 2017/18 financial year. Both the Audit Committee Charter and annual workplan was approved by Council.

4. MEETINGS OF THE AUDIT COMMITTEE

Audit and Risk Committee held 5 meetings during the 2017/18 financial year with satisfactory attendance from all the committee members. Various reports were tabled before the committee and recommendations were made to assist both management and Council in improving financial management and control, compliance and performance management within the municipality.

Below are the matters considered during our engagements, in detail:

5. EXPIRY OF CONTRACT AND APPOINTMENT OF SENIOR MANAGERS

The committee noted the expiry of the contracts of Senior Management including the Municipal Manager as at end of August

Whilst the position of Director Technical Services has remained vacant for the entire year ending 30 June 2018, the committee would like to applaud Council and Management in the swift appointments made in the following positions:

- Municipal Manager
- Director Corporate Services
- Director Community Services
- Head of Internal Audit

The committee however noted with concern the unfilled vacant position of the Director Technical Services, as it affects directly service delivery

6. CREDIT CONTROL AND CASH FLOW

The Audit Committee engaged management at all its meetings on the status of certain trade debtors whose accounts remained high and unpaid. This directly affected the cash flow of the municipality.

Specific accounts considered in our meetings related to:

- SanParks
- Wirquin

The committee also considered high usage of the telephones, and at its meeting engaged management in curbing expenditure on the TELKOM account. This was raised with a view to improve the financial health of the municipality.

Recommended: That telephone pins be allocated to staff to control the usage of telephone

7. FRAUD CASE

The Audit Committee considered the matter of the fraudulent payment of R807 000 which was investigated by COGTA. The committee raised its concern on

- o The time to taken to finalize the investigation
- o The lack of action by SAPS to investigate the matter

8. ANNUAL FINANCIAL STATEMENTS

The committee reviewed the financial statement for the 2017/8 financial year and key to the issues identified were the following:

a. The cashflow shortfall

The committee noted the municipality, despite paying most of its immediate creditors on time, was faced with a cash shortage. The cashflow shortage gap was from the previous years, where accruals of the previous budget get paid into the following budget years.

b. Concern over the Going concern principle

The committee felt that the municipality needed to explain its going concern status in the financial statements as this was not detailed. The committee recommended that the municipality indicate in its AFS that it relies on receiving government grants in order to undertake most of its service delivery related commitments.

c. ICT RISK

The committee noted the new GRAP requirements where ICT intangible assets software is expensed, instead of being capitalised. On review of the ICT Steering Committee minutes, the committee noted various challenges with IT which lacked budget for implementation.

Key to the issues raised by Internal audit was

- The absence of ICT Strategic Framework
- The non-implementation of ICT policies in relation to the usage of telephone pins for staff

d. mSCOA compliance and challenges due to SAMRAS system

The Audit Committee obtained management assurance that the financial statements comply with mSCOA requirements, and that all mSCOA file documentation is maintained.

The committee learnt that the municipality experience difficulties in its in year reporting due to challenges encountered with the SAMRAS system. The SAMRAS consultant was invited to the committee meetings, and commitments were made by the service provider to provide support to the municipality

e. Leave Provision

Internal Audit provided a report to the committee indicating that leave forms for leave taken had not been filed for the entire financial year. The committee responses from management that the forms were filed using temporary casuals who were appointed to help with filing.

In the week leading to the 2th august the filing was completed, according to the HR Officer, however further follow up during the audit revealed that this information had in fact not been filed.

f. Irregular Expenditure

Whilst the Irregular expenditure reduced, it is a concern to the committee that irregular expenditure of R10ml is incurred. The committee recommended that the recurring contracts attracting irregular expenditure be awarded to avoid the incurrence of irregular expenditure. E.g. security, legal fees etc

The municipality should consider eradicating irregular expenditure as this may have a reputation loss on the municipality. The committee further recommended that all irregular expenditure be disclosed with adequate reasons on the AFS to provide information to the public. That the public be educated and made aware on the causes of irregular expenditure

g. Funding withheld by Treasury

The committee learnt that funding to the tune of R2million rand was withheld by Treasury due to lack of spending. The committee felt that this directly affects service delivery and plans should be put in place to accelerate spending on allocated grants.

h. Other matters on AFS

- The Receivables were not properly classified and categorized in terms of consumer per category.
- The heritage assets were not listed

9. RISK MANAGEMENT

A total of 24 strategic risks were identified along with 15 fraud risks during the risk assessment process. Mitigating plans were developed to reduce the impact of the identified risks.

