Fezile Dabi
District Municipality

# Fezile Dabi District Municipality
(Registration number DC20)
Annual Financial Statements
for the year ended 30 June 2022

# General Information

**Other 2**

| | |
|---|---|
| **Nature of business and principal activities** | Fezile Dabi is a district municipality performing the functions as set out in the Constitution of the Republic of South Africa (Act No.108 of 1996) |
| **Accounting Officer** | Ms ML Molibeli |
| **Chief Finance Officer (CFO)** | Ms NP Mdaka |
| **Mayoral committee** | |
| Executive Mayor | Cllr Khashudi |
| Speaker | Cllr Pittaway |
| Mayoral Councillors | Cllr Matwa<br>Cllr Mofokeng<br>Cllr Serfontein<br>Cllr Muller |
| **Chairperson of MPAC** | Cllr A Motaung |
| **Registered office** | John Vorster Road<br>Sasolburg<br>1947 |
| **Postal address** | P.O Box 10<br>Sasolburg<br>1947 |
| **Bankers** | ABSA |
| **Auditors** | The Auditor General of South Africa<br>Registered Auditors |
| **Grading of local authority** | Grade 1 Low Capacity Municipality |
| **Municipal demarcation code** | DC20 |

# Index

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


| | Page |
|---|---|
| Accounting Officer's Responsibilities and Approval | 3 |
| Statement of Financial Position | 4 |
| Statement of Financial Performance | 5 |
| Statement of Changes in Net Assets | 6 |
| Cash Flow Statement | 7 |
| Statement of Comparison of Budget and Actual Amounts | 8 - 10 |
| Accounting Policies | 11 - 17 |
| Notes to the Annual Financial Statements | 27 - 64 |
| Reportable Segments | 65 |


**Abbreviations used:**

| | |
|---|---|
| Cllr | Councillor |
| CPI | Consumer Price Index |
| GRAP | Generally Recognised Accounting Practice |
| IT | Information Technology |
| MFMA | Municipal Finance Management Act |
| mSCOA | Municipal Standard Chart of Accounts |
| VAT | Value Added Tax |
| WIP | Work-in-process |

# 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 her responsibility to ensure that the annual financial statements satisfy the financial reporting standards with regards to form and content and present fairly the statement of financial position, results of operations and business of the municipality, and explain the transactions and financial position of the business of the municipality at the end of the financial year. The annual financial statements are based upon appropriate accounting policies consistently applied throughout the municipality and supported by reasonable and prudent judgements and estimates.

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2023 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2022 and were signed on its behalf by:

The accounting officer would like to bring the following material matters to your attention:

I certify that the salaries, allowances and benefits of councillors as disclosed in note 20 to the 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.

**Ms ML Molibeli**
**Accounting Officer**

# Fezile Dabi District Municipality

(Registration number DC20)
Annual Financial Statements for the year ended 30 June 2022

## Statement of Financial Position as at 30 June 2022

| Figures in Rand | Note(s) | 2022 | 2021 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 3 | 84 598 752 | 98 021 595 |
| Receivables from exchange transactions | 4 | 2 557 216 | 5 117 406 |
| Receivables from non-exchange transactions | 5 | 4 283 098 | 2 908 176 |
| VAT receivable | 6 | 1 014 917 | 2 172 374 |
| | | **92 453 983** | **108 219 551** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 7 | 75 741 999 | 81 470 289 |
| Intangible assets | 8 | 1 124 212 | 1 366 373 |
| | | **76 866 211** | **82 836 662** |
| **Total Assets** | | **169 320 194** | **191 056 213** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Payables from exchange transactions | 9 | 16 157 168 | 26 033 212 |
| Unspent conditional grants and receipts | 10 | 2 342 466 | 3 826 401 |
| Finance lease obligation | 11 | - | 850 155 |
| Operating lease liability | 12 | - | 5 703 |
| Employee benefit obligation | 14 | 1 915 000 | 2 001 000 |
| | | **20 414 634** | **32 716 471** |
| **Non-Current Liabilities** | | | |
| Employee benefit obligation | 14 | 31 468 433 | 28 209 000 |
| **Total Liabilities** | | **51 883 067** | **60 925 471** |
| **Net Assets** | | **117 437 127** | **130 130 742** |
| Reserves | | | |
| Revaluation reserve | 15 | 1 553 724 | 2 560 031 |
| Accumulated surplus | | 115 883 403 | 127 570 711 |
| **Total Net Assets** | | **117 437 127** | **130 130 742** |

* See Note 37

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2022 | 2021 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Actuarial gains | 14 | - | 318 801 |
| Insurance pay-out | | - | 89 186 |
| Interest received - investment | 17 | 4 459 648 | 4 938 598 |
| Other income | 16 | 1 391 285 | 780 116 |
| **Total revenue from exchange transactions** | | **5 850 933** | **6 126 701** |
| **Revenue from non-exchange transactions** | | | |
| **Transfer revenue** | | | |
| Government grants & subsidies | 18 | 173 385 748 | 170 472 599 |
| **Total revenue** | | **179 236 681** | **176 599 300** |
| **Expenditure** | | | |
| Employee related costs | 19 | (121 060 809) | (112 031 721) |
| Remuneration of councillors | 20 | (7 257 941) | (7 960 587) |
| Depreciation and amortisation | 21 | (7 391 908) | (7 337 043) |
| Finance costs | 22 | (1 815 472) | (2 263 007) |
| Repairs and maintenance | 23 | (1 266 050) | (1 040 300) |
| Contracted services | 24 | (8 771 363) | (8 898 591) |
| Transfers and Subsidies | 25 | (4 324 347) | (4 906 000) |
| Loss on disposal of assets and liabilities | | (200 405) | (146 667) |
| Actuarial losses | 14 | (115 500) | - |
| General Expenses | 27 | (39 041 273) | (41 493 382) |
| **Total expenditure** | | **(191 245 068)** | **(186 077 298)** |
| **Deficit for the year** | | **(12 008 387)** | **(9 477 998)** |

* See Note 37

## Statement of Changes in Net Assets

| Figures in Rand | Revaluation reserve | Accumulated surplus / deficit | Total net assets |
|---|---|---|---|
| Opening balance as previously reported | 3 566 338 | 133 364 822 | 136 931 160 |
| Adjustments | | | |
| Correction of errors | - | 2 188 368 | 2 188 368 |
| **Balance at 01 July 2020 as restated*** | **3 566 338** | **135 553 190** | **139 119 528** |
| Changes in net assets | | | |
| Deficit for the year | - | (9 477 998) | (9 477 998) |
| Prior year error | - | 1 495 519 | 1 495 519 |
| Revaluation reserve realised | (1 006 307) | - | (1 006 307) |
| Total changes | (1 006 307) | (7 982 479) | (8 988 786) |
| **Restated* Balance at 01 July 2021** | **2 560 031** | **127 570 711** | **130 130 742** |
| Changes in net assets | | | |
| Deficit for the year | - | (12 008 387) | (12 008 387) |
| Adjustments | - | 321 079 | 321 079 |
| Revaluation reserve realised | (1 006 307) | - | (1 006 307) |
| Total changes | (1 006 307) | (11 687 308) | (12 693 615) |
| **Balance at 30 June 2022** | **1 553 724** | **115 883 403** | **117 437 127** |
| Note(s) | 15 | | |

* See Note 37

## Cash Flow Statement

| Figures in Rand | Note(s) | 2022 | 2021 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Grants | | 173 161 939 | 163 838 620 |
| Interest income | | 4 632 865 | 4 938 598 |
| | | 177 794 804 | 168 777 218 |
| **Payments** | | | |
| Employee costs | | (125 135 388) | (117 294 808) |
| Suppliers | | (63 765 449) | (59 262 836) |
| Finance costs | | (40 080) | (165 977) |
| | | (188 940 917) | (176 723 621) |
| **Net cash flows from operating activities** | 28 | **(11 146 113)** | **(7 946 403)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 7 | (2 276 730) | (1 347 277) |
| **Net increase/(decrease) in cash and cash equivalents** | | **(13 422 843)** | **(9 293 680)** |
| Cash and cash equivalents at the beginning of the year | | 98 021 595 | 107 315 274 |
| **Cash and cash equivalents at the end of the year** | 3 | **84 598 752** | **98 021 594** |

* See Note 37

# Fezile Dabi District Municipality

(Registration number DC20)
Annual Financial Statements for the year ended 30 June 2022

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Other income | 240 000 | 221 000 | **461 000** | 1 391 285 | **930 285** | 43.1 |
| Interest received - investment | 5 000 000 | - | **5 000 000** | 4 459 648 | **(540 352)** | 43.2 |
| **Total revenue from exchange transactions** | **5 240 000** | **221 000** | **5 461 000** | **5 850 933** | **389 933** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 174 761 000 | 536 401 | **175 297 401** | 173 385 748 | **(1 911 653)** | 43.3 |
| **Total revenue** | **180 001 000** | **757 401** | **180 758 401** | **179 236 681** | **(1 521 720)** | |
| **Expenditure** | | | | | | |
| Personnel | (130 691 000) | 5 384 620 | **(125 306 380)** | (121 060 809) | **4 245 571** | 43.4 |
| Remuneration of councillors | (8 688 000) | 95 000 | **(8 593 000)** | (7 257 941) | **1 335 059** | 43.5 |
| Depreciation and amortisation | (2 250 000) | (1 183 000) | **(3 433 000)** | (7 391 908) | **(3 958 908)** | 43.6 |
| Finance costs | (1 300 000) | - | **(1 300 000)** | (1 815 472) | **(515 472)** | 43.8 |
| Repairs & maintenance | (1 733 000) | - | **(1 733 000)** | (1 266 050) | **466 950** | 43.9 |
| Contracted Services | (8 011 150) | - | **(8 011 150)** | (8 771 363) | **(760 213)** | 43.10 |
| Transfers and Subsidies | (6 236 000) | - | **(6 236 000)** | (4 324 347) | **1 911 653** | 43.11 |
| General Expenses | (36 466 949) | (557 620) | **(37 024 569)** | (39 041 273) | **(2 016 704)** | 43.12 |
| **Total expenditure** | **(195 376 099)** | **3 739 000** | **(191 637 099)** | **(190 929 163)** | **707 936** | |
| **Operating deficit** | **(15 375 099)** | **4 496 401** | **(10 878 698)** | **(11 692 482)** | **(813 784)** | |
| Loss on disposal of assets and liabilities | - | - | - | (200 405) | **(200 405)** | |
| Actuarial gains/losses | - | - | - | (115 500) | **(115 500)** | 43.13 |
| | **-** | **-** | **-** | **(315 905)** | **(315 905)** | |
| **Deficit before taxation** | **(15 375 099)** | **4 496 401** | **(10 878 698)** | **(12 008 387)** | **(1 129 689)** | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **(15 375 099)** | **4 496 401** | **(10 878 698)** | **(12 008 387)** | **(1 129 689)** | |

# Fezile Dabi District Municipality
(Registration number DC20)
Annual Financial Statements for the year ended 30 June 2022

