



CHRIS HANI
DISTRICT MUNICIPALITY
SUSTAINING GROWTH
THROUGH OUR PEOPLE

Chris Hani District Municipality
Annual Financial Statements
for the year ended June 30, 2022

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

General Information

Nature of business and principal activities

Chris Hani District Municipality is a South African Category C Municipal (District Municipality) as defined by the Municipal Structure Act. (Act no 117 of 1998). The nature of business of the Municipality is a provision of service (water and sanitation) to communities in a sustainable manner, to promote social and economic development and to promote a safe and healthy environment.

The Municipality's operations are governed by:

- Municipal Finance Management Act 56 of 2003.
- Municipal Structure Act 117 of 1998.
- Municipal Systems Act 32 of 2000 and various other acts and regulations.
- Division of Revenue Act .
- Supply Chain Management Regulations 2005
- The Constitution of South Africa.
- Water Services Act 108 of 1997

Mayoral committee

Executive Mayor

Cllr: W. Gela from 30/11/2021

Cllr: N. September-Caba: Deputy Executive Mayor from 30/11/2021

Cllr: M.C. Koyo: Speaker until 29/11/2021

Cllr: J. Cengani: Speaker from 30/11/2021

Cllr: T. Bikwana: Chief Whip from 01/07/2020 - 30/03/2021 Portfolio Head - Engineering from 31/03/2021 - 29/11/2021

Cllr M.L. Papiyana: Chief Whip from 31/03/2021 - 29/11/2021

Cllr: Nobantu Macingwane: Chief Whip from 30/11/2021

Cllr: T. Bobo: Portfolio Head - Health & Community Services from 29/8/2020 - 29/11/2021

Cllr: S. Lali: Portfolio Head - Health & Community Services from 30/11/2021

Cllr: S. Mbotshane: Portfolio Head - Integrated Planning & Economic Development from 30/11/2021

Cllr: N. Jack: Portfolio Head - Budget & Treasury until 29/11/2021

Cllr S. Nxosi: Portfolio Head - Budget & Treasury from 30/11/2021

Cllr: N. Mgidi: Portfolio Head - Special Programmes Unit from April 2020 until 30/03/2021

Cllr: L. Bonga-Tyali: Portfolio Head - Engineering from 01/07/2020 - 30/03/2021. Portfolio Head - Special Programmes Unit from 31/03/2021 - 29/11/2021

Cllr. T. Bobo: Portfolio Head - Special Programmes Unit from 30/11/2021

Cllr: S. Nxosi: Portfolio Head - Corporate Services until 29/11/2021

Cllr: T. Bikwana: Portfolio Head - Corporate Services from 30/11/2021

Cllr B. Nobuntu: Portfolio Head - Infrastructure Department from 30/11/2021

Councillors

Cllr: M. Desha

Cllr: P. Makaphela

Cllr: A. Alousius

Cllr: A. Ngonyama

Cllr: L. Clark

Cllr: M. Yamile

Cllr. S. Limba

Cllr: M. Mangcotywa

Cllr: F.A.N. Hendricks

Cllr: M.P. Oyiya

Cllr: S.E. Mvana

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

General Information

	Cllr: N.T. Mgqamqho
	Cllr: N. Biko
	Cllr: N. Cetman
	Cllr: Z.N.E. Ralane
	Cllr: N. Sitofile
	Cllr: N. Gqubuthela
	Cllr: N.F. Papiyana
	Cllr: N.S. Mdumata
	Cllr: N. Nomfombo
	Cllr: F.M. Mthandeki
	Cllr: S. Mkhunqe
	Cllr: R. Venske
	Cllr: S.H. Nobongoza
	Cllr: S. Maratana
	Cllr: S. Mthimkhulu
	Cllr: S. Mendela
	Cllr: N. Ndlebe
	Cllr: U.S. Mzandisi
	Cllr: V. Filana
	Cllr: X. Kani
	Cllr: Z. Simawo
Grading of local authority	Grade 5
Accounting Officer	Mr. G. Mashiyi
Chief Finance Officer (CFO)	Mr. C. Mapeyi
Registered office	15 Bells Road Queenstown 5320
Bankers	First National Bank Limited
Auditors	Auditor General South Africa
Attorneys	McWilliams & Elliott Incorporated Clark Laing Inc

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Index and Abbreviations

	Page
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance for the period ended 30 June 2022	6
Statement of Changes in Net Assets for the period ended 30 June 2022	7
Cash Flow Statement for the period ended 30 June 2022	8
Statement of Comparison of Budget and Actual Amounts for the period ended 30 June 2022	9
Accounting Policies	10 - 43
Notes to the Annual Financial Statements	44 - 90

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

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 were given unrestricted access to all financial records and related data.

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

The Annual Financial Statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

As 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 accounting officer to meet these responsibilities, set 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.

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.

Accounting Officer has reviewed the Municipality's cash flow forecast for the year to June 30, 2023 and, in light of this review and the current financial position, he is satisfied that the Municipality has access to adequate resources to continue in operational existence for the foreseeable future.

The Annual Financial Statements are prepared on the basis that the municipality is a going concern and that the Chris Hani District Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the Municipality.

Improved revenue collection through implementation of data cleansing and meter audit projects would ensure decrease in outstanding debtors and increase in cash reserves available to fund budgeted expenditure.

Although I am primarily responsible for the financial affairs of the Municipality, I am supported by the Municipality's internal auditors.

I would like to bring to your attention the following material matters to your attention;

I certify that the salaries, allowances and benefits of councillors as disclosed in note 20 & 21 to these Annual Financial Statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with the Act.

The external auditors being the Auditor General of South Africa is responsible for independently reviewing and reporting on the municipality's Annual Financial Statements.

The Annual Financial Statements set out on pages 5 to 87, which have been prepared on a going concern basis, were approved by the Accounting Officer on August 31, 2022 and were signed on its behalf by:

Mr. G. Mashiyi
Accounting Officer

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories	6	20,918,184	13,987,323
Receivables from non-exchange transactions	7	58,194,283	25,759,121
Receivable from exchange transactions	8	355,733,717	346,930,956
Cash and cash equivalents	9	179,299,853	171,220,612
		614,146,037	557,898,012
Non-Current Assets			
Property, plant and equipment	3	4,927,837,107	4,610,468,600
Intangible assets	4	118,510	260,692
Investments in controlled entities	5	1,500,000	1,500,000
		4,929,455,617	4,612,229,292
Total Assets		5,543,601,654	5,170,127,304
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	298,697,188	277,492,917
VAT payable	48	120,046,857	11,669,557
Consumer deposits	11	772,165	649,012
Employee benefit obligation	10	4,994,000	4,480,085
Unspent conditional grants and receipts	13	15,832,904	49,631,342
Provisions	47	81,475,475	81,475,475
		521,818,589	425,398,388
Non-Current Liabilities			
Employee benefit obligation	10	71,852,012	73,072,530
Total Liabilities		593,670,601	498,470,918
Net Assets		4,949,931,053	4,671,656,386
Accumulated surplus	14	4,949,931,053	4,671,656,386

* See Note 40

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Financial Performance for the period ended 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	16	369,105,158	413,336,258
Other income	17	867,450	1,048,119
Interest income	18	94,778,972	70,296,407
Total revenue from exchange transactions		464,751,580	484,680,784
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	19	1,308,020,166	1,271,322,137
Total revenue	15	1,772,771,746	1,756,002,921
Expenditure			
Employee related costs	20	(407,021,629)	(378,278,226)
Remuneration of councillors	21	(12,426,220)	(12,917,916)
Depreciation and amortisation	22	(159,816,198)	(162,498,796)
Impairment loss/ Reversal of impairments	49	(100,556,328)	(8,244,322)
Finance costs	23	(2,842,204)	(456,019)
Debt Impairment	24	(335,285,703)	(383,517,369)
Bulk purchases	25	(38,772,847)	(33,625,187)
Contracted services	26	(204,440,938)	(185,103,810)
Transfers and Subsidies	27	(70,364,848)	(54,880,616)
General Expenses	28	(162,224,327)	(157,375,291)
Total expenditure		(1,493,751,242)	(1,376,897,552)
Operating surplus		279,020,504	379,105,369
Loss on disposal of assets and liabilities		(559,029)	(197,984)
Actuarial gains / losses	10	15,116,155	(1,694,878)
		14,557,126	(1,892,862)
Surplus for the year		293,577,630	377,212,507

* See Note 40

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Changes in Net Assets for the period ended 30 June 2022

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2019 Restated**	4,294,443,879	4,294,443,879
Changes in net assets		
Surplus for the year	377,212,507	377,212,507
Total changes	<u>377,212,507</u>	<u>377,212,507</u>
Opening balance as previously reported	4,671,656,386	4,671,656,386
Adjustments		
Prior year adjustments	-	-
Restated* Balance at July 1, 2021 as restated*	4,671,656,386	4,671,656,386
Changes in net assets		
Prior year adjustment	(15,302,963)	(15,302,963)
Total prior year adjustment	<u>(15,302,963)</u>	<u>(15,302,963)</u>
Surplus for the year	293,577,630	293,577,630
	<u>278,274,667</u>	<u>278,274,667</u>
Total changes	278,274,667	278,274,667
Balance at June 30, 2022	4,949,931,053	4,949,931,053
Note(s)		

* See Note 40

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Cash Flow Statement for the period ended 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		167,452,003	111,075,545
Grants		1,308,020,166	1,271,322,137
Interest income		10,594,121	7,527,283
		<u>1,486,066,290</u>	<u>1,389,924,965</u>
Payments			
Employee costs		(419,447,849)	(391,196,142)
Suppliers		(477,614,553)	(325,610,033)
Finance cost		(2,842,204)	(456,019)
		<u>(899,904,606)</u>	<u>(717,262,194)</u>
Net cash flows from operating activities	30	<u>586,161,684</u>	<u>672,662,771</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(578,399,750)	(545,326,950)
Proceeds from sale assets	4	317,307	1,637,733
		<u>(578,082,443)</u>	<u>(543,689,217)</u>
Net increase/(decrease) in cash and cash equivalents		8,079,241	128,973,554
Cash and cash equivalents at the beginning of the year		171,220,612	42,247,058
Cash and cash equivalents at the end of the year	9	<u>179,299,853</u>	<u>171,220,612</u>

* See Note 40

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts for the period ended 30 June 2022

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	342,173,000	27,421,000	369,594,000	369,105,158	(488,842)	Note 44 (1)
Other income	85,833,736	165,000,000	250,833,736	867,450	(249,966,286)	Note 44 (2)
Interest income	90,637,000	-	90,637,000	94,778,972	4,141,972	Note 44 (3)
Gains on disposal of assets	3,000,000	-	3,000,000	-	(3,000,000)	
Total revenue from exchange transactions	521,643,736	192,421,000	714,064,736	464,751,580	(249,313,156)	

Revenue from non-exchange transactions

Transfer revenue

Government grants & subsidies	1,241,944,000	48,371,000	1,290,315,000	1,308,020,166	17,705,166	Note 44 (4)
Total revenue	1,763,587,736	240,792,000	2,004,379,736	1,772,771,746	(231,607,990)	

Expenditure

Employee Related Costs	(362,920,000)	(10,000,000)	(372,920,000)	(407,021,629)	(34,101,629)	Note 44 (1)
Remuneration of councillors	(12,226,000)	-	(12,226,000)	(12,426,220)	(200,220)	Note 44 (2)
Impairment loss / Reversal of impairments	-	-	-	(100,556,328)	(100,556,328)	
Depreciation and amortisation	(157,838,000)	-	(157,838,000)	(159,816,198)	(1,978,198)	Note 44 (3)
Finance costs	(510,000)	-	(510,000)	(2,842,204)	(2,332,204)	Note 44 (5)
Debt Impairment	(278,891,000)	80,000,000	(198,891,000)	(335,285,703)	(136,394,703)	Note 44
Bulk purchases (Inventory Consumed - Water)	(30,506,000)	(13,376,000)	(43,882,000)	(38,772,847)	5,109,153	Note 44 (6)
Contracted services	(166,912,000)	(62,309,000)	(229,221,000)	(204,440,938)	24,780,062	Note 44 (7)
Transfer and Subsidies	(48,496,000)	(31,182,000)	(79,678,000)	(70,364,848)	9,313,152	Note 44 (8)
General Expenses	(82,784,000)	(48,309,000)	(131,093,000)	(162,224,327)	(31,131,327)	Note 44 (9)
Total expenditure	(1,141,083,000)	(85,176,000)	(1,226,259,000)	(1,493,751,242)	(267,492,242)	

Operating surplus

Loss on disposal of assets and liabilities	-	-	-	(559,029)	(559,029)	Note 44(10)
Actuarial gain	-	-	-	15,116,155	15,116,155	Note 44(11)
	-	-	-	14,557,126	14,557,126	

Surplus before taxation

	622,504,736	155,616,000	778,120,736	293,577,630	(484,543,106)	
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Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement

	622,504,736	155,616,000	778,120,736	293,577,630	(484,543,106)	
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Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

Summary of significant accounting policies

These standards are summarised as follows:

Reference	Description
GRAP Framework	Framework for the preparation and presentation of financial statements
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investment in Associates
GRAP 8	Investment in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 20	Related Party Disclosures
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash-generating Assets
GRAP 27	Agriculture
GRAP 31	Intangible Assets
GRAP 32	Service Concession Arrangements: Grantor
GRAP 100	Discontinued Operations
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 108	Statutory Receivables
GRAP 109	Accounting by Principals and Agents
GRAP 110	Living and Non-living Resources
IFRS 4	Insurance contracts
IAS 12	Income taxes
IGRAP 1	Applying the Probability Test on Initial Recognition of Revenue
IGRAP 2	Changes in Existing Decommissioning Restoration and Similar Liabilities
IGRAP 3	Determining Whether an Arrangement Contains a Lease
IGRAP 16	Intangible Assets – Website Costs
IGRAP 20	Accounting for Adjustments to Revenue
Directive 5	GRAP Reporting Framework
Guideline	The Application of Materiality to Financial Statements

The cash flow statement is prepared using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Accounting policies for material transactions, events or conditions not covered by the above GRAP standards have been developed in accordance with GRAP 3. Where required, accounting policies were developed for standards of GRAP that have been issued by the Accounting Standards Board, but for which an effective date have not been determined by the Minister of Finance.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.1 Presentation currency

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

All figures have been rounded off to the nearest rand.

