Accounting Policies

LEJWELEPUTSWA DISRICT MUNICIPALITY

DATE APPROVED BY COUNCIL:

REVISION:

Accounting Policies

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Accounting Policies

1. **Accounting policies are the specific principles, bases, conventions, rules and practices applied by the entity in preparing and presenting financial statements.**

2. **OBJECTIVE**

   The objective of these policies is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, these policies set out overall considerations for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

3. **MANAGEMENT RESPONSIBILITIES**

3.1 THE ROLE OF THE EXECUTIVE MAYOR

The Council must maintain oversight over the implementation of the Budget policy, for the purpose of such oversight, the executive mayor of the District municipality must-

a) Monitor, oversee the exercise of the responsibilities assigned in terms of the MFMA to the accounting officer and the chief financial officer, but may not interfere in the exercise of those responsibilities;

b) Take all reasonable steps to ensure that the municipality performs its constitutional statutory functions within the limits of the municipality's approved budget;

c) The executive mayor must, within 30 days of the end of each quarter, submit a report to council on the implementation of the budget and the financial state of affairs of the municipality;

d) Check whether the municipality's approved budget is implemented in accordance with the service delivery and budget implementation plan;

e) Instruct the accounting officer to ensure that the budget is implemented in accordance with the service delivery and budget implementation plan and that spending of funds and revenue received proceeds in accordance with the budget.

3.2 THE ROLE OF THE ACCOUNTING OFFICER (MUNICIPALMANAGER)

The municipal manager is the accounting officer and administrative authority for the municipality. The municipal manager is accountable to the executive mayor in the first instance for the implementation of specific outputs.

In the second instance the Municipal Manager is accountable to the council for the overall administration of the municipality. The Municipal Manager must be fully aware of the reforms required in order to provide the Executive Mayor, Councilors, senior officials and municipal entities with the appropriate guidance and advice on financial and budget issues. Whilst the Municipal manager may delegate many tasks to the Chief Financial Officer or other senior officials, this must be done carefully to ensure that all tasks are completed appropriately.

Accounting Officer (Municipal Manager) should-:

f) Implement the municipality's approved budget including taking all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget.

g) Ensure that revenue and expenditure are properly monitored.

h) When necessary, the accounting officer must prepare an adjustments budget and submit it to the mayor for consideration and tabling in the municipal council.

i) Report to the municipal council any shortfalls in the budget revenue, overspending and necessary steps taken to prevent shortfalls and overspending.

j) Submit to the mayor actual revenue, borrowings, expenditure and where necessary report the variance on revenue, projected revenue and the budget.

3.3 THE ROLE OF CHIEF FINANCIAL OFFICER (CFO)

The Chief Financial Officer is the administrative head of the budget and treasury office. The Chief Financial Officer has an essential function in assisting the Municipal Manager to carry out his or her financial management responsibilities, in areas ranging from budget preparation to financial reporting and the development and maintenance of internal control procedures. The Chief Financial Officer plays a central role in implementing the financial reforms at the direction of the Municipal Manager with assistance of appropriate skilled staff.

3.4 THE ROLE OF SENIOR MANAGERS AND OTHER OFFICIALS

According to the MFMA, the following are the roles to be carried by the senior managers and other officials:

a) That the system of financial management and internal control system established for municipality is carried out diligently;
b) Ensure that resources of the municipality are utilized effectively, efficiently, economically and transparently;
c) Prevent unauthorized, irregular, fruitless or wasteful expenditure and other losses
d) Collection of revenue.
e) Safeguarding, maintenance and management of assets.

f) Submission of information to the accounting officer for compliance with the Act.

4. DEFINITIONS

The following terms are used in these policies and are defined as per the Standards of GRAP:

"Accounting policies" are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

"Accrual basis" means a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets, revenue and expenses.

"Assets" are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

"Associate" is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a controlled entity nor a joint venture.

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

"Cash" comprises cash on hand and demand deposits.

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"Cash equivalents" are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

"Cash flows" are inflows and outflows of cash and cash equivalents.

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

"Contributions from owners" means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets of the entity, which:

a) convey entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and / or

b) can **be** sold, exchanged, transferred or redeemed.