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Receivables from exchange transactions | - | - | - | 2 557 216 | **2 557 216** | 43.15 |
| Receivables from non-exchange transactions | - | - | - | 4 283 098 | **4 283 098** | 43.16 |
| VAT receivable | - | - | - | 1 014 917 | **1 014 917** | 43.17 |
| Cash and cash equivalents | - | - | - | 84 598 752 | **84 598 752** | 43.18 |
| | **-** | **-** | **-** | **92 453 983** | **92 453 983** | |
| **Non-Current Assets** | | | | | | |
| Property, plant and equipment | 630 000 | 4 496 401 | **5 126 401** | 75 741 999 | **70 615 598** | 43.19 |
| Intangible assets | - | - | - | 1 124 212 | **1 124 212** | 43.20 |
| | **630 000** | **4 496 401** | **5 126 401** | **76 866 211** | **71 739 810** | |
| **Total Assets** | **630 000** | **4 496 401** | **5 126 401** | **169 320 194** | **164 193 793** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Payables from exchange transactions | - | - | - | 16 157 168 | **16 157 168** | 43.23 |
| Employee benefit obligation | - | - | - | 1 915 000 | **1 915 000** | 43.24 |
| Unspent conditional grants and receipts | - | - | - | 2 342 466 | **2 342 466** | 44.25 |
| | **-** | **-** | **-** | **20 414 634** | **20 414 634** | |
| **Non-Current Liabilities** | | | | | | |
| Employee benefit obligation | - | - | - | 31 468 433 | **31 468 433** | 43.24 |
| **Total Liabilities** | **-** | **-** | **-** | **51 883 067** | **51 883 067** | |
| **Net Assets** | **630 000** | **4 496 401** | **5 126 401** | **117 437 127** | **112 310 726** | |
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Revaluation reserve | - | - | - | 1 553 724 | **1 553 724** | 43.27 |
| Accumulated surplus | 630 000 | 4 496 401 | **5 126 401** | 115 883 403 | **110 757 002** | 43.28 |
| **Total Net Assets** | **630 000** | **4 496 401** | **5 126 401** | **117 437 127** | **112 310 726** | |

# Fezile Dabi District Municipality

(Registration number DC20)
Annual Financial Statements for the year ended 30 June 2022

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Cash Flow Statement** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| **Receipts** | | | | | | |
| Cash receipts from government grants | 174 761 000 | 536 401 | **175 297 401** | 171 426 401 | **(3 871 000)** | 43.29 |
| Interest income | 5 000 000 | - | **5 000 000** | 4 632 865 | **(367 135)** | 43.30 |
| Other cash receipts | 240 000 | 221 000 | **461 000** | 1 735 538 | **1 274 538** | 43.31 |
| | **180 001 000** | **757 401** | **180 758 401** | **177 794 804** | **(2 963 597)** | |
| **Payments** | | | | | | |
| Employee costs | (139 379 000) | 5 479 620 | **(133 899 380)** | (125 135 388) | **8 763 992** | 43.32 |
| Suppliers | (52 447 099) | (557 620) | **(53 004 719)** | (63 765 450) | **(10 760 731)** | 43.33 |
| Finance costs | (1 300 000) | - | **(1 300 000)** | (40 080) | **1 259 920** | 43.34 |
| | **(193 126 099)** | **4 922 000** | **(188 204 099)** | **(188 940 918)** | **(736 819)** | |
| **Net cash flows from operating activities** | **(13 125 099)** | **5 679 401** | **(7 445 698)** | **(11 146 114)** | **(3 700 416)** | |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | (630 000) | (4 496 401) | **(5 126 401)** | (2 276 730) | **2 849 671** | 43.35 |
| Net increase/(decrease) in cash and cash equivalents | (13 755 099) | 1 183 000 | (12 572 099) | (13 422 844) | (850 745) | 43.36 |
| Cash and cash equivalents at the beginning of the year | - | - | - | 98 021 595 | **98 021 595** | 43.37 |
| **Cash and cash equivalents at the end of the year** | **(13 755 099)** | **1 183 000** | **(12 572 099)** | **84 598 751** | **97 170 850** | |

### 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. All figures are rounded to the nearest Rand.

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.

These accounting policies are consistent with the previous period.

### 1.1 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.

### 1.2 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.

### 1.3 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:

**Receivables**

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

**Useful lives of property, plant and equipment**

The municipality's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment and other assets. This estimate is based on industry norm and on the pattern in which an asset's future economic benefit or service potential is expected to be consumed by the municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease the depreciation charge where useful lives are more than previously estimated useful lives.

### 1.3 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 post retirement and long term obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government 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. Where there is no deep market in government bonds wth a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

**Effective interest rate**

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

**Provisions**

Payment of perfromance bonuses depends on the availability of funds and is of subject to the prerogative of the council to approve. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

### 1.4 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.

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.

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.

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

# Accounting Policies

### 1.4 Property, plant and equipment (continued)

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated on the over their expected useful lives to their estimated residual value. The depreciated charge for each period is recognised in surplus and deficit.

| Item | Depreciation method | Average useful life |
|---|---|---|
| Land | Straight-line | Indefinite |
| Buildings | Straight-line | 30 years |
| Machinery and equipment | Straight-line | 1-30 years |
| Furniture and office equipment | Straight-line | 2-32 years |
| Motor vehicles | Straight-line | 2-30 years |
| Computer equipment | Straight-line | 2-30 years |
| Infrastructure assets | Straight-line | 5-80 years |
| Work of art and paintings | No depreciating | No life span |
| Leased assets | Straight-line | 2-7 years |

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

Assets of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 7 & 23).

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

## Accounting Policies

### 1.5 Intangible assets

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

Intangible assets are initially measured 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.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Amortisation is provided on a straight line basis over the expected useful lives of the intangible assets.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. Should the estimates change the municipality revises the expected useful life accordingly. The change is accounted for as a change in an accounting estimate in terms of the GRAP Standard on Accounting Policies , Changes in Estimates and Errors.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values, if any. The amortisation charge for each period is reco gnised in surplus or deficit.

The useful lives of intangible assets have been assessed as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Computer software | Straight-line | 5-12 years |

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 asset is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the asset is derecognised.

### 1.6 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.

A financial asset is:
- cash;

## Accounting Policies

**1.6 Financial instruments (continued)**

- 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 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.

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

**Classification**

The Municipality 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** |
|---|---|
| Cash and cash equivalent | Financial asset measured at amortised cost |
| Receivables from exchange transactions | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |

## Accounting Policies

### 1.6 Financial instruments (continued)

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 |
|---|---|
| Payables from exchange transactions | Financial liability measured at amortised cost |

**Initial recognition**

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

The municipality recognises financial assets using trade date accounting.

**Initial measurement of financial assets and financial liabilities**

The municipality 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, except for financial instruments subsequently measured at fair value, which are measured at its fair value.

**Subsequent measurement of financial assets and financial liabilities**

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

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

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

**Fair value measurement considerations**

Short-term receivables and payables are not discounted when the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

**Impairment and uncollectibility of financial assets**

The municipality 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.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

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 (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the financial assets. The carrying amount of the asset is reduced 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 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.

# Accounting Policies

## 1.7 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.

**Finance leases - lessee**

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

The discount rate used in calculating the present value of the minimum lease payments is the incremental borrowing rate.

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

**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.

## 1.8 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Service (SARS) for VAT on payment basis, in accordance with Section 15(2) of the Value-added Tax Act 89 of 1991.

## Accounting Policies

### 1.9 Employee benefits

**Short-term employee benefits**

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

**Post-employment benefits**

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

Post-employment benefit plans are formal or informal arrangements under which municipality 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.

## 1.9 Employee benefits (continued)

### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within 12 months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

### Post-employment benefits: Defined benefit plans

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

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

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

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

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

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 municipality 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.

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 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;
- actuarial gains and losses;

## Accounting Policies

### 1.9 Employee benefits (continued)

- past service cost;

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.

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 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.

**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.

## 1.9 Employee benefits (continued)

### Other post retirement obligations

The municipality has an obligation to provide other long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to determine the present value of the obligation.

The amount recognised as a liability for other long-term employee benefits 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.

The municipality recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- actuarial gains and losses,

## 1.10 Provisions and contingencies

A provision is a liability of uncertain timing or amount.

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 surplus (deficit).

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

A contingent liability is:
- a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the municipality; or

### 1.10 Provisions and contingencies (continued)

- 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 or service potential will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

### 1.11 Accumulated surplus/(deficit)

The accumulated surplus/(deficit) represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/(deficit). Prior year adjustments, relating to income and expenditure, are credited/debited against accumulated surplus/(deficit) when retrospective adjustments are made.

### 1.12 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve.

The revaluation surplus is realised as revalued assets are depreciated, through a transfer from the revaluation reserve to the accumulated surplus.

On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

### 1.13 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### 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.

### 1.13 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 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 surveys of work performed.

#### Interest

Revenue arising from the use by others of entity assets yielding interest 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.

Interest or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

### 1.14 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.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

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.

### 1.14 (continued)

#### 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.

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

### 1.15 Investment income

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

### 1.16 Unauthorised expenditure

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

All the expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expediture was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the unauthorised expenditure that occurred, a receivable is recognised for the recovery of the monies , and where recovered , it is subsequently accounted for as revenue in the statement of financial performance.

### 1.17 Fruitless and wasteful expenditure

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

All the expenditure relating to friutless expenditure is recognised as an expense in the statement of financial performance in the year that the expediture was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the unauthorised expenditure that occurred, a receivable is recognised for the recovery of the monies , and where recovered , it is subsequently accounted for as revenue in the statement of financial performance.

## Accounting Policies

### 1.18 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 economic entity's supply chain management policy.

All the expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expediture was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the unauthorised expenditure that occurred, a receivable is recognised for the recovery of the monies , and where recovered , it is subsequently accounted for as revenue in the statement of financial performance.

### 1.19 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments which include future capital commitments relating to property, paint and equipment, investment property, intangible assets and heritage assets, as applicable, operational commitmnts as wellas future commitments relating to operating lease..

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.20 Budget information

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

The approved budget covers the fiscal period from 2021/07/01 to 2022/06/30.

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.