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Comparative figures

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

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 restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

1.5 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

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

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

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, asset is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of property, plant and equipment and tangible assets are inherently uncertain and could materially change over time.

Provisions

The municipality recognises provision in terms of GRAP 19 paragraph 21 that states,

A provision shall be recognise when:

- (a) an entity has a present obligation (legal or constructive) 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 amount of the obligation

Based on the above (b) and (c). the municipality decided to disclose the provision though there is currently uncertainty on how long it would take to resolve the dispute as it involves the Department of Labour and this is dependent on the outcome of the engagement process. This provision is a liability of uncertain timing or amount.

Provisions were raised and management determined an estimate based on the information available. Additional disclosures of these estimates of provisions are included under the note 47 - Provisions.

Useful lives of waste and water network and other assets

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 10.

Effective interest rate

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

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.6 Property, plant and equipment

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

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

Initial Recognition and measurement

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

Subsequent measurement - Cost model

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

Depreciation

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

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

Item	Depreciation method	Average useful life
Land		Infinity
Buildings		5 - 100 years
Plant and machinery		2 - 17 years
Furniture and fixtures		3 - 18 years
Transport assets		4 - 20 years
Office equipment		3 - 18 years
IT equipment		3 - 13 years
Infrastructure - Water		
Roads and Paving		3 - 100 years
Security measures		7 - 25 years
Sewerage		7 - 100 years
Water infrastructure		5 - 100 years
Infrastructure - Sanitation		
Community facilities		5 - 30 years
Recreational facilities		10 - 30 years
Emergency equipment		3 - 10 years
WIP - Sanitation		5 - 15 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.6 Property, plant and equipment (continued)

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

Repairs and Maintenance

The municipality discloses expenditure to repair and maintain property, plant and equipment under contracted services in the notes to the financial statements.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements.

1.7 Intangible assets

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

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

Initial Recognition

Intangible assets are initially recognised at cost.

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

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

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

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

Subsequent Measurement

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.7 Intangible assets (continued)

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

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

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation and Impairment

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Licenses and franchises	2-5 years
Computer software, other	2-5years

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 arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

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

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

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

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

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

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

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

Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.8 Financial instruments (continued)

It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors. It is settled at a future date.

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.8 Financial instruments (continued)

a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
the entity designates at fair value at initial recognition; or
are held for trading.

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at fair value
Cash and Cash Equivalents	Financial asset measured at fair value

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

Class	Category
Long term liabilities	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grant	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

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 satisfies the definitions of a financial liability, a financial asset or a residual interest.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.8 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
combined instrument that is required to be measured at fair value; or
an investment in a residual interest that meets the requirements for reclassification.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.8 Financial instruments (continued)

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.

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

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

Financial liabilities

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

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.8 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Policies relating to specific financial instruments

Trade and other receivables

Trade and other receivables are classified as loans and receivables and are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method.

All trade and other receivables are assessed at least annually for possible impairment. Impairment adjustments are made through the use of an allowance account. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end.

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

Trade and other payables

Trade and other payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method.

Cash and Cash equivalents

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.

1.9 Leases

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.9 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

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.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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

Operating leases - lessee

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

1.10 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
distribution at no charge or for a nominal charge; or
consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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.

1.11 Impairment of cash-generating assets

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

Useful life is either:

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

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

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.

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.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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.

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.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses 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.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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:

its recoverable amount (if determinable); and

the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

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

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

Useful life is either:

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

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

Identification

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

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

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

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

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

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service 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 non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.14 Employee benefits

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

Termination benefits are employee benefits payable as a result of either:
an entity's decision to terminate an employee's employment before the normal retirement date; or
an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.14 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

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

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

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

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

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

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

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.14 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.15 Provisions and contingencies (continued)

A Contingent liability is a possible obligation that arises from past event 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 Municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Municipality. The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

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

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

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

1.16 Revenue from exchange transactions

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

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/goods sold, the value of which approximates the consideration received or receivable excluding indirect taxes, rebates and discounts.

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

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

Measurement

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

Sale of goods

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

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

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

Service Charges - Water

Service charges relating to water are based on consumption. Meters are read on a monthly basis and revenue is recognised providing that the benefits can be measured reliably. Provisional estimates of consumption are made monthly when meter readings have not been performed for whatever reason. The provisional amounts are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Service Charges - Sewerage and sanitation Charges

Revenue relating to waste water management services are recognised on a monthly basis in arrears by applying the approved tariff to each property. Tariffs are determined per category of property usage and are levied monthly.

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.17 Revenue from non-exchange transactions

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

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

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

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

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

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

Recognition

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

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

Measurement

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

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

Transfers

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

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

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

Fines

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

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

Gifts and donations, including goods in-kind

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

Revenue from public contributions is recognised when all the conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment when such items of property, plant and equipment are brought into use. Where the contributions have been received but the conditions have not been met, a liability is recognised.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.18 Conditional grants and receipts

Revenue received from conditional grants and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Government grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of financial performance in the year in which they have been received.

1.19 Investment income

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

1.20 Borrowing costs

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

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

1.21 Internal reserves

Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

1.22 Value Added Tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the South African Revenue Services is included as part of receivables or payables in the Statement of Financial Position. However, the municipality has registered with SARS, for Value Added Tax purposes on the payments basis. This means that VAT is declared or claimed to / from SARS when the payment has been made in respect of VAT Input and when the funds have been received in respect of VAT Output. The difference resulting from timing of declarations to SARS are recognised as an asset or liability depending on the net balance.

1.23 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of each financial period the municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed as a note in the annual financial statements.

1.24 Unauthorised expenditure

Unauthorised expenditure means:

overspending of a vote or a main division within a vote; and
expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Also included is 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 Management Act (Act No. 56 of 2003)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Irregular expenditure

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

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

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

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

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

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

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

1.27 Use of estimates

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

1.28 Segment information

A segment is an activity of an entity:

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.28 Segment information (continued)

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

Measurement

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

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

1.29 Budget information

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

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

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

The approved budget covers the fiscal period from 7/1/2021 to 6/30/2022.

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

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

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

1.30 Related parties

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

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

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

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.30 Related parties (continued)

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

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

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

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

1.31 Transfer of functions between entities under common control

Definitions

An acquirer is the municipality that obtains control of the acquiree or transferor.

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

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

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

A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.

Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

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

A transferor is the municipality that relinquishes control of a function.

Common control - For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving a municipality's objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole municipality. Although functions may have outputs, outputs are not required to qualify as a function. The three elements of a function are defined as follows:

Input: Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it.

Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.

Output: The result of inputs and processes applied to achieve and improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.31 Transfer of functions between entities under common control (continued)

Identifying the acquirer and transferor

For each transfer of functions between entities under common control an acquirer and transferor are identified. All relevant facts and circumstances are considered in identifying the acquirer and transferor.

The terms and conditions of a transfer of functions undertaken between entities under common control are set out in a binding arrangement. The binding arrangement governing the terms and conditions of a transfer of functions may identify which municipality to the transaction or event is the transferor(s) and which municipality is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which municipality is the acquirer and which municipality is the transferor.

Determining the acquirer includes a consideration of, amongst other things, which of the entities involved in the transfer of functions initiated the transaction or event, the relative size of the entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event is accounted for in terms of the Standard of GRAP on Mergers.

Determining the transfer date

The acquirer and the transferor identify the transfer date, which is the date on which the acquirer obtains control and the transferor loses control of that function.

All relevant facts and circumstances are considered in identifying the transfer date.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.31 Transfer of functions between entities under common control (continued)

Accounting by the entity as acquirer

Initial recognition and measurement

As of the transfer date, the municipality recognises the purchase consideration paid to the transferor and all the assets acquired and liabilities assumed in a transfer of functions. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the transfer of functions, the transferor was not applying the accrual basis of accounting, the transferor changes its basis of accounting to the accrual basis of accounting prior to the transfer.

The consideration paid by the municipality can be in the form of cash, cash equivalents or other assets. If the consideration paid is in the form of other assets, the municipality de-recognises such assets on the transfer date at their carrying amounts.

The difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid to the transferor, is recognised in accumulated surplus or deficit.

Measurement period

If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the municipality reports in its annual financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the municipality retrospectively adjust the provisional amounts recognised at the transfer date to reflect new information obtained about facts and circumstances that existed as of the transfer date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the municipality receives the information it was seeking about facts and circumstances that existed as of the transfer date or learns that more information is not obtainable. However, the measurement period does not exceed two years from the transfer date.

The municipality considers all relevant factors in determining whether information obtained after the transfer date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the transfer date.

The municipality recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability.

During the measurement period, the municipality recognises adjustments to the provisional amounts as if the accounting for the transfer of functions had been completed at the transfer date. Thus, the municipality revises comparative information for prior periods presented in annual financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

After the measurement period ends, the municipality revises the accounting for a transfer of functions only to correct an error in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Subsequent measurement

The municipality subsequently measure any assets acquired and any liabilities assumed in a transfer of functions in accordance with the applicable Standards of GRAP.

At the transfer date, the municipality classifies or designates the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The municipality makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions that exist at the transfer date. An exception is that the municipality classifies the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the transfer date):

- classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on Leases; and
- classification of a contract as an insurance contract in accordance with the International Financial Reporting Standard on Insurance Contracts.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.31 Transfer of functions between entities under common control (continued)

Accounting by the entity as transferor

Derecognition of assets transferred and liabilities relinquished

As of the transfer date, the municipality derecognises from its annual financial statements, all the assets transferred and liabilities relinquished in a transfer of functions at their carrying amounts.

Until the transfer date, the municipality continues to measure these assets and liabilities in accordance with applicable Standards of GRAP.

The consideration received from the acquirer can be in the form of cash, cash equivalents or other assets. If the consideration received is in the form of other assets, the municipality measures such assets at their fair value on the transfer date in accordance with the applicable Standard of GRAP. The difference between the carrying amounts of the assets transferred, the liabilities relinquished and the consideration received from the acquirer is recognised in accumulated surplus or deficit.

1.32 Events after reporting date

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

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

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

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

1.33 Investments in controlled entities

In the municipality's separate annual financial statements, investments in controlled entities are carried in accordance with the Standard of GRAP on Financial instruments.

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

The municipality recognises a dividend or similar distribution in surplus or deficit in its separate annual financial statements when its right to receive the dividend or similar distribution is established.

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

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

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

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

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 35 - Consolidated Financial Statements	April 1, 2021	The impact is not material.
GRAP 38 - Disclosure of Interests in Other Entities	April 1, 2021	The impact is not material.
GRAP 37 - Joint Arrangements	April 1, 2021	Not Applicable
GRAP 110 (as amended 2016) - Living and Non-living Resources	April 1, 2021	Not Applicable
GRAP34 - Seperate Financial Statements	April 1, 2021	The impact is not material.
GRAP 18 (as amended 2016) - Segment Reporting	April 1, 2021	The impact is not material.