"Control" is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

"Controlled entity" is an entity, including an unincorporated entity such as a partnership that is under the control of another entity (known as the controlling entity).
"Controlling entity" is an entity that has one or more controlled entities.

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"Cost method" is a method of accounting whereby the investment is recorded at cost. The statement of financial performance reflects revenue from the investment only to the extent that the investor receives distributions from accumulated net surpluses of the investee arising subsequent to the date of acquisition.

"Distributions to owners" means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

"Economic entity" means a group of entities comprising a controlling entity and one or more controlled entities.

"Equity method" is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The surplus or deficit of the investor includes the investor's share of the surplus or deficit of the investee.

"Exchange difference" is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

"Expenses" are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

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

A **“financial asset”** is any asset that is:

a) cash;

b) an equity instrument of another entity;

c) a contractual right:

- **i.** to receive cash or another financial asset from another entity; or
- **ii.** to exchange financial assets or liabilities with another entity under conditions that are potentially favourable to the entity; or

d) a contract that will or may be settled in the entity’s own equity instruments and is:

- **i.** a non-derivative for which the entity is or may be obliged to receive a variable number of the entity’s own equity instruments; or
- **ii.** a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose the entity’s own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity’s own equity instruments.

“Foreign operation” is an entity that is a controlled entity, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

“Government business enterprise” means an entity that, in accordance with the

Public Finance Management Act, Act No. 1 of 1999, as amended:

a) is a juristic person under the ownership control of the national/provincial executive;

b) has been assigned the financial and operational authority to carry on a business activity;

c) as its principal business, provides goods or services in accordance with ordinary business principles; and

d) is financed fully or substantially from sources other than:

  i. the National or Provincial Revenue Fund; or

  ii. by way of a tax, levy or other statutory money.

“Impracticable” Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

a) the effects of the retrospective application or retrospective restatement are not determinable;

b) the retrospective application or retrospective restatement requires assumptions about what management’s intent would have been in that period; or

c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

i. provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and

ii. would have been available when the financial statements for that prior period were authorised for issue from other information.

"Joint venture" is a binding arrangement whereby two or more parties are committed to undertake an activity which is subject to joint control.

A "**legal obligation"** is an obligation that derives from:

(a) a contract (through its explicit or implicit terms);

(b) legislation; or

(c) other operation of law

"Liabilities" are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

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

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

“Minority interest” is that portion of the surplus or deficit and of net assets of a controlled entity attributable to interests that are not owned, directly or indirectly through controlled entities, by the controlling entity.

“Net assets” are the residual interest in the assets of the entity after deducting all its liabilities.

“Notes” contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

“Presentation currency” is the currency in which the financial statements are presented.

“Prior period errors” are omissions from, and misstatements in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and

b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

“Qualifying asset” is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

“Reporting date” means the date of the last day of the reporting period to which the financial statements relate.

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

A **“restructuring”** is a programme that is planned and controlled by management, and materially changes either:

(a) the scope of an entity’s activities; or

(b) the manner in which those activities are carried out.

“Separate financial statements” are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

“Financing activities” are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

“Foreign currency” is a currency other than the functional currency of the entity.

“Functional currency” is the currency of the primary economic environment in which the entity operates.

“Investing activities” are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

“Investor in a joint venture” is a party to a joint venture and does not have joint control over that joint venture.

“Joint venture” is a binding arrangement whereby two or more parties are committed to undertake an activity which is subject to joint control.

“Operating activities” are the activities of the entity that are not investing or financing activities.

“Proportionate consolidation” is a method of accounting and reporting whereby a venturer’s share of each of the assets, liabilities, revenue and expenses of a jointly controlled entity is combined on a line-by-line basis with similar items in the venturer’s financial statements or reported as separate line items in the venturer’s financial statements.

"Provisions" are liabilities of uncertain timing and amount.

"Revaluations" are restatements of assets and liabilities.

"A change in accounting estimate" is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

"Prospective application" of a change in an accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:

(a) applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and

(b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

"Retrospective application" is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

"Retrospective restatement" is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

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“Associate” is an entity, including an unincorporated entity such as a partnership, in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor.

