**Vhembe District Municipality**
**Annual Financial Statements**
**for the year ended 30 June 2023**

# General Information

**Legal form of entity**
District Municipality Category C

**Nature of business and principal activities**
Providing municipal services to communities in a sustainable manner, to promote social and economic development, and to promote a safe and healthy environment.

**Grading of the municipality**
Four (4)

**Mayoral committee**

| | |
|---|---|
| Executive Mayor | Councillor DA Nenguda |
| Speaker | Councillor TF Nkondo |
| Chief Whip | Councillor ME Muhlope |
| Members of the Mayoral Committee | 1. Councillor NR Mathukha |
| | 2. Councillor MG Chauke |
| | 3. Councillor AM Mamedzi |
| | 4. Councillor ADV. NA Mudunungu |
| | 5. Councillor SM Sinyosi |
| | 6. Councillor T Mundalamo |
| | 7. Councillor RG Machovani |
| | 8. Councillor T Padelane |
| | 9. Councillor AS Tshifhango |

Other Councillors

1. Councillor FM Begwa
2. Councillor TJ Bila
3. Councillor FT Dau
4. Councillor AJ Davhana
5. Councillor L Davhana
6. Councilor TL Hlabangwani
7. Councillor AV Kotane
8. Councillor HG Mabudu
9. Councillor MC Mabunda
10. Councillor E Madzunya
11. Councillor NG Mahosi
12. Councillor TN Makumbane
13. Councillor M Makwala
14. Councillor MRT Marole
15. Councillor GD Masangu
16. Councillor ML Mathalise
17. Councillor TT Matshomo
18. Councillor C Mhangwani
19. Councillor MJ Mpashe
20. Councillor S Muavha
21. Councillor ET Muedi
22. Councillor ME Muhlope
23. Councillor AJ Mukhaha
24. Councillor R Mukhuba
25. Councillor M Mukosi
26. Councillor NJ Mukwevho
27. Councillor M Kennedy - appointed in May 2023
28. Councillor M Mulaudzi
29. Councillor HP Mulovhedzi
30. Councillor M Muligwe
31. Councillor A Nekhunguni
32. Councillor K Nemaranzhe

## General Information

33. Councillor SFL Ndhlovu
34. Councillor TP Matodzi - Appointed in May 2023
35. Councillor R Rabambukwa
36. Councillor RG Ramabulana
37. Councillor SM Sinyosi
38. Councillor LR Rambuwani
39. Councillor TP Rivombo
40. Councillor MW Ramalwa - Resigned on 07 June 2023
41. Councillor JN Simangwe
42. Councillor IA Tshidavhu
43. Councillor AS Tshifhango
44. Councillor T Yingwani
45. Councillor FJ Rikhotso
46. Councillor MS Machethe
47. Councillor MS Matamela
48. Councillor TW Mphaho - appointed in March 2023
49. Councillor H Mtileni
50. Councillor RP Mundalamo
51. Councillor RG Nkanyane
52. Councillor TF Nkondo
53. Councillor R Munyai - Resigned on 19 April 2023
54. Councillor MJ Nkuna - Resigned on 19 April 2023
55. Councillor HB Ramulifho - Resigned on February 2023
56. Councillor M Selapyana - Resigned on 19 April 2023

| | |
|---|---|
| **Accounting Officer** | ZN Kutama |
| **Chief Finance Officer (CFO)** | M Thangavhuelelo |
| **Registered office** | Old Parliament Building<br>Thohoyandou<br>0950 |
| **Postal address** | Private Bag X5006<br>Thohoyandou<br>0950 |
| **Bankers** | First National Bank |
| **Auditors** | Auditor General South Africa |
| **Audit Committee** | Ms. F.S Tshikhudo (CIA)(CRMA) E-MBA BCOMM (HONS) PGD RISK MAN PGD ACC SCIENCES Chairperson<br>Mr. T.G Nevhutalu CA(SA) PGD ACCOUNTING BCOMM ACCOUNTING Member<br>Mr. F.O Ndou CRM Prac (SA), BAP (SA, GTP (SA) Member (01 June 2021-January 2022) Currently Appointed Chairperson of the Risk Management Committee<br>Mr. P. Rambuda CA(SA) BCOMM (HONS) Member<br>Dr. D. Konar CA(SA) DOCTOR OF COMMERCE MASTER OF COMMERCE MASTER OF ACCOUNTING PAAg CERTIFIED Member |

# Index

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



**Abbreviations used:**

| | |
|---|---|
| NT | National Treasury |
| MIG | Municipal Infrastructure Grant |
| GRAP | Generally Recognised Accounting Practice |
| WSIG | Water System Improvement Grant |
| IAS | International Accounting Standards |
| MPAC | Municipal Public Accounts Committee |
| MFMA | Municipal Finance Management Act |
| mSCOA | Municipal Standard Chart of Accounts |
| EPWP | Expanded Public Works Programme |
| PAYE | Pay As You Earn |
| RBIG | Regional Bulk Infrastructure Grant |

# Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2024 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 7 - 89.

The annual financial statements set out on page 7- 89, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2023 and were signed on its behalf by:

**ZN Kutama**
**Accounting Officer**

# Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2023.

## 1. Review of activities

### Main business and operations

Net surplus of the municipality was R 370 907 777 (2022: surplus R 312 376 976)

## 2. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus (deficit) of R 5 656 121 142 and that the municipality's total assets exceed its liabilities by R 5 656 121 142.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The municipality is substantially dependent on the government for continued funding of operations.

The ability of the municipality to continue as a going concern is dependent on a number of factors.
The following factors support going concern assumption:

There is no intention to cease operation and municipal budget for MTERF period is support this.
The municipality has a healthy solvency and liquidity ration.
The municipality continue to achieve net surplus for 2023 and 2022 financial year
There are no material commitments or litigation at balance sheet date that threatens the going concern assumption.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

## 4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

## 5. Corporate governance

### The Council

The Council:
- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

### Audit Committee

The audit committee was established in terms of section 166 of the MFMA . Ms. F.S Tshikhudo was the chairperson of the audit committee for the year under review.

National Treasury policy requires that municipalities should appoint other members of the municipality's audit committees who are not Councillors of the municipality onto the audit committee of which the municipality has complied with..

# Accounting Officer's Report

. **Corporate governance (continued)**

**Internal audit**

In terms of section 165 of the Municipal Finance Management Act, each municipality and each municipal entity must have an internal audit unit of which it was incompliant with.

**6. Bankers**

The municipality has its primary bank account with First National Bank.

**7. Auditors**

Auditor General South Africa will continue in office for the next financial period.

## Vhembe District Municipality
Annual Financial Statements for the year ended 30 June 2023

# Statement of Financial Position as at 30 June 2023

| Figures in Rand | Note(s) | 2023 | 2022 Restated* |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Inventories | 3 | 27 387 764 | 36 788 929 |
| Receivables from exchange transactions | 4 | 52 093 721 | 35 709 272 |
| Receivables from non-exchange transactions | 5 | 39 874 806 | 32 546 907 |
| Statutory receivables - VAT | 6 | 207 853 792 | 187 140 449 |
| Cash and cash equivalents | 7 | 130 688 141 | 131 893 379 |
| | | **457 898 224** | **424 078 936** |
| Non-Current Assets | | | |
| Property, plant and equipment | 8 | 5 989 687 951 | 5 499 341 615 |
| Intangible assets | 9 | 6 455 473 | 7 270 181 |
| | | **5 996 143 424** | **5 506 611 796** |
| **Total Assets** | | **6 454 041 648** | **5 930 690 732** |
| **Liabilities** | | | |
| Current Liabilities | | | |
| Other financial liabilities | 10 | 66 415 547 | 43 653 456 |
| Payables from exchange transactions | 11 | 459 206 540 | 460 238 739 |
| Taxes and transfers payable (non-exchange) | 12 | 2 086 000 | 2 086 000 |
| Consumer deposits | 13 | 4 409 170 | 4 409 170 |
| Unspent conditional grants and receipts | 14 | 41 416 471 | 12 962 123 |
| Provisions | 15 | 70 768 293 | 68 123 711 |
| | | **644 302 021** | **591 473 199** |
| Non-Current Liabilities | | | |
| Other financial liabilities | 10 | 146 119 730 | 46 400 000 |
| Provisions | 15 | 7 498 755 | 7 604 242 |
| | | **153 618 485** | **54 004 242** |
| **Total Liabilities** | | **797 920 506** | **645 477 441** |
| **Net Assets** | | **5 656 121 142** | **5 285 213 291** |
| Accumulated surplus | | 5 656 121 142 | 5 285 213 291 |
| **Total Net Assets** | | **5 656 121 142** | **5 285 213 291** |

* See Note 2 & 44

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2023 | 2022 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 16 | 746 265 505 | 515 078 064 |
| Interest on Investments | 17 | 28 590 547 | 10 505 963 |
| Sale of goods and rendering of services | 18 | 961 252 | 976 433 |
| Operational revenue | 19 | 53 269 | 1 466 853 |
| Rental of facilities and equipment | 20 | 942 | - |
| Interest on Receivables | 21 | 83 200 031 | 48 535 502 |
| Licences and permits | 22 | 442 | 5 945 |
| Gain on disposal of assets | 24 | - | 2 029 996 |
| **Total revenue from exchange transactions** | | **859 071 988** | **578 598 756** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Licences and Permits | 25 | 270 785 | 371 517 |
| Reversal of VBS impairment provision | 26 | - | 22 146 983 |
| **Transfer revenue** | | | |
| Government grants & subsidies | 27 | 1 903 012 478 | 1 718 756 825 |
| **Total revenue from non-exchange transactions** | | **1 903 283 263** | **1 741 275 325** |
| **Total revenue** | | **2 762 355 251** | **2 319 874 081** |
| **Expenditure** | | | |
| Employee related costs | 28 | (706 417 968) | (672 593 083) |
| Remuneration of councillors | 29 | (14 693 785) | (13 939 920) |
| Depreciation and amortisation | 30 | (186 175 002) | (192 564 684) |
| Impairment loss | 31 | (839 252 936) | (573 844 980) |
| Contracted services | 32 | (231 692 413) | (251 149 532) |
| Operational expenses | 33 | (193 095 377) | (173 126 522) |
| Inventory consumed | 34 | (213 828 149) | (124 937 559) |
| Lease rentals on operating lease | 35 | (3 326 266) | (3 297 931) |
| Finance costs | 36 | (2 565 578) | (93 425) |
| Transfers and Subsidies | 37 | (400 000) | (888 396) |
| Inventories losses/write-downs | 38 | - | (1 061 073) |
| **Total expenditure** | | **(2 391 447 474)** | **(2 007 497 105)** |
| **Surplus for the year** | | **370 907 777** | **312 376 976** |

* See Note 2 & 44

# Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus / deficit | Total net assets |
|---|---|---|
| Opening balance as previously reported | 4 050 896 835 | 4 050 896 835 |
| Adjustments | | |
| Correction of prior year's errors 44 | 921 939 480 | 921 939 480 |
| **Balance at 01 July 2021 as restated*** | **4 972 836 315** | **4 972 836 315** |
| Changes in net assets | | |
| Surplus for the year | 312 376 976 | 312 376 976 |
| Total changes | 312 376 976 | 312 376 976 |
| **Restated* Balance at 01 July 2022** | **5 285 213 365** | **5 285 213 365** |
| Changes in net assets | | |
| Surplus for the year | 370 907 777 | 370 907 777 |
| Total changes | 370 907 777 | 370 907 777 |
| **Balance at 30 June 2023** | **5 656 121 142** | **5 656 121 142** |

Note(s)

* See Note 2 & 44

## Cash Flow Statement

| Figures in Rand | Note(s) | 2023 | 2022 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Rendering of services | | (130 046 543) | 208 949 738 |
| Grants | | 1 931 466 826 | 1 683 719 253 |
| Interest revenue | | 111 790 578 | 59 041 465 |
| Other receipts | | 1 286 690 | 2 820 748 |
| | | 1 914 497 551 | 1 954 531 204 |
| **Payments** | | | |
| Employee costs | | (718 572 658) | (687 871 235) |
| Suppliers | | (633 973 257) | (446 416 882) |
| Finance costs | | (2 565 578) | (93 425) |
| | | (1 355 111 493) | (1 134 381 542) |
| **Net cash flows from operating activities** | 39 | **559 386 058** | **820 149 662** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 8 | (681 892 772) | (592 096 295) |
| Proceeds from sale of property, plant and equipment | 8&24 | - | 2 029 996 |
| Purchase of other intangible assets | 9 | (1 180 435) | - |
| Proceeds from sale of financial assets | | - | 22 146 982 |
| **Net cash flows from investing activities** | | **(683 073 207)** | **(567 919 317)** |
| **Cash flows from financing activities** | | | |
| Movement in other financial liabilities | | 122 481 821 | (221 265 927) |
| **Net cash flows from financing activities** | | **122 481 821** | **(221 265 927)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(1 205 328)** | **30 964 418** |
| Cash and cash equivalents at the beginning of the year | | 131 893 379 | 100 928 864 |
| **Cash and cash equivalents at the end of the year** | 7 | **130 688 051** | **131 893 282** |