Whilst this exercise was done, the committee identified the need to improve the risk management function as a whole of the municipality.

Quarterly, the progress in the mitigation of identified strategic risks was verified by Internal Audit. Majority of the strategic risks remained high, indicating the non-implementation of the agreed upon action plans.

There is a need to institutionalize the responsibilities of risk management to all levels of staff within the employees.

10. INTERNAL AUDIT

The committee approved the Internal Audit Plan for the 2017/18 financial year, with the rolling three-year strategy ending in 2019/20. Reports of Internal Audit were tabled to the committee with recommendations to management. The following were key reports presented which required attention of management

- Fleet Management Audit report
- Revenue Management
- SCM and Expenditure
- Performance Information
- Leave Management
- Follow up report on the status of controls
- Follow up report on progress to mitigate risks
- Leave provision review (AFS)
-

The committee obtained assurance on the independence of the Internal Audit function. The Internal Audit function was adequately resourced during the year. One intern was transferred from Internal Audit to the Budget and Financial Reporting office, for exposure purposes and to gain further training. The transfer of the intern occurred towards the end of her training term and did not affect the independence of the function

The vacancy at Internal Audit is budgeted for, and was in the process of being filled as it is funded through the FMG grant

11. AUDITOR GENERAL OUTCOME

The committee noted the **unqualified audit opinion** of the Auditor General (AG) on the audit of 2017/18 and has raised concern on the matters of emphasis which should be dealt with in terms of the Audit Improvement Plan.

The Audit Committee is gravely concerned on the qualified conclusion on the performance information, which emanated on findings related to usefulness and the reliability of the reported performance information for 2017/18.

The identified root cause is the continuous non/late submission of performance information and that performance was not audited prior to submitting to the Auditor General. For the 2017/18 report, Internal Audit was unable to audit the "Annual Performance Report" as the performance report was not submitted for auditing on time.

The committee also could not be provided with the "Annual Performance Report" to review prior to submission to Council and the Auditor General. This trend continued into the in-year reporting

The committee raised this matter with Accounting Officer, and recommended that consequence management be applied where information is not submitted, and the Accounting Officer should protect Chief Audit Executive, and intervene where such occurs

12. AUDIT IMPROVEMENT PLAN

The committee received the draft audit improvement plan to be used as tool to monitor progress in addressing the findings by the AG.

The committee urges management in strategic planning to consider developing a long-term strategic plan to deal with audit report matters flagged as paragraphs by the AG.

The Audit Improvement Plan should be presented in all Council, MPAC, and all other Council Committees going forward to ensure that oversight monitoring is applied.

13. LOCAL ECONOMIC DEVELOPMENT

The Audit Committee identified that the LED function is not being given focus. The absence of key performance indicators and targets set to undertake LED initiatives hampers the performance outcomes of the municipality.

14. CONSUMER DEBTORS

The committee noted that the municipality has high consumer debtors which are over 100 days old, and some over a year old. It is most probable that these debtors will not be recovered.

A total of R73 million debtors was identified and about R39 million pertains to debt which has been owing for over a year.

Council should consider introducing incentives to recover old debt with an option to write-off.

The indigent debtors should be extracted from reports submitted to Council for

15. LOW GRANT EXPENDITURE

The committee noted that the municipality has not adequately spent on its grants as at mid-year. Management should submit plans on how expenditure will be accelerated for Council to approve an adequate adjusted budget.

BLUE CRANE ROUTE MUNICIPALITY(EC102)



Annual Financial Statements for the
year ended 30 June 2018

Blue Crane Route Municipality

Annual Financial Statements for the year ended 30 June 2018

General Information

Legal form of entity	Local Municipality
Grade	2
Nature of business and principal activities	Local Government. Principal activities inline with the Constitution of South Africa, Schedule 4 B and 5 B
The following is included in the scope of operation	Service Delivery
Council members	
Mayor	BA Manxoweni
Councillors	A Hufkle M Kwatshu P Sonkwala J Martin T Xakaxa F Brown C Du Plessis KC Brown NP Nkonyeni T Grootboom
Accounting Officer	T Klaas
Chief Finance Officer (CFO)	NB Delo
Registered office	67 Nojoli Street Somerset East 5850
Postal address	P.O. Box 21 Somerset East 5850
Auditors	Auditor General South Africa
Bankers	First National Bank
Attorneys	Not appointed