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2022 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 25 - Employee Benefits	April 1, 2022	Unlikely there will be a material impact
GRAP 103 - Heritage Assets	April 1, 2022	Unlikely there will be a material impact
GRAP 104 - Financial Instruments	April 1, 2022	Unlikely there will be a material impact

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	30,345,900	-	30,345,900	30,345,900	-	30,345,900
Buildings	85,331,341	(17,129,701)	68,201,640	85,333,869	(14,265,366)	71,068,503
Machinery and Equipment	20,339,435	(10,462,991)	9,876,444	24,531,032	(12,460,574)	12,070,458
Furniture and Office Equipment	23,958,519	(16,133,911)	7,824,608	23,903,238	(13,906,615)	9,996,623
Transport assets	98,790,740	(39,792,514)	58,998,226	95,396,192	(32,459,686)	62,936,506
Computer equipment	14,171,586	(8,098,864)	6,072,722	14,918,198	(10,872,644)	4,045,554
Infrastructure: Water	4,697,005,892	(1,459,059,062)	3,237,946,830	4,345,407,339	(1,250,973,778)	3,094,433,561
Infrastructure: Sanitation	476,459,490	(223,638,593)	252,820,897	476,459,490	(189,945,709)	286,513,781
Infrastructure: Roads	13,684,165	(3,784,637)	9,899,528	13,684,165	(3,354,223)	10,329,942
WIP: Buildings	8,276,046	-	8,276,046	8,276,046	-	8,276,046
WIP: Sanitation	213,765,443	-	213,765,443	194,076,218	-	194,076,218
WIP: Water	1,023,808,823	-	1,023,808,823	826,375,508	-	826,375,508
Total	6,705,937,380	(1,778,100,273)	4,927,837,107	6,138,707,195	(1,528,238,595)	4,610,468,600

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	30,345,900	-	-	-	-	-	-	30,345,900
Buildings	71,068,503	-	-	-	(2,068)	(2,864,795)	-	68,201,640
Machinery and Equipment	12,070,458	648,715	(553,403)	-	-	(2,289,326)	-	9,876,444
Furniture and Office Equipment	9,996,623	55,281	-	-	-	(2,227,296)	-	7,824,608
Transport assets	62,936,506	5,401,106	(150,891)	-	-	(9,188,495)	-	58,998,226
Computer equipment	4,045,554	3,854,710	(172,042)	-	-	(1,655,500)	-	6,072,722
Infrastructure: Water	3,094,433,561	-	-	351,319,466	-	(129,805,987)	(78,000,210)	3,237,946,830
Infrastructure: Sanitation	286,513,781	-	-	-	-	(11,136,766)	(22,556,118)	252,820,897
Other property, plant and equipment	-	-	-	-	-	-	-	-
Infrastructure: Roads	10,329,942	-	-	-	-	(430,414)	-	9,899,528
WIP - Buildings	8,276,046	-	-	-	-	-	-	8,276,046
WIP: Sanitation	194,076,218	41,323,407	-	-	(21,634,182)	-	-	213,765,443
WIP: Water	826,375,508	548,613,781	-	-	(351,180,466)	-	-	1,023,808,823
	4,610,468,600	599,897,000	(876,336)	351,319,466	(372,816,716)	(159,598,579)	(100,556,328)	4,927,837,107

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	30,345,900	-	-	-	-	-	-	30,345,900
Buildings	75,468,134	126,925	(552,845)	-	-	(1,648,674)	(2,325,037)	71,068,503
Machinery and Equipment	13,756,395	904,131	(647)	-	-	(2,589,421)	-	12,070,458
Furniture and office equipment	2,431,630	9,767,372	(19,628)	-	-	(2,182,751)	-	9,996,623
Transport assets	60,391,781	12,018,709	(826,408)	-	-	(8,647,576)	-	62,936,506
Computer equipment	3,701,765	1,760,811	(20,716)	-	-	(1,396,306)	-	4,045,554
Infrastructure: Water	3,041,958,740	16,096,001	(410,979)	178,010,494	(3,682)	(135,601,167)	(5,615,846)	3,094,433,561
Infrastructure: Sanitation	303,924,063	-	(4,494)	-	-	(17,112,818)	(292,970)	286,513,781
Infrastructure: Roads	10,884,259	-	-	-	-	(543,847)	(10,470)	10,329,942
WIP - Buildings	-	8,276,046	-	-	-	-	-	8,276,046
WIP: Sanitation	137,034,331	57,041,887	-	-	-	-	-	194,076,218

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

WIP: Water	565,047,252	439,338,750	-	-	(178,010,494)	-	-	826,375,508
	<u>4,244,944,250</u>	<u>545,330,632</u>	<u>(1,835,717)</u>	<u>178,010,494</u>	<u>(178,014,176)</u>	<u>(169,722,560)</u>	<u>(8,244,323)</u>	<u>4,610,468,600</u>

Pledged as security

There are no assets that have been pledged as security during the current year.

3.1 Expenditure incurred to repair and maintain property, plant and equipment

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

Repairs and Maintenance	43,045,885	43,583,760
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The following projects were identified to have taken longer than expected for their completion date. These assets have been disclosed as slow-moving assets under construction in the financial statements:

Contract Number	Project description	Expected Completion Date before Extension	Reasons	Amount per WIP Register 30 June 2022
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Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand			2022	2021 Restated*
3. Property, plant and equipment (continued)				
07/2018-2019/MD(TN)	ENGCOBO NEW 2MI/ DAY WASTE WATER TREATMENT WORKS PHASE 1 AND OUTFALL SEWER	3/6/2021		22 251 493,27
			The contractor fail to execute the project due to cashflow problems and inexperience pesonnel on site to implement the project. Notice of termination was isseud to the contractor and the contractor after the notice submitted a proposal to remede the situation. The proposal is not approved after a long process of requesting information from the contractor about the issue. The termination process is underway again.	
08/2018/MD(TN)	CLUSTER 4 WATER SUPPLY BACKLOG ERADICATION : KWAMZOLA AND MATAFENI-B WATER SUPPLY	15/01/2021		33 066 459,28
			Contractor failed to implement the project due to financial capacity It also failed to submit on time the letter of intent to claim for extention of time due to Covid 19 delays (3 months claim was not approved). Contractor changed personnel and that affected the the progress. A subcontractor was introduced to take over the works. Upon pressure testing it was discovered that the quality of work has been compromised and not to standard. Currently there is no work done on site. Notice of termination is served	
11/2019-2020/MS(BN)	GUBENXA AND MAXONGSHOEK VILLAGES RURAL WATER SUPPLY SCHEME	31/03/2021		15 310 455,39
			Contractor is terminated. Contractor failed to return to site.	
27/2020-2021/LG(TN)	CLUSTER6 WATER BACKLOG: CONSTRUCTION OF A BULK LINK LINE FROM SITHOLENI WATER TREATMENT WORKS TO LOKSHINI COMMAND RESEVIOR	4/23/2021		17 385 432,22
			Construction and commissioning of the project was completed in 2019 with final handing over done in September 2020. Project is affected by the electricity supply which was stopped by Mbabakazi Community Project delayed due to	
29/2016/MD(TN)	UPGRADE OF TSOMO WATER WASTE TREATMENT WORKS: CIVIL MECHANICAL AND INSTRUMENTATION WORK	30/05/2019		84 205 816,91
			Contractors poor performance and cashflow problems. Contractor has now finally organised resources to finish off. It is anticipated that construction would be finised in December 2022 and commissioning in February 2023	

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand		2022	2021 Restated*
3. Property, plant and equipment (continued)			
CHD007325	Cobosi Drought relief project.	-	2 625 681,10
		-	-
CHD007325	Nkomfeni Drought relief project	-	2 309 335,80
		-	-
		-	-
		-	-

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

The municipality applies the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash generating Assets to assess whether items of Property, Plant and Equipment are impaired through a review of the carrying amounts of assets against the recoverable amounts for each asset. At 30 June 2022, there were assets assessed to be impaired. The affected assets are disclosed in the register.

4. Intangible assets

	2022			2021		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	7,844,616	(7,726,106)	118,510	7,844,616	(7,583,924)	260,692

Reconciliation of intangible assets - 2022

	Opening balance	Amortisation	Total
Computer software, other	260,692	(142,182)	118,510

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Amortisation	Total
Computer software, other	728,301	-	(467,609)	260,692

Pledged as security

There are no intangible assets that are pledged as security:

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*			
5. Investments in controlled entities					
Name of company	Held by	% holding 2022	% holding 2021	Carrying amount 2022	Carrying amount 2021
Chris Hani Development Agency		100.00 %	100.00 %	1,500,000	1,500,000

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

Chris Hani Development Agency

The district municipality has a 100% shareholding in Chris Hani Development Agency. The purpose of the municipal entity is to carry out the promotion and implementation of the local economic development initiatives and investment promotion in Chris Hani District. The municipal entity was fully operational during the 12 months and all contributions made by the district municipality were treated as Transfers and Subsidies paid, refer to Note 27

6. Inventories

Inventory stores	20,918,184	13,987,323
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6.1 Inventory Reconciliation

Chemicals	1,713,845	502,773
Stationery	90,126	50,206
Cleaning Material	64,461	38,251
Water & Fittings	19,049,752	13,396,093
	20,918,184	13,987,323

7. Receivables from non-exchange transactions

Sundry receivables - Roadworks subsidy**	6,427,679	6,427,679
Local Municipalities	2,000,004	2,000,004
Rental and Eskom service deposits	14,668,242	13,334,496
RBIG	6,862,227	-
Other Debtors	756,060	1,708,957
DHS Emergency Housing	1,211,903	2,287,985
MIG	26,268,168	-
	58,194,283	25,759,121

Included in the total of **Roads subsidy is an amount of R6,4million which is >4 years old

Local municipalities consists of loan Sakhisizwe Local Municipality R2,000,000.

Service deposits consists of rental deposits and Eskom service deposits.

Other debtors consists of amounts receivable from bursary loan obligation, Vodacom from previous years and Others.

DHS Emergency - During 2020/21 The department was disclosed as a debtor amounting to R2 287 985 and payment made to reducing the debt by R1 076 082 and have a closing balance of R1 211 903..

Gross Balances Receivables from non-exchange

Sundry receivables - Roadworks subsidy	6,427,679	6,427,679
Local Municipalities	2,000,004	2,000,004
Rental and Eskom service deposits	14,668,242	13,334,496
DHS Emergency Housing	1,211,903	2,287,985
Other Debtors	756,060	1,708,957
MIG	26,268,168	-

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
7. Receivables from non-exchange transactions (continued)		
RBIG	6,862,227	-
Gross Balance	58,194,283	25,759,121

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At June 30, 2022, and 2021 were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

3 months past due	-	-
Sundry receivables - Roadwork subsidy	6,427,679	6,427,679
Local Municipalities	2,000,004	2,000,004
Rental and Eskom service deposits	14,668,242	13,334,496
DHS Emergency Housing	1,211,903	2,287,985
Other Debtors	756,060	1,708,957
MIG	26,268,168	-
RBIG	6,862,227	-
	58,194,283	25,759,121

Receivables from non-exchange transactions impaired

As of June 30, 2022, other receivables from non-exchange transactions of R 58 194 283 were past due but not impaired

None of the financial assets for the period ended 30 June 2022 have been determined individually for impairment

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
8. Receivables from exchange transactions		
Gross balances		
Water	1,602,244,118	1,834,232,101
Sewerage	337,224,598	593,174,257
Sundry Debtors	2,596,214	2,610,892
	1,942,064,930	2,430,017,250
Less: Allowance for impairment		
Water	(1,033,596,394)	(1,512,561,652)
Sewerage	(550,215,063)	(568,004,886)
Sundry debtors	(2,519,756)	(2,519,756)
	(1,586,331,213)	(2,083,086,294)
Net balance		
Water	568,647,724	321,670,449
Sewerage	(212,990,465)	25,169,371
Sundry Debtors	76,458	91,136
	355,733,717	346,930,956
Water		
Current (0 -30 days)	106,537,697	77,904,211
31 - 60 days	43,047,606	106,834,260
61 - 90 days	33,879,244	28,311,993
91 - 120 days	30,231,086	37,499,848
121 - 365 days	242,347,244	232,538,021
> 365 days	1,035,940,566	1,329,272,126
Impairment allowance	(1,033,596,394)	(1,512,561,652)
	458,387,049	299,798,807
Sewerage		
Current (0 -30 days)	14,072,956	13,366,823
31 - 60 days	6,999,516	6,572,218
61 - 90 days	6,952,309	6,540,694
91 - 120 days	6,675,836	6,495,761
121 - 365 days	54,994,575	51,243,891
> 365 days	255,478,355	525,323,203
Impairment allowance	(550,215,063)	(568,004,886)
	(205,041,516)	41,537,704
Sundry Debtors		
Current (0 -30 days)	19,589	25,563
31 - 60 days	5,000	4,168
61 - 90 days	5,000	3,499
91 - 120 days	3,745	2,846
121 - 365 days	17,304	93,062
> 365 days	2,545,575	2,481,573
	(2,519,756)	(2,519,756)
	76,457	90,955
Reconciliation of allowance for impairment		
Balance at beginning of the year	(2,083,086,295)	(1,699,568,926)
Contributions to allowance	(496,755,082)	(383,517,369)
	(2,579,841,377)	(2,083,086,295)

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
9. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	4,200	4,200
Bank balances	(71,535,339)	21,351,394
Short-term deposits	250,830,992	149,865,018
	179,299,853	171,220,612

Short-term deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 5.50% to 6.70% per annum. Investments are made up of short-term deposits held for unspent conditional grants that are ringfenced until the conditions are met and utilised.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2022	June 30, 2021	June 30, 2020
First National Bank - Current Account - 62002510693	7,383,886	22,652,807	18,629,607	(71,372,408)	21,433,512	18,629,607
First National Bank - Call Account - 62004499481	109,866	132,631	894,576	109,866	132,631	894,576
First National Bank - Call Account - 62190652521 (CRR)	114,427,826	30,237,960	241,891	114,427,826	30,237,960	241,891
First National Bank - Call Account - 62187939784	2,120,213	54,397	624,256	2,120,213	54,397	624,256
First National Bank - Call Account - 62187936532 (National)	42,168,950	14,642,214	3,632,818	42,168,950	14,642,214	3,632,818
First National Bank - Call Account - 62187938538 (Provincial)	65,625	346,190	16,249,789	65,625	346,190	16,249,789
First National Bank - Public Sector - Cheque Account - 62610267602	235,095	284,116	1,969,921	(162,932)	(82,117)	1,969,921
First National Bank - Public Sector - Cheque Account - 62868460363 (EPWP)	578	114,731	-	578	114,731	-
First National Bank - Call Account - 62868467418 (RBIG)	87,712,796	104,336,894	-	87,712,796	104,336,894	-
First National Bank - Call Account - 62896975201 (MDRG)	4,225,138	-	-	4,225,138	-	-
Cash on hand	-	-	-	4,200	4,200	-
Total	258,449,973	172,801,940	42,242,858	179,299,852	171,220,612	42,242,858

The municipality is reflecting a cashbook overdraft of R71 372 408 on operating account . Some of the payment cleared in the statement on the 1st July 2022 and the analysis is attached in the audit file. The water account also have a cashbook overdraft of R102 932

10. Employee benefit obligations

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	55,212,000	60,606,718
Present value of the defined benefit obligation-partly or wholly funded	21,634,000	16,945,898
	76,846,000	77,552,616

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
10. Employee benefit obligations (continued)		
Non-current assets	513,915	-
Non-current liabilities	(72,365,915)	(73,072,530)
Current liabilities	(4,994,000)	(4,480,085)
	(76,846,000)	(77,552,615)

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

Opening balance	60,606,717	52,877,247
Benefits paid	(2,135,010)	(2,127,432)
Net expense recognised in the statement of financial performance	(5,394,717)	9,856,902
	53,076,990	60,606,717

Net expense recognised in the statement of financial performance

Current service cost	4,426,136	3,203,895
Interest cost	6,742,523	6,756,484
Actuarial (gains) losses	(15,240,376)	(103,477)
Policy changes	(1,323,000)	-
	(5,394,717)	9,856,902

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	(15,240,376)	(103,477)
Actuarial (gains) losses – Plan assets	(1,323,000)	-
	(16,563,376)	(103,477)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	11.29 %	11.29 %
Expected rate of return on assets	- %	6.31 %
Expected rate of return on reimbursement rights	8.46 %	7.81 %
Actual return on reimbursement rights	3.13 %	3.23 %

Long Service Awards Liability

The municipality operates an undefined benefit plan for all its employees under the plan, a long service award is payable after 5 years of continuous service, and every 5 years thereafter, to 45 years of continuous service. The provision is an estimate of the long service based on historical staff turnover.