* See Note 2 & 44

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash 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** | | | | | | |
| Sale of goods and rendering of services | 622 500 | 274 490 | **896 990** | 961 252 | **64 262** | |
| Service charges | 481 250 000 | 143 379 970 | **624 629 970** | 746 265 505 | **121 635 535** | |
| Rental of facilities and equipment | - | 1 990 | **1 990** | 942 | **(1 048)** | |
| Interest on receivables | 41 576 000 | 28 859 000 | **70 435 000** | 83 200 031 | **12 765 031** | |
| Licences and permits | - | - | **-** | 442 | **442** | |
| Operational revenue | 50 000 | 67 490 | **117 490** | 53 269 | **(64 221)** | |
| Interest on investments | 14 000 000 | 2 000 000 | **16 000 000** | 28 590 547 | **12 590 547** | |
| **Total revenue from exchange transactions** | **537 498 500** | **174 582 940** | **712 081 440** | **859 071 988** | **146 990 548** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Licences and Permits (Non-exchange) | 450 000 | (66 000) | **384 000** | 270 785 | **(113 215)** | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 1 941 009 002 | (299 995) | **1 940 709 007** | 1 903 012 478 | **(37 696 529)** | |
| **Total revenue from non-exchange transactions** | **1 941 459 002** | **(365 995)** | **1 941 093 007** | **1 903 283 263** | **(37 809 744)** | |
| **Total revenue** | **2 478 957 502** | **174 216 945** | **2 653 174 447** | **2 762 355 251** | **109 180 804** | |
| **Expenditure** | | | | | | |
| Employee related costs | (759 219 577) | 37 147 891 | **(722 071 686)** | (706 417 968) | **15 653 718** | |
| Remuneration of councillors | (18 818 369) | (5) | **(18 818 374)** | (14 693 785) | **4 124 589** | |
| Depreciation and amortisation | (181 435 683) | (4 739 319) | **(186 175 002)** | (186 175 002) | **-** | |
| Impairment losses | (129 813 615) | (519 426 076) | **(649 239 691)** | (839 252 936) | **(190 013 245)** | |
| Finance costs | (100 000) | (2 465 578) | **(2 565 578)** | (2 565 578) | **-** | |
| Lease rentals on operating lease | (3 856 616) | (43 385) | **(3 900 001)** | (3 326 266) | **573 735** | |
| Contracted Services | (347 372 841) | 112 125 716 | **(235 247 125)** | (231 692 413) | **3 554 712** | |
| Transfers and Subsidies | (400 000) | - | **(400 000)** | (400 000) | **-** | |
| Inventory consumed | (123 878 650) | (90 025 409) | **(213 904 059)** | (213 828 149) | **75 910** | |
| Operational expenses | (210 643 133) | 14 846 596 | **(195 796 537)** | (193 095 377) | **2 701 160** | |
| **Total expenditure** | **(1 775 538 484)** | **(452 579 569)** | **(2 228 118 053)** | **(2 391 447 474)** | **(163 329 421)** | |
| **Operating surplus** | **703 419 018** | **(278 362 624)** | **425 056 394** | **370 907 777** | **(54 148 617)** | |
| Gain on disposal of assets and liabilities | 50 000 | (50 000) | **-** | - | **-** | |
| **Surplus before taxation** | **703 469 018** | **(278 412 624)** | **425 056 394** | **370 907 777** | **(54 148 617)** | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **703 469 018** | **(278 412 624)** | **425 056 394** | **370 907 777** | **(54 148 617)** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash 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** | | | | | | |
| Inventories | 162 846 236 | (1 337 280) | **161 508 956** | 27 387 764 | **(134 121 192)** | |
| Receivables from non-exchange transactions | 301 684 946 | (490 745 855) | **(189 060 909)** | 39 874 806 | **228 935 715** | |
| VAT receivable | 155 575 764 | - | **155 575 764** | 207 853 792 | **52 278 028** | |
| Receivables from exchange transactions | 425 736 781 | 218 537 507 | **644 274 288** | 52 093 721 | **(592 180 567)** | |
| Cash and cash equivalents | 303 933 443 | 32 084 776 | **336 018 219** | 130 688 141 | **(205 330 078)** | |
| | **1 349 777 170** | **(241 460 852)** | **1 108 316 318** | **457 898 224** | **(650 418 094)** | |
| **Non-Current Assets** | | | | | | |
| Property, plant and equipment | 5 193 624 421 | 23 822 860 | **5 217 447 281** | 5 989 687 951 | **772 240 670** | |
| Intangible assets | 10 888 126 | 480 435 | **11 368 561** | 6 455 473 | **(4 913 088)** | |
| | **5 204 512 547** | **24 303 295** | **5 228 815 842** | **5 996 143 424** | **767 327 582** | |
| **Total Assets** | **6 554 289 717** | **(217 157 557)** | **6 337 132 160** | **6 454 041 648** | **116 909 488** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Other financial liabilities | 633 664 680 | - | **633 664 680** | 66 415 547 | **(567 249 133)** | |
| Payables from exchange transactions | 129 417 934 | 59 371 642 | **188 789 576** | 459 206 530 | **270 416 954** | |
| Taxes and transfers payable (non-exchange) | 234 193 904 | - | **234 193 904** | 2 086 000 | **(232 107 904)** | |
| Consumer deposits | 4 419 170 | - | **4 419 170** | 4 409 170 | **(10 000)** | |
| Unspent conditional grants and receipts | (800 000) | 1 883 425 | **1 083 425** | 41 416 471 | **40 333 046** | |
| Provisions | 54 133 400 | - | **54 133 400** | 70 768 293 | **16 634 893** | |
| | **1 055 029 088** | **61 255 067** | **1 116 284 155** | **644 302 011** | **(471 982 144)** | |
| **Non-Current Liabilities** | | | | | | |
| Other financial liabilities | - | - | **-** | 146 119 730 | **146 119 730** | |
| Provisions | 254 804 854 | - | **254 804 854** | 7 498 755 | **(247 306 099)** | |
| | **254 804 854** | **-** | **254 804 854** | **153 618 485** | **(101 186 369)** | |
| **Total Liabilities** | **1 309 833 942** | **61 255 067** | **1 371 089 009** | **797 920 496** | **(573 168 513)** | |
| **Net Assets** | **5 244 455 775** | **(278 412 624)** | **4 966 043 151** | **5 656 121 152** | **690 078 001** | |
| **Net Assets** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | 5 244 455 765 | (278 412 624) | **4 966 043 141** | 5 656 121 138 | **690 077 997** | |
| **Total Net Assets** | **5 244 455 765** | **(278 412 624)** | **4 966 043 141** | **5 656 121 138** | **690 077 997** | |

### 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.

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

### 1.1 Presentation currency

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

### 1.2 Going concern assumption

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

### 1.3 Significant judgements and sources of estimation uncertainty

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

**Trade and other receivables**
The municipality assesses its'trade 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.

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

**Allowance for slow moving, damaged and obsolete stock**
An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus:

# Accounting Policies

### 1.3 Significant judgements and sources of estimation uncertainty (continued)

**Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

**Value in use of cash generating assets.**

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as inflation and interest.

**Value in use of non- cash generating assets.**

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment.

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

**Effective interest rate**

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

**Allowance for doubtful debts.**

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

**Useful lives of waste and water network and other assets**

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

### 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.

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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 restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

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.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

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

| Item | Depreciation method | Average useful life |
| --- | --- | --- |
| Land | Straight-line | Indefinite |
| Buildings | Straight-line | 65 years |
| Plant and machinery | Straight-line | 5-21 years |
| Furniture and fixtures | Straight-line | 3-26 years |
| Transport assets | Straight-line | 4-40 years |
| Office equipment | Straight-line | 2-30 years |
| Computer equipment | Straight-line | 2-12 years |
| Infrastructure | Straight-line | 5-80 years |
| Community assets | Straight-line | 30 years |
| Other property, plant and equipment | Straight-line | 3-27 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 depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

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.

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

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

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

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

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

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

### 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.

# Accounting Policies

### 1.5 Intangible assets (continued)

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.

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

| Item | Depreciation method | Average useful life |
|---|---|---|
| Computer software, other | Straight-line | 3-20 years |

### 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.

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

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

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

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

### 1.6 Financial instruments (continued)

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

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

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

**1.6 Financial instruments (continued)**

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

# Accounting Policies

### 1.6 Financial instruments (continued)

**Classification**

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

| Class | Category |
|---|---|
| Receivables from exchange transactions | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |
| Cash and cash equivalents | Financial asset measured at amortised cost |

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

## Accounting Policies

### 1.6 Financial instruments (continued)

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value]. The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities
The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Reclassification

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

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

### 1.6 Financial instruments (continued)

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

**Derecognition**

**Financial assets**

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

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

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

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

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

### 1.6 Financial instruments (continued)

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

#### Financial liabilities

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

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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

#### Offsetting

Financial assets and liabilities are offset and the net amount reported on the Statement of Financial Position only when there is a legally enforceable right to set off the recognised amount, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 1.7 Statutory receivables

#### Identification

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

#### Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or

#### Initial measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

. interest or other charges that may have accrued on the receivable (where applicable);

. impairment losses; and

. amounts derecognised.

#### Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- impairment losses; and
- amounts derecognised.

#### Impairment losses

# Accounting Policies

### 1.7 Statutory receivables (continued)

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account.

The amount of the losses is recognised in surplus or deficit.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

### 1.8 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 - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### 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 municipality's 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.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

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.

### 1.9 Inventories

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

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

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

# Accounting Policies

### 1.9 Inventories (continued)

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

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

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.10 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

## Accounting Policies

### 1.10 Impairment of cash-generating assets (continued)

#### Identification

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

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

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

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

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

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Discount rate

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

# Accounting Policies

### 1.10 Impairment of cash-generating assets (continued)

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

# Accounting Policies

### 1.10 Impairment of cash-generating assets (continued)

**Reversal of impairment loss**

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

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

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

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

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

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

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

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

**Redesignation**

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

### 1.11 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

## Accounting Policies

### 1.11 Impairment of non-cash-generating assets (continued)

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

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

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

**Identification**

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

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

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

**Value in use**

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

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

**Depreciated replacement cost approach**

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

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

**Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

# Accounting Policies

### 1.11 Impairment of non-cash-generating assets (continued)

**Reversal of an impairment loss**

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

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

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

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

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

**Redesignation**

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

### 1.12 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

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

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

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

# Accounting Policies

### 1.12 Employee benefits (continued)

#### Short-term employee benefits

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

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

When an employee has rendered service to the entity during a reporting period, the entity 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 entity 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 an entity provides post-employment benefits for one or more employees.

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

# Accounting Policies

### 1.12 Employee benefits (continued)

**Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which an 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, an 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 twelve 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.

## Accounting Policies

### 1.12 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity 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 return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

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

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

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

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

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

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

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

# Accounting Policies

### 1.12 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

# Accounting Policies

### 1.12 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

#### Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

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 entity shall 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;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

## Accounting Policies

### 1.12 Employee benefits (continued)

#### Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit 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 benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.13 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating 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.

## Accounting Policies

### 1.13 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

# Accounting Policies

### 1.14 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the
outflow of resources.
Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:
-approved and contracted commitments;
-where the expenditure has been approved and the contract has been awarded at the reporting date; and
-where disclosure is required by a specific standard of GRAP.

### 1.15 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.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

# Accounting Policies

### 1.15 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised 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.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

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

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

### 1.16 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.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

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

#### Recognition

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

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

# Accounting Policies

### 1.16 Revenue from non-exchange transactions (continued)

#### 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.

### 1.17 Comparative figures

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

### 1.18 Unauthorised expenditure

Unauthorised expenditure is defined in section 1 of MFMA as follows:"unauthorised expenditure", in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes-

(a) overspending of the total amount appropriated in the municipality's approved budget;

(b) overspending of the total amount appropriated for a vote in the approved budget;

(c) expenditure from a vote unrelated to the department or functional area covered by the vote;

(d) expenditure of money appropriated for a specific purposes, otherwise than for that specific purpose;

(e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation;or

(f) a grant by the municipality otherwise than in accordance with this Act.

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

### 1.19 Fruitless and wasteful expenditure

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

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

### 1.20 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.

Irregular expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

## Accounting Policies

### 1.20 Irregular expenditure (continued)

Irregular expenditure is defined in section 1 of the MFMA as follows:

"irregular expenditure", in relation to a municipality or municipal entity, means
—

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

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

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

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

### 1.21 Segment reporting

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

### 1.21 Segment reporting (continued)

Based on the definition above, the district municipality functions are structured per department based on service delivery objectives. Each department performs its responsibilities per determined objective and individual indicators are set to measure performance of service delivery objectives. The reporting of performance is not done per geographic location of the communities serviced, consolidated budget vs actual is reported in the financial statement to evaluate performance of the municipality. Performance reporting is done per designed service delivery objectives.

The Departments are centralised to provide service delivery function to all the geographical areas within the district per Local Municipality namely Musina, Makhado, Thulamela and Collins Chabane, on implementation of infrastructure requirements of the municipality. Based on how the budget of the District Municipality is determined annually the from all the Local Municipality & Communities consultation on their needs through the integrated development plan processes. This information is then used to allocate resources available to implement these needs. Resources are not allocated based on how the unit has performed or the activity within the unit has performed but based on the need's priorities and the available funds at the time that the District Municipality holds.

District Municipal revenue, expenditure and assets are not reviewed as per geographical area, these are presented as a consolidated figure. The service provided to communities are the same for all Local Municipalities, therefore the level of information of each Local Municipality within the municipal jurisdiction may not be relevant for decision making purposes, as such reporting of segments is deemed not applicable.

The cost to develop the information in line with the requirements of GRAP 18 will be excessive and not provide any additional information/benefit to the user as other reports i.e., predetermine objectives and comparison of budget and actual, are already presented.

### 1.22 Budget information

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

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

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

The approved budget covers the fiscal period from 2022/07/01 to 2023/06/30.

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

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

### 1.23 Related parties

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

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

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

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

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

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.

# Accounting Policies

### 1.23 Related parties (continued)

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, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### 1.24 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).

### 1.25 Value-added tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

The report on the Value added tax in the Annual Financial Statements is accounted for using the accrual basis.

### 1.26 Use of estimates

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

| Figures in Rand | 2023 | 2022 |
|---|---|---|

### 2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the following:

During the year, the municipality changed its accounting policy with respect to the treatment of Musina Local Municipality water related-transactions. In order to conform with the benchmark treatment in of GRAP 104.92 – 104.100. The municipality now offset water related balances between Musina Local Municipality and Vhembe District Municipality and disclose on a net basis in the annual financial statements. The change in accounting policy provides reliable and more relevant information.