Blue Crane Route Municipality
Annual Financial Statements for the year ended 30 June 2018

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

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
mSCOA	Municipal Standard Chart Of Accounts
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
SBDM	Sarah Beartman District Municipality
MIG	Municipal Infrastructure Grant
WSIG	Water Services Infrastructure Grant
FMG	Financial Management Grant
EPWP	Expanded Public Works Program
INEP	Integrated National Electrification Program

Blue Crane Route Municipality

Annual Financial Statements for the year ended 30 June 2018

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 South African Statements of Generally Recognised Accounting Practice (GRAP) And the Municipal Finance Management Act (MFMA) including any Interpretations, guidelines and directives issued by the Accounting Standards Board.

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. Note 47 of this Annual Financial Statements has given more clarity on this matter.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the Chief Financial Officer.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on the following pages have been prepared on the going concern basis, were approved by the accounting officer on 27 November 2018 and were signed by him.

The accounting officer hereby certify as required by Section 124(1)(a) of the Municipal Finance Management Act (Act 56 of 2003) that the salaries, allowances and benefits of political office-bearers and councillors of the Blue Crane Route Municipality, whether financial or in kind, are within the upper limits of the framework envisaged in section 219 of the Constitution.



Thabiso Klaas
Accounting Officer
27 November 2018

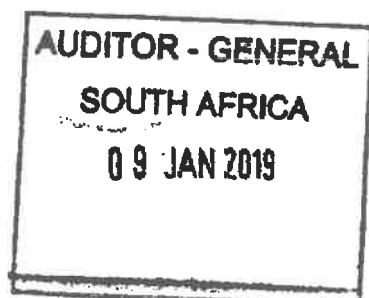


Blue Crane Route Municipality

Annual Financial Statements for the year ended 30 June 2018

STATEMENT OF FINANCIAL POSITION

	Notes	2018 R	2017 R (Restated)
ASSETS			
Current assets			
Other financial assets	4	3 419	3 253
Inventories	6	1 034 719	958 287
Other receivables from exchange transactions	7	1 068 137	1 021 029
Other receivables from non-exchange transactions	8	5 131 321	6 414 873
Trade receivables from exchange transactions	9	23 917 276	22 444 353
Cash and cash equivalents	10	1 222 562	6 928 628
		<u>32 377 434</u>	<u>37 770 423</u>
Non-current assets			
Investment property carried at cost	11	25 323 269	25 391 518
Property, plant and equipment	12	577 324 619	582 392 020
Intangible assets	13	-	2 238
Heritage assets	14	458 067	458 067
Other financial assets	4	2 982	6 401
		<u>603 108 937</u>	<u>608 250 244</u>
Total assets		<u>635 486 371</u>	<u>646 020 667</u>
LIABILITIES			
Current liabilities			
Employee benefit obligation	15	1 432 432	1 258 474
Other financial liabilities	16	3 510 272	3 228 932
Finance lease obligation	17	1 409 534	858 589
Unspent conditional grants and receipts	18	1 982 972	4 197 603
Payables from exchange transactions	20	24 263 121	23 796 062
Trade and other payables from non-exchange	21	422 345	55 700
VAT payable	22	2 457 954	3 053 143
Consumer deposits	23	2 578 763	2 421 026
		<u>38 057 393</u>	<u>38 869 529</u>
Non-current liabilities			
Employee benefit obligation	15	25 507 661	24 419 218
Other financial liabilities	16	4 672 935	8 134 684
Finance lease obligation	17	1 236 799	1 429 629
Provisions	19	21 353 969	25 926 519
		<u>52 771 364</u>	<u>59 910 050</u>
Total liabilities		<u>90 828 757</u>	<u>98 779 579</u>
Net assets		<u>544 657 614</u>	<u>547 241 088</u>
Accumulated surplus		<u>544 657 614</u>	<u>547 241 088</u>