“Equity instrument” is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

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

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

“Special purpose entity” is an entity, including an unincorporated entity such as a partnership, created to accomplish a narrow and well defined objective, (for example to effect a lease, research and development activities or securitisation of financial assets).

“Construction contract” is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

“Contractor” is an entity that performs construction work pursuant to a construction contract.

"Cost plus or cost based contract" is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

"Fixed price" contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

"Current replacement" cost is the cost the entity would incur to acquire the asset on the reporting date.

"Inventories" are assets:

(a) in the form of materials or supplies to be consumed in the production process,
(b) in the form of materials or supplies to be consumed or distributed in the rendering of services,
(c) held for sale or distribution in the ordinary course of operations, or
(d) in the process of production for sale or distribution.

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

An **"obligating event"** is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

An **“onerous contract”** is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

“Events after the reporting date” are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

“Two types of events” can be identified:

(a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

(b) those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

“Carrying amount” is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

“Class of property, plant and equipment” means a grouping of assets of a similar nature or function in an entity’s operations, that is shown as a single item for the purpose of disclosure in the financial statements.

“Cost” is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

"Depreciable" amount is the cost of an asset, or other amount substituted for cost, less its residual value.

"Depreciation" is the systematic allocation of the depreciable amount of an asset over its useful life.

"Entity-specific value" is the present value or service potential of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

"Executory contracts" are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

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

An **"impairment loss of a cash-generating asset"** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An "**impairment loss of a non-cash-generating asset"** is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Property, plant and equipment are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and

(b) are expected to be used during more than one reporting period.

A **“provision”** is a liability of uncertain timing or amount.

“Recoverable amount” is the higher of a cash-generating asset’s net selling price and its value in use.

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

“The residual value” of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

“Useful life” is:

(a) the period over which an asset is expected to be available for use by an entity, or
(b) the number of production or similar units expected to be obtained from the asset by an entity.

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

A "**contingent asset"** is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A **"liability"** is:

(a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

"Liabilities" are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

5. BASIS OF PREPARATION

5.1 The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost unless otherwise stated. The accounting policies are consistent with those applied in the previous year except if otherwise indicated.

5.2 These annual financial statements have been prepared in accordance with 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).

GRAP 1	Presentation of financial statements
GRAP 2	Cash-Flow Statements
GRAP 3	Accounting policies, changes in accounting estimates and errors
GRAP 9	Revenue from Exchange Transactions
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, plant and equipment
GRAP 19	Provisions, Contingent liabilities and Contingent assets
GRAP 100	Non-current Asset Held for Sale and Discontinued Operations.
IPSAS 20	Related Party Disclosures

IPSAS 21	Impairment of Non Cash-Generating Assets
IFRS 7	Financial Instruments: Disclosures
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Non Cash-Generating Assets

The principal accounting policies adopted in the preparation of these annual financial statements have been consistently applied.

6. PRESENTATION CURRENCY

The annual financial statements are presented in South African Rands and are rounded to the nearest rand.

7. GOING CONCERN ASSUMPTION

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

8. PROPERTY, PLANT AND EQUIPMENT (PPE)

Initial Recognition:

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located. When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired. Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up. Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity for future economic benefits associated with the asset.

Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated useful lives:

Asset category	Years	Asset category	Years
Infrastructure		**Other**	
Roads and paving	10 – 30	Buildings	30
Electricity	20-30	Vehicles	5
Water	15-20	Office Equipment	3-5
Sewage	15-20	Furniture and equipment	7
Pedestrian malls	20	Plant & Equipment	2 -15
Security measures	3-5		
Housing	30		
Community			
Recreational facilities	20-30		

Residual value is what the asset would be given currently if it was in the condition it would be at the end of its useful life. The municipality has adopted a nil residual value.

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance. 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 item of property, plant and equipment is greater than the estimated recoverable amount (or the 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.

De-recognition:

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

The Municipality adopts Directive 4, Transitional Provision for medium and low capacity municipalities issued by the Accounting Standards Board that allows for a three year period transitional period to comply with the statement fully. All the classes of assets which have been recognised now have not been measured in term of applicable standard of GRAP at the reporting date and there were no period adjustments made. The Municipality is in the process of determining the following:

- Review of the useful life of all items of Property plant and equipment.
- Review of the depreciation method applied to property plant and equipment.