The Council for Vhembe District Municipality and Musina Local Municipality resolved that receivables and liabilities must be off-set in terms of GRAP 104.92.

The entity kept full history of all transactions with Musina Local Municipality and issued to other departments and sales to the public, therefore, it is able to determine the effect of the change in accounting policy on prior periods. The change in accounting policy was applied retrospectively and the corresponding comparative figures were restated

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2022 is as follows:

**Statement of financial position**

| | 2023 | 2022 |
|---|---|---|
| **Receivables for non-exchange transactions - Musina Local Municipality** | | |
| Previously stated | - | 338 969 210 |
| Adjustment | - | (309 174 358) |
| | - | **29 794 852** |
| **Other Financial Liability - Musina Local Municipality** | | |
| Previously stated | - | 309 174 358 |
| Adjustment | - | (309 174 358) |
| | - | - |
| **Provision for impairment - Musina Local Municipality** | | |
| Previously stated | - | 310 316 225 |
| Adjustment | - | (310 344 609) |
| | - | **(28 384)** |
| **Accumulated surplus** | | |
| Previously stated | - | 4 050 885 610 |
| Adjustment | - | 310 344 609 |
| | - | **4 361 230 219** |

**Statement of Financial Performance**

| | 2023 | 2022 |
|---|---|---|
| **Impairment loss** | | |
| Previously stated | - | 28 652 985 |
| Adjustment | - | (28 652 985) |
| | - | - |

## Notes to the Annual Financial Statements

| Figures in Rand | | 2023 | 2022 |
|---|---|---|---|

### 3. Inventories

| | | 2023 | 2022 |
|---|---|---|---|
| Maintenance materials | | 23 511 189 | 29 124 557 |
| Consumable stores | | 3 245 944 | 7 154 915 |
| Water for distribution | | 630 631 | 509 457 |
| | | **27 387 764** | **36 788 929** |
| Inventories recognised as an expense during the year | | 213 828 149 | 124 937 559 |

The amount of write-down of inventories recognized as an expense is R0 (2021/22: R1 061 073) refer to note 38.

There was no previously recognized inventories write-down reversed during the current year.

**Inventory pledged as security**

The municipality has no inventories pledged as security for liabilities.

**Water for distribution**

| | | 2023 | 2022 |
|---|---|---|---|
| Opening balance | | 509 457 | 2 965 654 |
| System input volume | | 802 677 868 | 657 899 541 |
| Authorised consumption | | (439 037 462) | (250 761 958) |
| Water losses | 40 | (363 519 232) | (409 593 780) |
| **Closing balance** | | **630 631** | **509 457** |

### 4. Receivables from exchange transactions

| | 2023 | 2022 |
|---|---|---|
| **Gross balances** | | |
| Water and Waste Water | 2 050 323 486 | 1 202 052 681 |
| **Less: Provision for impairment of receivables from exchange transactions** | | |
| Water and Waste Water | (1 998 229 765) | (1 166 343 409) |
| **Net balance** | | |
| Water and Waste Water | 52 093 721 | 35 709 272 |

| **Water and Waste water** | 2023 | 2022 |
|---|---|---|
| Current (0 -30 days) | 34 977 837 | 1 711 524 |
| 31 - 60 days | 75 201 035 | 75 513 211 |
| 61 - 90 days | 65 816 372 | 63 320 842 |
| 91 - 120 days | 89 161 389 | 63 705 283 |
| 121 - 150 days | 303 844 520 | 41 941 480 |
| 151 - 180 days | 61 270 005 | 62 563 818 |
| 181 - 210 days | 142 630 884 | 42 498 383 |
| 210 - 365 days | 320 620 831 | 277 459 845 |
| > 1 years | 956 800 613 | 573 338 295 |
| **Less: Impairment provision** | **(1 998 229 765)** | **(1 166 343 409)** |
| | **52 093 721** | **35 709 272** |

| **Reconciliation of provision for impairment of receivables from exchange transactions** | 2023 | 2022 |
|---|---|---|
| Balance at beginning of the year | (1 166 343 409) | (600 884 706) |
| Contributions to allowance | (831 886 356) | (565 458 703) |
| | **(1 998 229 765)** | **(1 166 343 409)** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
| --- | --- | --- |

### 5. Receivables from non-exchange transactions

| | | |
| --- | --- | --- |
| Debtors - Musina Local Municipality | 34 692 654 | 29 823 236 |
| DWS RBIG | 5 182 151 | 2 723 670 |
| Other receivables | 28 386 | 28 386 |
| Impairments for Debtors | (28 385) | (28 385) |
| | **39 874 806** | **32 546 907** |

**Reconciliation of provision for impairment of receivables from non-exchange transactions**

| | | |
| --- | --- | --- |
| Opening balance | 28 385 | 28 385 |

**Net amount of Trade and other receivables from non-exchange transactions after set off against Other Financial liabilities**

| | | |
| --- | --- | --- |
| Gross amount Receivable from Musina Local Municipality before offsetting | 370 741 806 | 338 997 594 |
| Gross amount set off | (336 049 152) | (309 174 358) |
| | **34 692 654** | **29 823 236** |

Vhembe District Municipality and Musina Local Municipality agreed to offset both amounts receivable and payable to each municipality for existing and future balances and disclose the net amount receivable or payable to each respective municipality in term of GRAP 104 paragraph 92 to 100.

### 6. Statutory receivable - VAT

| | | |
| --- | --- | --- |
| VAT Receivable | 207 853 792 | 187 140 449 |

### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
| --- | --- | --- |
| Bank balances | 130 688 141 | 131 893 379 |

**Investment in VBS**

| | | |
| --- | --- | --- |
| Investment in VBS | 295 235 974 | 295 235 974 |
| Impairment provision | (295 235 974) | (295 235 974) |
| **Net Balance** | - | - |

**Impairment provision recon**

| | | |
| --- | --- | --- |
| Openning balance | (295 235 974) | (317 382 956) |
| Reversal of Provision as a result of refund from investment in VBS | - | 22 146 982 |
| | **(295 235 974)** | **(295 235 974)** |

# Notes to the Annual Financial Statements



## 7. Cash and cash equivalents (continued)

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | 30 June 2023 | 30 June 2022 | 30 June 2021 | 30 June 2023 | 30 June 2022 | 30 June 2021 |
| FNB BANK - Current account (main) - 62021931458 | 90 990 926 | 119 988 955 | 10 824 995 | 92 513 850 | 119 902 710 | 5 340 419 |
| FNB BANK - Thulamela water - 62370167233 | 21 654 902 | 1 634 369 | 43 418 999 | 20 141 248 | 543 448 | 42 415 109 |
| FNB BANK - Makhado water - 62387689668 | 15 131 978 | 9 010 344 | 50 895 314 | 14 913 898 | 8 906 446 | 50 907 474 |
| FNB BANK - Mutale water - 62407577131 | 2 656 330 | 2 469 655 | 2 179 150 | 2 662 957 | 2 469 155 | 2 226 901 |
| FNB BANK - Call Account - 62036334803 | 273 975 | 260 715 | 313 732 | 333 309 | 320 048 | 313 732 |
| **Total** | **130 708 111** | **133 364 038** | **107 632 190** | **130 565 262** | **132 141 807** | **101 203 635** |

# Notes to the Annual Financial Statements

Figures in Rand

## 8. Property, plant and equipment

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 17 870 000 | - | 17 870 000 | 17 870 000 | - | 17 870 000 |
| Buildings | 122 647 885 | (50 822 165) | 71 825 720 | 122 647 885 | (46 710 525) | 75 937 360 |
| Plant and machinery | 20 597 058 | (9 583 024) | 11 014 034 | 20 597 058 | (8 775 871) | 11 821 187 |
| Furniture and fixtures | 16 100 898 | (10 957 408) | 5 143 490 | 14 005 975 | (10 015 507) | 3 990 468 |
| Transport assets | 124 458 655 | (68 485 231) | 55 973 424 | 117 109 361 | (60 516 130) | 56 593 231 |
| Computer equipment | 12 958 273 | (8 656 653) | 4 301 620 | 12 942 373 | (7 851 182) | 5 091 191 |
| Infrastructure | 3 990 642 104 | (1 198 095 945) | 2 792 546 159 | 3 987 447 325 | (1 023 916 520) | 2 963 530 805 |
| Community assets | 27 528 835 | (6 748 060) | 20 780 775 | 26 144 596 | (6 081 944) | 20 062 652 |
| Other property, plant and equipment | 29 299 614 | (23 384 351) | 5 915 263 | 26 572 954 | (21 318 721) | 5 254 233 |
| Leased assets | 3 169 180 | (3 169 182) | (2) | 3 169 180 | (3 169 182) | (2) |
| Work in progress | 3 004 317 468 | - | 3 004 317 468 | 2 339 190 490 | - | 2 339 190 490 |
| **Total** | **7 369 589 970** | **(1 379 902 019)** | **5 989 687 951** | **6 687 697 197** | **(1 188 355 582)** | **5 499 341 615** |

# Notes to the Annual Financial Statements

Figures in Rand

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

### Reconciliation of property, plant and equipment - 2023

| | Opening balance | Additions | Transfers | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|
| Land | 17 870 000 | - | - | - | - | 17 870 000 |
| Buildings | 75 937 360 | - | - | (4 111 640) | - | 71 825 720 |
| Plant and machinery | 11 821 187 | - | - | (807 153) | - | 11 014 034 |
| Furniture and fixtures | 3 990 468 | 2 094 923 | - | (937 146) | (4 755) | 5 143 490 |
| Transport assets | 56 593 231 | 7 349 294 | - | (7 948 520) | (20 581) | 55 973 424 |
| Computer equipment | 5 091 191 | 15 900 | - | (805 087) | (384) | 4 301 620 |
| Infrastructure | 2 963 530 805 | - | 3 194 778 | (166 849 927) | (7 329 497) | 2 792 546 159 |
| Community assets | 20 062 652 | 1 384 239 | - | (666 116) | - | 20 780 775 |
| Other property, plant and equipment | 5 254 233 | 2 726 660 | - | (2 054 268) | (11 362) | 5 915 263 |
| Leased Assets | (2) | - | - | - | - | (2) |
| Work in progress | 2 339 190 490 | 668 321 756 | (3 194 778) | - | - | 3 004 317 468 |
| | **5 499 341 615** | **681 892 772** | **-** | **(184 179 857)** | **(7 366 579)** | **5 989 687 951** |

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

| | Opening balance | Additions | Transfers | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|
| Land | 17 870 000 | - | - | - | - | 17 870 000 |
| Buildings | 79 942 913 | - | - | (4 005 553) | - | 75 937 360 |
| Plant and machinery | 8 928 875 | 3 976 785 | - | (922 913) | (161 560) | 11 821 187 |
| Furniture and fixtures | 4 725 797 | 304 815 | - | (1 002 942) | (37 202) | 3 990 468 |
| Transport assets | 51 490 157 | 13 215 989 | - | (7 927 906) | (185 009) | 56 593 231 |
| Computer equipment | 6 029 469 | 73 304 | - | (977 450) | (34 132) | 5 091 191 |
| Infrastructure | 2 848 372 476 | - | 295 877 064 | (172 327 810) | (8 390 925) | 2 963 530 805 |
| Community assets | 18 978 517 | 1 700 000 | - | (615 865) | - | 20 062 652 |
| Other property, plant and equipment | 7 404 570 | 270 176 | - | (2 362 331) | (58 182) | 5 254 233 |
| Leased Assets | (2) | - | - | - | - | (2) |
| Work in progress | 2 062 512 328 | 572 555 226 | (295 877 064) | - | - | 2 339 190 490 |
| | **5 106 255 100** | **592 096 295** | **-** | **(190 142 770)** | **(8 867 010)** | **5 499 341 615** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
| --- | --- | --- |

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

### Reconciliation of Work-in-Progress 2023

| | Included for Infrastructure | Included for Community | Included for Buildings | Total |
| --- | --- | --- | --- | --- |
| Opening balance | 2 302 663 552 | 2 723 172 | 33 867 679 | 2 339 254 403 |
| Additions/capital expenditure | 668 321 756 | - | - | 668 321 756 |
| Transferred to completed items | (3 194 778) | - | - | (3 194 778) |
| | **2 967 790 530** | **2 723 172** | **33 867 679** | **3 004 381 381** |

### Reconciliation of Work-in-Progress 2022

| | Included for Infrastructure | Included for Community | Included Buildings | Total |
| --- | --- | --- | --- | --- |
| Opening balance | 2 025 985 390 | 2 723 172 | 33 803 766 | 2 062 512 328 |
| Additions/capital expenditure | 572 491 313 | - | 63 913 | 572 555 226 |
| Transferred to completed items | (295 877 064) | - | - | (295 877 064) |
| | **2 302 599 639** | **2 723 172** | **33 867 679** | **2 339 190 490** |

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

| | 2023 | 2022 |
| --- | --- | --- |
| **Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance** | | |
| Maintenance of Equipment | 100 587 148 | 170 733 487 |
| Maintenance of Unspecified Assets | 3 431 191 | 2 334 985 |
| Maintenance of Buildings and Facilities | 1 846 860 | 1 099 569 |
| | **105 865 199** | **174 168 041** |

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

**Projects with significant delays / Stalled projects**

| | | 2023 | 2022 |
|---|---|---|---|
| Makhado West Bulk Water Supply | This is multi-year project and it is managed by DWS | 582 746 546 | 324 686 873 |
| Increasing the capacity of vondo WTW & upgrade of water related infrastructure | Limited Budget to resume with construction | 390 321 243 | 278 056 313 |
| Thohoyandou - Construction of 10M resevoir at R3 site (Miluwani/Tshidaulu) | Contractor and Engineer has been terminated due to poor workmanship | 46 334 672 | 33 673 274 |
| Malonga Water Reticulation (Makhado) | Several stages in this project were completed in the current year. | 231 137 869 | 42 381 298 |
| Mutshedzi RWS : Tshirolwe Surrounding villages | Limited budget to resume with construction | 671 391 673 | 438 881 405 |
| Construction of Bulk pipeline from Vuwani to Vyeboom and construction of reservoir (Makhado) | The project was stalled due to community unrest , where they were demading COVID-19 funds. Project resumed on the 2nd of June 2023, the contractor is busy with testing | 323 585 660 | 170 167 787 |
| Mashau and Surrounding villages Bulk Water Supply and Reticulation | Land dispute at a certain stand and outstanding 100m pipeline has to pass through this stand and the owner is nowhere to be found. The municipality engaged with traditional learder to assit in resolve the matter however the municiplity decided to go legal route | 301 441 198 | 101 720 491 |
| Damani RWS | There has been progress in the current year yet the project is not yet completed. | 94 973 893 | 80 305 303 |