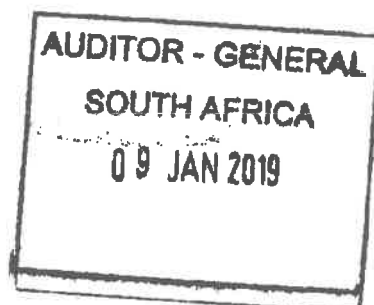
Blue Crane Route Municipality

Annual Financial Statements for the year ended 30 June 2018

STATEMENT OF FINANCIAL PERFORMANCE

	Notes	2018 R	2017 R (Restated)
Revenue (Re-classified as per mSCOA)			
Property rates	26	12 098 426	11 152 026
Service charges	27	105 391 913	111 774 047
Rental of facilities and equipment	25	468 326	260 849
Interest earned - outstanding debtors	25	3 882 997	3 847 706
Interest earned - external investments	28	1 140 337	1 281 204
Agency Services	25	1 053 871	885 336
Fines	25	55 479	71 800
Licences and permits	25	565 926	831 847
Transfers and Subsidies	29	83 919 158	73 376 019
Gains on disposal of PPE	25		65 416
Other income	30	2 260 524	3 666 444
Fair Value Adjustments: Landfill site	19	4 572 550	
Total revenue		215 409 507	207 212 694
Expenditure (Re-classified as per mSCOA)			
Employee related costs	31	76 778 521	74 179 519
Remuneration of councillors	32	3 870 463	3 466 515
Debt Impairment	33	8 990 907	13 413 398
Depreciation and asset impairments/amortisation	12/13	34 511 882	34 803 416
Finance costs	34	1 333 742	4 024 008
Bulk purchases	35	71 873 249	74 856 791
Contracted services	36	6 533 430	5 204 296
Inventory consumed		2 539 532	3 525 512
Transfers and Subsidies	37	1 010 018	769 470
Operational Cost	38	11 872 723	14 312 927
Loss on disposal of PPE		149 995	
Total expenditure		219 464 462	228 555 852
Actuarial (Loss) /gain	15	1 471 481	1 192 041
Surplus / (deficit) for the year		(2 583 474)	(20 151 117)

****See Note 55 for mSCOA re-classifications and prior period errors for 2017**



Blue Crane Route Municipality

Annual Financial Statements for the year ended 30 June 2018

STATEMENT OF CHANGES IN NET ASSETS

	Notes	R	R
		Accumulated Surplus/(Deficit)	Total: Net Assets
Opening balance as previously reported (2016)		558 874 814	558 874 814
Adjustments:			
Prior period adjustments (2016 and earlier)	44	8 517 391	8 517 391
Balance at 1 July 2017 as restated		567 392 205	567 392 205
Changes in net assets			
Deficit for the year		(20 151 117)	(20 151 117)
Balance at 30 June 2017 as restated		547 241 088	547 241 088
Opening balance as previously reported (2017)		536 886 204	536 886 204
Prior period adjustments (2017 and earlier)	44	10 354 884	10 354 884
Balance at 1 July 2017 as restated		547 241 088	547 241 088
Changes in net assets			
Deficit for the year		(2 583 474)	(2 583 474)
Balance at 30 June 2018		544 657 614	544 657 614



Blue Crane Route Municipality

Annual Financial Statements for the year ended 30 June 2018

CASH FLOW STATEMENT

	Notes	2018 R	2017 R (Restated)
Cash flows from operating activities			
Receipts			
Sales of goods and services		110 744 490	110 767 526
Grants		81 704 527	70 780 550
Interest received		1 126 745	1 251 250
Other receipts		6 108 732	4 010 177
		<u>199 684 494</u>	<u>186 809 503</u>
Payments			
Employee costs		(73 450 774)	(73 303 740)
Remuneration of councillors		(3 870 463)	(3 480 647)
Suppliers		(18 914 659)	(25 551 051)
Bulk purchases		(71 660 191)	(66 965 109)
Interest paid		(1 057 454)	(1 404 356)
Other payments		(3 817 701)	(2 308 204)
		<u>(172 771 242)</u>	<u>(173 013 107)</u>
Net cash flows from operating activities	40	<u>26 913 252</u>	<u>13 796 396</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(29 658 155)	(16 465 760)
Net proceeds on disposal of assets and liabilities		134 170	408 278
Proceeds from Other financial assets	4	3 253	3 095
Net cash flows from investing activities		<u>(29 520 732)</u>	<u>(16 054 387)</u>
Cash flows from financing activities			
Proceeds from borrowings			
Repayment of other financial liabilities		(3 180 409)	(3 496 524)
Finance lease received		1 460 204	
Finance lease payments		(1 378 381)	(1 429 432)
Net cash flows from financing activities		<u>(3 098 586)</u>	<u>(4 925 956)</u>
Net Increase / (decrease) in net cash and cash equivalents		(5 706 066)	(7 183 947)
Cash Balance transferred from Dev Agency			
Net cash and cash equivalents at beginning of period		6 928 628	14 112 575
Net cash and cash equivalents at end of period	10	<u>1 222 562</u>	<u>6 928 628</u>