Reconciliation of long service awards - June 2022	Opening Balance	Additions	Utilised during the year	Total
Long Service Awards	16,945,898	7,911,029	(3,222,927)	21,634,000
Reconciliation of long service awards - June 2021	Opening Balance	Additions	Utilised during the year	Total
Long Service Awards	14,733,698	4,495,477	(2,283,277)	16,945,898

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2022 by Arch Actuarial Consulting. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the Projected Credit Unit Method.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
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Long Service Awards Liability (continued)

At year end 30 June 2022, 798 (2021, 772) employees were eligible for the Long service awards.

The current service cost for the year ending 30 June 2022 was estimated to be R3 037 226 whereas the cost of the ensuing year is estimated to be R2 600 000.

The principle assumptions used for the purpose of the actuarial valuation were as follows:

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown that over the long-term, earnings inflation is between 1.0% and 1.5% above CPI inflation. The expected CPI inflation assumption of 6.33% was obtained from the differential between market yields on index-linked bonds (3.90%) consistent with the estimated terms of the liabilities and those of nominal bonds (10.98%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $(1+10.98\%-0.50\%)/(1+3.90\%)-1$.

Thus, a general earnings inflation rate of 7.33% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 3.40%.

It was assumed that the next general earnings increase will take place on 1 July 2023.

Discount rate	10.98%	7.72%
Consumer price inflation		4.33%
Normal salary increase	7.33%	5.33%
Net effective discount rate	3.40%	2.27%
		-
		-

Changes in the present value of the long service awards are as follows:

Opening balance	16,945,898	14,733,698
Current year service cost	2,037,226	1,681,217
Interest cost	1,203,655	1,015,905
Benefits paid	(3,222,927)	(2,283,277)
Actuarial losses	4,670,148	1,798,355
	21,634,000	16,945,898

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

Present value of the long service awards wholly unfunded	21,634,000	16,945,898
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Next expense recognised in the statement of financial performance

Current service cost	2,037,226	1,681,217
Interest cost	1,203,655	1,015,905
Actuarial losses	1,447,221	1,798,355
	4,688,102	4,495,477

Current Employee Benefits for Medical Aid and Long Service Awards

Medical contribution subsidies	1,734,000	1,771,055
Current portion of long service awards	3,260,000	2,709,030
	4,994,000	4,480,085

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
11. Consumer deposits		
Water	772,165	649,012
12. Payables from exchange transactions		
Trade payables	152,591,384	146,335,417
Payments received in advanced	13,176,189	10,558,013
Retentions	74,742,655	44,057,799
Bonus Provisions	10,933,799	10,024,143
Accrued leave pay	16,912,245	16,096,374
Deposits received (held as Surety)	8,335	8,335
Other payables	30,332,581	50,412,836
	298,697,188	277,492,917

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
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13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

National: Finance Management Grant	(1,485)	-
National: Municipal Infrastructure Grant (MIG)	-	60,152
National: EPWP	185,021	185,020
Municipal Disaster Covid-19	75,741	75,740
National: Department of Transport - Rural Road Asset Mgt Grant	371	108
Provincial: RBIG	-	49,259,319
National : WSIG	13,999,767	51,003
Municipal Disaster Recovery Grant	1,573,489	-
	15,832,904	49,631,342

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

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

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

14. Accumulated surplus

Accumulated Surplus - 2022

	Accumulated Surplus	Total
Opening balance	4,671,656,386	4,671,656,386
Surplus	293,577,630	293,577,630
Prior period adjustment	(15,302,963)	(15,302,963)
	4,949,931,053	4,949,931,053

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

	2022	2021 Restated*
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14. Accumulated surplus (continued)

Accumulated Surplus - 2021

	Accumulated Surplus	Total
Opening balance	4,294,443,879	4,294,443,879
Surplus	377,212,507	377,212,507
	4,671,656,386	4,671,656,386

15. Revenue

Service charges	369,105,158	413,336,258
Other income	867,450	1,048,119
Interest received	94,778,972	70,296,407
Government grants & subsidies	1,308,020,166	1,271,322,137
	1,772,771,746	1,756,002,921

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	369,105,158	413,336,258
Other income	867,450	1,048,119
Interest received	94,778,972	70,296,407
	464,751,580	484,680,784

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Transfer revenue		
Government grants & subsidies	1,308,020,166	1,271,322,137

16. Service charges

Service charges	1,930	7,757
Sale of water	304,387,766	350,676,254
Sewerage and sanitation charges	64,715,462	62,652,247
	369,105,158	413,336,258

17. Other Income

Staff recoveries (Telephone)	50,239	12,081
Tender documents	490,270	708,971
VAT on Conditional Grant	32	74
Sundry receipts	326,909	326,993
	867,450	1,048,119

Sundry receipts consists of Handling fees of R326 909.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
18. Interest Income		
Interest revenue		
Bank	189,672	490,316
Interest - investments	10,404,449	7,036,967
Interest - debtors	84,184,851	62,769,124
	94,778,972	70,296,407
19. Government grants and subsidies		
Operating grants		
Equitable share	600,621,000	649,376,000
Finance Management Grant	1,000,000	1,000,000
Municipal Infrastructure Grant Operational EPWP	44,408,004	52,947,316
Rural Road Asset Management Grant	3,838,001	6,191,435
LG SETA	3,299,736	3,251,957
Municipal DIS Covid-19	641,028	567,412
WSIG Operational	12,108,525	1,483,579
	665,916,294	714,817,699
Capital grants		
Municipal Infrastructure Grant	286,061,929	228,495,532
Water Services Infrastructure Grant	76,841,192	69,949,485
Regional Bulk Infrastructure Grant	275,774,240	258,059,421
Municipal Disaster Recovery Grant	3,426,511	-
	642,103,872	556,504,438
	1,308,020,166	1,271,322,137
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
National: Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	60,152	1
Current-year receipts	304,343,000	281,503,000
Conditions met - transferred to revenue Debtor	(330,671,320)	(281,442,849)
	26,268,168	-
	-	60,152
LG SETA		
Current-year receipts	641,028	426,602
Conditions met - transferred to revenue	(641,028)	(426,602)
	-	-
National: EPWP		
Balance unspent at beginning of year	(185,020)	93,455
Current-year receipts	3,838,000	6,376,000
Conditions met - transferred to revenue	(3,838,000)	(6,561,475)

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
19. Government grants and subsidies (continued)		
Re-payment of unspent	-	(93,000)
	(185,020)	(185,020)

National Treasury withheld R93 000 instead of R93 455.

National: Finance Management Grant

Balance unspent at beginning of year	706	1
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,000,706)	(999,295)
	-	706

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

Municipal Disaster Grant

Balance unspent at beginning of year	75,740	1,559,319
Conditions met - transferred to revenue	-	(1,483,579)
	75,740	75,740

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

National: DOT - Rural Road Asset Management Grant

Balance unspent at beginning of year	108	1,744,065
Current-year receipts	3,300,000	3,252,000
Conditions met - transferred to revenue	(3,299,736)	(3,251,957)
Re-payment of unspent	-	(1,744,000)
	372	108

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
19. Government grants and subsidies (continued)		
National: Regional Bulk Infrastructure Grant		
Balance unspent at beginning of year	49,259,319	19,514,739
Current-year receipts	220,268,000	307,318,000
Conditions met - transferred to revenue	(275,774,241)	(258,059,420)
Re-payment of unspent	(615,305)	(19,514,000)
Debtor	6,862,227	-
	-	49,259,319
Conditions still to be met - remain liabilities (see note 13)		
.		
Water services Infrastructure Grant (WSIG)		
Balance unspent at beginning of year	50,515	-
Current-year receipts	103,000,000	70,000,000
Conditions met - transferred to revenue	(89,000,233)	(69,949,485)
	14,050,282	50,515
Water Service Infrastructure Grant 2		
Balance unspent at beginning of year	488	29,159,488
Re-payment of unspent	-	(29,159,000)
	488	488
DHS Emergency Housing		
Current-year receipts	-	195,172
Conditions met - transferred to revenue	-	(2,483,157)
Debtor raised	-	2,287,985
	-	-
Conditions still to be met - remain liabilities (see note 13)		
Municipal Disaster Recovery Grant		
Current-year receipts	5,000,000	-
Conditions met - transferred to revenue	(3,426,511)	-
	1,573,489	-
Conditions still to be met - remain liabilities (see note 13).		

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
20. Employee related costs		
Basic	245,687,135	229,910,514
Bonus	18,200,882	17,779,478
Overtime payments	13,205,561	14,543,964
Medical Aid - company contributions	29,215,477	25,126,159
Pension Fund Contributions	37,099,979	35,604,501
Group Life Insurance	1,991,682	1,726,103
UIF	1,742,169	1,564,525
Travel, motor car, accomodation, subsistence & other allowances	27,860,322	26,300,940
Housing benefits & allowances	1,450,112	2,132,906
Leave pay provision charge	7,965,072	6,996,365
Industrial Council Levies	98,172	95,830
Long-service awards	6,463,806	2,697,122
	390,980,369	364,478,407
Remuneration of municipal manager - G. Mashiyi		
Annual Remuneration	1,413,372	1,339,874
Car and other allowances	614,905	538,532
Performance Bonuses	335,978	326,502
Contributions to UIF, Medical and Pension Funds	256,532	1,813
Service Bonus	114,908	-
Other	124	291,727
	2,735,819	2,498,448
Renuneration of Acting CFO: L B T Spampoel		
Acting Allowance	-	128,258

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
20. Employee related costs (continued)		
Remuneration of Chief Financial Officer - C. Mapeyi		
Annual Remuneration	1,057,197	761,477
Car and other allowances	531,450	268,731
Performance Bonuses	263,112	222,843
Contributions to UIF, Medical and Pension Funds	236,777	1,190
Other	10,616	165,481
Service Bonus	43,329	-
	2,142,481	1,419,722
Remuneration of Director: Corporate Services - Y. Matakane-Dakuse		
Annual Remuneration	1,197,153	1,134,898
Car and other allowances	475,770	440,810
Performance Bonuses	287,219	285,189
Contributions to UIF, Medical and Pension Funds	269,309	255,814
Other	12,005	10,344
Service Bonus	97,330	-
	2,338,786	2,127,055
Remuneration of Director: Health Services - N Mnyengeza		
Annual Remuneration	1,057,197	734,202
Car and other allowances	507,956	283,054
Performance Bonuses	256,860	221,084
Contributions to UIF, Medical and Pension Funds	229,436	157,645
Other	40,124	25,919
	2,091,573	1,421,904
Remuneration of Acting Director : Health Services - Q Mpothulo		
Acting allowance from February - May 2021	-	199,592
Remuneration of Former Director: Integrated Planning and Development - Z. Shasha		
Annual Remuneration	881,567	1,123,431
Car and other allowances	352,580	442,604
Performance Bonuses	218,891	282,278
Contributions to UIF, Medical and Pension Funds	193,353	246,690
Other	8,842	10,240
Service Bonus	96,346	-
	1,751,579	2,105,243
Remuneration of Director: Integrated Planning and Development - Z.M. Duze		
Annual Remuneration	281,293	-
Car and other allowances	102,862	-
Performance Bonus	65,635	-
Contribution to UIF, Medical and Pension Fund	51,164	-
Service Bonus	10,030	-
Other	31	-

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
20. Employee related costs (continued)		
Total	511,015	-

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
20. Employee related costs (continued)		
Remuneration of Director: Strategic Services - B. Mthembu		
Annual Remuneration	1,094,957	1,134,898
Car and other allowances	447,338	452,368
Performance Bonuses	270,966	285,645
Contributions to UIF, Medical and Pension Funds	251,545	259,047
Other	113	118
Service Bonus	97,330	-
	2,162,249	2,132,076
Remuneration of Acting Director: Strategic Services - B. Ganyaza		
Acting allowance	42,497	-
Remuneration of Director: Technical Services - L. Govu		
Annual Remuneration	1,185,057	1,284,508
Car and other allowances	481,319	446,915
Performance Bonuses	283,409	120,302
Contributions to UIF, Medical and Pension Funds	215,436	204,030
Other	46,192	39,599
Service Bonus	96,346	-
	2,307,759	2,095,354
Remuneration of Acting Director: Technical Services - M. Shasha		
Acting allowance	62,298	-
21. Remuneration of councillors		
Executive Mayor	1,045,805	1,087,797
Deputy Executive Mayor	837,362	878,396
Mayoral Committee Members	4,501,133	5,782,328
Speaker	842,686	878,396
Councillors	3,587,909	2,516,948
Chief Whip	792,406	826,047
Sec 79 Chair	818,919	948,004
	12,426,220	12,917,916
22. Depreciation and amortisation		
Property, plant and equipment	159,674,016	162,031,187
Intangible assets	142,182	467,609
	159,816,198	162,498,796
23. Finance cost		
Interest cost	2,842,204	456,019