# Notes to the Annual Financial Statements

| Figures in Rand | | 2023 | 2022 |
| --- | --- | --- | --- |

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

| | | | |
| --- | --- | --- | --- |
| Nandoni RWS: Construction of bulk pipeline from vuwani to middle letaba and Tender is advertised. | There have been challenges with regard to the release of the retention quarantee and this causes the project to be on hold | 218 635 783 | 218 635 783 |
| Mutale RWS: Upgrading of purification works and tender is advertised | The project has been uploaded on the MIG MIS for budget maintenance | 30 027 019 | 30 027 019 |
| Malamulele East Jerome water (Xigalo Villages) | Contractor has been terminated due to poor workmanship | 8 681 732 | 8 681 732 |
| Thohoyandou Block R & K extension water reticulation | Project has been delayed due to heavy rainfall and due to lockdown by COVID-19 | 5 594 009 | 5 594 009 |
| Upgrading and construction of water reticulation system at Maungani East Villgae | Project has been delayed due to heavy rainfall and due to lockdown by COVID-19 | 5 963 685 | 5 963 685 |
| Xikundu Mhinga Water Reticulation | Project was stalled to insuffiecient bulk water supply. Municipality currently atteding to the bulk supply projects including pump stations | 74 932 591 | - |

# Notes to the Annual Financial Statements

Figures in Rand

## 9. Intangible assets

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 20 659 327 | (14 203 854) | 6 455 473 | 19 478 892 | (12 208 711) | 7 270 181 |

**Reconciliation of intangible assets - 2023**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software, other | 7 270 181 | 1 180 435 | (1 995 143) | 6 455 473 |

**Reconciliation of intangible assets - 2022**

| | Opening balance | Amortisation | Total |
|---|---|---|---|
| Computer software, other | 9 182 978 | (1 912 797) | 7 270 181 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

## 10. Other Financial liabilities

| | | |
|---|---|---|
| **At amortised cost** | | |
| Department of Water and Sanitation | 44 933 747 | 9 771 656 |
| Makhado Local Municipality | 9 881 800 | 33 881 800 |
| Mopani District Municipality | 58 000 000 | 46 400 000 |
| Lepelle Northern Water Board | 99 719 730 | - |
| **Total other financial liabilities** | **212 535 277** | **90 053 456** |

| | | |
|---|---|---|
| **Non-current liabilities** | | |
| Lepelle Northern Water Board | 99 719 730 | - |
| Mopani District Municipality | 46 400 000 | 46 400 000 |
| | **146 119 730** | **46 400 000** |

| | | |
|---|---|---|
| **Current liabilities** | | |
| Mopani District Municipality | 11 600 000 | - |
| Department of Water and Sanitation | 44 933 747 | 9 771 656 |
| Makhado Local Municipality | 9 881 800 | 33 881 800 |
| | **66 415 547** | **43 653 456** |

Vhembe District Municipality has an agreement with Makhado Local Municipality to pay of the debts in monthly installments of R3 000 000.

Vhembe District Municipality has agreed to pay R3 866 666.67 to Mopani District Municipality as and when Vhembe District Municipality receive equitable share until the capital sum of R58 000 000 is paid in full. interest will be frozen for the period of settlement and will be written off after full capitl amount is paid.

**Net amountof Other Financial liabilities (Musina Local Municipality) set off against Receivables from non-exchange transactions**

| | | |
|---|---|---|
| Gross amount payable to Musina Local municipality before offsetting | 336 049 152 | 309 174 358 |
| Gross amount set off | (336 049 152) | (309 174 358) |
| | - | - |

Vhembe District Municipality and Musina Local Municipality agreed to offset both amounts receivable and payable to each municipality for existing and future balances and disclose the net amount receivable or payable to each respective municipality in term of GRAP 104 paragraph 92 to 100.

## 11. Payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 120 174 691 | 111 509 774 |
| Payments received in advanced | 49 418 757 | 66 336 504 |
| Retention | 239 226 891 | 203 491 822 |
| Accrued expense | - | 30 594 637 |
| Accrued bonus | 14 386 977 | 12 808 623 |
| Other payables | 367 262 | 2 390 503 |
| Unallocated deposits | 24 653 527 | 22 047 103 |
| Defered revenue from water connections | 10 978 435 | 11 059 773 |
| | **459 206 540** | **460 238 739** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

## 12. Transfers payable (non-exchange)

| | | |
|---|---|---|
| Transfers payable | 2 086 000 | 2 086 000 |

The amount relates to DisasterRelied Grant which VDM received during 2019/20 financial year for COVID 19 purposes which ended up not being used. An application for roll over of the grant was not approved by National treasury. Since the Grant was not approved National treasury has not yet withdrawn the amount of R2 086 000.

## 13. Consumer deposits

| | | |
|---|---|---|
| Water | 4 409 170 | 4 409 170 |

## 14. Unspent conditional grants and receipts

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

| | | |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| Municipal Infrastructure Grant | 23 517 704 | - |
| Water Services Infrastructure Grant | 17 668 820 | 12 847 110 |
| Expanded Public Works Programme Integrated Grant | 229 947 | - |
| Rural Road Asset Management Systems Grant | - | 115 013 |
| | **41 416 471** | **12 962 123** |

**Movement during the year**

| | | |
|---|---|---|
| Balance at the beginning of the year | 12 962 122 | 47 999 695 |
| Additions during the year | 663 404 000 | 597 498 000 |
| Income recognition during the year | (625 252 651) | (584 535 877) |
| Offset by National Treasury | (9 697 000) | (45 913 695) |
| Unapproved roll over not yet offset by National treasury transferred to Taxes and transfers payable (non-exchange) | - | (2 086 000) |
| | **41 416 471** | **12 962 123** |

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 27 for reconciliation of grants from National/Provincial Government.

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

### 15. Provisions

**Reconciliation of provisions - 2023**

| | Opening Balance | Additions | Utilised during the year | Change in discount factor | Reduction due to re-measurement or settlement without cost to entity | Total |
| --- | --- | --- | --- | --- | --- | --- |
| Leave provision | 66 647 216 | 5 571 918 | (4 199 164) | - | - | 68 019 970 |
| Performance bonus | 91 138 | - | - | - | - | 91 138 |
| Long service award | 8 989 599 | 1 086 491 | (3 882 658) | 768 295 | 3 194 213 | 10 155 940 |
| | **75 727 953** | **6 658 409** | **(8 081 822)** | **768 295** | **3 194 213** | **78 267 048** |

**Reconciliation of provisions - 2022**

| | Opening Balance | Additions | Utilised during the year | Change in discount factor | Reduction due to re-measurement or settlement without cost to entity | Total |
| --- | --- | --- | --- | --- | --- | --- |
| Leave provision | 67 607 472 | 2 397 230 | (3 357 486) | - | - | 66 647 216 |
| Performance bonus | 91 138 | - | - | - | - | 91 138 |
| Long service award | 9 367 575 | 3 779 367 | (4 169 023) | 604 362 | (592 682) | 8 989 599 |
| | **77 066 185** | **6 176 597** | **(7 526 509)** | **604 362** | **(592 682)** | **75 727 953** |

| | 2023 | 2022 |
| --- | --- | --- |
| Non-current liabilities | 7 498 755 | 7 604 242 |
| Current liabilities | 70 768 293 | 68 123 711 |
| | **78 267 048** | **75 727 953** |

**Leave provision**

Employee entitlement to annual leave is recognised when it accrues. A provision is made on the estimated liability for annual leave as a result of services rendered by employees up on the amount of the obligations. Provisions at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it no longer probable that an outflow of resources embodying economics benefits or services potential will be required to settle the obligation.

**Performance Bonus provision**

The provision relate to performance bonuses that were provided for in prior years based on performance agreements for which it is still probable that there will be economic outflows for the municipality as at current financial year end.

**Long Service Award provisions**

Benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. The leave days awarded have been converted to a percentage of annual salary to the next interval by allowing for future growth. The key assumptions used are the discount rate of 9.76%, CPI of 4.96%, salary increase rate of 5.96% which gave us a net discount rate of 3.59%, average retirement age of 63, withdrawal rates and ill health and other early termination rates were determined according to age groups.

### 16. Service charges

| | 2023 | 2022 |
| --- | --- | --- |
| Water and Waste Water | 746 265 505 | 515 078 064 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

## 17. Interest on Investments

| | | |
|---|---|---|
| **Interest revenue** | | |
| Bank accounts | 28 590 547 | 10 505 963 |

## 18. Sales of Goods and Rendering of Services

| | | |
|---|---|---|
| Clearance Certificates | 364 301 | 332 292 |
| Tender Documents | 277 675 | 341 289 |
| Fire Services | 305 573 | 298 351 |
| Recycling of Waste | 13 703 | 4 501 |
| | **961 252** | **976 433** |

## 19. Operational revenue

| | | |
|---|---|---|
| Skills Development Levy Refund | 29 025 | 1 439 005 |
| Commission and collection charges | 24 114 | 26 558 |
| Transaction handling fees | - | 316 |
| Breakages and Losses recovered | 130 | 974 |
| | **53 269** | **1 466 853** |

## 20. Rental of facilities and equipment

| | | |
|---|---|---|
| **Premises** | | |
| Premises | 942 | - |

## 21. Interest on Receivables

| | | |
|---|---|---|
| Interest on Receivables | 83 200 031 | 48 535 502 |

## 22. Licences and permits

| | | |
|---|---|---|
| Health Certificates | 442 | 5 945 |

## 23. Reversal of doubtful debts impairment provision

## 24. Gain on disposal of assets

| | | |
|---|---|---|
| Gain on disposal of assets | - | 2 029 996 |

## 25. Licences and permits (non-exchange)

| | | |
|---|---|---|
| Market Porters | 270 785 | 371 517 |

## 26. Reversal of VBS impairment provision

| | | |
|---|---|---|
| Reversal of VBS impairment provision | - | 22 146 983 |

## Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

### 27. Government grants & subsidies

| | | |
|---|---|---|
| **Operating grants** | | |
| Equitable share | 1 276 805 169 | 1 134 220 947 |
| Municipal Infrastructure Grant | 20 511 479 | 6 816 632 |
| Water Services Infrastructure Grant | 5 125 842 | - |
| Expanded public works programme grant | 4 524 052 | 2 245 001 |
| Rural Road Asset Management Systems Grant | 2 406 998 | 2 183 987 |
| Financial management grant | 3 000 000 | 2 900 000 |
| | **1 312 373 540** | **1 148 366 567** |

| | | |
|---|---|---|
| **Capital grants** | | |
| Municipal Infrastructure Grant | 549 213 817 | 539 237 368 |
| Water services infrastructure grant | 40 470 461 | 31 152 890 |
| National Departmental Agencies: Banking SETA | 954 660 | - |
| | **590 638 938** | **570 390 258** |
| | **1 903 012 478** | **1 718 756 825** |

**Conditional and Unconditional**

Included in above are the following grants and subsidies received:

| | | |
|---|---|---|
| Conditional grants with conditions met | 625 252 649 | 584 535 878 |
| Unconditional grants received | 1 277 759 829 | 1 134 220 947 |
| | **1 903 012 478** | **1 718 756 825** |

**Municipal Infrastructure Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 29 291 939 |
| Current-year receipts | 593 243 000 | 546 054 000 |
| Conditions met - transferred to revenue | (569 725 296) | (546 054 000) |
| Offset by National Treasury | - | (29 291 939) |
| | **23 517 704** | **-** |

Conditions still to be met - remain liabilities (see note 14).

Municipal Infrastructure Grant is used for the provision of capital finance for the eradication of basic municipal infrastructure backlogs for poor households and social infrastructure servicing the poor and provide finding for the development of asset management plans for infrastructure servicing the poor.

**Water Services Infrastructure Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 12 847 110 | 16 226 307 |
| Current-year receipts | 60 000 000 | 44 000 000 |
| Conditions met - transferred to revenue | (45 596 303) | (31 152 890) |
| Offset by National Treasury | (9 581 987) | (16 226 307) |
| | **17 668 820** | **12 847 110** |

Conditions still to be met - remain liabilities (see note 14).

Water Service Infrastructure Grant facilitates the planning and implementation of various water and sanitation projects to accelerate backlog reduction and enhance the sustainability of services.

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

## 27. Interest from non-exchange receivables (continued)

### Financial Management Grant

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 250 181 |
| Current-year receipts | 3 000 000 | 2 900 000 |
| Conditions met - transferred to revenue | (3 000 000) | (2 900 000) |
| Offset by National Treasury | - | (250 181) |
| | - | - |

Conditions still to be met - remain liabilities (see note 14).

Local Government Finance Management Grant is used to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management act.

### Expanded Public Works Programme

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 145 268 |
| Current-year receipts | 4 754 000 | 2 245 000 |
| Conditions met - transferred to revenue | (4 524 053) | (2 245 000) |
| Offset by National Treasury | - | (145 268) |
| | **229 947** | - |

Conditions still to be met - remain liabilities (see note 14).

Expanded Public Works Programme is used to expand work creation efforts through the use of labour-intensive delivery methods..

