

ACCOUNTING POLICY pertaining to the ANNUAL FINANCIAL STATEMENTS



POLICY, PROCESSES & PROCEDURES

RECOMMENDED

THAT the **Accounting Policy** and the contents thereof be tabled for approval at the Mayoral Committee.

Version Version 7.2026

Date April 2026

Document Name **Accounting Policy and Procedures**

Reviewed By

Date:

INTERNAL AUDITOR

Supported By

Date:

CHIEF FINANCIAL OFFICER

Signature

Date:

MUNICIPAL MANAGER

Adopted by the Mayoral Committee

Date:

CHAIRPERSON

Approved by the Council

Approved: A1532

08 June 2016

1st Review: A1631

31 May 2017

2nd Review A 1927

29 March 2019

3rd Review A 2124

26 May 2021

4th Review A 2225

25 May 2022

5th Review A2374

31 May 2023

6th Review A 2505

23 May 2024

7th Review A 2636

03 June 2025

Date:

RESOLUTION

Effective date

01 July 2026

Next revision April 2027

date

Contents

1.	Accounting Policies For A Grap Compliant Chart Of Accounts.....	5
1.1	Basis of Presentation.....	5
1.2	Presentation Currency.....	6
1.3	Going Concern Assumption.....	6
1.4	Non Current Assets.....	6
1.4.1	Reserves.....	Error! Bookmark not defined.
1.4.2	Property, Plant And Equipment (PPE).....	6
1.4.3	Investments.....	8
1.5	Current Assets.....	8
1.5.1	Accounts Receivable.....	8
1.5.2	Cash and Cash Equivalents.....	8
1.5.3	Inventories.....	9
1.5.4	Tax.....	9
1.6	Current Liabilities.....	9
1.6.1	Account Payables.....	9
1.6.2	Bank.....	9
1.6.3	Tax & Vat.....	10
1.7	General Conditions.....	10
1.7.1	Revenue Recognition.....	10
1.7.2	Conditional Grants and Receipts.....	13
1.7.3	Provisions.....	13
1.7.4	Unauthorised Expenditure.....	13
1.7.5	Irregular Expenditure.....	14
1.7.6	Fruitless and Wasteful Expenditure.....	14
1.7.7	Comparative Information.....	14
1.7.8	Leases.....	14
1.7.9	Investment Property.....	16
1.7.10	Intangible Assets.....	16
1.7.11	Retirement Benefits.....	16
1.7.12	Medical Aid: In Service and Continued Membership.....	17
1.7.13	Exemptions.....	17
1.8	Amendment and Review of the policy.....	18

1. Accounting Policies for a GRAP Compliant Chart of Accounts

1.1 Basis of Presentation

These annual financial statements have been prepared on an accrual basis of accounting – whereby transactions are recognised when they occur and reported in the financial statements of the period to which they relate and not when cash is paid or received - and are in accordance with historical cost convention.

The annual financial statements have been prepared in accordance with the Standards of Generally Recognized Accounting Practices (GRAP), laid down by the Accounting Standards Board as prescribed by the Minister of Finance in terms of General Notice 991 and 992 of 2005 and as embodied in Section 122(3) of the Municipal Finance Management Act (No. 56 of 2003) and Section 89 of the Public Finance Management Act (PFMA).

The following GRAP standards have been approved and are effective:

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 -	Investments in associates
GRAP 8 -	Interest 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 19 -	Provisions, contingent liabilities and contingent assets
GRAP 21 -	Impairment of non-cash generating assets
GRAP 23 -	Revenue from non-exchange transactions
GRAP 24 -	Presentation of budget information
GRAP 25 -	Employee Benefits
GRAP 26 -	Impairment of cash generating assets
GRAP 27 -	Agriculture
GRAP 31 -	Intangible assets
GRAP 103 -	Heritage assets
GRAP 104 -	Financial instruments
GRAP 100 -	Discontinued operations

The following GRAP statements have been approved but are not yet effective:

GRAP 18 -	Segment reporting
GRAP 20 -	Related party disclosure
GRAP 105 -	Transfer of functions between entities under common control
GRAP 106 -	Transfer of functions between entities not under common control
GRAP 107 –	Mergers
GRAP 108 -	Statutory Receivables
GRAP 32 –	Service Concession Arrangements: Grantor
iGRAP 17 –	Service concession arrangements where a grantor controls a significant residual interest in an asset
Directive 11 -	Changes in measurement bases following the initial adoption of standards of GRAP

Accounting policies for material transactions, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

The Minister of Finance has, in terms of General Notice 552 of 2007 exempted compliance with certain of the above mentioned standards and aspects or parts of these standards. Details of the exemptions applicable to the municipality have been provided in the policies to the annual financial statements.