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
24. Debt impairment		
Debt impairment	335,285,703	383,517,369
25. Bulk purchases		
Water	38,772,847	33,625,187
26. Contracted services		
Presented previously		
Outsourced services	32,382,943	43,654,954
Repairs and Maintenance	43,045,885	43,583,760
Consultants and professional fees	50,096,534	41,951,651
Other contractors	78,915,576	55,913,445
Contractors		
Presented previously	204,440,938	185,103,810
27. Transfers and subsidies		
Other subsidies		
Cooperative Development Centre	2,500,000	6,000,000
Engcobo Subsidy	1,856,946	2,000,000
VIP Toilets	36,076,486	1,404,069
Chris Hani Development Agency	29,931,416	45,476,547
	70,364,848	54,880,616
28. General expenses		
Advertising	1,130,010	2,023,444
Auditors' remuneration	9,372,558	9,671,011
Bank charges	1,762,793	2,922,620
Computer expenses	20,080,171	13,452,507
Consulting and professional fees	3,847	-
Consumables	2,913,149	3,739,484
Entertainment	305,526	428,288
Hire	-	11,700
Insurance	3,310,013	3,735,105
Education & Marketing	324,880	177,255
Motor vehicle expenses	3,223,697	3,200,130
Fuel and oil	22,771,466	18,339,378
Postage and Courier	2,028	2,064
Printing and stationery	1,178,530	2,405,143
Protective clothing	878,619	496,598
Staff welfare	569,145	478,281
Subscription and membership fees	3,714,509	5,879,783
Telephone and fax	3,228,308	2,951,979
Travel - local	5,793,947	4,770,794
Assets Expensed	2,890,997	1,312,417
Electricity	45,271,901	47,625,820
Rates	412,195	824,809
Water Sampling	12,789	14,316
Refuse	236,986	137,559
Sewerage	279	317
Public events and Imbizo	-	126,000
Study assistance reimbursements	32,617	170,946

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
28. General expenses (continued)		
Communication	97,597	303,254
Indigent Subsidy	16,514,793	9,161,487
Chemicals	7,403,573	13,920,228
Skills Development Levy	3,273,230	3,129,341
Operating Leases	5,514,174	5,963,233
	162,224,327	157,375,291
29. Auditors' remuneration		
Fees	9,372,558	9,671,011
30. Cash generated from operations		
Surplus	293,577,630	377,212,507
Adjustments for:		
Depreciation and amortisation	159,740,761	170,190,169
Loss on sale of assets and liabilities	559,029	197,984
Impairment deficit	100,556,328	8,244,323
Debt Impairment	335,285,703	383,517,369
Movements in retirement benefit assets and liabilities	(706,603)	9,941,670
Non cash movement	(15,302,963)	28,443,198
Changes in working capital:		
Inventories	(6,930,861)	3,075,871
Receivables from exchange transactions	(344,088,464)	(415,121,316)
Other receivables from non-exchange transactions	(32,435,162)	6,179,449
Payables from exchange transactions	21,204,271	57,917,636
Unspent conditional grants and receipts	(33,798,438)	(26,238,334)
Consumer deposits	123,153	141,316
VAT Payables	108,377,300	68,960,929
	586,161,684	672,662,771
31. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
Infrastructure	939,832,295	547,645,951
Building	155,016,460	156,063,182
CHDA Projects	240,324,683	182,473,816
Consultants	1,836,394	2,045,316
	1,337,009,832	888,228,265
Total capital commitments		
Already contracted for but not provided for	1,337,009,832	888,228,265
This committed expenditure relates to plant and equipment and will mainly be financed by Infrastructure Grants (Municipal Infrastructure Grant, Regional Bulk Grant and Municipal Water Infrastructure Grant) as well as available bank facilities, accumulated surplus.		
Total commitments		
Total commitments		
Authorised capital expenditure	1,337,009,832	888,228,265

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
32. Contingencies		
Contingent liabilities		
The municipality is party to the following litigation matters		
Litigations		
The Municipality as the 1st Defendant in the matter relating to a motor vehicle accident that occurred between CHDM employee and the Plaintiff. The Plea has been filed and the pleadings have closed. Pre-trial proceedings have begun in preparation for the hearing of the matter.	80,000	74,000
Claim by Civil and General Construction CC. Application to interdict and restrain CHDM from continuing with tender process and are awarding tender to Urban Africa Services pending hearing of main application which is for the review and setting aside of the decision to award the bid to Urban Africa Services. Matter was initially decided in the municipality's favour by a single judge, but the Applicant has applied for leave to appeal to the full bench of the GHT High Court. Application for leave was granted.	300,000	500,000
Municipality has filed Leave to Appeal to the SCA. Leave to Appeal dismissed with costs	-	-
The costs of the matter are the subject of the taxation process, and shall be due and payable after the taxation.	-	-
Claim by City Square Trading 204 (Pty) Ltd against CHDM and one other for goods supplied and services rendered. CHDM is the 2nd Defendant in the matter. Action defended and has proceeded to trial. The matter was postponed in July 2021 for further evidence. The matter has been reinstated on the roll for hearing from the 31 October 2022 to 04 November 2022.	8,600,000	8,500,000
The Municipality defends a claim that was brought against it for damages allegedly caused by blasting while the Municipality implemented an infrastructure project. The Municipality has defended the action. A plea was served to the plaintiff and the pleadings have been closed. The matter shall be enrolled for hearing at Court	410,000	400,000
WSSA claims an amount for services rendered, stock sold and other operational & maintenance related costs. Matters has been defended. Alternative Dispute Resolution processes have failed as the parties did not agree on the manner of mediation. Due to the unreasonable demands that were made by the attorneys of the plaintiff, the mediation process has been abandoned in favour of the normal litigation process. The pleadings have closed, and the matter is ready for trial. The Defendant has defended the action. Telkom still needs to substantiate claim. Matter is ready for trial. A special plea of failure to adhere with the Inter-governmental Relations Framework Act. The matters might be combined if the Court allows such an application.	17,700,000	17,600,000
Obligation of CHDM to pay medical aid contribution of surviving spouse of deceased employee/retired employee. Matter was referred to oral evidence and heard at High Court before Judge Makaula in 2016. He reserved judgment, and he has not delivered same for the past 5 (five) years. The Municipality's lawyers have been communicating with the Office of the Judge President in relation to the matter. It has since transpired that the Attorneys for the plaintiff have since filed a Notice of Withdrawal of Action, and the attorneys for the Municipality are in the process of engaging the attorneys for the plaintiff around the issue as the matter had been postponed pending the delivery of the judgment.	110,000	100,000
BVI Border filed an urgent application against CHDM claiming that the cancellation of the agreements between the applicant and the Municipality must be declared unlawful. CHDM opposed the application and filed a notice of intention to oppose. Information is being sought for the purposes of bringing the grounds of opposition. The Municipality has conceded to an interim interdict that the parties' obligation continues pending the finalisation of the matter. The opposition to Part B of the application has been withdrawn, and the order sought has been conceded to. Costs of the matter are still to be taxed.	320,000	300,000
	200,000	-

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
32. Contingencies (continued)		
Truda Foods (Pty) Ltd brought an application against the Municipality and others to declare failure to give them permits unlawful and also to restrain the Municipality from closing its business premises. Matter was argued at Court on the 3rd of September 2020, and judgement was reserved. Judgement has been granted on the basis that though the Municipality acted in good faith, the actions were contrary to legislation. Costs have yet to be taxed.	-	200,000
Arbitrator at SALGBC awarded in favour of Dr AM Sambumbu to be re-instated at work with effect from 2019. A further order is that he should be paid an amount of R512,017.40 which represent an equivalent of monthly salary of R56,890.83 for a period of 9(nine) months. The Municipality has approached the Labour Court in view to review the decision. Matter has been argued in the third quarter (March 2022). Judgement has been reserved.	1,365,380	1,300,000
Mr Mvelo claims for damages against the Municipality for the repair costs of his vehicle that was involved in an accident after it hits a pothole and apparently overturned. The Municipality has defended the matter on the basis that the roads function is that of either SANRAL or a Local Municipality and not itself. Pleadings have closed.	170,000	200,000
Mr Miggels claims for damages against the Municipality for personal injuries suffered as a result of falling in to an unmarked deep trench which allegedly was left exposed by the Water Services employees. The matter has not only been defended but has also been referred to the Municipality's insurance for conformation of cover. The Assets Management Unit is still liaising with the Municipality's brokers and also the Water Services Team. Plea is still to be amended.	320,000	300,000
Telkom lodged 5(five) claims in a single summons that relate to the reimbursement for repair damages to their infrastructure in both the Komani and Cradock areas. The incidents apparently happened between 10 July 2017 and 25 July 2019. The matter has been defended, and a plea has been filed. Pleadings have closed and the matter is ready for trial.	250,000	200,000
A service provider, the contractor, brings an urgent application against the Municipality for two orders, which are a declaration that the contract is valid, and a payment of an outstanding amount. The matter is opposed as the applicant labours under the false impression that the contract has been terminated, and also that the certificate claimed is not due to the contractor, but rather is penalties due to the Municipality. The matter has been heard virtually on the 20th of October 2020, and was subsequently decided in the Municipality's favour. Costs are still to be taxed.	-	100,000
The palntiff brings a summons against the CHDM and the Enoch Mgijima Local Municipality, but only claims against 5 million Enoch Mgijima Local Municipality. In the same claim, the plaintiff prays that the CHDM not to be allowed to claim services from him. The plaintiff's claim is bad in law and attorneys have been requested to defend the matter with costs. An application for an irregular step has been brought against the plaintiff and it accordingly is being opposed.	-	100,000
After the termination of the contract with Diphatse Trading, the Municipality noticed that the site was left unattended, and informed Diphatse Trading that they would deploy security personnel for the purposes of protecting the Municipality's assets. Upon the deployment of the personnel, Diphatse Trading approached the Court on the basis that they have been dispossessed of the site, and that they would require it to be restored to them. The Court granted the order, but the Municipality subsequently filed an application for leave to appeal which has been decided in the Municipality's favour. The appeal date has been allocated for hearing on the 08 August 2022.	200,000	200,000
Mr Jonas claims for damages against the Municipality for the repair costs of his vehicle that was involved in an accident with a vehicle driven by a Municipality's employee. An instruction has been given to attorneys to accordingly defend the matter, and a plea has been filed. The Notice of withdrawal as attorneys record for the 2nd Defendant has been filed.	80,000	60,000

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
32. Contingencies (continued)		
The applicant brought an application on an urgent basis for the reconnection of the water supply and related services to a business and residential complex (Helvia Court) at Komani. The Municipality's Revenue Management Unit was not aware of the of the disconnection as they claim that the premises were not part of the premises in the disconnection list. The services were restored after the applicant approached the Court.	70,000	70,000
Department of Water and Sanitation sued the Intsika Yethu Local Municipality for water use charges for a period between April 2002 and June 2016. The Municipality has noted appearance to defend but also intend to activate the intergovernmental relations processes, which has been neglected by both the Plaintiff and Defendant. In the meantime, the Municipality has engaged with the Intsika Yethu Local Municipality with the view to better understand the claim and also initiate alternative dispute resolution processes with the Department of Water and Sanitation. Unfortunately, the DWS has continued with the litigation process against Intsika Yethu Municipality, an action that makes litigation to subsist.	9,000,000	8,600,000
The plaintiff instituted a claim against the defendant on damages to property of the plaintiff. The Municipality is raising a technical defence to the claim.	-	200,000
Zanamazi Services (Pty) Ltd instituted a claim against CHDM for a material amount. CHDM defended the matter and has filed a plea both on the merits and technical grounds.	25,000,000	24,000,000
The Tsomo Magistrates Court dismissed an application for rescission that was brought by the Municipality against Mawethu Magida. A judgment was granted by default against the Municipality in the amount of R 300,000.00 for a claim for damages allegedly caused by blasting while the Municipality implemented an infrastructure project. An appeal was brought out of Mthatha High Court and was decided in favour of the Municipality. The costs have yet to be taxed and the parties are waiting for the taxation date from.	-	100,000
Applicant approached the Labour Court to review the arbitration award issued in July 2016 in terms of which the Arbitrator found the said Applicant's dismissal to be substantively and procedurally fair. Applicant alleges that the Arbitrator failed to consider his long period of service to the Municipality and that he did not receive a prior warning before being dismissed. Matter was set down for hearing on 1 September 2021 but postponed by agreement between the parties. Applicant's attorneys withdrew as attorneys of record in January 2022. Attorneys have been requested to proceed to set the matter down for hearing, and utilise the services of a junior counsel.	50,000	-
Hatch Africa filed an urgent application against CHDM directing the Municipality to comply with its obligation under the agreement concluded between CHDM and the applicants on or about 28 October 2008. Title "Form of agreement Consulting engineering Services: Water supply cluster. 7"...Information is being sought for the purposes of bringing the grounds of opposition. The Municipality has conceded to an interim interdict that the parties' obligation continue pending the finalisation of the matter. The opposition to Part B of the application has been withdrawn, and the order sought has been conceded to. Costs have been reserved.	400,000	-
The applicant seeks an order for specific performance that relates to the urgent repairs and maintenance to the Cradock Wastewater works and/ or the sewerage reticulation system and/ or infrastructure connected thereto within the 14 (fourteen) days from the date of the service of the Order. Though the Municipality has opposed the application, the Water Services Unit concedes most of the issues and is to bring a plan to remedy the situation. The matter has been decided against the Municipality requiring it to remedy the situation within a certain period. The Municipality monitors the compliance with the Court Order and the report have to be submitted to Court every 100 days.	120,000	-