### Rural Road Asset Management Systems Grant

| | | |
|---|---|---|
| Balance unspent at beginning of year | 115 013 | - |
| Current-year receipts | 2 407 000 | 2 299 000 |
| Conditions met - transferred to revenue | (2 407 000) | (2 183 987) |
| Offset by National Treasury | (115 013) | - |
| | - | **115 013** |

Conditions still to be met - remain liabilities (see note 14).

Rural Roads Asset Management Systems Grant assists the district municipalities to set-up rural roads and asset management systems and collect road, bridges and traffic data on municipal road networks

### Municipal Disaster Relief Grant

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 2 086 000 |
| Transferred to taxes and transfers payable (non-exchange) | - | (2 086 000) |
| | - | - |

Conditions still to be met - remain liabilities (see note 14).

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

## 28. Employee related costs

| | | |
|---|---|---|
| Basic salary | 431 236 509 | 417 923 850 |
| Pension | 74 290 172 | 70 633 944 |
| Overtime | 78 138 415 | 72 323 210 |
| Bonus | 34 292 524 | 32 075 996 |
| Car allowance | 37 427 942 | 33 622 276 |
| Medical aid | 20 603 454 | 19 592 394 |
| Travel, motor car, accommodation, subsistence and other allowances | 561 781 | 1 136 104 |
| Housing benefits and allowances | 6 890 290 | 7 283 218 |
| Standby Allowance | 1 239 835 | 1 393 680 |
| Leave pay provision charge | 5 914 907 | 2 397 231 |
| Long-service awards | 5 048 999 | 3 791 049 |
| UIF | 3 121 755 | 3 146 695 |
| Cellular Allowances | 347 401 | 334 600 |
| Social Contributions:Bargaining Council | 168 272 | 170 193 |
| Uniform and protective clothing | 113 206 | 84 905 |
| | **699 395 462** | **665 909 345** |

### Remuneration of municipal manager

| | | |
|---|---|---|
| Annual Remuneration | 355 463 | 923 280 |
| Contributions to UIF, Medical and Pension Funds | 64 824 | 237 591 |
| Car Allowance | 112 397 | 301 116 |
| Performance Bonuses | 25 647 | 76 940 |
| Housing Allowance | 655 | 31 499 |
| Leave pay | 48 010 | - |
| | **606 996** | **1 570 426** |

Municipal manager T.S Ndou contracted expired on 8 November 2022.

Mrs M Tshivhinda acted as a municipal manager from 9-14 November 2022, Thereafter Mr N.C Tshikovha acted as the municipal manager from 15 November 2022 to 31 May 2023. Ms M Thangavhuelelo acted as municipal manager from 1 June 2023 to 30 June 2023.

The municipality apointed Mr. ZN Kutama as the municipal manager from 1 July 2023.

### Remuneration of chief finance officer

| | | |
|---|---|---|
| Annual Remuneration | 802 660 | 754 736 |
| Contributions to UIF, Medical and Pension Funds | 203 906 | 203 227 |
| Car Allowance | 269 002 | 233 807 |
| Bonus | 62 895 | 62 895 |
| Accommodation Travel and Incidental | 975 | - |
| Cellular allowance | 24 000 | 24 000 |
| Acting allowance | 14 046 | - |
| | **1 377 484** | **1 278 665** |

### Remuneration of General Manager Technical Services

| | | |
|---|---|---|
| Annual Remuneration | 801 997 | 691 842 |
| Car Allowance | 230 490 | 203 613 |
| Contributions to UIF, Medical and Pension Funds | 220 332 | 196 689 |
| Cellular allowance | - | 2 000 |
| Non-pensionable allowance | - | 4 442 |
| Bonus | 57 653 | - |
| | **1 310 472** | **1 098 586** |

| Figures in Rand | 2023 | 2022 |
|---|---|---|

### 28. Employee related costs (continued)

**Remuneration of General Manager Economic And Development Planning**

| | | |
|---|---|---|
| Annual Remuneration | 754 561 | 754 736 |
| Contributions to UIF, Medical and Pension Funds | 126 989 | 137 978 |
| Bonus | 63 838 | 115 307 |
| Car Allowance | 119 468 | 94 860 |
| Accommodation Travel and Incidental | 1 722 | 32 203 |
| Cellular Allowance | 22 000 | 24 000 |
| Housing Benefits | 187 076 | 198 098 |
| Leave pay | 61 285 | - |
| | **1 336 939** | **1 357 182** |

General manager economic and development planning Mrs M Tshivhinda contract ended on 30 April 2023.

Mr S.S Daswa was appointed acting general manager economic and development planning from 1 May 2023.

**Remuneration of General Manager Corporate Services**

| | | |
|---|---|---|
| Annual Remuneration | 807 152 | 924 498 |
| Contributions to UIF, Medical and Pension Funds | 168 998 | 168 167 |
| Car Allowance | 250 571 | 222 121 |
| Bonus | 63 838 | 62 895 |
| Accommodation Travel and Incidental | 1 709 | 1 021 |
| Acting Allowance | 67 340 | - |
| | **1 359 608** | **1 378 702** |

**Remuneration of General Manager Community Services**

| | | |
|---|---|---|
| Annual Remuneration | 641 140 | - |
| Contributions to UIF, Medical and Pension Funds | 140 970 | 177 |
| Car Allowance | 247 937 | - |
| Accommodation Travel and Incidental | 960 | - |
| | **1 031 007** | **177** |

### 29. Remuneration of councillors

| | | |
|---|---|---|
| Councillors | 7 517 006 | 8 537 081 |
| Mayoral Committee Members | 4 655 110 | 3 082 298 |
| Executive Mayor | 979 527 | 903 190 |
| Speaker | 793 385 | 730 219 |
| Chief Whip | 748 757 | 687 132 |
| | **14 693 785** | **13 939 920** |

### 30. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 184 179 859 | 190 651 887 |
| Intangible assets | 1 995 143 | 1 912 797 |
| | **186 175 002** | **192 564 684** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

## 31. Impairment loss

| | | |
|---|---|---|
| **Impairments** | | |
| Property, plant and equipment | 7 366 579 | 8 357 894 |
| Receivables from exchange transactions | 831 886 357 | 565 487 086 |
| | **839 252 936** | **573 844 980** |

## 32. Contracted services

| | | |
|---|---|---|
| **Outsourced Services** | | |
| Business and Advisory | 9 071 313 | 13 895 321 |
| Personnel and Labour | 10 399 542 | 12 353 450 |
| Administrative and Support Staff | 4 966 750 | 2 597 001 |
| Hygiene Services | 8 147 999 | - |
| Transport Services | 643 975 | 258 531 |
| Researcher | 86 957 | - |
| **Consultants and Professional Services** | | |
| Legal Cost | 48 820 059 | 29 555 017 |
| Business and Advisory | 37 648 315 | 12 494 815 |
| Laboratory Services | 1 356 931 | 2 478 335 |
| Infrastructure and Planning | 721 323 | 886 105 |
| **Contractors** | | |
| Event Promoters | 40 000 | - |
| Maintenance of Equipment | 100 587 148 | 170 733 487 |
| Maintenance of Unspecified Assets | 3 431 191 | 2 334 985 |
| Catering Services | 3 924 050 | 2 462 916 |
| Maintenance of Buildings and Facilities | 1 846 860 | 1 099 569 |
| | **231 692 413** | **251 149 532** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

## 33. Operational expenses

| | | |
|---|---|---|
| Assessment rates & municipal charges | 80 624 032 | 92 323 567 |
| Fuel and oil | 14 867 006 | 13 964 281 |
| License | 772 995 | 1 249 286 |
| Subscriptions and membership fees | 7 388 495 | 6 813 494 |
| Auditors remuneration | 7 287 730 | 6 822 660 |
| Telephone and fax | 5 999 953 | 5 787 199 |
| Insurance | 3 697 893 | 2 843 099 |
| Skills Development Fund Levy | 4 049 538 | 5 597 717 |
| Mayors Bursary Fund | 3 398 308 | 1 775 899 |
| Accommodation | 3 295 631 | 1 590 996 |
| IT expenses | 2 908 374 | 1 577 238 |
| Protective clothing | 6 226 681 | 3 107 560 |
| Advertising | 2 798 270 | 2 172 587 |
| Achievements and Awards | 483 750 | 686 371 |
| Travel - local | 973 755 | 267 116 |
| Bank charges | 366 275 | 458 343 |
| Hire Charges | 281 839 | 234 909 |
| Transport and freight | 378 556 | 414 445 |
| Conferences and seminars | 1 272 525 | 1 542 444 |
| Printing and stationery | 68 688 | 244 113 |
| Entertainment | 31 025 | 16 763 |
| Assets less than the Capitalisation Threshold | 22 539 702 | 182 271 |
| Copy Right Fees | 8 005 | - |
| Postage and courier | 6 965 | 4 188 |
| Water related services expenditure | 23 369 386 | 23 449 976 |
| | **193 095 377** | **173 126 522** |

## 34. Inventory consumed

| | | |
|---|---|---|
| Water | 177 983 143 | 110 928 162 |
| Consumable stores | 31 640 154 | 10 776 815 |
| Materials and supplies | 4 204 852 | 3 232 582 |
| | **213 828 149** | **124 937 559** |

## 35. Lease rentals on operating lease

| | | |
|---|---|---|
| **Premises** | | |
| Contingent amounts | 1 654 991 | 2 025 409 |
| **Machinery and Equipment** | | |
| Contractual amounts | 1 671 275 | 1 272 522 |
| | **3 326 266** | **3 297 931** |

## 36. Finance costs

| | | |
|---|---|---|
| Trade and other payables | 2 565 578 | 93 425 |

## 37. Transfer and subsidies

| | | |
|---|---|---|
| **Other subsidies** | | |
| Capacity Building and Other | 400 000 | 888 396 |

## 38. Inventories losses / write-downs

| | | |
|---|---|---|
| Inventories losses / write-downs | - | (1 061 073) |

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

## 39. Cash generated from operations

| | 2023 | 2022 |
|---|---|---|
| Surplus | 370 907 777 | 312 376 976 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 186 175 002 | 192 564 684 |
| Gain on foreign exchange | - | (2 029 996) |
| Impairment loss | 839 252 936 | 573 844 980 |
| Reversal of VBS impairment provision | - | (22 146 983) |
| Movement in provisions | 2 539 095 | (1 338 232) |
| **Changes in working capital:** | | |
| Inventories | 9 401 165 | 7 128 196 |
| Statutory receivables - VAT | (20 713 343) | 6 278 386 |
| Receivables from exchange transactions | (848 270 806) | (590 204 414) |
| Receivables from non-exchange transactions | (7 327 899) | 277 797 702 |
| Payables from exchange transactions | (1 032 217) | 143 926 887 |
| Taxes and transfers payable (non-exchange) | - | (43 010 952) |
| Unspent conditional grants and receipts | 28 454 348 | (35 037 572) |
| | **559 386 058** | **820 149 662** |

## 40. Water losses

| | 2023 | 2022 |
|---|---|---|
| Water | 363 519 232 | 409 593 780 |

**Water losses**

| | 2023 | 2022 |
|---|---|---|
| Apparent losses: Unauthorised consumption | 363 519 232 | 409 593 780 |

| | Number 2023 | Number 2022 | | |
|---|---|---|---|---|
| Units purchased | 139 278 234 | 115 051 362 | 802 677 868 | 657 899 541 |
| Units sold | (76 140 508) | (43 877 288) | (439 037 463) | (250 761 958) |
| **Total** | **63 137 726** | **71 174 074** | **363 640 405** | **407 137 583** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

## 41. Contingent liabilities

| | | |
|---|---|---|
| Capstain Trading 215 CC | 608 660 | 608 660 |
| Getrusburg Community Property Association | 17 375 599 | 17 375 599 |
| Mmbudzeni Given mavhunga | 1 350 000 | 1 350 000 |
| Tricks Wrought Iron Services (Pty) Ltd | 1 419 870 | 1 419 870 |
| Luvhengo LV OBO Minors | 490 000 | 490 000 |
| Stricking Force | - | 7 697 711 |
| Nevondo Azwihangwisi Andries | 2 000 000 | 2 000 000 |
| Tinyiko Manganyi OBO Manganyi Andile | 4 100 000 | 4 100 000 |
| Tshwane Trading | 595 650 | 595 650 |
| K. T. Ntsikazi | 3 708 956 | 3 708 956 |
| Department of Water and Sanitation (DWS) | 929 353 925 | 929 353 925 |
| Stan South Financial and Investment Services cc | 11 644 558 | 11 644 558 |
| Hermans Truck Accident Repairs (Pty) Ltd | - | 142 843 |
| Risimati Christopher Mabasa | 35 708 | 35 708 |
| BMK Electronics | 3 899 792 | 3 899 792 |
| Johan Van Der Horst | 514 158 | 514 158 |
| Tshavhungwe Tshambiluni Godfrey | 780 000 | 780 000 |
| Phuluwa Thinashaka Reuben | 3 560 000 | 3 560 000 |
| Molozi Trust | 703 756 | 703 756 |
| Simunye Vehicles and asset Management | 81 184 | 81 184 |
| Thivhakoni Rosina Modau | 570 000 | 570 000 |
| Joyce and Tiny Sibongile Madala | 3 500 000 | 3 500 000 |
| Nndwakhulu Victor Ramabulana | 4 730 000 | 1 000 000 |
| Kurima JV Projects | 1 034 335 | 1 034 335 |
| Sharon Pipeline | 2 488 975 | - |
| TELKOM SOC Limited | 1 630 870 | - |
| Nditshe Community | 349 184 | - |
| Belta Services Pty (Ltd) | 5 139 559 | - |
| Farisani Ndiitwani | 151 500 | - |
| MLK Engineering | 24 557 083 | - |
| | **1 026 373 322** | **996 166 705** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

**41. Contingent liabilities (continued)**

1. CAPSTAN TRADING 215 CC
Capstain Trading is litigating against the Municipality and is disputing the validity of a cession that is purported to have been signed between the Capstan as the cedar and the third party. On the strength of the cession agreement the Municipality paid the third party an amount of R608 660 (2022: R608 660). The Municipality is defending the case. The plaintiff has since made an application for a set-down to be heard on the 5th of May 2023, in the High Court in Thohoyandou.