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

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP. The accounting policies applied are consistent with those used to present the previous year's financial statements – any changes to accounting policy are detailed in the relevant policy.

1.2 Presentation Currency

These annual financial statements are presented in South African Rand.

1.3 Going Concern Assumption

These annual financial statements have been prepared on a going concern basis, and that Sedibeng District Municipality will continue in operation and meet its statutory obligations for the foreseeable future.

1.4 Non-Current Assets

1.4.1 Property, Plant and Equipment (PPE)

“An asset is a resource controlled by an entity as a result of past events from which future economic benefits or service potential is expected to flow to the entity”

PPE are tangible non-current assets – i.e. the asset is not held for consumption or sale in the municipality's normal operating cycle, is not to be traded with, is not to be realised within 12 months and is a non-cash item.

PPE is stated at cost, less accumulated depreciation. Land and buildings are recognized as items of property, plant and equipment. Land is not depreciated as it is deemed to have an indefinite life. Heritage assets are shown at cost, and do not attract depreciation, due to the uncertainty as to their estimated useful life.

The cost of PPE is the purchase price and any other costs attributable in bringing the asset to stand at its current location and in the current condition necessary for it to operate so as to derive economic benefit for service delivery. Cost includes trade discounts, rebates and the forecast costings for dismantling the PPE, removal costs and site restoration fees.

The cost for PPE in the event of an inability to establish an accurate valuation should be based on fair value. Should the PPE not be measured at its fair value, the cost will be measured at its carrying cost of the asset.

Subsequent expenditure is capitalized when the recognition and measurement criteria of an asset are met.

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets. The annual depreciation rates are based on estimated asset lives as per the Asset Management Policy.

The asset management policy has reference to the details and components of their specific useful life estimates.

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

Residual values, the useful life and the depreciation method of PPE are reviewed annually prior to reporting dates.

Depreciation of each part of a specific asset is undertaken should that particular part have a significant cost attached to it.

Reviews of PPE are also undertaken for an indication of impairments – i.e. when the underlying asset carrying amount exceeds the recoverable amount. Should impairment be noted the asset is costed at the recoverable amount and an impairment loss is accounted for in the Statement of Financial Performance, with the depreciation charge for that particular asset being adjusted for future periods.

1.4.2 Investments

Financial instruments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are stated at cost.

The municipality does not test for impairment of assets as it is exempted from IAS 36 (AC128) in entirety.

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

1.5 Current Assets

1.5.1 Accounts Receivable

Trade receivables are carried at fair value and subject to the effective interest rate method.

Impairment needs to be raised when it becomes apparent that the municipality will not be able to collect the all amounts due in terms of the receivable, as evidenced by the age analysis of the receivable or legal due process stage. A provision needs to be raised for the impairment and the amount of the provision is the difference between the assets carrying value and the present value of estimated future cash flows discounted at effective interest rate initially recognised. This reduces the carrying amount of the asset.

Accounts receivable are carried at anticipated realizable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date are classified as current.

1.5.2 Cash and Cash Equivalents

Cash is cash on hand and cash with banks.

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

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, investments in financial instruments and net of bank overdraft.

Cash and cash equivalents are recorded at face value.

1.5.3 Inventories

Current assets held for sale, consumption or distribution in the normal course of business and are recognised at cost. Cost is recognised as the purchase price plus taxes, transport costs, and any incidental costs undertaken in bring the asset to its current state of beneficial usage at its current location.

If the inventory was acquired through a non-exchange transaction then the attributable cost is deemed to be fair market value at the date of the acquisition.