Blue Crane Route Municipality

Annual Financial Statements for the year ended 30 June 2018

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Notes	Approved budget R	Adjustments R	Final budget R	Actual amounts on comparable basis R	Difference between final budget and actual R
Statement of Financial Position						
Total current assets		30 153 500	11 010 540	41 164 040	32 377 434	8 786 606
Total non-current assets		631 582 607	(35 960 660)	595 621 947	603 108 937	(7 486 990)
Total current liabilities		(18 610 273)	500 000	(18 110 273)	(38 057 393)	19 947 120
Total non-current liabilities		(53 602 562)	(4 426 000)	(58 028 562)	(52 771 364)	(5 257 198)
Net Assets		589 523 272	(28 876 120)	560 647 152	544 657 614	15 989 538

Statement of Financial Performance

Revenue						
Property rates	51	12 254 010		12 254 010	12 099 262	154 748
Service charges	51	120 708 670	(784 200)	119 924 470	114 637 658	5 286 812
Interest earned - external investments		1 000 750		1 000 750	1 140 337	(139 587)
Interest earned - outstanding debtors		3 276 000	629 000	3 905 000	3 882 997	22 003
Rental of facilities and equipment		243 600	289 480	533 080	468 326	64 754
Fines		90 000	(9 000)	81 000	55 479	25 521
Licences and permits		750 000	(150 000)	600 000	565 926	34 074
Agency services		890 000	(290 000)	600 000	1 053 871	(453 871)
Transfers and Subsidies		84 810 400	2 567 230	87 377 630	83 919 158	3 458 472
Gains on disposal of PPE		170 000	30 000	200 000	-	200 000
Other income		5 684 180	(3 379 780)	2 304 400	8 304 555	(6 000 155)
Total Revenue		229 877 610	(1 097 270)	228 780 340	226 127 569	2 652 771
Expenditure						
Employee related costs		78 417 300	(3 367 840)	75 049 460	76 778 521	(1 729 061)
Remuneration of councillors		3 713 610	145 800	3 859 410	3 870 463	(11 053)
Debt impairment		7 965 000	-	7 965 000	8 990 907	(1 025 907)
Depreciation & asset impairment		34 448 500	3 084 000	37 532 500	34 511 882	3 020 618
Finance charges		5 708 350	(1 897 520)	3 810 830	1 333 742	2 477 088
Bulk Purchases		76 634 050	500 000	77 134 050	71 873 249	5 260 801
Other material/inventory consumed		3 708 730	(489 040)	3 219 690	2 539 532	680 158
Contracted services		4 983 110	2 732 710	7 715 820	6 533 430	1 182 390
Transfers and Subsidies		1 033 000	605 000	1 638 000	1 010 018	627 982
Other expenditure	51	22 804 080	1 232 240	24 036 320	21 269 299	2 767 021
Total expenditure		239 415 730	2 545 350	241 961 080	228 711 043	13 250 037
Actual Amount on Comparable Basis as Presented in the Budget And Actual Comparative Statement		(9 538 120)	(3 642 620)	(13 180 740)	(2 583 474)	(10 597 266)

Refer to note 53 for explanations for material variances between final budget and actual amounts as well as note 54 for differences between the final budget and the original budget