2. GETRUSBURG COMMUNITY PROPERTY ASSOCIATION
The Association is suing the Makhado Municipality for R17 375 599 (2022: R17 375 599) for drawing borehole water from its premises without consent. Makhado Municipality has joined VDM as a Water Services Authority. The Municipality is defending the case.

3. MMBUDZENI GIVEN MAVHUNGA
Mbudzeni Given Mavhunga is alleging that he fell into a ditch that was not covered and he has sustained some injuries. He is therefore suing the Municipality an amount of R1 350 000 (2022: R1 350 000) for negligence. The Municipality is defending the matter.

4. TRICKS WROUGHT IRON SERVICES PTY (LTD)
Tricks Wrought instituted a claim of R1 419 871 (2022: R1 419 871) due to the Municipality for not honoring a cession agreement. Ratakuwa Concrete cc have also acknowledged that they were paid the abovementioned amount though it was not due to them. The Municipality is disputing the claim.

5. LUVHENGO LV OBO MINORS
Ms Luvhengo Lydia Vhonani has instituted action against the Municipality in that the biological father of her two minor children has passed away due to the negligence of the Vhembe District Municipality. Ms Luvhengo is suing for R490 000 (2022: R490 000). The alleged biological father was killed when a water tank fell on him. The Municipality is defending the case.

6. SHARON PIPELINE SPECIALISTS
Sharon pipeline is litigating against the municipality as they are alleging that they have provided services and has not been paid. Sharon is suing the municipality for an amount of R2 488 975.22. The municipality is defending the case. The case is still pending.

7. NEVONDO AZWIHANGWISI ANDRIES
Mr Nevondo Azwihangwisi Andries is claimimng that the Municipality is owing him an amount of R2 000 000 (2022: R2 000 00) for pension. The Municipality is defending the matter.

8. TINYIKO MANGANYI OBO MANGANYI ANDILE
Tinyiko has instituted a claim against the municipality alleging that there were bodily injuries sustained due negligence by the municipality. She is suing the municipality for an amount of R4 100 000 (2022: R4 100 000).

9. TSWANE TRADING
Konani has instituted a claim against the Municipality as they alleged that they have suffered damages as a result of the municipality failing to comply with the training agreement that was concluded. The claim amount is. R595 650 (2022: R595 650)

10. Minister of Water and Sanitation
The Department of Water and Sanitation is suing the Municipality for R923 202 894 and R6 150 998 and 33 (929 353 925) for water that has not been paid by the District as per received summonses. The Municipality is however, defending the case as it cannot agree with the figure as it was based on estimation. It should however be noted that in 2016 Vhembe District Municipality was owing the Department an amount of R307 083 113 (Three hundred and seven million, Eighty-three thousands, One hundred and twelve rands, and sixty-seven cents) as per the summonses served by A A Solwandle Attorneys, the Department of Water and Sanitation's attorney of record.

The Municipality is defending the matter and has so far filed a Notice of Objection and on 22 August 2023, the matter will be heard in Polokwane High Court.

11. STAN SOUTH FINANCIAL AND INVESTMENT SERVICES CC.
Stan South Financial and Investment Services are claiming for the work done. They are claiming R11 644 558 (2022: R11 644 558). The Municipality is defending the case.

12. HERMANS TRUCK ACCIDENT REPAIRS (PTY) LTD

## Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

**41. Contingent liabilities (continued)**
Hermans Truck Accident Repairs (PTY) LTD has instituted a claim against Vhembe District Municipality for not paying them an amount of R142 843 (2022: R142 843). This amount is for towing and storage.

13. RISIMATI CHRISTOPHER MABASA
Risimati Christopher Mabasa has instituted a claim against the Municipality in that his vehicle was involved in an accident that in which he claims that it was caused by the vehicle of the Municipality claiming R35 108 (2022: R35 108). The Municipality is defending the matter.

14. BMK ELECTRONICS
BMK Electronics are suing the Municipality a lump sum of R3 899 782 (2022: R3 899 782) for the work done. The Municipality is defending the case.

15. JOHAN VAN DER HORST
Johan Van der Horst is litigating against the municipality as he alleges that he has lost his house due to fire as a result of negligence by municipality fire officials and their non-response on this particular case. He is claiming an amount of R514 158 (2022: R514 158) as the value of the burnt house,furniture and clothing. The municipality is defending the case.

16. TSHAVHUNGWE TSHAMBILUNI GODFREY
Vhembe District Municipality has received summons from Tshavhungwe Tshimbiluni Godfrey claiming R780 000 (2022: R780 000) for moving and reburial of the graves and the remains found in the Davhana Traditional area, compensation for a portion occupied by water lines and for damages in respect of pain and emotional suffering. The Municipality is defending the matter.

17. PHULUWA THINASHAKA REUBEN
Phuluwa Thinashaka Reuben is claiming that he sent summons to the Municipality claimimg an amount of R3 560 000 (2022: R3 560 000). The municipality is defending the matter.

18. MOLOZI TRUST
Molozi Trust is claiming that there is an agreement that the Vhembe District Municipality will pay for the servitude that is in the name of the trust. They are requesting payment of R703 756 (2022: R 703 756).

19. FARISANI NDIITWANI
She issued summons to the tune of R151 500 in that her car sustained damages as a results of a pothole on the road.

20. SIMUNYE VEHICLES AND ASSET MANAGEMENT
The Simunye vehicle was in an accident as a result of a pothole and the applicant is suing the Municipality for the amount of R81 184 (2022: R81 184) excluding interest and cost of suit.

21. THIVHAKONI ROSINA MODAU
Rosina Modau is instituting an action in that her Son was involved in an accident which allegedly caused his death due to the negligence of the apparent negligence of the Vhembe District Municipality who did not repair the road that was cut. He lost control and overturn his car and sustained injuries. The Municipality is defending the matter.

22. JOYCE AND TINY SIBONGILE MADALA
The applicants are claiming R3 500 000 (2022: R3 500 000) for emotional shock in that there has been a sewer blockage causing leaks in their house. The Municipality is defending the matter.

23. NNDWAKHULU VICTOR RAMABULANA
The applicant is alleging that he fell into the ditch and sustained a fracture on his leg and he is now claiming R4 730 000 (2022: R1 000 000). The Municipality is defending the matter..

24. KURIMA JV PROJECTS CC
The company is claiming an amount of R1 034 335 (2022: R1 034 335) for the work done. The Municipality is defending the matter.

25. K.T NSIKAZI.COM
Nsikazi is litigating against the municipality as they allege that they had leased the municipality IT hardware materials which upon expiry of the contract were never returned to them. They are claiming an amount of R3 708 956 (2022: R3 708 956) being the value of items in possession of the municipality. The municipality is defending the case.

26. STRICKING FORCE

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

## 41. Contingent liabilities (continued)

Stricking Force company was appointed to do maintenance work in the Makhado Municipal area. The company submitted invoices to the Municipality and they were not paid as per their expectation. Their invoices amounted to R7 697 711 (2022: R7 697 711). The engagements are still going on as to finalise the matter.

27. MLK ENGINEERING
MLK Engineering is claiming an amount of R24 557 083 for the work done. The Municipality has since agreed during negotiations to pay after doing inspection in loco and verification of the amount on the invoices. The money to be paid in installments as a results of out of court settlement.

28. TELKOM SOC
Telkom is claiming the amount of R1 630 870 as an amount for service rendered. Vhembe is disputing the facts and therefore defending the matter.

29. RISIMATI THOMAS SIMANGO
Risimati Thomas Simango claims that he has been unfairly distributed of his pension. He appointed his attorney to investigate the matter but the attorney has since disappeared after Vhembe had invited him to come and engage.

30. NEMAGUVHUNI MASHUDU GOLDE
He is claiming compensation from Vhembe due to fire that broke out at his home whe he is alleging that his entire house was completely burnt to ashes. The case is still pending further investigation.

31. NDITSHE COMMUNITY DEVELOPMENT CONSULTANTS
The plaintiff is laying claim to the main contractor but sighted Vhembe as the third defendant, claiming that he has not been paid for his sub-contract responsibility by the first defendant, who is REMBU CONSTRUCTION CC. The case is still pending.

32. BELTA SERVICES PTY (LTD)
Belta is claiming for services rendered. The case is awaiting the appointment of a legal representative.

33. HOME OBLIGORS MORTGAGE ENHANCED SECURITIES Pty Ltd
The case is about mortgage default and it is not affecting Vhembe directly as we are cited as the plaintiff because we stand to be compensated for water usage by the defendant. In essence, the defendant owes the municipality water rates. Still pending.

34. PHALANDWA EDZISANI/NYAMBENI FRANS
Nyambeni Frans has instituted a claim against the Municipality as he alleges that the water tanker collided with his car at the time of accident. No letter of demand sent as yet.

35. COLBERT MUGIVHISA
Colbert Mugivhisa has closed and barricaded the entrance of the site where the Municipality is busy with construction of a water reservoir at Mashau Village. He is claiming that the Municipality is constructing on his land without consent.

## 42. Contingent assets

| | 2023 | 2022 |
|---|---|---|
| ESSOR INSURANCE | 1 200 000 | - |

The Vhembe District Municipality is suing Essor as they don't want to pay insurance money for the work that was not finished by the contractor. The case is still pending.

| Figures in Rand | 2023 | 2022 |
|---|---|---|

### 43. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Property, plant and equipment | 703 128 602 | 600 759 422 |
| | | |
| **Total capital commitments** | | |
| Already contracted for but not provided for | 703 128 602 | 600 759 422 |

**Authorised operational expenditure**

| | | |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • ICT | - | 15 353 325 |
| • Supply of trucks and tractors | 14 003 505 | - |
| • Repairs and maintenance | 19 316 836 | 6 044 711 |
| • Provision of professional services | - | 6 446 085 |
| • Supply of uniforms and protective clothes | 900 100 | 3 234 730 |
| • Training census | - | 2 052 355 |
| • Provision of vehicles | - | 1 934 967 |
| • Development and review water safety plan | 1 887 000 | - |
| • Supply of underground water pipeline detectors | 1 299 982 | - |
| • Supply of material | - | 1 049 760 |
| • Site demacation | - | 1 024 219 |
| • Business processing re-engineering | 948 000 | - |
| • Develop operation and maintenance manual for Rietvlei wastewater treatment works | 890 755 | - |
| • Office equipment | - | 781 593 |
| • Unblock sewer between uif Building and kismat,Tile Africa Dunlop | 1 864 254 | - |
| • Development of fraud and corruption hotline for a period of 36 months | 1 772 568 | - |
| • Virtual Private Network (VPN) | - | 522 679 |
| • Reviewing agriculture development strategy | 454 710 | - |
| • Window Blinds at Vhembe District Municipality Head Office | 102 000 | - |
| • Accommodation and meals | - | 57 464 |
| • Wall posters colour:full colour size :A1 weight :135 g gloss | 51 500 | - |
| • Provision of Advertisements | 40 106 | 41 400 |
| • Printing of council resolutions and rules of orders for council meeting | 38 000 | - |
| • Office software | 32 775 | - |
| • Law enforcement cards of 27 environmental health practitioners | 4 050 | - |
| • GIS Strategy implementation over a period of 36 months | 8 573 675 | - |
| • Server Virtualisation Maintenance and Backup for the period of 36 months | 1 827 120 | - |
| • Compliance Management system for local government | 1 000 000 | - |
| • Appointment of term contract for compilation of fixed assets | 750 000 | 5 693 880 |
| • Renewal of network security cyberoam and upgrade cr series to XG series | 110 400 | - |
| | **55 867 336** | **44 237 168** |
| | | |
| **Total operational commitments** | | |
| Already contracted for but not provided for | 55 867 336 | 44 237 168 |

**Total commitments**

| | | |
|---|---|---|
| **Total commitments** | | |
| Authorised capital expenditure | 703 128 602 | 600 759 422 |
| Authorised operational expenditure | 55 867 336 | 44 237 168 |
| | **758 995 938** | **644 996 590** |

**Operating leases - as lessee (expense)**

## Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

### 43. Commitments (continued)

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 3 670 083 | 3 722 675 |
| - in second to fifth year inclusive | 2 226 995 | 5 897 079 |
| | **5 897 078** | **9 619 754** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

## 44. 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**

**2022**

| | Note | As previously reported | Correction of error | Re-classification | Restated |
|---|---|---|---|---|---|
| Inventories | 3 | 37 436 774 | (647 845) | - | 36 788 929 |
| Receivables from exchange transactions | 4 | 2 641 612 | - | 33 067 660 | 35 709 272 |
| Receivables from non-exchange transactions | 5 | 11 093 903 | 21 453 004 | - | 32 546 907 |
| Statutory receivables -VAT | 6 | 270 921 541 | (83 781 092) | - | 187 140 449 |
| Cash and cash equivalents | 7 | 131 872 853 | 20 526 | - | 131 893 379 |
| Property, plant and equipment | 8 | 5 502 932 412 | (3 590 807) | - | 5 499 341 605 |
| Intangible assets | 9 | 7 270 181 | - | - | 7 270 181 |
| Other financial liabilities - Current portion | 10 | (69 881 800) | 36 000 000 | - | (33 881 800) |
| Payables from exchange transactions | 11 | (444 203 017) | 17 031 942 | (33 067 660) | (460 238 735) |
| Taxes and transfers payable (non -exchange) | 12 | (2 086 000) | - | - | (2 086 000) |
| Consumer deposits | 13 | (4 409 170) | - | - | (4 409 170) |
| Unspent conditional grants and receipts | 14 | (12 962 122) | - | - | (12 962 122) |
| Provisions | 15 | (68 123 712) | - | - | (68 123 712) |
| Other financial liabilities -non - current portion | 10 | (1 013 153 230) | 956 981 574 | - | (56 171 656) |
| Provisions -non - current portion | 15 | (7 604 242) | - | - | (7 604 242) |
| Accumulated surplus | | (4 341 745 983) | (943 467 302) | - | (5 285 213 285) |
| | | - | - | - | - |