Consumables, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. Should there not be a transport cost attracted by such, and then they are valued at the lower of cost and replacement value. Redundant and slow moving stock is accounted for in this way.

Inventories identified as write offs, to which a council resolution has not been adopted yet will form part of provisions for obsolete stock.

Revaluation differences in inventory are accounted for in the period in which they were raised in the Statement of Financial Performance.

The carrying amount of inventories is recognised as an expense in the period that the inventory was utilised, unless the cost is capitalised as a cost to another asset.

FIFO – first in first out method is used to allocate costs to inventory.

1.5.4 Tax

Taxes paid in excess of the amount due and payable for current and previous periods are deemed to be an asset. The value of such asset is measured at current tax rates at the end of the reporting period equivalent to an anticipated pay out from SARS.

A deferred tax asset comprises a probable tax surplus against which a deductible temporary difference can be utilised. It is measured at the tax rates that are to be applied for the period under review.

1.6 Current Liabilities

1.6.1 Account Payables

Trade and other account payables are measured at fair value and subject to the effective interest rate method.

Employee annual leave accruals are recognised as they accrue. Provisions are based on the potential liability.

1.6.2 Bank

Bank overdrafts and short term interest bearing borrowings are measured at fair value, net of any transactions costs.

Interest bearing borrowings are stated at amortised cost. The difference between the proceeds and the redemption value is recognised in the Statement of Financial performance over the period of the borrowing using the effective interest rate method.

1.6.3 Tax & Vat

Current tax and any prior period taxes due and not paid as yet comprises a liability.

A deferred liability is recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction affects neither accounting surplus nor taxable profit. It is measured at the tax rates that are to be applied for the period under review.

Vat is accounted for on a cash basis.

1.7 General Conditions

1.7.1 Revenue Recognition

Revenue constitutes the gross inflows of economic benefit enjoyed or the service potential received and receivable by SDM which leads to a resultant of net increase of current assets. SDM has two types of revenue generation which have to be accounted for:

1.7.1.1 Revenue from Exchange Transactions

Exchange transactions relate to the passing of a benefit – whether it is the rendering of service or sale of goods – from one entity to another for which the counter performance is rooted in equal value cash or equivalent. The revenue is recognised when it is probable that future economic benefit or service potential will flow to the municipality.

Exchange transactions refer to revenue that accrues to SDM directly in return for services rendered or goods sold for which fair value can be obtained.

Measurement is at the fair value of consideration received or receivable and is shown net of VAT, returns, rebates and discounts. The percentage of completion is the method utilised for revenue recognition on long term contracts.

i. Sale of Goods

We recognise revenue from the sale of goods upon;

- a) Purchaser receipt of risk and reward of ownership of the goods
- b) No effective control over the goods rests with SDM;

- c) We can measure the amount of revenue for counter performance accurately;
- d) We can measure the costs incurred for the performance accurately.

ii. Rendering of Services

When the outcome of the provision of services can be estimated accurately, then the resultant revenue stream can be correlated to the stage of completion of the transaction. We can estimate the outcome of the transaction reliably if the following conditions have been met:

- a) The economic benefit will flow to SDM;
- b) We can measure the costs incurred for the transaction and the costs to complete the transaction.

Where the services are performed by a number of acts over a specified period of time, the revenue is recognised on a straight line basis over the specified time frame.

Where the outcome for the transaction involving the provision of services is unclear, the revenue is only recognised to the extent that recoverable expenses can be identified.

iii. Service Charges

Electrical, water and sanitation service charges are consumption based. Meters are read and billing occurs on a monthly basis. Estimates are made monthly when readings do not occur.

Revenue is recognised when invoiced. Estimated consumption are recognised as revenue when the invoices are raised. Adjustments to estimates of consumption are made in the invoicing period when meters are read and are recognised as revenue in the period when read.

iv. Pre – payments

Income accrues when received and recognised at the point of sale.

v. Collection charges

Collection charges are recognised when they occur.

vi. Interest, royalties and dividends

Investment interest is recognised on a time proportionate basis relative to the effective yield of the investment. Interest on the aged debtors' book is also recognised on a time proportionate basis.

vii. Housing rental

Income accrues monthly in advance.