- Review of the residual values of the item of Property plant and equipment.
- Impairment of non-cash generating assets
- Impairment of cash generating assets.
- Determining the useful lives, depreciation and book values (carrying amounts) for assets included in the equipment and loose tools register.
- Determining the value of the restoration obligation for landfill sites.
- Allocating assets into the relevant components.
- Determining the correct acquisition dates for the assets.
- Determining the dates when infrastructure were available for use(the date the depreciation begins).

The process above is expected to be completed within a period of a year.

8.1 HERITAGE

These are assets that are defined as culturally significant resources and are not depreciated, because they are regarded as having an infinite useful life. However, if improvements to heritage assets are conducted and registered as subassets and the useful life of the improvements can be determined, the depreciation charge of the relevant property, plant and equipment category is used for the depreciation of the subasset which was capitalised against the heritage asset.

8.2 INCOMPLETE CONSTRUCTION WORK

Incomplete construction work is stated at historical cost.

8.3 INVESTMENT PROPERTY

Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. 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.

Subsequent Measurement – Cost Model

Investment property is measured using the cost model. Under the cost model, investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

De-recognition

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

The Municipality adopts Directive 4, Transitional Provision for medium and low capacity municipalities issued by the Accounting Standards Board that allows for a three year period transitional period to comply with the statement fully.

9. INVENTORY

Initial measurement:

Inventories that qualify for recognition as assets shall initially be measured at cost.
Where inventories are acquired at no cost, or for nominal consideration, their costs shall be their fair value as at the date of acquisition.

Measurement after recognition:

Inventories shall be measured at the lower of cost and net realisable value.

The cost of inventories shall be assigned by using the weighted average cost formula. Provisional amounts have been used to value game which has been valued at the carrying amount under the previous basis of accounting (IMFO).

10. DONATION AND PUBLIC CONTRIBUTION

Revenue received from donation and public contributions may be transferred to the Capital-replacement Reserve (CRR) and used via the CRR to finance items of property, plant and equipment.

11. HOUSING DEVELOPMENT FUND

Sections 15(5) and 16 of the Housing Act, 1997 (Act 107 of 1997), which came into operation on 1 April 1998, require that the Municipality maintain a separate housing operating account. This legislated separate operating accounting will be known as the Housing Development Fund.

The Housing Act also requires, in terms of section 14(4)(d)(iii)(aa) read with, inter alia, section 16(2), that the net proceeds of any letting, sale of property or alienation, financed previously from government housing funds, be paid into a separate operating account and be used by the Municipality for housing development subject to the approval of the MEC responsible for housing.

The following provisions are set for the creation and use of the Housing Development Fund:

- The Housing Development Fund has allocated investments and is backed by cash.
- Any contributions to or payments from the fund are shown as transfers in the Statement of Changes in Net Assets.
- Interest earned on the investments backing up this fund is recorded as part of interest earned in the Statement of Financial Performance and can be transferred via the Statement of Changes in Net Assets to the Housing Development Fund.

- Any cash-backed surplus/deficit on the Housing Statement of Financial Performance must be transferred to the Housing Development Fund.

12. PROVISIONS

Provision are recognized when the Municipality has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation and when the amount can be reliable estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be immaterial.

Provision are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are measured at the present value of the expenditures expected to be incurred to settle the obligation. The increase in the provision due to passage of time is recognised as interest expense.

13. RETIREMENT BENEFITS

13.1 Pension, provident and retirement funds

The municipality contributes to various pension and provident funds, which are considered to be defined contribution plans. According to paragraph 44 of IAS 19 (AC 116) when an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

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

- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

13.2 Medical Aid: Continued members

The Municipality provides certain post-retirement medical benefits by funding the medical aid contributions of certain retired members of the Municipality. According to the rules of the medical aid funds with which the Municipality is associated, a member (who is on the current conditions of service) who is on retirement, is entitled to remain a continued member of such medical aid fund, in which case the Municipality is liable for a certain portion of the medical aid membership fee. The medical aid contributions are in terms of a defined contribution plan as per paragraph 44 of IAS 19 (AC 116).