**Statement of financial performance**

**2022**

| | Note | As previously reported | Correction of error | Re-classification | Restated |
|---|---|---|---|---|---|
| Service Charges | 16 | 515 078 064 | - | - | 515 078 064 |
| Interest revenue | | 59 041 464 | - | (59 041 464) | - |
| Interest in investments | 17 | - | - | 10 505 962 | 10 505 962 |
| Sale of goods and rendering of services | 18 | 976 434 | - | - | 976 434 |
| Operational revenue | 19 | 1 277 071 | 189 782 | - | 1 466 853 |
| Interest on receivables | 21 | - | - | 48 535 502 | 48 535 502 |
| Licences and permits | 22 | 5 945 | - | - | 5 945 |
| Gain on disposal of assets | 24 | 2 029 996 | - | - | 2 029 996 |
| Licences and permits (non-exchange) | 25 | 371 517 | - | - | 371 517 |
| Reversal of VBS impairment provision | 26 | 22 146 983 | - | - | 22 146 983 |
| Government grants and subsidies | 27 | 1 718 756 825 | - | - | 1 718 756 825 |
| Employee related costs | 28 | (672 593 084) | - | - | (672 593 084) |
| Remuneration of councillors | 29 | (13 939 919) | - | - | (13 939 919) |
| Depreciation and amortisation | 30 | (192 564 684) | - | - | (192 564 684) |
| Impairments loss | 31 | (602 497 965) | 28 652 985 | - | (573 844 980) |
| Finance costs | 36 | (93 425) | - | - | (93 425) |
| Lease rentals on operating lease | 35 | (3 297 931) | - | - | (3 297 931) |
| Contracted services | 32 | (254 541 370) | 3 391 838 | - | (251 149 532) |
| Transfers and Subsidies | 37 | (888 396) | - | - | (888 396) |
| Inventories losses/write-downs | 38 | (1 061 073) | - | - | (1 061 073) |
| Inventory consumed | 34 | (114 202 760) | (10 734 799) | - | (124 937 559) |
| Operational expenditure | 33 | (173 154 544) | 28 022 | - | (173 126 522) |
| **Surplus for the year** | | **290 849 148** | **21 527 828** | **-** | **312 376 976** |

### 44.1 Errors

# Notes to the Annual Financial Statements



## 44. Prior-year adjustments (continued)

### 44.1.1 Receivables from non-exchange transactions

VDM is an implementing agent in the Makhado bulk water supply project which is funded by Regional Bulk Infrastructure Grant and transfers are made directly to DWS as the project belong to DWS. VDM incur expenditure and claim the expenditure incurred from DWS. All expenditure incurred on the project VDM records its under suspense control account (DWS-RBIG) under Trade and other receivables from non-exchange transactions. Expenditure amounting to R9 625 765 inclusive of VAT was incorrectly captured in 2021/22 financial year in the suspense control account (DWS-RBIG) and should have not been captured. This resulted in overstatement of Trade and other receivables from non-exchange transactions by R8 370 225, overstatement of Statutory receivable - VAT by R1 255 535 and overstatement of Trade and other payables from exchange transactions by R9 625 765.

In 2022, the ageing for receivables was incorrectly disclosed as it was based on the trial balance instead of the customer age analysis. The net effect of the gross balance is R0.00. Refer to note 4

In 2022, management incorrectly mapped a balance of R9 886 952 as impairment. This led to understatement of gross balance and impairment in the disclosure note by same amount. The impact on the net balance is R0.00. Refer to note 4

### 44.1.2 Statutory VAT receivables

An output VAT amounting to R189 782 from debit note processed against billing of consumer debtors was incorrectly posted to operational revenue in the 2021/22 financial year. This resulted to both Operational revenue and Statutory receivables -VAT being understated by R189 782.

VDM is an implementing agent in the Makhado bulk water supply project which is funded by Regional Bulk Infrastructure Grant and transfers are made directly to DWS as the project belong to DWS. VDM incur expenditure and claim the expenditure incurred from DWS. All expenditure incurred on the project VDM records its under suspense control account (DWS-RBIG) under Trade and other receivables from non-exchange transactions. Expenditure amounting to R9 625 765 inclusive of VAT was incorrectly captured in 2021/22 financial year in the suspense control account (DWS-RBIG) and should have not been captured. This resulted in overstatement of Trade and other receivables from non-exchange transactions by R8 370 225, overstatement of Statutory receivable - VAT by R1 255 535 and overstatement of Trade and other payables from exchange transactions by R9 625 765. .

Expenditure relating to Operational expenditure in the 2021/22 financial year amounting to R28 022 exclusive of VAT was incorrectly recorded and it should have not been recorded. That expenditure was then reversed through credit notes. The error had resulted to an Overstatement of Operational expenditure by R28 022, overstatement of Statutory receivable - VAT by R4 203 and overstatement of Trade and other payables from exchange transactions by R32 225.

Expenditure relating to contracted services in the 2021/22 financial year amounting to R3 391 838 exclusive of VAT was incorrectly recorded and it should have not been recorded. That expenditure was then reversed through credit notes. The error had resulted to an Overstatement of Contracted services by R3 391 838, overstatement of Statutory receivable - VAT by R507 557 and overstatement of Trade and other payables from exchange transactions by R3 899 395.

Vhembe District Municipality incorrectly recognised DWS histrolical amount owed to DWS as a liability in the annual financial statements as the municipality was of the opinion that they are in agreement with DWS with regards to the amount owed. However, VDM and DWS are on an ongoing dispute with regard to the amount VDM is owing DWS as VDM also does not agree on the amount based on approximation. Therefore both disputed capital and interest on amount owed to DWS should have been disclosed as a contingent liability.

This resulted in overstatement of Other financial liabilities by R730 207 212, understatement of Accumulated surplus by R641 951 463 and overstatement of Statutory receivables - VAT by R88 255 749.

Vhembe District Municipality did not record and disclose bulk purchase of water from Mopani District Municipality in the prior years as the municipality did not receive invoices from Mopani District Municipality. Both municipalities engaged and agreed on the amount owed by VDM to MDM. The above non recording and disclosure resulted to understatement of Other Financial liabilities by R46 400 000, overstatement of Accumulated surplus by 30 260 869, understatement of Inventory Consumed by R10 086 957 and understatement of Statutory Receivables - VAT R6 052 174.

Therefore based on the above corrections Statutory receivables -VAT was overstated by R83 781 092.

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
| --- | --- | --- |

## 44. Prior-year adjustments (continued)

### 44.1.3 Trade and other payables from exchange transactions

VDM is an implementing agent in the Makhado bulk water supply project which is funded by Regional Bulk Infrastructure Grant and transfers are made directly to DWS as the project belong to DWS. VDM incur expenditure and claim the expenditure incurred from DWS. All expenditure incurred on the project VDM records its under suspense control account (DWS-RBIG) under Trade and other receivables from non-exchange transactions. Expenditure amounting to R9 625 765 inclusive of VAT was incorrectly captured in 2021/22 financial year in the suspense control account (DWS-RBIG) and should have not been captured. This resulted in overstatement of Trade and other receivables from non-exchange transactions by R8 370 225, overstatement of Statutory receivable - VAT by R1 255 535 and overstatement of Trade and other payables from exchange transactions by R9 625 765.

Expenditure relating to Operational expenditure in the 2021/22 financial year amounting to R28 022 exclusive of VAT was incorrectly recorded and it should have not been recorded. That expenditure was then reversed through credit notes. The error had resulted to an Overstatement of Operational expenditure by R28 022, overstatement of Statutory receivable - VAT by R4 203 and overstatement of Trade and other payables from exchange transactions by R32 225.

Expenditure relating to contracted services in the 2021/22 financial year amounting to R3 391 838 exclusive of VAT was incorrectly recorded and it should have not been recorded. That expenditure was then reversed through credit notes. The error had resulted to an Overstatement of Contracted services by R3 391 838, overstatement of Statutory receivable - VAT by R507 557 and overstatement of Trade and other payables from exchange transactions by R3 899 395.

A payment reversal was correctly processes in the cashbook during 2021/22 financial year, however it did not post in the general ledger due to an error on the system. The error was corrected and the payment reversal posted in the general ledger. This error resulted to cash and cash equivalents being understated by R20 526 and Trade and other payables from exchange transactions being understated by R20 526.

Credit notes amounting to R95 722 were incorrectly passed against invoices which have been raised and paid during 2017/18 financial year. This error resulted in understatement of both Trade and other payables and over statement of Accumulated surplus by R95 722.

Expenditure amounting to R3 590 801 in the 2021/22 financial year incorrectly recorded and it should have not been recorded. That expenditure was then reversed through credit notes. The error had resulted to an Overstatement of Property, plant and equipment by R3 484 646 and overstatement of Trade and other payables from exchange transactions by R3 590 801.

Therefore based on the above corrections Trade and other payables from exchange transactions was overstated by R17 031 942.

### 44.1.4 Contracted Services and Operational Expenditure

Expenditure relating to contracted services in the 2021/22 financial year amounting to R3 391 838 exclusive of VAT was incorrectly recorded and it should have not been recorded. That expenditure was then reversed through credit notes. The error had resulted to an Overstatement of Contracted services by R3 391 838, overstatement of Statutory receivable - VAT by R507 557 and overstatement of Trade and other payables from exchange transactions by R3 899 395.

Expenditure relating to Operational expenditure in the 2021/22 financial year amounting to R28 022 exclusive of VAT was incorrectly recorded and it should have not been recorded. That expenditure was then reversed through credit notes. The error had resulted to an Overstatement of Operational expenditure by R28 022, overstatement of Statutory receivable - VAT by R4 203 and overstatement of Trade and other payables from exchange transactions by R32 225.

Both correction on Contracted services and Operational expenditure also resulted in increase in Surplus / Deficit for 2021/22 financial year

| Figures in Rand | 2023 | 2022 |
|---|---|---|

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

#### 44.1.5 Cash and cash equivalents

A payment reversal was correctly processes in the cashbook during 2021/22 financial year, however it did not post in the general ledger due to an error on the system. The error was corrected and the payment reversal posted in the general ledger. This error resulted to cash and cash equivalents being understated by R20 526 and Trade and other payables from exchange transactions being understated by R20 526.

#### 44.1.6 Operational revenue

An output VAT amounting to R189 782 from debit note processed against billing of consumer debtors was incorrectly posted to operational revenue in the 2021/22 financial year instead of output vat accrual. This resulted to both Operational revenue and Statutory receivables -VAT being understated by R189 782. This also increase surplus / deficit for the 2021/222 financial year by R189 782.

#### 44.1.7 Irregular expenditure

| | 2023 | 2022 |
|---|---|---|
| Opening balance | - | 43 753 099 |
| Adjustments made | - | 11 143 742 |
| **Restated opening balance** | **-** | **54 896 841** |

Adjustment made to opening balance of irregular expensditure is due to the incorrect omission of irregular expenditure of R11 143 742 made to a supplier without following the supply chain management processes. This correction has resulted to an increase to irregular expenditure by R11 143 742.

#### 44.1.8 Other financial liabilities

Vhembe District Municipality incorrectly recognised DWS histrolical amount owed to DWS as a liability in the annual financial statements as the municipality was of the opinion that they are in agreement with DWS with regards to the amount owed. However, VDM and DWS are on an ongoing dispute with regard to the amount VDM is owing DWS as VDM also does not agree on the amount based on approximation. Therefore both disputed capital and interest on amount owed to DWS should have been disclosed as a contingent liability.

This resulted in overstatement of Other financial liabilities by R730 207 212, understatement of Accumulated surplus by R641 951 463 and overstatement of Statutory receivables - VAT by R88 255 749.

The above also resulted in an understatement of contigent liabilities by R610 822 302 as the municipality on disclosed the interest charged by DWS as a contigent liability.

Vhembe District Municipality did not record and disclose bulk purchase of water from Mopani District Municipality in the prior years as the municipality did not receive invoices from Mopani District Municipality. Both municipalities engaged and agreed on the amount owed by VDM to MDM. The above non recording and disclosure resulted to understatement of Other Financial liabilities by R46 400 000, overstatement of Accumulated surplus by 30 260 869, understatement of Inventory Consumed by R10 086 957 and understatement of Statutory Receivables - VAT R6 052 174.

Based on the above corrections Other financial liabilities were overstated by R683 807 212.

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

#### 44.1.9 Surplus / Deficit for the year

An output VAT amounting to R189 782 from debit note processed against billing of consumer debtors was incorrectly posted to operational revenue in the 2021/22 financial year instead of output vat accrual. This resulted to both Operational revenue and Statutory receivables -VAT being understated by R189 782. This also increase surplus / deficit for the 2021/222 financial year by R189 782.

Expenditure relating to contracted services in the 2021/22 financial year amounting to R3 391 838 exclusive of VAT was incorrectly recorded and it should have not been recorded. That expenditure was then reversed through credit notes. The error had resulted to an Overstatement of Contracted services by R3 391 838, overstatement of Statutory receivable - VAT by R507 557 and overstatement of Trade and other payables from exchange transactions by R3 899 395.

Expenditure relating to Operational expenditure in the 2021/22 financial year amounting to R28 022 exclusive of VAT was incorrectly recorded and it should have not been recorded. That expenditure was then reversed through credit notes. The error had resulted to an Overstatement of Operational expenditure by R28 022, overstatement of Statutory receivable - VAT by R4 203 and overstatement of Trade and other payables from exchange transactions by R32 225.

Both correction on Contracted services and Operational expenditure also resulted in increase in Surplus / Deficit for 2021/22 financial year.

Vhembe District Municipality and Musina Local Municipality agreed to offset both amounts receivable and payable to each municipality as from 30 June 2022 and disclose the net amount receivable or payable to each respective municipality in term of GRAP 104 paragraph 92 to 100.