1.7.1.2 Revenue from non-exchange transactions

Non-exchange transactions arise where economic benefit is derived by SDM without SDM necessarily giving approximate equal value in exchange.

The transaction is rooted in the legal mandate of SDM, and has bearing on future economic benefit or service potential. Accounting processes thus dictate that the revenue inflow from such a non-exchange transaction would comprise of both the recognition of the asset - of the economic benefit received – and the raising of a like liability based on the future economic benefit or service potential. The obligation raised by the liability is thus discharged as the service delivery unfolds.

The revenue from non-exchange transactions are measured by the net increase of assets on a time proportion basis. Similarly the extent of counter liability is measured relative to the counter performance.

We note some non-exchange transactions and their revenue recognition as:

i. Rates

Inclusive of collection charges and interest is recognised when:

- a) It is probable that the economic benefit or service potential will flow to SDM;
- b) The amount of the service can be measured accurately;
- c) All legal prescripts have been complied with.

The revenue is dependent on an individual site rating whereby assessment rates are levied on the land value of the property and rebates are granted subject to certain preconditions. SDM has a comprehensive rating system which embodies different rate tariffs and grants certain rebates to categories of ratepayers.

ii. Revenue from Regional Services Levies

Both those based on turnover as well as those based on remuneration, is recognised on receipt basis against the appropriation account.

iii. Fines

Constitute both spot fines and summonses. Revenue from spot fines and summonses is recognized when payment is received. Income accrues when received and recognised at the point of payment.

iv. Donations

Are recognized on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use.

v. Contributed property, plant and equipment

Is recognized when such items are brought into use.

vi. Revenue from the recovery of unauthorized, irregular, fruitless and wasteful expenditure

Is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognized when the recovery thereof is virtually certain.

1.7.2 Conditional Grants and Receipts

Revenue received from conditional grants, donations and funding are recognized 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 recognized.

1.7.3 Provisions

Provisions are recognized when the Municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting sheet date and adjusted to reflect the current best estimate.

1.7.4 Unauthorised Expenditure

Unauthorised expenditure is expenditure that:

- i. Has occurred through over spending of a vote or a business unit within a vote;
- ii. Has not been budgeted for;
- iii. Expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state or not in accordance with the purpose of a vote 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).

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

1.7.5 Irregular Expenditure

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 Municipality'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.

1.7.6 Fruitless and Wasteful Expenditure

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

Fruitless and wasteful 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.

1.7.7 Comparative Information

Where the presentation or classification of items in the annual financial statements is amended prior period comparative amounts are reclassified. The underlying reasons for such reclassification need to be disclosed.

1.7.7.1 Current year comparatives:

Budgeted amounts need to be included in the annual financial statements for the current year only.

1.7.7.2 Prior year comparatives:

Where any accounting errors have occurred the correction needs to be effected retrospectively as far as it is practical, and the prior year comparatives have to be restated.

Any changes in accounting policy in the current year, leads to adjustments retrospectively as far as practical and leads to restatement of prior year comparatives.

1.7.8 Leases

1.7.8.1 Finance Lease

A finance lease is classified as such if the contract transfers substantially all the risks and rewards incidental to ownership to the lessee.

SDM as a lessor;

- i. Where assets are leased out under a finance lease, the present value of the lease payments are recognised as receivable. The difference between the gross receivable amount and the present value of the receivable is recognised as unearned finance income.
- ii. We account for finance lease income over the term of the lease using the net investment method which reflects a periodic rate of return.

SDM as a lessee;

- i. Where certain PPE leases are raised SDM assumes certain risks and rewards of ownership. The lease assets and liabilities are accounted for at the inception of the lease at the lower value of the leased asset and the present value of the future minimum lease payments.
- ii. Each lease payment is allocated between the liability and the finance charges so as to achieve a constant rate on the finance balance outstanding. The rental obligation, net of finance charges, is included in long term payables. The interest element of the finance costs is charged to the Statement of Financial performance over the lease period – which results in a constant periodic rate of interest on the remaining balances of the liability for each period.
- iii. PPE acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.
- iv. SDM will not incur a foreign lease liability, other than as within the prescripts of the MFMA Act, 2003.