### 1.21 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.

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 those family members who may be expected to influence, or be influenced by that person 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, Refer to note 36 - Related parties

# Accounting Policies

### 1.22 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.

### 1.23 Comparative figures

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

| Figures in Rand | 2022 | 2021 |
|---|---|---|

### 2. New standards and interpretations

### 3. Cash and cash equivalents

Cash and cash equivalents consist of:

| | 2022 | 2021 |
|---|---|---|
| Bank balances | 8 689 125 | 15 334 163 |
| Short-term deposits | 75 909 627 | 82 687 432 |
| | **84 598 752** | **98 021 595** |

**Credit quality of cash at bank and short term deposits, excluding cash on hand**

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings

| **Credit rating** | 2022 | 2021 |
|---|---|---|
| AA+ | 84 627 731 | 97 988 086 |

**Cash and cash equivalents pledged as collateral**

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | 30 June 2022 | 30 June 2021 | 30 June 2020 | 30 June 2022 | 30 June 2021 | 30 June 2020 |
| Standard bank Current Account - 043108520 | 6 474 062 | - | - | 6 466 543 | - | - |
| ABSA Current - 520000100 | 2 095 374 | 1 361 345 | 988 952 | 2 044 666 | 1 360 902 | 934 123 |
| ABSA HIV - 9209269959 | 1 344 | 983 962 | 957 821 | 1 344 | 983 962 | 958 172 |
| ABSA Savings - 9070399717 | 205 550 | 12 989 300 | 26 085 590 | 205 550 | 12 989 300 | 26 085 590 |
| ABSA - 2067390363 | 14 412 748 | 13 911 528 | 13 414 733 | 14 412 748 | 13 911 528 | 13 414 733 |
| ABSA - 2068681892 | 10 147 986 | 9 795 079 | 9 447 610 | 10 147 986 | 9 795 079 | 9 447 610 |
| Nedbank - 7288009165 | 13 480 880 | 13 000 948 | 12 645 185 | 13 480 880 | 13 000 948 | 12 645 185 |
| Standard bank - 728670534/006 | 14 037 668 | 13 414 422 | 12 629 963 | 14 038 028 | 13 414 422 | 12 629 963 |
| Standard bank - 728670534/008 | 8 238 155 | 17 609 234 | 16 964 060 | 8 238 155 | 17 609 234 | 16 964 060 |
| Standard bank - 728670534/010 | 15 591 834 | 14 923 804 | 14 236 933 | 15 591 834 | 14 923 804 | 14 236 933 |
| **Total** | **84 685 601** | **97 989 622** | **107 370 847** | **84 627 734** | **97 989 179** | **107 316 369** |

### 4. Receivables from exchange transactions

| | 2022 | 2021 |
|---|---|---|
| Accrued interest | 237 431 | 136 875 |
| Recoverable - private phone calls | 119 785 | 103 455 |
| Prepaid expenses | 2 200 000 | 4 877 076 |
| | **2 557 216** | **5 117 406** |

Up to 30 June 2022, trade receivables were recognised at transaction price less provision for impairment. A provision for impairment of trade and other receivables was established when there was an objective evidence that the municipality would not be able to collect all the amounts due according to the original terms of receivables and applicable council policies. No provision for imparment were raised during the current and prior year.

Prepaid expense is as a result of advance payment made to the attoneys as surety.

### 4. Receivables from exchange transactions (continued)

**Trade and other receivables pledged as security**

None of the trade and other receivables were pledged as security

**Credit quality of trade and other receivables from exchange transactions**

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

**Trade and other receivables past due but not impaired**

The municipality considers receivables from exchange transactions in default when contractual payments are 90 days past due. However, in certain cases, the municipality may also consider receivable from non-exchange transaction to be in default when internal or external information indicates that the municipality is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held. A receivable from non-exchange transaction is written off when there is no reasonable expectation of recovering the contractual cash flows. At 30 June 2022, receivables of R118 695 (2021: R 83 640) were past due but not impaired.

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

| | 2022 | 2021 |
|---|---|---|
| 3 months past due | 118 695 | 83 640 |

### 5. Receivables from non-exchange transactions

| | 2022 | 2021 |
|---|---|---|
| Recoverable - UIFWE | - | 533 291 |
| Fuel Deposit | 1 000 | 1 000 |
| Other sundry receivables | 337 023 | 354 623 |
| Accrued Income -Grants | 3 945 075 | 2 019 262 |
| | **4 283 098** | **2 908 176** |

**Receivables from non-exchange transactions pledged as security**

None of the receivables from non-exchange transactions are pledged as security.

**Credit quality of receivables from non-exchange transactions**

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates:

**Receivables from non-exchange transactions past due but not impaired**

The municipality considers receivables from non-exchange transactions in default when contractual payments are 90 days past due. However, in certain cases, the municipality may also consider receivable from non-exchange transaction to be in default when internal or external information indicates that the municipality is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held. A receivable from non-exchange transaction is written off when there is no reasonable expectation of recovering the contractual cash flows.

At 30 June 2022, receivables from non-exchange of R 338 023 (2021: 888 914) were past due but not impaired.

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

| | 2022 | 2021 |
|---|---|---|
| 3 months past due | 533 291 | 888 914 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|---|---|

## 5. Receivables from non-exchange transactions (continued)

**Trade and other receivables from exchange transactions impaired**

As of 30 June 2022, none of the receivable were impaired - (2021: -).

## 6. VAT receivable

| | 2022 | 2021 |
|---|---|---|
| Net input VAT receivable | 1 014 917 | 2 172 374 |

The municipality is registered for VAT on a payment basis with South African Revenue Services and is required to file VAT returns on a monthly basis.

## 7. 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 | 2 900 000 | - | 2 900 000 | 2 900 000 | - | 2 900 000 |
| Buildings | 19 611 670 | (3 659 113) | 15 952 557 | 19 611 670 | (2 154 641) | 17 457 029 |
| Machinery and equipment | 3 235 617 | (2 848 937) | 386 680 | 3 360 678 | (2 849 321) | 511 357 |
| Furniture and office equipment | 8 141 770 | (6 471 785) | 1 669 985 | 7 627 630 | (6 311 256) | 1 316 374 |
| Motor vehicles | 15 286 321 | (10 858 235) | 4 428 086 | 15 597 725 | (10 220 884) | 5 376 841 |
| Computer equipment | 6 209 907 | (4 870 114) | 1 339 793 | 5 799 219 | (4 493 326) | 1 305 893 |
| Infrastructure | 106 689 230 | (57 653 744) | 49 035 486 | 106 689 230 | (54 902 787) | 51 786 443 |
| Work of Art and Paintings | 29 412 | - | 29 412 | 39 732 | - | 39 732 |
| Leased assets | 2 329 860 | (2 329 860) | - | 2 329 860 | (1 553 240) | 776 620 |
| **Total** | **164 433 787** | **(88 691 788)** | **75 741 999** | **163 955 744** | **(82 485 455)** | **81 470 289** |

### 7. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2022**

| | Opening balance | Additions | Disposals | WIP ICT | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land | 2 900 000 | - | - | - | - | 2 900 000 |
| Buildings | 17 457 029 | - | - | - | (1 504 472) | 15 952 557 |
| Machinery and equipment | 511 357 | - | (8 109) | - | (116 568) | 386 680 |
| Furniture and office equipment | 1 316 374 | 953 878 | (25 478) | - | (574 789) | 1 669 985 |
| Motor vehicles | 5 376 841 | - | (134 021) | - | (814 734) | 4 428 086 |
| Computer equipment | 1 305 893 | 1 322 852 | (25 173) | (652 172) | (611 607) | 1 339 793 |
| Infrastructure | 51 786 443 | - | - | - | (2 750 957) | 49 035 486 |
| Work of Art and Paintings | 39 732 | - | (10 320) | - | - | 29 412 |
| Leased assets | 776 620 | - | - | - | (776 620) | - |
| | **81 470 289** | **2 276 730** | **(203 101)** | **(652 172)** | **(7 149 747)** | **75 741 999** |

## Notes to the Annual Financial Statements

Figures in Rand

**7. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2021**

| | Opening balance | Additions | Disposals | Transfers | WIP ICT | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|---|
| Land | 2 900 000 | - | - | - | - | - | - | 2 900 000 |
| Buildings | 18 950 259 | - | - | - | - | (1 493 230) | - | 17 457 029 |
| Machinery and equipment | 595 556 | 195 948 | (93 707) | 2 887 | - | (188 999) | (328) | 511 357 |
| Furniture and office equipment | 1 558 846 | 298 315 | (44 604) | 15 677 | - | (508 126) | (3 734) | 1 316 374 |
| Motor vehicles | 6 345 887 | - | (38 689) | 399 | - | (930 756) | - | 5 376 841 |
| Computer equipment | 864 230 | 200 840 | (30 159) | 26 202 | 652 174 | (401 784) | (5 610) | 1 305 893 |
| Infrastructure | 54 540 384 | - | - | (4 721) | - | (2 749 220) | - | 51 786 443 |
| Work of Art and Paintings | 39 969 | - | (237) | - | - | - | - | 39 732 |
| Leased assets | 1 553 240 | - | - | - | - | (776 620) | - | 776 620 |
| | **87 348 371** | **695 103** | **(207 396)** | **40 444** | **652 174** | **(7 048 735)** | **(9 672)** | **81 470 289** |

**Pledged as security**

No assets of the municipality were pledged as security.

**Assets subject to finance lease (Net carrying amount)**

| | | |
|---|---|---|
| Leased assets | - | 776 620 |

| Figures in Rand | 2022 | 2021 |
|---|---|---|

### 7. Property, plant and equipment (continued)

**Revaluations**

Land and buildings are re-valued independently every 5 years. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.The following properties were revalued:

The municipality's land and buildings were revalued using the Depreciated Replacement Cost (DRC) method of valuation. DRC is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation.

Revaluation of land and building was performed by an independent valuer, Kgolofelo Property Services CC. The effective date of the revaluation was 30 July 2018

Portion 2 of Erf 8 Sasolburg and
Portion 1 of Erf 49 Sasolburg
Weltevreden settlement agricultural holding 78, off R82.

**Details of properties**

**Portion 1 of Erf 49 Sasolburg**

| | 2022 | 2021 |
|---|---|---|
| - Purchase price: 1 December 2008 | 9 350 000 | 9 350 000 |
| - Additions since purchase or valuation | 1 350 000 | 1 350 000 |
| | **10 700 000** | **10 700 000** |

**Portion 2 of Erf 8 Sasolburg**

| | 2022 | 2021 |
|---|---|---|
| - Purchase price: 1 December 2008 | 10 250 000 | 10 250 000 |
| - Additions since purchase or valuation | 1 450 000 | 1 450 000 |
| | **11 700 000** | **11 700 000** |

**Weltevreden settlement agricultural holding 78**

| | 2022 | 2021 |
|---|---|---|
| - Capitalised expenditure | 1 200 237 | 1 200 237 |

**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** | 2022 | 2021 |
|---|---|---|
| Buildings | 301 110 | 38 031 |
| Furniture & office equipment | 394 509 | 397 843 |
| Motor vehicles | 466 071 | 582 309 |
| IT equipment | 34 290 | 22 117 |
| | **1 195 980** | **1 040 300** |

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.