Blue Crane Route Municipality

Annual Financial Statements for the year ended 30 June 2018

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Notes	Approved budget R	Adjustments R	Final budget R	Actual amounts on comparable basis R	Difference between final budget and actual R
Cash Flow Statement						
Cash flows from operating activities						
<u>Receipts</u>						
Ratepayers and other		108 647 638	3 833 528	112 481 166	110 744 480	1 736 676
Other Revenue		24 100 095	4 419 018	28 519 113	5 950 995	22 568 118
Government - operating		52 110 980	(1 230 960)	50 880 000	50 962 232	(82 232)
Government - capital		30 771 200	-	30 771 200	30 742 295	28 905
Interest		3 389 772	(2 419 772)	970 000	1 126 745	(156 745)
<u>Payments</u>						
Suppliers and employees		(186 764 960)	(16 764 961)	(203 529 921)	(170 703 770)	(32 826 151)
Finance charges		(1 508 420)	503 580	(1 004 840)	(1 067 454)	52 614
Transfers and Grants		(1 033 000)	333 000	(700 000)	(1 010 018)	310 018
NET CASH FROM/(USED) OPERATING ACTIVITIES		29 713 305	(11 326 587)	18 386 718	26 755 515	(8 368 797)
CASH FLOWS FROM INVESTING ACTIVITIES						
<u>Receipts</u>						
Proceeds on disposal of PPE		70 000	70 000	140 000	134 170	5 830
Decrease (Increase) in non-current debtors					3 253	(3 253)
<u>Payments</u>						
Capital assets		(27 282 290)	(1 677 710)	(28 960 000)	(29 658 155)	698 155
NET CASH FROM/(USED) INVESTING ACTIVITIES		(27 212 290)	(1 607 710)	(28 820 000)	(29 520 732)	700 732
CASH FLOWS FROM FINANCING ACTIVITIES						
<u>Receipts</u>						
Borrowing long term/finance lease					1 460 204	(1 460 204)
Increase (decrease) in consumer deposits		226 000	(2 250)	222 750	157 737	65 013
<u>Payments</u>						
Repayment of borrowing		(3 510 000)	(601 000)	(4 111 000)	(4 558 780)	447 780
NET CASH FROM/(USED) FINANCING ACTIVITIES		(3 285 000)	(603 250)	(3 888 250)	(2 940 849)	(947 401)
NET INCREASE/ (DECREASE) IN CASH HELD		(763 985)	(13 537 547)	(14 321 532)	(5 706 066)	(8 615 466)
Cash/cash equivalents at the year begin:		1 000 000	5 928 628	6 928 628	6 928 628	-
Cash/cash equivalents at the year end:		216 015	(7 608 919)	(7 392 904)	1 222 562	(8 615 466)

AUDITOR - GENERAL
SOUTH AFRICA
09 JAN 2019

Blue Crane Route Municipality

Annual Financial Statements for the year ended 30 June 2018

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 No 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below.

These accounting policies are consistent with those applied in the preparation of the prior year financial statements, unless specified otherwise. Details on any changes in accounting policies are provided in note Changes in accounting policy.

1.1. Presentation of currency

These annual financial statements are presented in South African Rand, which is the functional currency of the entity. The figures in the annual financial statement are rounded to the nearest Rand value.

1.2. Going concern

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

1.3. Budget information

Budget information in accordance with GRAP 1 and 24, has been provided in the Statement of comparison of budget and actual amounts.

The approved budget is prepared on an accrual basis.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

1.4. Comparative figures

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and/or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are

Blue Crane Route Municipality
Annual Financial Statements for the year ended 30 June 2018
ACCOUNTING POLICIES

restated accordingly.

Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. The presentation and classification of items in the current year is consistent with prior years.

The nature and reasons for the reclassifications and restatements are disclosed in note 42 to the financial statements.

1.5. Offsetting

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

1.6. Significant judgements and sources of estimation uncertainty

The use of judgement, estimates and assumptions is inherent to the process of preparing annual financial statements. These judgements, estimates and assumptions affect the amounts presented in the annual financial statements. Uncertainties about these estimates and assumptions could result in outcomes that require material adjustment to the carrying amount of the relevant asset or liability in future periods.

Judgements

In the process of applying these accounting policies, management has made the following judgements that may have a significant effect on the amounts recognised in the annual financial statements.

Estimates

Estimates are informed by historical experience, information currently available to management, assumptions, and other factors that are believed to be reasonable under the circumstances. These estimates are reviewed on a regular basis. Changes in estimates that are not due to errors are processed in the period of the review and applied prospectively.

In the process of applying the entity's accounting policies, the following estimates were made:

Inventory

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir.

Impairments of non-financial assets

In determining the value-in-use of non-financial assets, management is required to rely on the use of

Blue Crane Route Municipality

Annual Financial Statements for the year ended 30 June 2018

ACCOUNTING POLICIES

estimates about the asset's ability to continue to generate cash flows (in the case of cash-generating assets). For non-cash-generating assets, estimates are made regarding the depreciated replacement cost, restoration cost, or service units of the asset, depending on the nature of the impairment and the availability of information.