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
32. Contingencies (continued)		
BVI Border filed an urgent application against CHDM seeking an interdict, firstly, to be granted against the allocation of work to the panel of consultants pending the finalisation of Part B, which is the review of the bid award. Part A was argued at GHT High Court, and was decided in favour of BVI Border (Pty) Ltd. Part B is still due to be dealt with after the founding papers have been supplemented and the Municipality file the answering papers. The Municipality has offered to withdraw the opposition and the parties are still deliberating on the issue of costs.	400,000	-
The Auditor-general of South Africa (Tsakani Maluleke) hereby institutes an action against the defendants in which the plaintiff claims the relief on the grounds that the 2nd defendant has failed to pay/refuse/neglect to make payment of the outstanding audit fees. The plaintiff also filed a notice of agreement or opposition to mediation – the plaintiff does not want to litigate; they only claim the amount due to them. While the parties appear to have made settlement arrangements, the Auditor General has yet to withdraw the claim.	20,000	-
Arbitrator at SALGBC awarded in favour of Ms Ngwendu & Mr Pambaniso in Nov 2021, in terms of which CHDM was ordered to reinstate the employees with effect from Dec 2021. CHDM is challenging the award in the Labour Court on various grounds. Security for costs in the amount of R 3,603,557.28 has already been paid to Court. Review application was served on the parties in Dec 2021. The employees have delivered a notice to oppose the application. Awaiting notification from the registrar that the record has been received from the SALGBC. The complete transcribed records were received. Awaiting the respondents answering affidavit. The applicant is supplementing its papers.	3,700,000	-
The applicants filed an application against the respondents that the respondents are ordered to reconnect water and electricity supplied to the premises of the applicant. Application granted in favour of the applicant with orders for specific performance against the Municipality. Costs are still to be taxed.	50,000	-
The applicant filed an application against the respondents that the applicants non-compliant with the court relating to service and time periods is condoned, that the 1st respondent is interdicted from its intention to interrupt water supply to the applicant. Application granted in favour of the applicant with orders for specific performance against the Municipality. The bill of Costs has been received, and it is still to be taxed.	80,000	-
The Plaintiff filed an action against the defendant claiming payment on the services rendered in the amount of R 27,135, 559.92. The matter has been defended and the Municipality has filed both the plea to the claim and the counterclaim. The plaintiff has filed a notice of intention to amend its particulars of claim, and is expected to amend its claim.	28,000,000	-
The applicant filed an application against the respondent for an order to attend the sewage spill situation in Oxford Street, Pellem Street, Mlungisi as well as Komani Airfield. To ensure that once pipes are repaired and replaced infrastructure maintained to avoid further blockages. To repair or replace the defunct sewage pump station situated in Oxford Street in Mlungisi, Komani and to provide educational trainings to members of the community regarding sanitation and the effects and causes of blockages. The matter has been opposed and it is ready for the hearing. Matter is set down for the 08th of September 2022.	200,000	-
The applicant filed an application against the respondent to set aside the respondent's decision to refuse applicant's request to access to information and directing the respond to supply the applicant with information requested. The information requested it the Pension Fund nomination form, and the applicant is not the executor of the estate. The Executor of the Estate has not consented to the release of the information. The matter is referred to mediation. While the parties have agreed on the mediator, the plaintiff does not seem to	100,000	-
SRK consulting claims an amount of R223 922.30 from CHDM for the alleged additional professional services rendered. The Municipality is still considering whether to defend or settle the matter.	243,922	-
The applicant interdicts the implementation of a newly awarded infrastructure contract on the basis that there is still a pending matter before Court. The matter has been opposed, and it is still to be heard before Court.	200,000	-

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
32. Contingencies (continued)	97,739,302	63,104,000

Contingent assets

1. An amount of R100 000.00 was disclosed as a contingent asset due to Diphatse Trading, a contractor, brings an urgent application against the Municipality for two orders, which are a declaration that the contract is valid, and a payment of the outstanding amount. The matter is opposed as the applicant labours under the false impression that the contract has been terminated, and also that the certificate claimed is not due to the contractor, but to the Municipality (as penalties). The matter of urgency was decided in the Municipality's favour. Costs of the matter are still to be taxed. The main application is still ongoing.

2. An amount of R300 000.00 was disclosed as a contingent asset due to an action for eviction against HJT Transport for unlawful possession of Municipality's land despite the expiry of a mining permit. HJT has defended the matter claiming that the permit has been extended, but has not submitted sufficient proof. The Municipality has applied for summary judgment against HJT in view to enforce rights. Application was granted with the eviction order. An application for leave to appeal was filed. On the 10th of March 2021, the Court dismissed the application for leave to appeal was dismissed with costs. The warrant of ejection was issued, and the Sheriff attempted execution, but was halted by the Municipality's failure to furnish it with the indemnity and certain guarantees, which led to the sheriff possessing the land for more than 3 months at a cost to the Municipality. The costs of the matter are in favour of the Municipality and shall be taxed as soon as the bills of costs have been completed.

3. The Tsomo Magistrates Court dismissed an application for rescission that was brought by the Municipality against Mawethu Magida. A judgment was granted by default against the Municipality in the amount of R 300,000.00 for a claim for damages allegedly caused by blasting while the Municipality implemented an infrastructure project. An appeal was brought out of Mthatha High Court and was decided in favour of the Municipality. The costs have yet to be taxed, and the taxation process shall begin as soon the bill of costs has been finalised by the costs consultant.

4. An amount of R60 000.00 was disclosed as a contingent asset due to the plaintiff brought summons against the CHDM and the Enoch Mgijima Local Municipality, but only claims against the R 5 million Enoch Mgijima Local Municipality. In the same claim, the plaintiff prays that the CHDM not to be allowed to claim services from him. The plaintiff's claim is bad in law, and attorneys have been requested to defend the matter with costs. Both defendants have raised exceptions to the particulars of claim. The CHDM's exception has been upheld, and the plaintiff is still to amend its particulars of claim.

5. An amount of R62 090.82 was disclosed as a contingent asset due to SNR that filed an urgent application against the Municipality- Interdicting the Municipality from awarding tender 16/2020-21/LG advertised on 1st September 2020 to any of the entities that submitted the tender. And interdicting the 1st and second respondent from performing any works in terms of the SLA and also from making any payments to any appointed bidders in terms of the tender process. CHDM opposed the matter and subsequently settled the matter on the basis that there is an order to set aside the award and remit the BEC report of November 2020 to the BAC. The Municipality has to ensure that the BAC adjudicates within 30 days from the 23rd of November 2021. There might be contempt of Court proceedings if the Municipality does not comply with the Court Order. The Municipality has taxed the wasted costs occasioned by the Applicant bringing the application out of the incorrect Court.

6. An amount of R70 000.00 was disclosed as a contingent asset due to an applicant (a consumer) filed an urgent application against the respondent for an order to reconnect water supply to the applicant's premises. The matter was opposed and the Court struck the matter from the roll with costs in favour of the municipality. The bill of costs was served on the applicants on the 3rd of June 2022

33. Related parties

Relationships

Associates

Shareholder with joint control
Mashiya Gcobani

KEY MANAGEMENT OF THE MUNICIPALITY HAVE
RELATIONSHIPS WITH BUSINESSES AS
INDICATED BELOW
Name (Proprietary) Limited
Member in Iziphumo Consulting Solutions; Member in
Technical Cross Holdings; Member in Latitoez Food
Enterprise; Member in Ikhwezi Lomso Trading and
Projects

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
33. Related parties (continued)		
Somkoko Mvuyeleni	Member of Jange and Mlungu Civils; Spouse is a member of Kuvala 205 Trading Enterprise	
Mfecane Anita	Member in Anitaza Trading	
Mqamelo Thobeka	AHLS Investments	
Delubom Lindile	Member of Delubom Transport, L Delubom Trading and MTN Zakhane Shares; Spouse is a member of Lulwazi Trading Enterprise and MTN Zakhane Shares	
Memani Thobela Headwell	Child is a Member of Vunoleo Building & Civil Youth Construction	
Makonza Asanda	100% Membership in Seasons Find 1260 CC; Member of Funumbona Construction & Projects	
Shasha Mzwamadoda Moses	100% Membership in Safika Rural Development Consultants	
Mapatwana Ntombizanele	Member of Brainwave Project 205	
Gqodo Zixolisile	Member of GZ Civil Engineering and Member of FC Builders & Construction	
Gobeni Nonelela	Director of Hi-Lite Development Agency; Member of Ulutho Funerals	
Makwabe Thandisizwe	50% Membership in Mokoti Construction	
Tito Sibongile	Director of Smith Tabata	
Lucando Bulelani	33% membership in El Shaddai Civil and Building Contractors	
Petela Neziwe	Member of Kumbu & Lam Trading Enterprise; Member of Kei Recyclers; Spouse is a member of Cool Ideas 1413 Director in BS Holdings	
Baatjies Eldridge Denzil	Director in BS Holdings	
Nqwemeshe Nomvuyo	Spouse is a member of Liso Security Services & Trading	
Nkwentsha-Gunuza Lindiwe	Member in Lembede Investments Holdings	
Gcali Atwel Mthetheleli	Sebutha Transport and Catering	
Roboji Ncumisa	Member in Ncura's Marcia Roboji	
Banisi Vuyeka	Member in Angesisa General Trading	
Vellem Siyabulela	Director in Mqanjelwa Initiatives	
Sigenu Bafo	Member in Nonesi Development	
Mbotoloshi Zukile	Director in NNL Kembali Financial Solutions	
Dywili Mphithizeli Capriot	Spouse is a member of K201115430 (Pty) Ltd	
Mhlekwana Amanda	Director of Hope Fountain Investment 268CC, Phalethu 0513 Event Management	
Nombulelo Cynthia	Member in Buyile No.88 Construction	
Tembisa Mavis	Member in Kokwenu Bed and Breakfast	
Nontoni Angelina	Member in Wezi Gqiza Caterer	
Bane Zwelikhanyile	Member of Mduba General Trading	
Phumza Patricia	Director of K201115430 (Pty) Ltd	
Songezo Stanley	Director of Mesilane Projects	
Nokuzola	Member of Ubomi Civil Construction Services	
Mandisa Mavis	Member of Unako Fencing and Construction	
Zukile Sydwell	Member of Chris Hani Choral Music Association	
Khanyile	Member of Chris Hani Choral Music Association	
Luvuyo Aubrey	Member of Chris Hani Choral Music Association	
Andile William	Member of Ntribo General Trading	
Mxolisi David	Member of Nqantiko Construction and Projects	
Nomthandazo	Director of Amagqika Trading and Enterprise (Pty) Ltd	
Nonala Anelisa	Director of Nonala Tose Productions	
Nkosesizwe Keith	Director of Keith Ngesi Media (Pty) Ltd	
Yolani Cyprian	Director of My Kyns Services and Suppliers	
Vuyo Leratholi	Director of Mangwane na Maqwathi Holdings	
Mnyengeza Ntombikayise Prudence	Member of Brainwave Projects 1538 and Valobex 225. Director of Ntomonde, RSA Bhungane Transport and Tap Tac Trading	

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
33. Related parties (continued)		
Onela Mbotshane	Member of Destiny Internet Cafer, Director of Sagodola General Trading	
Themba Spampoel	Member of MQFS IT Solutions and Telecommunication and Strive Industries, Director of Strive Investments	
Ncumisa Ncobo	Member of Isiqalo SNN Consulting Agency and Investment, Director of Sigalosethu Trading	
Noxolo Ncede	Member of Divine Watch Protection Construction Agency and Investments, Director of Khetho-Lethu	
Them bani Samuel	Director of Likhanji Development Company	
Landiwe Tulile Sikhinzi	Director of Kasimmla Industries	
Jongumzi Cengani	Member of Four Us By Us Construction and Development, CMZ Tours, Manga-Manga Trading	
COUNCILLORS	REFER TO LIST OF COUNCILLORS DISCLOSED UNDER GENERAL INFORMATION. COUNCILLORS OF THE MUNICIPALITY HAVE RELATIONSHIPS WITH BUSINESSES AS INDICATED BELOW:	
Mbali Xolela	25% Membership in Amabandla Construction	
Dyantyi Sinethemba Reginald	Director and Founding Member of Happy Valley Abattoir Co-operative Limited; Director of Sanelisa Services; Director of Tlholo Entrepreneur Support Centre, 33.34% membership in Imvelo Agencies	
Gela Wongama	Director of Ithemba Liyaphilisa Financial Services; Director of Sesinethemba Construction; 10% Membership in Silver Solutions 2978; 20% Membership in Sikhuselu'luntu Protection and Training Services; 20% Membership in The Best Mining and Transportation Services; 20% Membership in Urafile Trading	
Nyukwana Nomveliso	30% Membership in Liqhakazi Construction and Projects	
Myataza Saziso	Member of Hluthamhlali Multi-purpose Trading	
Venske Robert Wilhelm	50% Sikho Social Development Facilitators	
Tshangana Lungisa	50% Sikho Social Development Facilitators	
MUNICIPAL EMPLOYEES	EMPLOYEES OF THE MUNICIPALITY HAVE RELATIONSHIPS WITH BUSINESSES AS INDICATED BELOW:	
Hlahla Mtibe NNV	Director in Zano-buntu Trading Enterprise, Spouse is a member of Yovo Trading Enterprise	
MR MM SHASHA- SENIOR MANAGER WSA	Spouse/Partner/Associate NOMALIZO MONICA DAMOYI has an interest in BITLINE SA 1060CC	
MR MT MAVUNDHLA- WSP: O & M TECHN (INKWANCA)	Director in Chris Hani Skills Centre Co-operative, Director in MLT Reno Project, Spouse/Partner/Associate AGNES MAKAZI MATROSS has an interest in MAMA TROSKIE TRADING ENTERPRISE and Izaphetha Trading and Projects	

The remuneration of key management is disclosed in note 20 and Councillors in note 21 of the Annual Financial Statements.