### 8. 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 | 3 408 598 | (2 284 386) | 1 124 212 | 3 408 598 | (2 042 225) | 1 366 373 |

**Reconciliation of intangible assets - 2022**

| | Opening balance | Amortisation | Total |
|---|---|---|---|
| Computer software, other | 1 366 373 | (242 161) | 1 124 212 |

**Reconciliation of intangible assets - 2021**

| | Opening balance | Transfers | Amortisation | Total |
|---|---|---|---|---|
| Computer software, other | 1 650 910 | 3 771 | (288 308) | 1 366 373 |

### 9. Payables from exchange transactions

| | 2022 | 2021 |
|---|---|---|
| Trade payables | 2 903 715 | 12 991 963 |
| Retentions | 80 149 | 80 149 |
| Accrued leave pay | 9 924 513 | 10 160 072 |
| Accrued bonus | 3 248 791 | 2 801 028 |
| | **16 157 168** | **26 033 212** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|---|---|

### 10. Unspent conditional grants and receipts

Payables from non-exchange transactions consists of unspent capital and operating conditional grants received from the National government for implementation of various projects that were assigned to the municipality. The effect of grants receipts and expenditure is detailed below:

**Unspent conditional grants and receipts comprises of:**

| | 2022 | 2021 |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| Cogta IT assistance grant | - | 3 826 401 |
| Energy Efficient Management Grant | 2 342 466 | - |
| | **2 342 466** | **3 826 401** |

**Movement during the year**

| | 2022 | 2021 |
|---|---|---|
| Balance at the beginning of the year | 3 826 401 | 6 564 109 |
| Additions during the year | 4 000 000 | 4 473 030 |
| Income recognition during the year | (4 383 935) | - |
| Money withheld | (1 100 000) | (7 210 738) |
| | **2 342 466** | **3 826 401** |

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.

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

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

**30 June 2022**

| **Capital grant** | Municipal Infrastructure Grant | Integrated National Electrification Programme Grant | COGTA IT Assistance Grant | Total |
|---|---|---|---|---|
| Opening balance at the beginning of the year | - | - | 3 826 401 | 3 826 401 |
| Less: Income recognition during the year | - | - | (3 826 401) | (3 826 401) |
| | - | - | - | - |

| **Operating grant** | Energy Efficiency & Demand Side Management Grant | Rural Roads Assets Management Systems Grant | Financial Management Grant | Total |
|---|---|---|---|---|
| Opening balance at the beginning of the year | 1 840 306 | 306 835 | - | 2 147 141 |
| Add: Receipts/Additions during the year | 4 000 000 | 2 236 000 | 1 200 000 | 7 436 000 |
| Less: Income recognition during the year | (2 397 840) | (1 926 507) | (1 200 000) | (5 524 347) |
| Money withheld/ paid | (1 100 000) | (616 328) | - | (1 716 328) |
| | **2 342 466** | - | - | **2 342 466** |

### 10. Unspent conditional grants and receipts (continued)

**30 June 2021**

| **Capital grants** | Municipal Infrastructure Grant | Integrated National Electrification Programme Grant | COGTA IT Assistance Grant | Total |
|---|---|---|---|---|
| Opening balance at the beginning of the year | 4 994 401 | 69 196 | - | 5 063 597 |
| Add: Receipts/Additions during the year | - | - | 7 350 000 | 7 350 000 |
| Less: Income recognition during the year | (4 994 401) | (69 196) | (3 523 599) | (8 587 196) |
| | **-** | **-** | **3 826 401** | **3 826 401** |

| **Operating grant** | Energy Efficiency & Demand Side Management Grant | Rural Roads Assets Management Systems Grant | Financial Management Grant | Total |
|---|---|---|---|---|
| Opening balance at the beginning of the year | 1 467 229 | 33 283 | - | 1 500 512 |
| Add: Receipts/Additions during the year | 2 700 000 | 2 206 000 | 1 000 000 | 5 906 000 |
| Less: Income recognition during the year | (2 326 923) | (1 932 448) | (1 000 000) | (5 259 371) |
| | **1 840 306** | **306 835** | **-** | **2 147 141** |

**Municipal Infrastructure Grant (MIG):**

During 2017/18 financial year Mafube Local Municipality MIG funds were regazetted under Fezile Dabi District Municipality in terms of the Directive of the Minister of Finance dated 16 October 2017. The purpose of the funds was for Fezile Dabi District Municipality to continue with the implementation of various capital projects in Mafube Local Municipality that were already under implementation prior to regazetting of funds. As at 30 June 2022 Rnil (2021: Rnil) was unspent.

**Integrated National Electrification Programme Grant (INEPG):**

The INEP fund was sourced by Fezile Dabi District Municipality from the National Department of Energy in order to assist Mafube Local Municipality with electrification of households in that area. As at 30 June 2022 Rnil (2021: Rnil) was unspent.

**Rural Roads Asset Management System Grant (RRAMSG):**

The purpose of RRAMS Grant is to conduct assessment and feasibility of roads in the region and then data is forwarded to the province in a form of report. As at 30 June 2022 Rnil (2021: R306 835 ) was unspent.

**Financial Management Grant (FMG):**

The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA.

**Energy Efficiency & Demand Side Management Grant (EEDSMG):**

The purpose of EEDSMG is to support municipalities in their efforts to reduce electricity consumption by optimising their use of energy. As at 30 June 2022 R2 342 466 (2021: R1 840 306 ) was unspent.

**Cogta IT Assistance Grant**

The purpose of Cogta IT assistance grant is to assist district and it local municipalities with video conferencing equipment. Municipality received R7 350 000.

# Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
| --- | --- | --- |

## 11. Finance lease obligation

| | | |
| --- | --- | --- |
| **Minimum lease payments due** | | |
| - within one year | - | 850 155 |
| | - | 850 155 |
| less: future finance charges | - | (40 086) |
| **Present value of minimum lease payments** | **-** | **810 069** |
| | | |
| **Present value of minimum lease payments due** | | |
| - within one year | - | 850 155 |

It is municipal policy to lease office printing equipment and communication gadgets under finance leases. The average lease term is 3 and 2 years respectively and the municipality's average effective borrowing rate was 8.00% (2021: 7.25%). Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. The lease is not subject to automatic renewal or purchase options and is not subject to escalation for the duration of the lease term.

## 12. Operating lease asset (liability)

| | | |
| --- | --- | --- |
| Current liabilities | - | (5 703) |
| Office buildings | - | 5 703 |
| **Future minimum lease payments** | | |
| Not later than one year | - | 146 188 |

## 13. Provisions

**Reconciliation of provisions - 2021**

| | Opening Balance | Utilised during the year | Total |
| --- | --- | --- | --- |
| Performance bonus | 511 499 | (511 499) | - |

It is the municipality's policy to pay senior managers performance bonus after the assessment of achievement of predetermined performance targets after the end of each financial year. Payment of performance bonuses depends on the availability of funds and is subject to the prerogative of the council to approve. The payment band ranges between 10% and 14% of the all-inclusive remuneration packages of the respective senior managers.

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.

| Figures in Rand | 2022 | 2021 |
|---|---|---|

### 14. Employee benefit obligations

**Defined benefit plan**

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical aid scheme. Upon a member's death-in-service or death-in retirement, the surviving dependents may continue membership of the medical scheme.

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependents. Some options also differentiate on the basis of income.

In-service members are entitled to a post-employment medical aid subsidy of 60% of the contribution payable. All current continuation members receive a 60% subsidy.

Upon a member's death-in-service or death-in-retirement, the serving dependents will continue to receive the same 60% subsidy.

The obligation in respect of medical care contributions for retirement benefits is valued every year by independent qualified actuaries.

An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible retirees and retired employees of the municipality by ZAQ Consultants and Actuaries as at 30 June 2022.

**Post retirement medical aid plan**

The post retirement medical plan is a defined benefit plan, of which the members are made up as follows:

| | 2022 | 2021 |
|---|---|---|
| Current (In Service) Members | 139 | 119 |
| Continuation Members (Pensioners) | 8 | 7 |
| | **147** | **126** |

The municipality make monthly contributions for health care arrangements to the following medical aid schemes.
- Bonitas medical scheme
- Hosmed medical scheme
- KeyHealth medical scheme
- LA Health medical scheme
- Samwumed medical scheme
- Fedhealth medical scheme

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

| | 2022 | 2021 |
|---|---|---|
| **Carrying value** | | |
| Present value of the defined benefit obligation-wholly unfunded | (30 210 000) | (27 031 000) |
| Current service cost | (2 159 000) | (2 072 000) |
| Interest cost | (3 296 000) | (3 522 000) |
| Benefits paid | 2 397 500 | 1 363 000 |
| Actuarial gain/losses | (115 933) | 1 052 000 |
| | **(33 383 433)** | **(30 210 000)** |

| | 2022 | 2021 |
|---|---|---|
| Non-current liabilities | (31 468 433) | (28 209 000) |
| Current liabilities | (1 915 000) | (2 001 000) |
| | **(33 383 433)** | **(30 210 000)** |

| Figures in Rand | 2022 | 2021 |
|---|---|---|

### 14. Employee benefit obligations (continued)

**Net expense recognised in the statement of financial performance**

| | 2022 | 2021 |
|---|---|---|
| Current service cost | 701 000 | 737 000 |
| Interest cost | 1 611 000 | 1 780 000 |
| Actuarial (gains) losses | 801 500 | (974 000) |
| Benefits paid | (501 500) | (435 000) |
| | **2 612 000** | **1 108 000** |

**Key assumptions used**

Assumptions used at the reporting date:

Discount rates used
Expected rate of return on assets
Expected rate of return on reimbursement rights
Actual return on reimbursement rights

The basis used to determine the overall expected rate of return on assets is as follow:

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

We used the nominal and real zero curves as at 24 June 2022 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations.

Amounts for the current and previous four years are as follows:

| | **2022** | **2021** | **2020** | **2019** | **2018** |
|---|---|---|---|---|---|
| Defined benefit obligation | 17 602 000 | 14 990 000 | 13 882 000 | 12 948 000 | 10 790 000 |

Sensitivity analysis

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

20% increase/decrease in the assumed level of withdrawal rates;
1% increase/decrease in the Normal Salary cost inflation

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

| | **-20% Mortality rate** | **Valuation Assumption** | **+20% Mortality rate** |
|---|---|---|---|
| Total Accrued Liability | 18 808 000 | 17 602 000 | 16 564 000 |
| Current Service Cost | 2 191 000 | 2 047 000 | 1 924 000 |
| Interest Cost | 937 000 | 870 000 | 812 000 |

Assumed health care cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed health care cost trends rates would have the following effects:

### 14. Employee benefit obligations (continued)

| | -1%Medical aid inflation | Valuation Assumption | +1%Medical aid inflation |
|---|---|---|---|
| Effect on the accrued liability | 16 801 000 | 17 602 000 | 18 135 000 |
| Effect on interest cost | 1 952 000 | 2 047 000 | 2 111 000 |
| Effect on service cost | 812 000 | 870 000 | 904 000 |

**Defined benefit plan**

Councillors and employees belong to two defined retirement funds which are the Free State Municipal Pension Fund and the Councillors Pension Fund governed by the Pension Fund Act of 1956. These funds are subject to triennial actuarial valuation.

The last valuation of the Free State Municipal Pension Fund was performed in June 2008. The Free State Municipal Pension Funds net assets that were available at 30 June 2008 was R 1 929 769 000.

The actuarial valuation determined that the funds was in sound financial position. The estimated liability of the funds is R1 576 689 000 which is adequately financed.

No new information was available at reporting date.