1.7.8.2 Operating Lease

An operating lease arises where the underlying contract does not transfer substantially all the risks and rewards incidental to ownership to the lessee.

SDM as a lessor;

- i. The assets leased out are included in the Statement of Financial performance based on the nature of the asset.

SDM as a lessee;

- i. Payments are accounted for as an expense on a straight line basis over the term of the lease;

- ii. The difference between the expense raised and the contractual payments recognised as an operating lease asset or liability;
- iii. Payments are charged against income on a straight line basis over the period of the lease.

1.7.9 Investment Property

Investment property is property held to earn rental revenue or to derive capital appreciation or both.

It is noted as an asset when it can be clearly gleaned that the future economic benefit or service potential flowing from the property will accrue to SDM, and the cost or fair value can be reliably measured.

Investment property is stated at cost less accumulated depreciation – based on the straight line method at cost over the useful life of the property - and accumulated impairment losses.

1.7.10 Intangible Assets

An intangible asset arises where:

- i. It is probable that the expected future economic benefit or service potential attributable to the asset will flow to SDM; or
- ii. The cost or fair value of the asset can be measured accurately.

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

Computer software is recognised as intangible assets and are amortised on a straight line basis over its anticipated useful life, should the software be;

- i. Unique, identifiable and placed under the control of SDM;
- ii. Have a probable benefit exceeding the cost beyond one year.

Any expenditure which further enhanced the software and extended the benefits thereof beyond its useful life is capitalised. Software development costs are recognised as assets and amortised on a straight line basis over the useful life of the asset. Maintenance costs are expenses as and when they occur.

1.7.11 Retirement Benefits

The Municipality provides retirement benefits for its employees and councillors. The retirement benefits are calculated in accordance with the rules of the fund and full actuarial valuations are performed by the relevant funds on a regular basis as prescribed by the funds and legislatively.

Contributions to defined contribution retirement plans are recognised as an expense when employees and councillors have rendered the employed service or served office entitling them to the contribution. The contributions are charged against the operating account of SDM at a percentage of the basic salary paid to the employee or allowance paid to the councillor.

The SDM Pension Fund is a defined benefit plan. The benefit cost is determined by means of a projected unit credit method as prescribed by IAS 19 and the actuarial valuations performed at each reporting date. The retirement benefit obligation stated in the Statement of Financial Performance is the sum of the present value of the obligation less the fair value of plan assets plus/minus any balance of unrecognised actuarial gains or losses, minus any balance of unrecognised past service cost.

1.7.12 Medical Aid: In Service and Continued Membership

The liability for in-service medical aid fund members is accrued over the expected working lifetime of the member and the cost of providing the benefit is determined on the basis of the projected unit credit method as per IAS 19.

SDM provides certain post-retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality.

The fund rules to the medical aid state that a member who joins under the current conditions of service upon retirement is entitled to remain a continued member of the medical aid fund. Should this occur, SDM is liable for the employer portion of the employee's contribution.

IAS 19 prescribes the cost of providing such benefit. It is determined on a projected unit credit basis and future benefit values are projected using specific actuarial assumptions

1.7.13 Exemptions

1.7.13.1 Full Advantage

The municipality had taken full advantage of all the exemptions by the Minister of Finance in Government Gazette 30013 of 29 June 2007. These exemptions are for the and financial years.

1.7.13.2 Adjustment for full compliance

By complying fully with the standards that are now exempted and of which full advantage has been taken will result in changes in the following:

1.7.13.2.1 Statement of Financial Performance:

- i. Impairment loss/gain

- ii. Changes in fair value of assets
- iii. Adjustment expenditure for intangible assets

1.7.13.2.2 Statement of Financial Position:

- i. Property, plant and equipment adjusted for impairment
- ii. Property, plant and equipment adjusted for intangible assets
- iii. Recognizing of intangible assets

1.8 Amendment and Review of the policy

The Accounting Policy shall be reviewed annually and/or at the discretion of the Accounting Officer due to changing circumstances as a result of the legislation or otherwise.