The Executive Mayor, Deputy Executive Mayor, Speaker, Chief Whip, Portfolio Chairperson, MPAC and Mayoral Committee Members are full-time. Each is provided with an office and secretary or administrator support at the cost of the council.

The Executive Mayor, Deputy Executive Mayor and Speaker have use of a council owned vehicle for official duties.

Related party transactions

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
33. Related parties (continued)		
Interest paid to (received from) related parties		
Chris Hani Development Agency	49,792,884	81,465,653
Red Guard Security	-	45,300
34. Unauthorised expenditure		
Unauthorised expenditure - Opening Balance	1,009,094,709	752,324,423
Current year	284,172,946	392,410,627
Unauthorised expenditure write-off	(871,407,814)	(135,640,341)
	421,859,841	1,009,094,709

During the current year, Council resolved to write off R871 407 814, that is R392 410 627 and further R478 997 187 and R137 686 895 which relates to the old Unauthorised Expenditure. Refer to Council Resolution C629.

35. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - Opening Balance	4,592,000	14,741,541
Current year	2,842,204	456,109
Department of Labour	-	(9,935,472)
Amount written off	(4,580,687)	(670,088)
	2,853,517	4,592,090

Fruitless and Wasteful expenditure was submitted to council and the council resolved that the MPAC to investigate and report back to Council the outcomes of an investigation. The process of investigation is still on not yet finalised that include the opening balance.

36. Irregular expenditure

Opening balance	4,928,675	422,325,034
Add: Prior year irregular expenditure	12,785,500	-
Add: Irregular Expenditure - current year	46,593,640	51,601,097
Less: Amounts written off	(59,710,186)	(475,225,429)
Add : Prior year error (overstatement)	-	6,227,973
	4,597,629	4,928,675

Analysis of expenditure awaiting condonation per age classification

Current year	46,593,640	51,601,097
Prior years	17,714,176	422,325,034
	64,307,816	473,926,131

Details of irregular expenditure – current year

1. Contract exceeded its duration and the scope of work was extended without following proper processes of section 116 of the MFMA	42,384,578
2. The supplier was awarded 20 point for BBBEE even though the certificated submitted stated that the supplier status is non-complaint.	179,917
3. The Municipality did not ensure that remuneration to senior managers is in line with the approve Government Gazette.	4,029,144
	-
	-

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
36. Irregular expenditure (continued)		46,593,639
Details of irregular expenditure - Prior year		
1. Contract exceeded its duration and the scope of work was extended without following proper processes of section 116 of the MFMA		50,906,485
3. Deviation not in line with regulation 36 and SCM Policy		694,612
		51,601,097
Additional details on prior year irregular expenditure		
1. Transaction made in contravention of SCM Regulations 43 (1) & (2)	-	608,621
2. Transaction made in contravention of section 112 of the MFMA	-	110,000
3. Transaction made in contraction of SCM Regulation 44	-	86,409
4. Transaction made in contravention of Government Gazette paragraph 7 & 8	-	2,405,371
5. Management contracted security services on month -to month basis splitting the contract values to lesser value	-	9,575,099
	-	12,785,500
<p>An amount of R59 710 186 has been table to Council and referred to MPAC for investigation. SCM unit has submitted or provided information to MPAC for investigation. Council resolved in write-off of the Irregular Expenditure amounting to R59 710 186 as irrecoverable.</p>		
37. Additional disclosure in terms of Municipal Finance Management Act		
SALGA		
Opening balance	-	-
Current year subscription / fee	3,973,765	3,918,770
Amount paid - current year	(3,973,765)	(3,918,770)
	-	-
Audit fees		
Opening balance	3,612,659	-
Current year subscription / fee	9,372,558	9,510,646
Amount paid - current year	(9,372,558)	(5,897,987)
	3,612,659	3,612,659
PAYE and UIF		
Opening balance	-	-
Current year subscription / fee	63,714,202	50,037,998
Amount paid - current year	(63,714,202)	(50,037,998)
	-	-
Pension and Medical Aid Deductions		
Opening balance	-	-
Current year subscription / fee	52,891,807	39,892,750
Amount paid - current year	(52,891,807)	(39,892,750)
	-	-

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021
Restated*

38. Deviation from supply chain management regulations

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

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

Deviations - 30 June 2022

	Technical Services	Total
Clause 36(1)(a)(ii) Emergency	- 2,868,793	- 2,868,793

39. Water Distribution Losses

Water Losses	93,097,878	75,315,069
--------------	------------	------------

The municipality incurred water distribution losses in the current year estimated at 36,20% of 8 253 358 units amounting to R93 097 878.

The municipality incurred water distribution losses in the previous year estimated at 31.41% of 6 941 481 units amounting to R75 315 069.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
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40. Prior period errors

1. Inventory

On the preparation of 2022 inventory register it was identified that the adjustment of R6,998 was not affected in the adjusted annual financial statement for 2021. The audited register was correct however the opening balance in the financial system and the annual financial statements was overstated by such restated amount.

2. Prepayment

An amount of R315 675.00 was paid to Eskom for connection during 2016/17. The municipality communicated with Eskom since 2017/18 about the connection and it was found that the project was stopped, and the money was taken to electricity consumption, hence we reversed the prepayment.

3. Receivable from non - exchange transaction

There is no correction of prior period error instead there is a reclassification of R512,90 from payables to receivables from non exchange transaction were there are negative votes in 2021 and in the current year these votes are positive in nature.

4. Receivable from exchange transaction

The municipality took an initiative of correcting the billing information from the system. There was a cleaning campaign of meters in order to bill correct all the meters. There were write offs that were approved by Council. All those implemented project affect the debt book of the municipality and also the debt impairment and billed revenue. After all the movement the prior year error was corrected with the amount of R 36,612,190.00

5. Property Plant and Equipment

Based on the previous year's audit, a few findings were identified on movable assets including:

1. Assets that are full depreciated but still in use
2. Incorrect Classification of Improvements as Repairs and Maintenance

Full execution of a physical verification of all movable assets held by the CHDM was conducted and All assets verified were subject to a condition assessment. Asset registers were reviewed, and the following corrections were made

1. Re- assessed the useful lives of all movable assets that are fully depreciated and still in use as per the CHDM Asset Management Policy Section 9.12 parameters. The Expected Useful Life (EUL) of the asset as stated in the asset management policy is multiplied by the condition factor derived from the condition assigned to the asset during the asset verification process to calculate the remaining useful life.

Corrected the assets that was write off due to an accident on the Transport Category on the register.

	Old TB	New TB	Total
Machinery and Equipment	11 985 250.00	12 089 322.39	104 072.39
Furniture and Office Equipment	7 834 752.00	9 996 623.00	2 161 871.00
Transport assets	54 085 846.00	62 936 506.00	8 850 660.00
Computer Equipment	3 832 110.00	4 045 544.00	213 434.00
TOTAL			<u>11 330 037.39</u>

WIP RESTATEMENTS- Completed Projects transferred to WIP

The completion status of all projects on all the capital grants was reviewed and subsequent to the review of the completion certificates it was identified that the completion dates on the completion certificates received were dated from the prior years. The total amount of these projects was R 19,136,776.89 and this affect the depreciation and accumulated depreciation.

Infrastructure assets require impairment, but were not impaired during the 2020/21 financial year.

The physical review and verification all facility assets were carried out on all CHDM infrastructure assets. The verification process enables assets to be assessed for possible impairment losses and ultimately assets are classified

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
-----------------	------	-------------------

40. Prior period errors (continued)

within the pre-defined asset hierarchy, as per the Local Government Capital Asset Guide The data collection application used during the verification enables the data collectors to collect spatial information, photos and all other asset data fields as required.

List of assets with an indication for impairment was identified during the filed verification for the current year.

The condition assessment was done and impairment loss reflect R78m for water and R22m for sanitation for current year under review.

The Final FAR for immovable that will be submitted on 31 August 2022 has all the identified assets with the reasons for impairment and calculations for 2022. The basis of using 2022 approach was as per GRAP 3 Paragraph 45-47 state about the limitation of retrospective restatement.

Incorrect Classification of Improvements as Repairs and Maintenance

An analysis of the total population for the repairs and maintenance for the year ended 30 June 2021 was performed and all assets that were previously expensed were capitalised

6. Operating lease liability

During 2021 an error was raised on the operating lease liability that the liability is overstated. The investigation was conducted and it was identified that there is a need of correcting the liability raised. 2021 was corrected by R821,818.69 reversed as overstatement of rental. The difference of R1,291,771.31 was corrected against the accumulated surplus for previous years.

7. Payables from Exchange Transactions

During the analysis of payables for 2020/2021, it was noted that an amount of R7 132 073 was understated and corrected by a journal and R512 was a reclassification from Receivables from non-exchange transactions. During the analysis of Retention register for 2020/2021 and general ledger it was identified that an amount of R533,458.00 was paid on the liability vote though it was not raised in the initial stage and the journal was passed to correct the error. The population was conducted based on the payment vouchers of 2021/2022.

8. VAT Payables

The analysis of payment voucher for 2021 was performed and it was identified that there were payments made inclusive of VAT though those service provider were VAT vendors that cause the understatement of VAT and overstatement of expenditure during 2021. There amount was R1,359,500.48 that was corrected as restatement.

9. Unspent Conditional Grant

The municipality was disclosing unspent conditional grant amounting to R33,051,820 2020/21 for unspent dated back from 2005/2006. During the 2020/21 audit the finding the information was submitted in a form of payment vouchers based on the communication made with the previous employee of Chris Hani DM and District Department. Engagement with HOD of the department confirmed and we received the confirmation letter that the Chris Hani District Municipality is not owing the department as per their financial record.

10. Service Charge

The municipality took an initiative of correcting the billing information from the system. There was a cleaning campaign of meter in order to bill correct all the meters. There were write off that was approved by Council. All those changes affect the debt book of the municipality and also the debt impairment and billed revenue which is service charge. After all the movement the prior year error was corrected with the amount of R 42,691,956.00

11. Debt Impairment

During the correction of the billing services it was identified that the previous year calculation was understated and recalculation was performed hence there is a restatement of R79,337,755.00

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
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40. Prior period errors (continued)

12. Contracted Services

There were transactions which were incorrectly captured in the accounting records amounting to R687 269.27, inclusive of VAT and misallocation. The whole population from July 2020 until June 2021 was analysed via payment voucher and posted journals to the general ledger to ensure that these payments are recorded in the correctly exclusive of VAT. Then journals have been prepared and processed to correct this expenditure

13. General expenses

During 2021/22 the analysis of payment vouchers was performed and there were errors that were identified and payment was made in the current year 2022 which was part of 2021 that cause the understated of payables. The corrections were made amounting to R 4 003 629.06 which includes departmental electricity.

14. Commitments

The error was raised for the projected understatement of **R280 279 868,85** which was form part of the omitted CHDA project drought relief project and sitting and drilling. Upon the analysis it was found that sitting and drilling and drought relief were completed during 2020/21 that means no commitment. CHDM Commitments on consultant is only one Consultant identified during the analysis and incorporated in the register. The correction of Consultant that was overstated by R68,253,947 were corrected, Budiling amounting to R3,134,161 and Infrastructure amounting to R204,066,281 that reduce the Commitment of the 2021 with total amount of R275,454,389. CHDA projects was the only understated figure amounting to R182,473,816 which is less from what was projected understatement.

15. Provisions

During the 2021/2022 audit, it was noted that the R2 647 442.89 for Zanamanzi (Pty) Ltd disclosed as the provision is already disclosed as a contingent liability amounting to R23m. The R2.6m is adjusted from the provision in order to be disclosed as a contingent liability.

16. Interest on debtors

During 2021/2022 audit, it was noted that interest on debtors was identified as the retrospective adjustment in line with GRAP 3(45). This limitation was due to prior period error that cannot be corrected by retrospective restatement due to impracticable to determine either the period-specific effects or the cumulative effect of the error in providing the reliable figure due to the manner in which Solar system calculates the interest in debtors and the prioritization used by the system when allocating payments to the oldest debt.