**Long service awards**

An actuarial valuation of the municipality's liability in respect of benefits to eligible employees of the municipality was performed by ZAQ Consultants and Actuaries as at 30 June 2022. The provision is utilised when eligible employees of the municipality receive the value of the vested benefit. The actuatial valuation was perfromed in line with the requirements of GRAP 25.

| | Female | Male | Total |
|---|---|---|---|
| Number of active employees | 68 | 81 | 149 |

| | Female | Male | Total |
|---|---|---|---|
| Salary weighted average years | 45 | 44 | 89 |

| | Female | Male | Total |
|---|---|---|---|
| Weighted average past service years | 12 | 11 | 23 |

**Amounts recognised in the statement of financial position are as follows:**

| | 2022 | 2021 |
|---|---|---|
| Opening balance | (15 220 001) | (13 149 001) |
| Net (Increase)/decrease | (561 000) | (2 071 000) |
| | **(15 781 001)** | **(15 220 001)** |

**Amounts recognised in the statement of financial performance are as follows:**

| | 2022 | 2021 |
|---|---|---|
| Current service cost | 1 458 000 | 1 335 000 |
| Interest cost | 1 685 000 | 1 742 000 |
| Actuarial gains/(losses) | (686 000) | (78 000) |
| | **2 457 000** | **2 999 000** |

**Key assumptions used**

Assumptions used at the reporting date:

# Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|---|---|

## 14. Employee benefit obligations (continued)

| | | |
|---|---|---|
| Discount rates used | Yield curve | Yield curve |
| Consumer Price Inflation | Consumer Price Inflation (CPI) Difference between nominal and yield curves | Consumer Price Inflation (CPI) Difference between nominal and yield curves |
| Normal Salary Increase Rate | CPI + 1% | CPI + 1% |
| Net Effective Discount Rate | Yield curve | Yield curve |

The basis used to determine the overall expected rate of return on assets is as follow:

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

We use the nominal and zero curves as at 24 June 2022 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period.

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| Defined benefit obligation | 15 781 000 | 15 220 000 | 13 149 000 | 12 948 000 | 10 790 000 |

**Sensitivity analysis**

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

20% increase/decrease in the assumed level of withdrawal rates;
1% increase/decrease in the Normal Salary cost inflation

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

| | -20% Withdrawal rate | Valuation Assumption | +20% Withdrawal rate |
|---|---|---|---|
| Total Accrued Liability | 16 496 000 | 15 781 000 | 15 118 000 |
| Current Service Cost | 1 738 000 | 1 639 000 | 1 549 000 |
| Interest Cost | 1 749 000 | 1 670 000 | 1 597 000 |

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

| | -1% Normal salary inflation | Valuation Assumption | +1% Normal salary inflation |
|---|---|---|---|
| Effect on the accrued liability | 14 903 000 | 15 781 000 | 16 741 000 |
| Effect on interest cost | 1 542 000 | 1 639 000 | 1 746 000 |
| Effect on service cost | 1 575 000 | 1 670 000 | 1 774 000 |

**Defined benefit plan**

Councillors and employees belong to two defined retirement funds which are the Free State Municipal Pension Fund and the Councillors Pension Fund governed by the Pension Fund Act of 1956. These funds are subject to triennial actuarial valuation.

## Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|---|---|

### 14. Employee benefit obligations (continued)

The last valuation of the Free State Municipal Pension Fund was performed in June 2008. The Free State Municipal Pension Funds net assets that were available at 30 June 2008 was R 1 929 769 000.

The actuarial valuation determined that the funds was in sound financial position. The estimated liability of the funds is R1 576 689 000 which is adequately financed.

No new information was available at reporting date.

| | | |
|---|---|---|
| Provision for long-service awards: Non-current portion | 14 484 000 | 13 756 000 |
| Provision for long-service awards: Current portion | 1 297 000 | 1 464 000 |
| Post retirement medical aid plan: Non-current portion | 16 984 000 | 14 453 000 |
| Post retirement medical aid plan: Current portion | 618 000 | 537 000 |
| | **33 383 000** | **30 210 000** |

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

| | | |
|---|---|---|
| Opening balance | 2 042 000 | 934 000 |
| Net expense recognised in the statement of financial performance | 2 612 000 | 1 108 000 |
| | **4 654 000** | **2 042 000** |

### 15. Revaluation reserve

The reserve is non-distributable reserve.

| | | |
|---|---|---|
| Opening balance | 2 560 031 | 3 566 338 |
| Revaluation reserve realised | (1 006 307) | (1 006 307) |
| | **1 553 724** | **2 560 031** |

### 16. Other income

| | | |
|---|---|---|
| Tender Documents Sales | 5 478 | 21 787 |
| Recoveries from staff | 394 721 | 338 119 |
| Skills Development Levy | 192 392 | 130 027 |
| Third Party Refunds | 686 894 | 179 883 |
| Management Fees - Grants | 111 800 | 110 300 |
| | **1 391 285** | **780 116** |

### 17. Investment revenue

| | | |
|---|---|---|
| **Interest revenue** | | |
| Investment accounts | 4 459 648 | 4 938 598 |

### 18. Government grants & subsidies

| | | |
|---|---|---|
| **Operating grants** | | |
| Equitable share | 164 035 000 | 161 043 000 |
| Rural Roads Asset Management Systems Grant | 1 926 507 | 2 206 000 |
| Financial Management Grant | 1 200 000 | 1 000 000 |
| Energy Efficiency and Demand Management Grant | 2 397 840 | 2 700 000 |
| Cogta IT Assistance Grant | 3 826 401 | 3 523 599 |
| | **173 385 748** | **170 472 599** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|---|---|

## 19. Employee related costs

| | 2022 | 2021 |
|---|---|---|
| Basic | 70 821 961 | 67 351 353 |
| EPWP Salaries | 968 880 | 1 181 700 |
| Bonus | 6 309 519 | 4 729 018 |
| Medical aid - company contributions | 8 024 780 | 7 811 557 |
| UIF | 364 173 | 317 751 |
| Leave pay provision charge | 2 987 009 | 1 848 377 |
| Overtime payments | 1 498 556 | 994 608 |
| Long-service awards | 1 458 000 | 1 335 000 |
| Car allowance | 14 681 002 | 13 585 334 |
| Housing benefits and allowances | 637 851 | 594 022 |
| Shift Allowance | 1 079 617 | 1 097 942 |
| Group life insurance | 63 852 | 49 695 |
| Pension Fund Contribution | 12 165 609 | 11 135 364 |
| | **121 060 809** | **112 031 721** |

**Disclosure of remuneration of Senior Managers:**

**Remuneration of Municipal Manager: Ms. ML Molibeli**

| | 2022 | 2021 |
|---|---|---|
| Basic Salary | 1 387 450 | 1 031 229 |
| Car/ Travel Allowance | 337 212 | 337 212 |
| Contribution to UIF | 2 125 | 1 813 |
| Contribution to Medical Aid | 51 736 | 45 344 |
| Contribution to Pension Fund | 250 712 | 186 343 |
| Remote Allowance | - | 36 977 |
| Performance Bonuses | 194 129 | - |
| | 2 223 364 | **1 638 918** |

**Remuneration of Chief Financial Officer: Ms NP Mdaka**

| | 2022 | 2021 |
|---|---|---|
| Basic Salary | 1 311 224 | 949 374 |
| Car/ Travel Allowance | 226 693 | 226 693 |
| Contribution to UIF | 2 125 | 1 813 |
| Contribution to Pension Fund | 236 020 | 170 887 |
| | **1 776 062** | **1 348 767** |

**Remuneration of Director - Environmental Health and Emergency Services: Mrs N Baleni**

| | 2022 | 2021 |
|---|---|---|
| Basic Salary | 1 190 624 | 860 352 |
| Car/ Travel Allowance | 330 477 | 330 477 |
| Contribution to UIF | 2 125 | 1 813 |
| Contribution to Medical Aid | 38 524 | 36 929 |
| Contribution to Pension Fund | 214 312 | 149 423 |
| Performance Bonuses | 290 922 | - |
| | **2 066 984** | **1 378 994** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|---|---|

## 19. Employee related costs (continued)

**Remuneration of Director - Corporate Services: Dr. S Motingoe**

| | | |
|---|---|---|
| Basic Salary | 1 190 624 | 860 352 |
| Car/ Travel Allowance | 330 477 | 330 477 |
| Contribution to UIF | 2 125 | 1 813 |
| Contribution to Medical Aid | 38 524 | 36 929 |
| Contribution to Pension Fund | 214 312 | 149 423 |
| Performance Bonuses | 290 922 | - |
| | **2 066 984** | **1 378 994** |

The remuneration of senior managers and staff is within the upper limits of determinations by the Minister of Cooperative Governance & Traditional Affairs and SALGA Bargaining Council determinations respectively.

**Remuneration of Director - Local Economic Development and Tourism: Mr MTaetsane**

| | | |
|---|---|---|
| Basic Salary | 1 311 224 | 949 374 |
| Car/ Travel Allowance | 226 693 | 226 693 |
| Contribution to UIF | 2 125 | 1 813 |
| Contribution to Pension Fund | 236 198 | 170 887 |
| | **1 776 240** | **1 348 767** |

**Remuneration of Acting Chief Financial Officer: Mr. J Reyneke (Acting from 1 May 2018 up to 31 January 2020)**

| | | |
|---|---|---|
| Performance Bonuses | 92 556 | - |

**Remuneration of Acting Chief Financial Officer: Mrs. M Moeketsi (Acting from 1 February 2020 up to 30 June 2020)**

| | | |
|---|---|---|
| Performance Bonuses | 66 119 | - |

## 20. Remuneration of councillors

| | | |
|---|---|---|
| Executive Major | 924 162 | 934 650 |
| Seconded Councillor | 242 742 | 188 652 |
| Mayoral Committee Members | 2 377 191 | 3 717 827 |
| Speaker | 416 512 | 432 208 |
| Councillors | 3 297 334 | 2 687 250 |
| | **7 257 941** | **7 960 587** |

**In-kind benefits**

The Executive Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and Speaker each have the use of separate Council owned vehicles for official duties.

# Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|---|---|

## 20. Remuneration of councillors (continued)

**Executive Mayor**

**Cllr. M Moshodi (Term ended November 2021)**

| | 2022 | 2021 |
|---|---|---|
| Basic Salary | 231 168 | 606 162 |
| Car Allowance | 65 588 | 196 764 |
| Cellphone Allowance | 14 494 | 40 800 |
| Social Contributions | 30 308 | 90 924 |
| | **341 558** | **934 650** |

**Executive Mayor**

**Cllr. D Khasudi (From December 2021 to current)**

| | 2022 | 2021 |
|---|---|---|
| Basic Salary | 556 345 | - |
| Cellphone Allowance | 26 259 | - |
| | **582 604** | **-** |

**Speaker**

**Cllr. L Kubheka (Term ended November 2021)**

| | 2022 | 2021 |
|---|---|---|
| Basic Salary | 128 695 | 344 039 |
| Car Allowance | 29 390 | 88 169 |
| | **158 085** | **432 208** |

**Speaker**

**Cllr. S Pittaway (From December 2021 to current)**

| | 2022 | 2021 |
|---|---|---|
| Basic Salary | 258 427 | - |

**Cllr. MM Modikoe - MMC Corporate Services (Term ended November 2021)**

| | 2022 | 2021 |
|---|---|---|
| Basic Salary | 169 557 | 603 963 |
| Car Allowance | 53 712 | - |
| Cellphone Allowance | 14 494 | 40 800 |
| Social Contributions | 22 141 | 66 424 |
| | **259 904** | **711 187** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|---|---|

## 20. Remuneration of councillors (continued)

| | | |
|---|---|---|
| **Cllr. SM Matwa - MMC Coporate Services (From December 2021 to current)** | | |
| Basic Salary | 304 981 | - |
| Car Allowance | 55 866 | - |
| Cellphone Allowance | 26 259 | - |
| | **387 106** | **-** |

| | | |
|---|---|---|
| **Cllr. J Mareka - MMC: Local Economic Development and Tourism** | | |
| Basic Salary | - | 271 085 |
| Car Allowance | - | 84 139 |
| | **-** | **355 224** |

| | | |
|---|---|---|
| **Cllr. NP Mokodutlo - MMC: Local Economic Development and Tourism** | | |
| Basic Salary | 191 698 | - |
| Car Allowance | 53 712 | - |
| Cellphone Allowance | 14 494 | - |
| | **259 904** | **-** |

| | | |
|---|---|---|
| **Cllr. M Mosia - MMC: Finance (Term ended November 2021)** | | |
| Basic Salary | 191 698 | 509 251 |
| Car Allowance | 53 712 | 161 136 |
| Cellphone Allowance | 14 494 | 40 800 |
| | **259 904** | **711 187** |

| | | |
|---|---|---|
| **Cllr. T Mofokeng - MMC: Finance (From December 2021 to current)** | | |
| Basic Salary | 138 446 | - |
| Car Allowance | 32 293 | - |
| | **170 739** | **-** |

| | | |
|---|---|---|
| **Cllr. V De Beer - MMC: Environmental Health, Emergency and Public Safety (Term ended November 2021)** | | |
| Basic Salary | 111 246 | 295 729 |
| Car Allowance | 30 596 | 91 788 |
| | **141 842** | **387 517** |

| Figures in Rand | 2022 | 2021 |
|---|---|---|

### 20. Remuneration of councillors (continued)

**Cllr. C Serfontein - MMC: Environmental Health, Emergency and Public Safety(From December 2021 to current)**

| | | |
|---|---|---|
| Basic Salary | 138 446 | - |
| Car Allowance | 32 293 | - |
| | **170 739** | **-** |

**Cllr. IM Magashule - MMC: Social Development (Term ended November 2021)**

| | | |
|---|---|---|
| Basic Salary | 111 246 | 295 729 |
| Car Allowance | 30 596 | 91 788 |
| | **141 842** | **387 517** |

**Cllr. ND Muller - MMC: Community (From December 2021 to current)**

| | | |
|---|---|---|
| Basic Salary | 138 446 | - |
| Car Allowance | 32 293 | - |
| | **170 739** | **-** |

**Cllr. G Nketu - MPAC Chairperson (Term ended November 2021)**

| | | |
|---|---|---|
| Basic Salary | 166 538 | 584 884 |
| Car Allowance | 49 656 | - |
| Cellphone Allowance | 14 494 | 40 800 |
| Social Contributions | 21 796 | - |
| | **252 484** | **625 684** |

**Cllr. A Motaung - MPAC Chairperson (From December 2021 to current)**

| | | |
|---|---|---|
| Basic Salary | 131 333 | - |
| Car Allowance | 30 654 | - |
| | **161 987** | **-** |

**Part time Councillors (Term ended November 2021)**

**Cllrs: KL Khunyeli, AR Majoe, F Scholtz, K Thulo, S Setungoane, AM Olifant, TL Soetsang, MS Motsapi**

| | | |
|---|---|---|
| Basic Salary | 657 716 | 1 819 037 |
| Car Allowance | 160 730 | 501 306 |
| Cellphone Allowance | 115 954 | 336 600 |
| Social Contributions | 10 103 | 30 308 |
| | **944 503** | **2 687 251** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
| --- | --- | --- |

## 20. Remuneration of councillors (continued)

**Part time Councillors (From December 2021 to current)**

**Cllrs: PMM Modikoe, F Scholtz, ML Makhanda, MM Green, AN Radebe, MA Radebe, LL Moalusi, MJ Mochela, GS Malherbe, NE Masiteng, NP Mokodutlo**

| | 2022 | 2021 |
| --- | --- | --- |
| Basic Salary | 1 913 118 | - |
| Car Allowance | 150 864 | - |
| Cellphone Allowance | 288 851 | - |
| | **2 352 833** | - |

**Seconded Councillors (Term ended November 2021)**

**Cllrs: S Tladi, LP Sotshiva, MJ Khunyeli, TA Motaung, SH Pittaway, C Serfontain, P Mohapi, MS Poho, K Mare, B Nnune, C Tete, MM Mofokeng, ME Mntuze**

| | 2022 | 2021 |
| --- | --- | --- |
| Basic Salary | 69 657 | 188 652 |

**Seconded Councillors**

**Cllrs: WB Gumede, A Tsotetsi, JM Makhema, TL Soetsang, LL Nhlapo, LA Makhefu, MJ Ramoolla, MA Khotle, RD Tau, DJ Serapela, IM Magashule, SL Moseme, K Khumalo, ME Sefako, JM Makhema**

| | 2022 | 2021 |
| --- | --- | --- |
| Basic Salary | 163 156 | - |

## 21. Depreciation and amortisation

| | 2022 | 2021 |
| --- | --- | --- |
| Buildings | 1 504 472 | 1 493 230 |
| Plant and machinery | 116 567 | 188 999 |
| Furniture and fixtures | 574 789 | 508 126 |
| Motor vehicles | 814 734 | 930 756 |
| IT equipment | 611 606 | 401 784 |
| Infrastructure | 2 750 959 | 2 749 220 |
| Leased assets | 776 620 | 776 620 |
| | 7 149 747 | 7 048 735 |
| **Amortisation: Intangible assets** | | |
| Intangible assets | 242 161 | 288 308 |
| | **7 391 908** | **7 337 043** |

## 22. Finance costs

| | 2022 | 2021 |
| --- | --- | --- |
| Finance leases | 40 086 | 109 819 |
| Other interest paid | 90 386 | 411 188 |
| Post retirement benefit | 1 685 000 | 1 742 000 |
| | **1 815 472** | **2 263 007** |

## 23. Repairs and maintenance

| | 2022 | 2021 |
| --- | --- | --- |
| Buildings | 287 710 | 38 031 |
| Equipment | 486 753 | 397 843 |
| Vehicles | 457 297 | 582 309 |
| IT Equipment | 34 290 | 22 117 |
| | **1 266 050** | **1 040 300** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
| --- | --- | --- |

## 24. Contracted services

| | | |
| --- | --- | --- |
| **Presented previously** | | |
| Consultants | 3 537 098 | 4 088 199 |
| Legal fees | 5 234 265 | 4 810 392 |
| | **8 771 363** | **8 898 591** |

## 25. Transfer and subsidies

| | | |
| --- | --- | --- |
| **Other subsidies** | | |
| Energy Efficiency | 2 397 840 | 2 700 000 |
| Rural Road Asset Management System | 1 926 507 | 2 206 000 |
| | **4 324 347** | **4 906 000** |

## 26. Loss on disposal of assets

| | | |
| --- | --- | --- |
| Furniture & office equipment | - | 44 603 |
| Current-year receipts | - | 71 668 |
| Conditions met - transferred to revenue | - | 30 159 |
| | **-** | **146 430** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|---|---|

### 27. General expenses

| | 2022 | 2021 |
|---|---|---|
| Accommodation | 808 499 | 448 047 |
| Advertising | 2 333 961 | 2 396 804 |
| Air travel | 82 470 | 26 688 |
| Artists and Performance | 272 994 | 305 600 |
| Auditors remuneration | 3 879 089 | 5 680 498 |
| Bank charges | 99 141 | 86 988 |
| Bursaries employees | 270 439 | 183 394 |
| Bursaries non-employees | 764 329 | 881 752 |
| Car hire | 56 280 | 22 109 |
| Catering services | 2 159 327 | 3 267 335 |
| Cellphone costs | 1 603 674 | 1 464 034 |
| Cleaning | 1 461 296 | 1 695 370 |
| Conferences and seminars | 166 593 | 110 363 |
| Consumables | 2 209 816 | 1 157 310 |
| Gardening Service | 23 900 | - |
| Donations | 2 263 950 | 4 295 632 |
| Employee wellness | 60 070 | 87 670 |
| Fuel and oil | 1 611 626 | 1 594 024 |
| Hire | 1 128 313 | 869 610 |
| IT expenses | 3 913 713 | 3 294 201 |
| Insurance | 448 045 | 444 299 |
| Motor vehicle licenses and registration | 22 094 | 26 392 |
| Municipal services | 1 762 679 | 1 152 583 |
| Plants, Flowers and Decorations | 42 170 | 127 500 |
| Postage and courier | 5 300 | 965 |
| Printing and stationery | 4 459 533 | 4 913 397 |
| Protective clothing | 164 850 | 524 144 |
| Public campaigns & awareness expenses | 5 500 | 24 400 |
| Remuneration of Sec.79 Committee Members | 50 815 | 27 872 |
| Rental premises | 310 254 | 350 595 |
| SDL | 956 550 | 744 021 |
| Sampling and specimens | 4 865 | 225 285 |
| Security (Guarding of municipal property) | 38 701 | 47 410 |
| Software expenses | 1 218 083 | 1 131 061 |
| Sports and recreation | 35 165 | 108 040 |
| Staff recruitment costs | 38 135 | 82 618 |
| Stage and sound crew | - | 63 289 |
| Subscriptions and membership fees | 1 317 619 | 1 144 877 |
| Telephone and fax | 429 568 | 465 965 |
| Toll-gate fees | 53 457 | 22 093 |
| Tourism development | 173 700 | - |
| Training | 154 783 | - |
| Transport and freight | 323 000 | 577 484 |
| Travel and subsistence allowance | 1 379 896 | 945 474 |
| Vehicle tracking | 45 064 | 49 766 |
| Workmans compensation fund | 431 967 | 426 423 |
| | **39 041 273** | **41 493 382** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|---|---|

## 28. Cash used in operations

| | 2022 | 2021 |
|---|---|---|
| Deficit | (12 008 387) | (9 477 998) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 7 391 908 | 7 337 043 |
| Gains on sale of assets and liabilities | 200 405 | 146 667 |
| Actuarial gain /(loss) | 115 500 | (318 801) |
| Finance costs - Finance leases | - | 130 184 |
| Movements in operating lease assets and accruals | (1 001 719) | (7 965) |
| Movements in retirement benefit assets and liabilities | 3 173 433 | 3 208 999 |
| Movements in provisions | - | (511 499) |
| **Changes in working capital:** | | |
| Receivables from exchange transactions | 2 560 190 | (4 411 311) |
| Other receivables from non-exchange transactions | (1 374 921) | (354 262) |
| Payables from exchange transactions | (9 876 044) | 1 098 011 |
| VAT | 1 157 457 | (2 047 763) |
| Unspent conditional grants and receipts | (1 483 935) | (2 737 708) |
| | **(11 146 113)** | **(7 946 403)** |