Provisions

Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amounts that will be required in future to settle the provision management considers the weighted average probability of the potential outcomes of the provisions raised. This measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes.

Management then assigns a weighting factor to each of these outcomes based on the probability that the outcome will materialise in future. The factor is then applied to each of the potential outcomes and the factored outcomes are then added together to arrive at the weighted average value of the provisions. Additional disclosure of these estimates of provisions is included in note 19 - Provisions.

Pension and other post-employment 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, future salary increase, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Effective interest rate

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

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis.

The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

Provision for rehabilitation of refuse landfill sites

The entity has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the size / extent of the land to be rehabilitated, the rehabilitation

cost per square meter, the monitoring cost per square meter, and the rehabilitation period. Current costs are projected using the average rate of inflation over the remaining period until rehabilitation, and then discounted to their present value using an appropriate discounting rate, representing the time value of money.

Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's current condition, expected condition at the end of the period of use, its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

1.7. Property, plant and equipment

Initial recognition

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

The cost of an item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits or service potential associated with the item will flow to the municipality and the cost of the item can be measured reliably.

Property, plant and equipment are 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. The cost also includes the cost of dismantling and removing the asset and restoring the site on which it is operated.

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

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.

Major spare parts and servicing equipment which are expected to be used for more than one period

Blue Crane Route Municipality

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ACCOUNTING POLICIES

are included in property, plant and equipment. In addition, spare parts and servicing equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Subsequent measurement

Subsequent to initial recognition, property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land, which is not depreciated as it is deemed to have an indefinite useful life.

Subsequent expenditure

Where the entity replaces part of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Depreciation

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. Components that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciable amount is determined after taking into account an asset's residual value.

The annual depreciation rates are based on the following estimated useful lives:

Item	Average useful life
Land (PPE)	Indefinite
Buildings	30 - 60 years
Plant	5 - 15 years
Furniture and fixtures	5 - 15 years
Motor vehicles	5 - 20 years
Office equipment	3 - 10 years
Other equipment	3 - 10 years
Infrastructure	5 - 80 years

Impairments

The entity tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

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

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

Derecognition

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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.8. Investment property

Initial Recognition

Investment property includes property (land or a building, or part of a building) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Investment property is initially recognised when future benefits are probable and the cost or fair value can be determined reliably.

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

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

The cost of day to day servicing of investment property is recognised in the Statement of Financial Performance as incurred.

Cost Model

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

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Blue Crane Route Municipality

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ACCOUNTING POLICIES

Item	Useful life
Property – land	indefinite
Property – buildings	30 years.

Derecognition

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

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

Impairments

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date.

Where the carrying amount of an Investment Property is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

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

Subsequent expenditure

Where the entity replaces part of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

1.9. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The entity recognises an intangible asset in its Statement of Financial Position when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and the cost or fair value of the asset can be measured reliably.

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

- the entity intends to complete the intangible asset, for use or sale
- it is technically feasible to complete the intangible asset

Blue Crane Route Municipality

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ACCOUNTING POLICIES

- the entity has the resources to complete the project
- it is probable that it will generate future economic benefits or service potential.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Subsequent measurement

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

The cost of an intangible asset is amortised over the useful life where that useful life is finite. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Financial Performance in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assumption continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

Amortisation and impairment

Amortisation is charged to write off the cost of intangible assets over their estimated useful lives using the straight-line method.

The annual amortisation rates are based on the following estimated average asset lives:

Computer software	5 years
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Impairments

The entity tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is performed at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down

immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal.

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

1.10. Heritage Assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives.

Initial Recognition

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

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairments

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

Transfers

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

Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.11. Financial instruments

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.

Upon initial recognition the entity classifies financial instruments or their component parts as financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument meets the relevant definitions.

Financial instruments are evaluated, based on their terms, to determine if those instruments contain both liability and residual interest components (i.e. to assess if the instruments are compound financial instruments). To the extent that an instrument is in fact a compound instrument, the components are classified separately as financial liabilities and residual interests as the case may be.

Initial measurement

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.

Subsequent measurement

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost or cost. All financial assets and financial liabilities are measured after initial recognition using the following categories:

a) Financial instruments at fair value:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;

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- non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
- financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

b) Financial instruments at amortised cost:

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.

c) Financial instruments at cost:

Investments in residual interest, which do not have quoted market prices, and for which fair value cannot be determined reliably.