Statement of financial position

Inventory	-	(6,998)
Prepayment	-	(315,675)
Receivable from exchange transactions	-	512
Property, plant and equipment	-	14,436,906
Operating lease liability	-	(2,113,590)
Payables from exchange transactions	-	(6,436,604)
VAT Payable	-	(1,359,500)
Unspent conditional grants and receipts	-	(33,127,556)
Provision	-	2,647,443

Statement of Financial Position	As previously reported	Prior Period Error	Reclassification	Restated as at 30 June 2022
Inventory	13,994,321	(6,998)	-	13,987,323
Prepayment	315,675	(315,675)	-	-
Receivable from non-exchange transactions	25,758,609	-	512	25,759,121
Receivable from exchange transactions	383,543,146	(36,612,190)	-	346,930,956
Property, plant and equipment	4,596,031,694	14,436,906	-	4,610,468,600
Operating lease liability	(2,113,590)	2,113,590	-	-

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand			2022	2021 Restated*
40. Prior period errors (continued)				
Payables from exchange transactions	(271,056,313)	(6,436,092)	(512)	- (277,492,917)
VAT Payable	(13,029,057)	1,359,500	-	- (11,669,557)
Unspent conditional grants and receipts	(82,542,352)	32,911,010	-	- (49,631,342)
Provision	(84,122,918)	2,647,443	-	- (81,475,475)
Accumulated surplus	(4,661,558,892)	(10,097,494)	-	- (4,671,656,386)
	(94,779,677)	-	-	- (94,779,677)

Statement of financial performance

Service charges	-	42,691,956
Government grants and subsidies	-	140,810
Depreciation and amortisation	-	(11,133,458)
Debt impairment	-	79,337,755
Contracted services	-	907,944
General expenses	-	1,229,666
Losses on disposal	-	(191,781)

Statement of Financial Performance

	As previously reported	Prior Period Error	Reclassification	Total
Service charges	370,644,302	42,691,956	-	- 413,336,258
Government grants and subsidies	1,271,181,327	140,810	-	- 1,271,322,137
Depreciation and amortisation	173,632,254	(11,133,458)	-	- 162,498,796
Debt impairment	304,179,614	79,337,755	-	- 383,517,369
Contracted services	184,196,066	907,744	-	- 185,103,810
General expenses	156,145,625	1,229,666	-	- 157,375,291
Losses on disposal	(6,203)	(191,781)	-	- (197,984)
	2,459,972,985	112,982,692	-	- 2,572,955,677

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
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41. Risk management

Financial risk management

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

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Risk manager, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk by maintaining adequate reserves and banking facilities. The budget and treasury office monitors the cashflow requirements on a regular basis.

The municipality's cashflows consist of short term deposits and current accounts with notice periods of 30 days or less. Due to the short term nature of the portfolio a maturity analysis is not required.

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the municipality. Due to the nature of the municipality's operations, the municipality has an obligation to provide services to all qualifying people in its area. As such, the municipality is not able to select only credit worthy counterparts

Credit risk consists mainly of cash deposits, cash equivalents, investments and trade debtors.

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The existing trade receivables portfolio has historically been significantly impaired as a result of a number of contributing factors. Trade receivables are thus presented net of an allowance for impairment

Except for trade and other receivables which have already been impaired, the following financial assets are exposed to limited credit risk at year end:

Financial instrument	2022	2021
Cash and cash equivalent	179,299,853	171,220,613

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021
Restated*

42. Financial instruments disclosure

Categories of financial instruments

2022

Financial assets

	At fair value	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	-	355,733,717	-	355,733,717
Other receivables from non-exchange transactions	-	58,194,283	-	58,194,283
Cash and cash equivalents	179,299,853	-	-	179,299,853
	179,299,853	413,928,000	-	593,227,853

Financial liabilities

	At fair value	At amortised cost	At cost	Total
Trade and other payables from exchange transactions	-	298,697,188	-	298,697,188

2021

Financial assets

	At fair value	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	-	346,930,956	-	346,930,956
Other receivables from non-exchange transactions	-	25,759,121	-	25,759,121
Consumer debtors	-	-	-	-
Cash and cash equivalents	171,220,612	-	-	171,220,612
	171,220,612	372,690,077	-	543,910,689

Financial liabilities

	At fair value	At amortised cost	At cost	Total
Trade and other payables from exchange transactions	-	277,492,917	-	277,492,917

43. Events after the reporting date

LEGAL MATTERS

SUBSEQUENT EVENTS

No subsequent event during 2021/2022 financial year.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
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44. Budget differences

Material differences between budget and actual amounts

Revenue:

1. Service charges: The variance is less than 5%, however the variance is as a result of the billing fluctuations from month to month.

2. Other Income: The other income is as a result of the VAT recoveries that were recovered from the work performed by the appointed service provider when assisting the municipality on the VAT recoveries and VAT Reviews monthly. Therefore, the municipality has received the VAT receipts for the period of July 2021 to 30 June 2022. The amount is included in the bank balances under the CRR bank account.

3. Interest Income : The interest were as a result of the interest charged on the debtors for over due accounts. Furthermore, the other interest were for the investments earned from the bank balance. Moreover, the over recoveries were also as a result of the changes in the prime interest rates during the 2021/22 financial year. Judging from the interest hikes, it increased from 7% on the 18 September 2021 to 8.25% on the 19 May 2022. Surely from these the billing impact on the interest on debtors would have then increased.

4. Gains on disposal of assets: The auction was planned within the 2021/22 financial year and the actual date for the auction took place in September 2022. Hence the under recovery on the gains.

5. Government Grants and subsidies: The under recovery was as a result of the grant withholding of RBIG and the unspent that were applied for a rollover as well as the recognition criteria.

Expenditure

1. Employee related costs : The over expenditures were as a result of the overtime, standby, actuarial valuations assessed at year end and provision for performance bonus.

2. Remuneration of Councillors: This is a result of the budgetary figures on certain allowances and the impact of the increase of public bearers.

3. Depreciation and amortization: Although the variance is immaterial, however this is as a result of the certain assets being recorded at year end. This is aligned as far as possible to be aligned to the budget hence the small variance.

4. Debt Impairment: The debt impairment is over spent due to the budgetary challenges when budgeting for debt impairment, which is influenced by the collection rate and strategies that are put in place to maximise and optimise the municipal revenues. Amongst of the strategies envisaged was the implementation of the SMART and prepaid water meters that would have yielded more revenues and therefore, reduce the debt impairment. The SMART metering is to be implemented as from October 2022 going forward. This will also be influenced by the change in the culture of non-payment by consumers within the CHDM area.

5. Finance Cost: The increase of finance cost is affected by the interest charge by Eskom and Telkom. During the current year which is 2021/22 the local municipality charge interest to the district on the late payment hence there is high increase.

6. Bulk Purchase: The bulk purchases over spent due budgetary challenges where our schemes were completed during the year and as a result more water was purchased which resulted into a more expenditure. The adjustment budget is permissible once in a financial year, whereas some of our schemes are completed after the adjustment budget therefore any upwards budget for the water purchases can be effected in the next budget cycle.

7. Contracted services: This is a result of the underspending on the outsourced services such consultation fees, VIP toilets and sanitation, repairs and maintenance and professional fees as well as quality control expenditures. These are influenced by numerous factors such slow pace on the expenditure, completion of the works by service providers, delays on the availability of materials from service providers, lead time it takes for the service to be completed.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021 Restated*
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44. Budget differences (continued)

8. Transfers and subsidies: This expenditure is a result of the expenditure line items that related to the management fees paid over to CHDA for the project managed by the entity. These expenditures were dependent on the completion of the capital projects in order to ascertain the full quantum of the management fees due to the entity. This is also due to VIP toilet sanitation projects that could be spent at year end as also reflected in the rollover application since the municipality received a further trench on the WSIG in March 2022.

9. General expenses: The over spending is as a result of over expenditures on telephone, e-fuel, asset threshold, audit costs, computer expenditures, departmental electricity accruals from local municipalities, vehicle tracking and Subsistence and travel. Some of these expenditures are influenced by the escalations of prices due economic changes, the departmental electricity charged by municipalities and invoices submitted late in the 2021/22 financial year. Also the changes in fuel prices. Although this situation, the municipality is strictly implementing cost containment regulations and are monitored monthly for the line item expenditure that are controllable as overheads.

10. Loss on disposal of assets and liabilities:

11. Actuarial gains / losses:

45. Accounting by principals and agents

The entity is a party to principal agent arrangement.

Details of the arrangement(s) is/are as follows:

The municipality is disclosing the function performed by the entity outside the activity of the entity to fast track some of the infrastructure projects of the municipality. In terms of GRAP(109) it requires that the municipality to disclose that binding agreement as it affects the financial health of the municipality. During 2020/2021 financial year, CHDM made an agreement with CHDA for implementation of identified infrastructure projects on behalf of CHDM. There is a Memorandum of Agreement signed by both parties where it detailed the obligation of the CHDM and the obligation of the CHDA

Subject to the value created on each project, the CHDA shall submit an invoice that contains a payment certificate from a professional engineer, which shows work that has been measured in line with the bills of quantities

The parties agree that the CHDA's invoices shall be inclusive of the 10% (ten) percent management fee, which the CHDM has already provided for in its budget. In the event there are projects at risk or not being implemented and funds withheld, CHDA be utilised.

Entity as principal

Resources (including assets and liabilities) of the entity under the custodianship of the agent

The resources have been recognised by the municipality in its financial statements.

Fee paid

Fee paid as compensation to the agent (30 June 2022)	15,362,733	2,403,987
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These agency are as per the Memorandum of Understanding that states 10% to be paid in each invoice claimed by the agent and move from operating cost or general expense to WIP.

Resource and/or cost implications for the entity if the principal-agent arrangement is terminated

The parties may renew this MOU for a further period of three(3) years, provided that written agreement to that effect is achieved prior to the expiry thereof. The MOU can be terminated by either party upon the provision of 90 days' written notice to the other party with no cost implications.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

46. Going concern

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

The audited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The municipality do have a stable and growing revenue base, although slower than projected five years ago.

We draw attention to the fact that at 30 June 2022, the municipality had an accumulated surplus (deficit) of R4 949 931 053 and that the municipality's total assets exceed its liabilities by R 4 949 931 053.

47. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Total
Other provisions	81,475,475	81,475,475

Reconciliation of provisions - 2021

	Opening Balance	Total
Other provisions	81,475,475	81,475,475

The municipality has made a provision amounting to R81 475 457.14 for Department of Labour while both parties are on engagement with the debt up until the matter is resolved. The matter is coming from 2018/2019 financial year

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

48. VAT payable

Tax refunds payables	120,046,857	11,669,557
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VAT Reconciliation

	2022	2021
VAT Input	1,299,344,428	1,271,251,783
VAT Output	(1,485,454,853)	(1,351,529,183)
VAT Control (SARS)	66,063,568	68,607,843
	(120,046,857)	(11,669,557)

49. Impairment of assets

Impairments

Property, plant and equipment	100,556,328	8,244,322
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50. Segment information

General information

Identification of segments

A segment is an activity of an entity:

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

The reportable segments identified are those functional segments reported in the Government Finance Statistics (GFS's) format and the Municipal Vote (Departmental) format per the Monthly Section 71 Management Reports. The information that will be reported is aligned to the monthly section 71 reports which are reviewed by the executive management. The Government Finance Statistics (GFS's) format allows for universal comparability of segments. The main factors considered in selecting the segments were the level of comparability with other preparers and a level of aggregation that does not detract from presenting the separate revenue or service delivery components.

The report will not be aggregated except for the Governance and Administration.

The municipality manages its assets and liability as a whole. Only capital expenditure is reviewed based on the location. All other asset and liability management techniques are focused on the asset base as a whole rather than the asset and liability management for a specific area. Service delivery staff are organised in such a manner that service delivery takes place timeously in each town, but it's not a strategic principle to organise assets and liabilities in such a manner that each town is its own small economic/service delivery unit that can operate separately from the rest of the organisation. Segment reporting per geographic area is therefore not deemed relevant.

The segmental report surplus or deficit reviewed by management in the monthly section 71 report does not comprise all of the details as indicated by the standard and are thus not presented. Management reviews the performance on an aggregated basis of total revenue and total expenditure. The assets and liabilities are not reviewed at all on a segregated basis.

The reporting measurement basis for the management reports is the same as that of the annual financial statements.

On the first-time adoption of GRAP 18, comparative segment information has not been presented in terms of the transitional provisions contained in Directive 3.

Aggregated segments

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

50. Segment information (continued)

The municipality operates throughout the District (Chris Hani). Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout Eastern Cape were sufficiently similar to warrant aggregation.

Types of goods and/or services by segment

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

Reportable segment	Goods and/or services
Segment 1	Water and Sanitation

Segment surplus or deficit, assets and liabilities

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

50. Segment information (continued)

2022

	Water and Sanitation	Total
Revenue		
Revenue from Non-Exchange transaction	657,903,638	657,903,638
Revenue from exchange transaction	369,105,158	369,105,158
Interest revenue - On Debtors	94,589,300	94,589,300
Total segment revenue	1,121,598,096	1,121,598,096
Entity's revenue		1,121,598,096
Expenditure		
Depreciation and amortisation	140,814,714	140,814,714
Material items of expense	99,898,261	99,898,261
Material items on non-cash items	435,842,031	435,842,031
Total segment expenditure	676,555,006	676,555,006
Total segmental surplus/(deficit)		445,043,090
Assets		
Segment assets	589,937,188	589,937,188
Total assets as per Statement of financial Position		589,937,188
Liabilities		
Segment liabilities	203,370,422	203,370,422
Total liabilities as per Statement of financial Position		203,370,422

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.

2021

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

50. Segment information (continued)

	Segment 1 - Water & Sanitation	Total
Revenue		
Revenue from non-exchange transactions	612,698,220	612,698,220
Revenue from exchange transactions	370,644,302	370,644,302
Interest revenue - On Debtors	62,769,124	62,769,124
Total segment revenue	1,046,111,646	1,046,111,646
Entity's revenue		1,046,111,646
Expenditure		
Depreciation and Armotisation	156,156,070	156,156,070
Material Items of Expense	127,183,320	127,183,320
Material Items on Non-Cash Items	312,423,936	312,423,936
Total segment expenditure	595,763,326	595,763,326
Total segmental surplus/(deficit)		450,348,320
Assets		
Segment assets	496,380,637	496,380,637
Total assets as per Statement of financial Position		496,380,637
Liabilities		
Segment liabilities	148,740,649	148,740,649
Total liabilities as per Statement of financial Position		148,740,649

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.