## 29. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Critical accounting estimates and assumptions

The municipality makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## 30. Financial instruments disclosure

### Categories of financial instruments

### Financial assets

Financial assets at amortised cost

| | 2022 | 2021 |
|---|---|---|
| Trade and other receivables from exchange transactions | 2 557 216 | 5 117 406 |
| Receivables from non-exchange transactions | 4 283 098 | 2 908 176 |
| Cash and cash equivalents | 84 598 752 | 98 021 595 |
| | **91 439 066** | **106 047 177** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|---|---|

## 30. Financial instruments disclosure (continued)

### Financial liabilities

Financial assets at amortised cost

| | 2022 | 2021 |
|---|---|---|
| Trade and other payables from exchange transactions | 16 157 168 | 26 033 212 |
| Unspent conditional grants | 2 342 466 | 3 826 401 |
| Finance lease obligation | - | 850 155 |
| | **17 759 328** | **30 709 768** |

## 31. Commitments

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

### Authorised capital expenditure

| | 2022 | 2021 |
|---|---|---|
| Supply and installation of video conference system | - | 3 826 401 |

### Authorised operational expenditure

| | 2022 | 2021 |
|---|---|---|
| Implementation of energy efficiency & demand management sideprogramme | 1 160 390 | 1 160 390 |
| Implementation of the RRAMS | 3 526 390 | 5 147 424 |
| Specialised, technical and functional services for 2018/19, 2019/20 and2020/21 | - | 4 835 161 |
| Multi-functioning printing devices (Photocopy Machines) | - | 793 809 |
| | **4 686 780** | **11 936 784** |

### Total commitments

| | 2022 | 2021 |
|---|---|---|
| Authorised capital expenditure | - | 3 826 401 |
| Authorised operational expenditure | 4 686 780 | 11 936 784 |
| | **4 686 780** | **15 763 185** |

## 32. Risk management Financial risk management

### Financial risk management

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

### Liquidity risk

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

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

### 32. Risk management Financial risk management (continued)

**Credit risk**

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

| Financial instrument | 2022 | 2021 |
| --- | --- | --- |
| Cash and Cash Equivalents | 84 594 222 | 97 988 085 |
| Receivables from exchange contracts | 501 454 | 240 330 |

**Market risk**

**Interest rate risk**

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

### 33. Going concern

We draw attention to the fact that at 30 June 2022, the municipality conducted going concern assessment for the purpose of preparation of these financial statements. It is management's view that all factors relating to going concern assessment as covered in the report are sufficient and relevant to enable management to make an informed judgement with regard to preparation of the 2021/22 annual financial statements on a going concern basis.

The annual financial statements have therefore 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.

We, however draw attention to the fact that the financial statements include the recognition of the stadium as a capital asset. This asset is recognised in the financial statements of the municipality, pending uncertainty with regards to ownership, control and the capacity of the municipality to control such asset. This may result in future derecognition of the asset from the financial statements of the municipality.

### 34. Additional disclosure in terms of Municipal Finance Management Act

**Contributions to organised local government**

| | | |
| --- | --- | --- |
| Current year subscription / fee | 1 301 051 | 1 138 183 |
| Amount paid - current year | (1 301 051) | (1 138 183) |
| | - | - |

**Audit fees**

| | | |
| --- | --- | --- |
| Current year subscription / fee | 3 879 476 | 5 680 498 |
| Amount paid - current year | (3 879 476) | (5 680 498) |
| | - | - |

## Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|---|---|

### 34. Additional disclosure in terms of Municipal Finance Management Act (continued)

**PAYE, SDL and UIF**

| | | |
|---|---|---|
| Current year subscription / fee | 26 071 443 | 23 987 288 |
| Amount paid - current year | (26 071 443) | (23 987 288) |
| | - | - |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Current year subscription / fee | 29 918 440 | 26 354 792 |
| Amount paid - current year | (29 918 440) | (26 354 792) |
| | - | - |

| Figures in Rand | 2022 | 2021 |
|---|---|---|

## 35. Contingencies

Litigation is in the process against the municipality relating to a dispute with a competitor who alleges that the municipality has infringed patents and is seeking damages of -. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

There is no reimbursement from any third parties for potential obligations of the municipality.

An associate is being sued for violation of copyrights. The municipality's share of the potential claim amounts to -. The associates lawyers and management are of the opinion that the law suit will be successful but are unable to reliably determine the amount of penalties and damages payable.

The municipality is severally liable for the liabilities of its associate. The associate is profitable and in currently able to meet all of it present obligations.

Litigation is in the process against the competitor relating to a dispute whereby the competitor has infringed patents and the municipality is seeking damages of -. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

Unfilled conditions and other contingencies attaching to government grants related to agricultural activity.

**The municipality have the following contingent liabilities:**

| | 2022 | 2021 |
|---|---|---|
| FDDM / SAMWU obo P Setseli - Labour case | 5 216 134 | 4 367 057 |
| FDDM / Nyumba Mobile Homes and Offices | - | 3 707 863 |
| FDDM / Khululekani Security | - | 310 911 |
| FDDM / Du Plooy and another and 2 others | 2 015 000 | 2 015 000 |
| FDDM / Julius Moloi and 9 others | 3 801 659 | 2 019 615 |
| | **11 032 793** | **12 420 446** |

Litigation is in the process against the municipality relating to various matters as detailed below with a potential liability of R8 712 583 (2021: R 12 420 446) as detailed above. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as likely and as such the litigation is proceeded with.

**Details are as follows:**

1. SAMWU obo P.Setsheli//FDDM (Case Number 0 JR 2555/201)
Applicant (Setheli) approached the Labour Court after an unsuccessful bid at the SALBC with ruled in favour of FDDM. She took the decision on review the outcomes, the matter currently pending before the Johannesburg Labour Court

2. Nyumba Mobile Homes and Offices // FDDM (Case Number - 1759/2020)
A claim for breach of contract in respect of outsourced services by the contractor- Bloemfontein High Court - Free State Division. The case was closed in 2022
3. Du Plooy & Another // FDDM (Case Number - 2965/2018)
Mandate of Peyper Attorneys terminated, newly appointed Attorneys is Ngwane Attorneys with the following details: Claim in respect of death as a result of potholes and poor signage- Bloemfontein High Court - Free State Division.
4. Khululekani Security Services // FDDM (Case Number F16873)
A claim for payment of security services rendered at an HIV/AIDS Benefit Concert by the company allegedly owed by FDDM- Bloemfontein High Court- Free State Division

### 36.2 Contingent assets

| **The municipality have the following contingent assets:** | **Claims to recover** | **Legal fees** |
|---|---|---|
| FDDM // A.M Mini Case number: 1836/2021 | 128 600 | 120 187 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|---|---|
| **35. Contingencies (continued)** | | |
| FDDM//G. Mashiyi Case number:1835/2021 | 143 262 | 133 890 |
| FDDM // M A Olifant Case Number: 504/2021 | 5 362 372 | 4 976 679 |
| | **5 634 234** | **5 230 756** |

| | |
|---|---|
| 1.FDDM // A.M Mini | Claim for recovery of irregular expenditure |
| 2. FDDM // G. Mashiyi | Claim for recovery of irregular expenditure |
| 3. FDDM // IV Moloi | Claim for recovery of irregular expenditure |
| 4. FDDM // M A Olifant | Claim for recovery of irregular expenditure |

## 36. Related parties

| Relationships | |
|---|---|
| Executive Council Members | Refer to note 20 |
| Members of key management | Refer to note 19 |

The municipality did not enter into any transactions with related parties outside of the items presented in the notes referenced above.

## 37. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

### Statement of financial position

**2021**

| | Note | As previously reported | Correction of error | Restated |
|---|---|---|---|---|
| Receivables from exchange | Error 1 | 2 440 330 | 2 677 076 | 5 117 406 |
| Receivables from non-exchange | Error 7 | 10 118 914 | (7 210 738) | 2 908 176 |
| Property plant and equipment | Error 1 | 84 877 970 | (3 407 681) | 81 470 289 |
| Cash and cash equivalents | Error 6 | 97 988 085 | 33 510 | - |
| Unspent conditinal grant | Error 7 | (11 037 139) | 7 210 738 | - |
| Accumulated Surplus | Error 1 | (128 267 806) | 697 095 | (127 570 711) |
| | | **56 120 354** | - | **(38 074 840)** |

### Statement of financial performance

**2021**

| | Note | As previously reported | Correction of error | Restated |
|---|---|---|---|---|
| Depreciation | Error 3 | 7 360 182 | (23 139) | 7 337 043 |
| Interest Income | Error 8 | 4 905 089 | 33 509 | 4 938 598 |
| General expenditure | Error 2 | 38 621 957 | 2 871 425 | 41 493 382 |
| **Surplus for the year** | | **50 887 228** | **2 881 795** | **53 769 023** |

## 37. Prior-year adjustments (continued)

**Cash flow statement**

**2021**

| | Note | As previously reported | Correction of error | Restated |
|---|---|---|---|---|
| Cash flow from operating activities | | | | |
| Receipts | Error 4 | 175 544 268 | (6 800 559) | 168 743 709 |
| Interest Income | Error 9 | 4 905 089 | 33 509 | 4 938 598 |
| Employee costs | Error 4 | (119 992 308) | 2 697 500 | (117 294 808) |
| Suppliers | Error 4 | (57 817 394) | (1 445 442) | (59 262 836) |
| | | **2 639 655** | (5 514 992) | **(2 875 337)** |
| Cash flow from investing activities | | | | |
| Purchases of PPE | Error 5 | (6 895 778) | 5 548 501 | (1 347 277) |

**Errors**

No prior period errors occurred during the year under review.

[If retrospective restatement is impracticable for a particular prior period, disclose the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.]

The following prior period errors adjustments occurred:

**Error 1**

A calculation error occured which affected the total amount of receivables from exchanges transactions. Comparative figures have been restated as follows following a detailed analysis and calculations.

| | 2022 | 2021 |
|---|---|---|
| **Statement of Financial Performance** | | |
| Increase in receivable from exchange transactions | - | 2 677 076 |
| Decrease in WIP | - | (3 407 681) |
| Decrease in Accumulated surplus | - | 730 605 |
| | - | - |

**Error 2**

A calculation of error occured in accounting for Work In Progress which resulted in overstatement of Property plant and equipment in the financial statements. Comparative figures have been restated as follows.

| | 2022 | 2021 |
|---|---|---|
| **Statement of Financial Performance** | | |
| Decrease in PPE | - | (2 871 425) |
| General Expenditure | - | 2 871 425 |
| | - | - |

**Error 3**

A reconciliation error occured in calculation of depreciation on buildings. Comparative figures have been restated as follows.

## Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
| --- | --- | --- |

### 37. Prior-year adjustments (continued)

| **Statement of Finanacial Performance** | | |
| --- | --- | --- |
| Depreciation | - | (23 139) |
| PPE | - | 23 139 |
| | - | - |

**Error 4**

A reconciliation error occured in accounting for net cash flows from operating activities which resulted in overstatement of cash flows from operating activities in the financial statements. Comparative figures have been restated as follows.

| **Statement of Cash Flows from Operating Activities** | | |
| --- | --- | --- |
| Receipts | - | (6 800 550) |
| Employee costs | - | 2 697 500 |
| Suppliers | - | (1 445 442) |
| | **-** | **(5 548 492)** |

**Error 5**

A reconciliation error occured in accounting for net cash flows from investing activities which resulted in overstatement of cash flows from investing activities in the financial statements. Comparative figures have been restated as follows.

| **Statement of Cash Flows from Investing Activities** | | |
| --- | --- | --- |
| Purchases of PPE | - | 5 548 501 |

**Error 6**

A calculation error occured which affected the total amount of cash and cash equivalent transactions. Comparative figures have been restated as follows following a detailed analysis and calculations.

| **Statement of Financial Position** | | |
| --- | --- | --- |
| Cash and cash equivalent | - | 33 510 |
| Accumulated Surplus | - | (33 510) |
| | - | - |

**Error 7**

A calculation error occured which affected the total amount of receivables from non-exchanges transactions and Unspent grant. Comparative figures have been restated as follows following a detailed analysis and calculations.

| **Statement of Financial Position** | | |
| --- | --- | --- |
| Receivables from non-exchange transactions | - | (7 210 738) |
| Unspent Grant | - | 7 210 738 |
| | - | - |

**Error 8**

A calculation error occured in computing interest income from investments which resulted in undestatement of interest income in the financial statements. Comparative figures have been restated as follows.

| **Statement of Financial Performance** | | |
| --- | --- | --- |
| Interest received | - | 33 509 |
| Accumulated Surplus | - | (33 509) |
| | - | - |

| Figures in Rand | 2022 | 2021 |
|---|---|---|

### 37. Prior-year adjustments (continued)

**Error 9**

A reconciliation error occured in accounting for net cash flows from operating activities which resulted in understatement of cash flows from operating activities in the financial statements. Comparative figures have been restated as follows.

| | | |
|---|---|---|
| **Statement of Cash Flows** | | |
| Increase net cash flows from operating activities | - | 33 509 |
| Increase in accumulated surplus | - | (33 509) |
| | - | - |

**Error 10**

A reconciliation error occured in accounting for Irregular expenditure

| | | |
|---|---|---|
| **Note 40** | | |
| Decrease in Irregular Expenditure | - | (606 498) |

### 38. Unauthorised expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 46 301 181 | 11 659 811 |
| Add: Expenditure identified - current | 9 899 855 | 10 224 374 |
| Add: Expenditure identified - prior period | - | 36 355 465 |
| Less: Approved/condoned/authorised by council | - | (11 938 469) |
| **Closing balance** | **56 201 036** | **46 301 181** |

**Unauthorised expenditure: Budget overspending – per municipal department:**

| | | |
|---|---|---|
| Council General | 964 067 | - |
| Municipal Manager's | 127 116 | - |
| Corporate Support Services | 1 709 155 | 3 928 787 |
| Information Technology | 3 605 427 | - |
| Finance | 3 494 089 | 4 481 798 |
| LED & Tourism | - | 1 813 789 |
| | **9 899 854** | **10 224 374** |

### 39. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 86 752 | 173 578 |
| Add: Fruitless and wasteful expenditure identified - current | 60 909 | - |
| Add: Fruitless and wasteful expenditure identified - current by AG | 4 029 889 | - |
| Less: Amount recovered - current | (310) | - |
| Less: Amount written off - current | (58 606) | - |
| Less: Amount written off - prior period | - | (86 826) |
| **Closing balance** | **4 118 634** | **86 752** |

Fruitless and wasteful expenditure is presented exclusive of VAT

The amount of R58606 relates to missed flights by students who are studying in Vietnam

Traffic fine of R310 were recovered

## Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
| --- | --- | --- |

### 40. Irregular expenditure

| | 2022 | 2021 |
| --- | --- | --- |
| Opening balance as previously reported | 29 009 722 | 56 569 918 |
| Add: Irregular expenditure - current | 14 298 487 | 27 127 505 |
| Less: Amount written off - prior period | - | (54 687 701) |
| **Closing balance** | **43 308 209** | **29 009 722** |

Irregular expenditure amounts are disclosed exclusive of VAT

| Figures in Rand | 2022 | 2021 |
| --- | --- | --- |

### 40. Irregular expenditure (continued)

**Analysis of irregular expenditure per classification is as follows**

| | | |
| --- | --- | --- |
| 3 quotes not obtained | 108 215 | 6 412 843 |
| 3 quotes not obtained from suppliers and panel | 25 000 | 1 304 765 |
| No documented reason for deviation and evidence that deviation was aproved by AO | - | 192 124 |
| CAATs exception - suppliers in service of state did not declare | - | 43 800 |
| Appointment of candidates who did not meet the requirements advertised | 886 542 | - |
| Suppler did not declare connected persons in service of auditee | 195 000 | 27 410 |
| Evaluation criteria not consistent with one specified in bid | - | 2 105 934 |
| The evaluation criteria applied differed from the one specified in the bid documents | - | 3 523 599 |
| Tax matter not in order | - | 42 500 |
| Non declaration of connected person | - | 448 542 |
| Declaration not submitted -supplier in service of state | 134 996 | - |
| The highest bidder was selected | 199 800 | - |
| Payments made to existing irregular contracts | - | 3 000 442 |
| Competitive bidding not followed | 2 397 840 | 225 341 |
| Competitive bidding not followed awards > R200 000 | 248 788 | - |
| Appointment of a panel - competitive bidding not followed | - | 196 430 |
| PPR2017 - BBBEE and tax compliant | 45 050 | - |
| Payments made to existing irregular contracts | 10 057 256 | - |

| Figures in Rand | 2022 | 2021 |
|---|---|---|
| **40. Irregular expenditure (continued)** | | |
| Expired contracts extended - reasons for extension not justified - competitive bidding should have been followed | - | 9 646 274 |
| | **14 298 487** | **27 170 004** |

**Cases under Investigation**

# Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|---|---|

## 40. Irregular expenditure (continued)

**Single quotes**

Single quotes procurement amounting to R927 510.00 were incurred during 2021/22 financial year. The SCM process were followed for these transactions.

## 41. Deviation from supply chain management regulations

In terms of regulation 36 of Municipal Supply Chain Management Regulations, the Accounting Officer may dispense with the official procurement process established by the policy and procure any required goods or services through any convenient process, including ratification of minor technical breaches of procurement processes by an official or committee acting in terms of delegated powers or duties.

The information below provides details of categories of deviations approved by the Accounting Officer as provided for in terms of regulation 36.

| | 2022 | 2021 |
|---|---|---|
| Emergency | 410 017 | 380 000 |
| Urgent | 765 983 | 750 204 |
| Other exceptional cases | 5 712 521 | 6 033 656 |
| | **6 888 521** | **7 163 860** |

Deviation reported to the council: R6 888 521

## 42. Analysis of material differences between budget and actual amounts

**Differences between budget and actual amounts basis of preparation and presentation**

1 .Other own revenue - The actual amount is materially more than the budgeted amount due to budgeting error in which more recoveries from staff and skills development levy.

2 Investment revenue - Actual less than the budgeted amount due to lower than projected interest as a results of a less than anticipated capital investment.

3 Transfers and subsidies - the actual amount is materially reduced due to a decrease in equitable share received as a last portion

### 42. Analysis of material differences between budget and actual amounts (continued)

4 Employee related costs - Year to date actual less than the budgeted amount, due to mainly the fact that vacant posts in Environmental Health Department.

5 Remuneration of councillors - year to date actual is less than the budgeted amount due to less than initially planned number of Members of Mayoral Committee has reduced from five (5) portfolios to four (4) portfolio.

6 Depreciation & amortisation - actual expenditure higher than the budgeted amount due to lower projected estimates particularly in relations to koppies green- house and stadium.

8 Finance charges - finance charges was initially projected low ,however major component that leads to overspending was post retirement obligation that was not budgeted for, the institution was awaiting the actuarial report.

9 Repairs and maintenance - actual expenditure marginally less than the budgeted amount due to lower projected estimates due less travelling by municipal vehicles.

10 Contracted services - materially higher than actually amount due to municipality's continuing legal obligations.

11 Transfers and subsidies - The actual is less than the budgeted due to saving on RRAMS and rollover of Energy efficicieny.

12 General expenses - Budgeted amount higher than actual amount mainly due to increase in adjustment amount that was undertaken in anticipation of potential need to provide social relief due to COVID 19 outbreak.

13 Actuarial losses - no provision for actuarial gains initially made in the budget

15 Trade and other receivables from exchange transactions - No budget provision made in the budget statement of financial position.

16 Receivables from non-exchange transactions - No budget provision made in the budget statement of financial position.

17 VAT Receivable - No budget provision made in the budget statement of financial position.

18 Cash and cash equivalents - No budget provision made in the budget statement of financial position.

19 Property, plant and equipment - Error in under provision of existing PPE in the budgeted statement of financial position.

20 Intangible assets - Error in under provision of existing intangible assets in the budget statement of financial position.

23 Payables from exchange transactions - No budget provision made in the budget statement of financial position.

24 Retirement benefit obligations - No budget provision made in the budget statement of financial position.

25 Unspent conditional grants and receipts - No budget provision made in the budget statement of financial position.

27 Revaluation reserve - No budget provision made in the budget statement of financial positionAdditional text

28 Accumulated surplus / (deficit) - Insufficient budget provision made in the budget statement of financial position.

29 Cash receipts from government grants - There are not material differences.

30 Investment received - Budgeted amount higher than actual mount due to accrual portion of interest receivable (non-cash flow) budgeted for as part of actual interest anticipated to be received.

31 Other cash receipts - The actual amount is materially less than the budgeted amount due to budgeting error in which case other own revenue included interest on investments which was also budgeted for separately. Another portion was also budgeted for and not yet received is the amount of recoverable Irregular Expenditure which the municipality is still in a process of recovering.

### 42. Analysis of material differences between budget and actual amounts (continued)

32 Employees costs - Budgeted amount higher than actual amout mainly due to increase in adjustment amount that was undertaken in anticipation of potential need to provide social relief due to COVID 19 outbreak and due to the fact that vacant senior management positions were not filled earlier than anticipated.

33 Payments to suppliers - Actual payments lower than initially anticipated due to a substantial portion of payments catered for under payments to supplier.

34 Finance charges - No budget provision initially made for finance charges on finance leases.

35 Purchase of property, plant and equipment - actual expenditure less than the budgeted amount due to change in acquisitions plans for certain types of vehicles.

36 Net increase/(decrease) in cash and cash equivalents - insufficient budget provision made due to generally inadequate provision for anticipated in and out flow of cash.

37 Cash and cash equivalents at the beginning of the year - insufficient budget provision made due to generally inadequate provision for anticipated in and out flow of cash.

## Reportable Segments for the year ended 30 June 2022