14. LEASES

LEJWELEPUTSWA DISRICT MUNICIPALITY adopted the exemptions granted under Directive four, Transitional provisions for medium and low capacity municipalities issued by the Accounting Standards Board not to disclose as per policy below but to comply within the prescribed period as per Directive 4.

14.1 The Municipality as lessee

LEJWELEPUTSWA DISRICT MUNICIPALITY leases certain property, plant and equipment. Leases of property, plant and equipment where the LEJWELEPUTSWA DISRICT MUNICIPALITY assumes substantially all the risks and rewards of ownership are classified as finance leases.

Finance lease assets and liabilities are recognised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the future minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the Statement of Financial Performance over the lease period so as to produce a constant periodic rate of interest on the remaining balances of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Operating leases are those leases which do not fall within the scope of the above definition. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

The Municipality will not incur a foreign currency lease liability other than that allowed by the Municipal Finance Management Act, 2003 (Act 56 of 2003).

14.2 The Municipality as lessor

When assets are leased out under finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value will be recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects constant periodic rate of return.

When assets are leased out under an operating lease, the asset is included in the Statement of Financial Position based on the nature of the asset.

15. FINANCIAL INSTRUMENTS

LEJWELEPUTSWA DISRICT MUNICIPALITY adopted the exemptions granted under Directive four, Transitional provisions for medium and low capacity municipalities issued by the Accounting Standards Board not to disclose as per prescribed Standards but to comply within the pescribed period as per Directive 4.

15.1 Financial assets

LEJWELEPUTSWA DISRICT MUNICIPALITY classifies financial assets into the following categories

a) Loans and receivables

b) Held to maturity

c) Available for sale

The classification depends on the purpose for which the financial asses were acquired. Management determines classification of the financial assets at initial recognition. With regard to reclassifications of financial assets the entity will not reclassify a financial instrument into of out of the fair value through profit and loss category while it is held or issued.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed determinable payments that are not quoted in an active market. They are included in the current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. LEJWELEPUTSWA DISRICT MUNICIPALITY loans and receivable comprises “trade receivables and other receivables” and cash and cash equivalents.

b) Held to maturity

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity where the entity has the positive intent and ability to hold the investment to maturity. These investments have been normally encumbered and therefore must be held to maturity. The value of the investment is recorded at trade date. The only Held to Maturity investment held by the municipality is an investment in cash and is encumbered over the Bank Overdraft.

c) Available for sale financial assets

Available for sale financial assets are non derivative that are either designated in this category or not classified in any other categories. They are included in the non current assets unless management intends to dispose of the financial asset within 12 months of the reporting date. LEJWELEPUTSWA DISRICT MUNICIPALITY does not have financial assets designated or classified to this category.

Offsetting of financial assets and liabilities

A financial asset and financial liability are only offset and the net amount presented in the Statement of Financial Performance when and only when-

a) LEJWELEPUTSWA DISRICT MUNICIPALITY has a legally enforceable right to set off the recognised amount; and

b) LEJWELEPUTSWA DISRICT MUNICIPALITY intend either to settle on a net basis or realise the asset and settle the liability simultaneously.

Derecognition

Financial assets are derecognised when the right to receive cash flows from the investment has expired or has been transferred, and the Municipality has transferred virtually all risks and rewards of ownership. Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using effective interest method.

Impairment

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified. Impairment losses recognised in the Statement of Financial Performance on equity instruments are not reversed through the Statement of Financial Performance.

Disposal

On disposal of an investment, the difference between the net disposal proceeds and the carrying amounts charged or credited to the statement of Financial Performance.

Hedging

Hedging is not applicable to LEJWELEPUTSWA DISRICT MUNICIPALITY.

15.2 Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value, net of transaction costs incurred. It should also be added that interest-bearing borrowings are classified as non-current liabilities.

Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in the Statement of Financial Performance over the period of the borrowings using the effective interest method.

Interest bearing borrowings are classified as non-current and current liabilities unless the Municipality has an unconditional right to defer settlement of the liability for at lease 12 months after the reporting date.