The entity assesses which instruments should be subsequently measured at fair value, amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost as set out above.

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.

Impairments

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

The entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the entity determines that no objective evidence of impairment exists for an individually assessed asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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

the loss is recognised in surplus or deficit.

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

Financial assets measured at cost:

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

Derecognition

Financial assets

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

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

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when the obligation 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.

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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).

Policies relating to specific financial instruments

Investments at amortised cost

Investments which include fixed deposits and short-term deposits invested in registered commercial banks are categorised as financial instruments at amortised cost and are subsequently measured at amortised cost.

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

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

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost.

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks.

Trade and other receivables

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost less provision for impairment. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

Trade and other payables

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to

the acquisition and are subsequently measured at amortised cost.

Other financial assets

These include loans receivable and initially measured at fair value plus transaction costs that are directly attributable to the acquisition and subsequently measured at amortised cost.

1.12. Leases

Finance leases - lessee

Initial recognition

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the entity through the lease agreement. Assets subject to finance leases are recognised in the Statement of Financial Position at the inception of the lease, as is the corresponding finance lease liability.

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.

Subsequent measurement

Subsequent to initial recognition the finance lease liability is carried at amortised cost, with the lease payments being set off against the capital and accrued interest. The allocation of the lease payments between the capital and interest portion of the liability is effected through the application of the effective interest method.

The finance charges resulting from the finance lease are expensed, through the Statement of Financial Performance, as they accrue. The finance cost accrual is determined using the effective interest method.

Finance lease liabilities are derecognised when the entity's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the entity no longer expects any economic benefits or service potential to flow from the asset.

Operating leases - lessor

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease.

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

An operating lease liability is raised to the extent that lease payments are received in advance (i.e. the straight-line lease payments are more than the contractual lease payments). The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

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

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases - lessee

Assets subject to operating leases, i.e. those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position.

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.

1.13. Inventories

Initial recognition and measurement

Inventories are initially measured at cost. Cost refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their required location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

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

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

Subsequent measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress (WIP) and finished goods (FG), are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement

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cost.

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

Redundant and slow-moving inventories are identified and written down from cost to net realisable value.

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 municipality.

Derecognition

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.

1.14 Impairment of cash-generating assets

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

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.

Identification

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

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

Irrespective of whether there is any indication of impairment, the municipality 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.

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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 municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

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

Recognition and measurement

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.

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.

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

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

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

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

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

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

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

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

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

Reversal of impairment loss

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

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

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

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

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

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

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

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1.15. Employee benefits

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 are recognised in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

Post-employment benefits

The entity provides post-employment benefits for its officials. These benefits are provided as either defined contribution plans or defined benefit plans. The entity identifies as defined contribution plans any post-employment plan in terms of which it has no obligation to make further contributions to the plan over and above the monthly contributions payable on behalf of employees (for example in the event of a funding shortfall). Any other plans are considered to be defined benefit plans.

Defined contribution plans

Contributions made towards the fund are recognised as an expense in the Statement of Financial Performance in the period that such contributions become payable. This contribution expense is measured at the undiscounted amount of the contribution paid or payable to the fund. A liability is recognised to the extent that any of the contributions have not yet been paid. Conversely an asset is recognised to the extent that any contributions have been paid in advance.

Post-retirement Medical Obligations

The municipality provides post-retirement medical benefits by subsidising the medical contributions of certain retired staff members according to the rules of the medical aid funds. Council pays 70% of the contributions and the remaining 30% is paid by the members.

The entitlement to post-retirement medical benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations, in accordance with GRAP 25 - "Employee Benefits". The plan is unfunded.

The contributions are recognised in the statement of financial performance when the employees have

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rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method.

The liability is recognised at the present value of the defined benefit obligation at the reporting date, minus the fair value of the plan assets (if any) out of which the obligations are to be settled directly, plus any liability that may arise as a result of minimum funding requirements. Payments made by the municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries, and are recognised in the Statement of Financial Performance upon valuation.

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

1.16. Provisions and contingencies

Provisions are recognised when:

- a) the municipality has a present obligation as a result of a past event;
- b) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- c) 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 expenditure expected to be required to settle the obligation.

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

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

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

A provision is used only for expenditure for which the provision was originally recognised. Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