Interest risk is managed by maintaining an appropriate mix between fixed and variable rate borrowings. The Municipality inherited borrowings from former TLCs and are at a fixed rate.

15.3 Account receivables

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts according to the original terms of the receivables.

Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The mount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision for bad debt account, and amount of the loss is recognised in the Statement of Financial Performance. When a trade debtor is uncollectible, it is written off against the provision of bad debt account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the Statement of Financial Performance.

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Bad debts are written off during the year in which they are identified. Amounts with regard to arrangement of consumer debtors are classified as long term receivables.

16. ACCOUNTS PAYABLE

16.1 Trade creditors

Trade payables are recognised initially at fair value and subsequently at amortised cost using effective interest rate method.

16.2 Accrued leave pay

Liabilities for annual leave are recognised as they accrue to employees. Provision is made on the potential liability (value of leave credits as at 30 June).

17. CASH AND CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

18. REVENUE RECOGNITION

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the supply of service in the ordinary course of activities. Revenue is shown net of value added tax, returns, rebates and discounts.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the Municipality and these benefits can be measured reliably.

18.1 REVENUE FROM EXCHANGE TRANSACTIONS

18.1.1 Service charges relating to electricity, water and sanitation

Service charges relating to electricity, water and sanitation are based on consumption. Meters are read and billed on a monthly basis and revenue is recognised when invoiced. Estimates of consumption are made monthly when meter readings have not been performed. The estimates of consumption are recognised as revenue when invoiced. Adjustments to estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period.

18.1.2 Interest earned on outstanding accounts receivables

Interest on outstanding accounts receivables is recognised on a time proportionate basis.

18.1.3 Housing rental and instalments

Income in respect of housing rental and instalments is accrued monthly in arrears.

18.1.4 Sale of goods

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

- The Municipality has transferred to the buyer substantially risk and rewards of ownership of the goods;
- The Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality.
- The costs incurred or to be incurred in respect of the transaction can be measurable reliably.

18.1.5 Interest earned on investments

Interest earned on investments is recognised on a time proportionate basis that takes into account the effective yield on investment.

18.1.6 Collection charges

Collection charges are recognised when such amounts are incurred.

18.1.7 Revenue from non exchange transactions

Revenue from rates, including collection charges and penalty interest shall be recognised when:

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

18.1.8 Donations and contributions

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment – donation is recognised at fair value of the consideration received.

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

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

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

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the municipal Finance and Management Act, 2003 and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

18.1.10 Conditional grants receipts

Government grants are recognised as revenue when:

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

19. BORROWING COSTS

The municipality capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Municipality recognise other borrowing costs as an expense in the period in which it incurs them.

20. VALUE ADDED TAX

The Municipality accounts for value-added tax on the cash basis.

21. GRANTS-IN-AID (EXPENSE)

Municipality annually awards grants to individuals and organisations based on merit. When making these transfers, the Municipality does not-

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

- Expect a financial return, as would be expected from an investment
- These transfers are recognised in the Statement of Performance as expenses in the periods that the events giving rise to the transfers occurred.

22. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is –

- Expenditure that has not been budgeted;
- Expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state; and
- Expenditure in the form of a grant that is not permitted in terms of the Municipal Finance and Management Act of 2003 (Act 56 of 2003).

23. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to Municipal Finance and Management Act of 2003 (Act 56 of 2003), the Municipal Systems Act, 2000 (Act 32 of 2000), the Public Office Bearers Act, 1993 (Act 20 of 1998) or in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance and when recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

24. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had the reasonable care been exercised.

Fruitless and Wasteful expenditure is accounted for as an expense in the Statement of Financial Performance and when recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

25. TAXATION

The Municipality is exempt from tax in terms of section 10(1)c B (i)(ff) of the Income tax Act.

26. CHANGE IN ACCOUNTING POLICY

Change in accounting policy is change by the standard of GRAP or any new standard. The change in accounting policy should be applied retrospectively and prior year figures adjusted to provide reliable and more relevant financial information.

27. ESTIMATES

The preparation of financial statements in conformity wit GRAP requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the LEJWELEPUTSWA DISRICT MUNICIPALITY accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant for the financial statements are disclosed in the notes to the financial statements where applicable.