Therefore based on the above agreement the municipality also implemented a change in accounting policy to allow the set off of financial instruments in terms of GRAP 104.

The change in accounting policy resulted in decrease in Other financial liabilities by R a decrease in Trade and other receivables from exchange transactions by R after the set off of the two financial instruments.

The change in accounting policy also resulted to a reversal of impairment provision relating to amount receivable from Musina Local municipality. This reversal of impairment provision resulted to decrease in both impairment loss and impairment provision by R28 652 985 and increase in Surplus / deficit for the year by R28 652 985.

Based on the above corrections Surplus / deficit for the year 2021/22 increase by R21 527 828.

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

#### 44.1.10 Contingent liabilities

Vhembe District Municipality incorrectly recognised DWS histrolical amount owed to DWS as a liability in the annual financial statements as the municipality was of the opinion that they are in agreement with DWS with regards to the amount owed. However, VDM and DWS are on an ongoing dispute with regard to the amount VDM is owing DWS as VDM also does not agree on the amount based on approximation. Therefore both disputed capital and interest on amount owed to DWS should have been disclosed as a contingent liability.

This resulted in overstatement of Other financial liabilities by R730 207 212, understatement of Accumulated surplus by R641 951 463 and overstatement of Statutory receivables - VAT by R88 255 749.

The above also resulted in an understatement of contigent liabilities by R610 822 302 as the municipality on disclosed the interest charged by DWS as a contigent liability.

#### 44.1.11 Accumulated surplus

Credit notes amounting to R95 722 were incorrectly passed against invoices which have been during 2017/18 financial year. This error resulted in understatement Trade and other payables and over statement of Accumulated surplus by R95 722.

Vhembe District Municipality incorrectly recognised DWS histrolical amount owed to DWS as a liability in the annual financial statements as the municipality was of the opinion that they are in agreement with DWS with regards to the amount owed. However, VDM and DWS are on an ongoing dispute with regard to the amount VDM is owing DWS as VDM also does not agree on the amount based on approximation. Therefore both disputed capital and interest on amount owed to DWS should have been disclosed as a contingent liability.

This resulted in overstatement of Other financial liabilities by R730 207 212, understatement of Accumulated surplus by R641 951 463 and overstatement of Statutory receivables - VAT by R88 255 749.

The above also resulted in an understatement of contigent liabilities by R610 822 302 as the municipality on disclosed the interest charged by DWS as a contigent liability.

Vhembe District Municipality did not record and disclose bulk purchase of water from Mopani District Municipality in the prior years as the municipality did not receive invoices from Mopani District Municipality. Both municipalities engaged and agreed on the amount owed by VDM to MDM. The above non recording and disclosure resulted to understatement of Other Financial liabilities by R46 400 000, overstatement of Accumulated surplus by 30 260 869, understatement of Inventory Consumed by R10 086 957 and understatement of Statutory Receivables - VAT R6 052 174.

Vhembe District Municipality and Musina Local Municipality agreed to offset both amounts receivable and payable to each municipality as from 30 June 2022 and disclose the net amount receivable or payable to each respective municipality in term of GRAP 104 paragraph 92 to 100.

Therefore based on the above agreement the municipality also implemented a change in accounting policy to allow the set off of financial instruments in terms of GRAP 104.

The change in accounting policy resulted in decrease in Other financial liabilities by R a decrease in Trade and other receivables from exchange transactions by R after the set off of the two financial instruments.

The change in accounting policy also resulted to a reversal of impairment provision relating to amount receivable from Musina Local municipality. This reversal of impairment provision resulted to decrease in both impairment loss and impairment provision by R28 652 985 and increase in Surplus / deficit for the year by R28 652 985.

It also resulted to increase in accumulated surplus by R310 344 609 and decrease in Impairment provision by R310 344 609.

Based on the above corrections accumulated surplus increased by R921 939 481.

#### 44.1.12 Inventory consumed

| Figures in Rand | 2023 | 2022 |
|---|---|---|

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

Vhembe District Municipality did not record and disclose bulk purchase of water from Mopani District Municipality in the prior years as the municipality did not receive invoices from Mopani District Municipality. Both municipalities engaged and agreed on the amount owed by VDM to MDM. The above non recording and disclosure resulted to understatement of Other Financial liabilities by R46 400 000, overstatement of Accumulated surplus by 30 260 869, understatement of Inventory Consumed by R10 086 957 and understatement of Statutory Receivables - VAT R6 052 174.

The municipality had incorrectly calculated the unit cost of water in the prior year, by only determining unit cost with by taking into account purified water instead of purchased water. This resulted in an understatement of Inventory consumed by 647 845 and an overstatement of Inventories by by R647 845 as water inventory on hand was overstated by the same amount.

The above corrections resulted to an increase on inventory consumed by R10 734 799.

#### 44.1.13 Impairment loss

Vhembe District Municipality and Musina Local Municipality agreed to offset both amounts receivable and payable to each municipality as from 30 June 2022 and disclose the net amount receivable or payable to each respective municipality in term of GRAP 104 paragraph 92 to 100.

Therefore based on the above agreement the municipality also implemented a change in accounting policy to allow the set off of financial instruments in terms of GRAP 104.

The change in accounting policy resulted in decrease in Other financial liabilities by R a decrease in Trade and other receivables from exchange transactions by R after the set off of the two financial instruments.

The change in accounting policy also resulted to a reversal of impairment provision relating to amount receivable from Musina Local municipality. This reversal of impairment provision resulted to decrease in both impairment loss and impairment provision by R28 652 985 and increase in Surplus / deficit for the year by R28 652 985.

#### 44.1.14 Inventories

The municipality had incorrectly calculated the unit cost of water in the prior year, by only determining unit cost with by taking into account purified water instead of purchased water. This resulted in an understatement of Inventory consumed by 647 845 and an overstatement of Inventories by R647 845 as water inventory on hand was overstated by the same amount.

In 2022, the inventory consumed of R124 937 559 was not disclosed in the notes. Refer to note 3.

In 2022, water losses of R409 593 780 were incorrectly included in the Authorised consumption. This led to overstatement and understatement of water losses by R409 593 780, respectively.

#### 44.1.15 Change in accounting policy

Vhembe District Municipality and Musina Local Municipality agreed to offset both amounts receivable and payable to each municipality as from 30 June 2022 and disclose the net amount receivable or payable to each respective municipality in term of GRAP 104 paragraph 92 to 100.

Therefore based on the above agreement the municipality also implemented a change in accounting policy to allow the set off of financial instruments in terms of GRAP 104.

The change in accounting policy resulted in decrease in Other financial liabilities by R a decrease in Trade and other receivables from exchange transactions by R after the set off of the two financial instruments.

The change in accounting policy also resulted to a reversal of impairment provision relating to amount receivable from Musina Local municipality. This reversal of impairment provision resulted to decrease in both impairment loss and impairment provision by R28 652 985 and increase in Surplus / deficit for the year by R28 652 985.

It also resulted to increase in accumulated surplus by R310 344 609 and decrease in Impairment provision by R310 344 609.

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

#### 44.1.16 Commitments

In the previous years, commitments were not completely recorded. The commitment register did not include all contracts that municipality has with service providers and payments relating to contractors were not accurately and completely recorded. This resulted in an understatement of Capital commitments by R75 145 864 and understatement of understatement of operational commitments by R5 693 880 . Overall commitments were understated by R80 839 744.

#### 44.1.17 Property, plant and equipment

In 2022, management did not disclose Work in progress reconciliations in terms of GRAP 17. Work in progress was disclosed as one class instead separate class of assets.

This led to misstatements in the disclosure note, however net effect of the reconciliation is R0.00 on the face of the financial position.

Management corrected the reconciliations and disclosed Work in progress per class [Infrastructure (R2 306 190 440), Community assets (R2 723 172), Buildings (R33 867 679)]

In 2022, amount of R306 025 was incorrectly classified as infrastructure, instead of work in progress. The net effect on property, plant and equipment is R0.00

Expenditure amounting to R3 590 801 in the 2021/22 financial year incorrectly recorded and it should have not been recorded. That expenditure was then reversed through credit notes. The error had resulted to an Overstatement of Property, plant and equipment by R3 590 801 and overstatement of Trade and other payables from exchange transactions by R3 590 801

#### 44.1.18 Material losses (Water losses)

In 2022, management incorrectly the incorrect unit cost and quantity to calculate the water losses. The movement of water losses was calculated as R30 401 094, instead of R409 593 780. This led to under -statement of water losses by R379 192 686.

### 44.2 Reclassifications

The following reclassifications adjustment occurred:

#### 44.2.1 Trade and other receivables from exchange transactions

Consumer debtors with negative balances were not reclassified to trade and other payables in the 2021/22 financial year. This resulted to Trade and other receivables from exchange transactions being under stated and Trade and other payables from exchange transactions (Payments received in advance) being understated by R33 067 0660

#### 44.2.2 Trade and other payables from exchange transactions

Consumer debtors with negative balances were not reclassified to trade and other payables in the previous financial year. This resulted to Trade and other receivables from exchange transactions being under stated and Trade and other payables from exchange transactions (Payments received in advance) being understated by R33 067 660

#### 44.2.3 Interest on investments and interest on receivables

In the prior year interest from receivables and interest on investments was disclosed in the Statement of Financial performance as one line item of interest revenue. The interst from receivables and interest on investments are material in their nature and amount shall be disclosed separately in terms of GRAP 1.

This resulted to a decrease in interest revenue by R59 041 464 and an increase in both Interest on receivables and interest on investments by R48 535 501 and R10 505 963 respectively.

### 45. Related parties

| **Relationships** | |
| --- | --- |
| Accounting Officer | Refer to accounting officers' report note |
| Members of key management | Kutama ZN- Municipal Manager<br>The municipal manager was appointed on 1 July 2023<br><br>Thangavhuelelo M- Chief Financial Officer<br><br>Tshivinda M - General Manager Planning and Development - Contracted ended 30 April 2023<br><br>Mukwevho NM - General Manager Community Services<br><br>Maluleke W - General Manager Technical Services<br><br>Tshikovha NC - General Manager Corporate Services |
| Executive Mayor | Councillor DA Nenguda |
| Speaker | Councillor TF Nkondo |
| Chief Whip | Councillor ME Muhlope |
| Members of Mayoral Committee | Councilor NCR Mathukha<br>Councillor MG Chauke<br>Councillor AM Mamedzi<br>Councillor ADV. NA Mudunungu<br>Councillor SM Sinyosi<br>Councillor T Mundalamo<br>Councillor RG Machovani<br>Councillor T Padelane<br>Councillor AS Tshifhango |

**45. Related parties (continued)**

Other Councillors

1. Councillor FM Begwa
2. Councillor TJ Bila
3. Councillor FT Dau
4. Councillor AJ Davhana
5. Councillor L Davhana
6. Councilor TL Hlabangwani
7. Councillor AV Kotane
8. Councillor HG Mabudu
9. Councillor MC Mabunda
10. Councillor E Madzunya
11. Councillor NG Mahosi
12. Councillor TN Makumbane
13. Councillor M Makwala
14. Councillor MRT Marole
15. Councillor GD Masangu
16. Councillor ML Mathalise
17. Councillor TT Matshomo
18. Councillor C Mhangwani
19. Councillor MJ Mpashe
20. Councillor S Muavha
21. Councillor ET Muedi
22. Councillor ME Muhlope
23. Councillor AJ Mukhaha
24. Councillor R Mukhuba
25. Councillor M Mukosi
26. Councillor NJ Mukwevho
27. Councillor M Kennedy - appointed in May 2023
28. Councillor M Mulaudzi
29. Councillor HP Mulovhedzi
30. Councillor M Muligwe
31. Councillor A Nekhunguni
32. Councillor K Nemaranzhe
33. Councillor SFL Ndhlovu
34. Councillor TP Matodzi - Appointed in May 2023
35. Councillor R Rabambukwa
36. Councillor RG Ramabulana
37. Councillor SM Sinyosi
38. Councillor LR Rambuwani
39. Councillor TP Rivombo
40. Councillor MW Ramalwa - Resigned on 07 June 2023
41. Councillor JN Simangwe
42. Councillor IA Tshidavhu
43. Councillor AS Tshifhango
44. Councillor T Yingwani
45. Councillor FJ Rikhotso
46. Councillor MS Machethe
47. Councillor MS Matamela
48. Councillor TW Mphaho - appointed in March 2023
49. Councillor H Mtileni
50. Councillor RP Mundalamo
51. Councillor RG Nkanyane
52. Councillor TF Nkondo
53. Councillor R Munyai - Resigned on 19 April 2023
54. Councillor MJ Nkuna - Resigned on 19 April 2023
55. Councillor HB Ramulifho - Resigned on February 2023
56. Councillor M Selapyana - Resigned on 19 April 2023

## Notes to the Annual Financial Statements

Figures in Rand

### 45. Related parties (continued)

**Management class: Senior Management**

**2023**

| Name | Acting allowance | Remuneration | Contributions to UIF, Medical and Pension Funds | Car allowance | Bonus | Housing allowance | Leave pay | Cellphone allowance | Accommodation on travel and incidental | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Municipal Manager | - | 355 463 | 64 824 | 112 397 | 25 647 | 655 | 48 010 | - | - | 606 996 |
| Chief Financial Officer | 14 046 | 802 660 | 203 906 | 269 002 | 62 895 | - | - | 24 000 | 975 | 1 377 484 |
| General Manager Technical Services | - | 801 997 | 220 332 | 230 490 | 57 653 | - | - | - | - | 1 310 472 |
| General Manager Economic and Development Planning | - | 754 561 | 126 989 | 119 468 | 63 838 | 187 076 | 61 285 | 22 000 | 1 722 | 1 336 939 |
| General Manager Corporate Services | 67 340 | 807 152 | 168 998 | 250 571 | 63 838 | - | - | - | 1 709 | 1 359 608 |
| General Manager Community Services | - | 641 140 | 140 970 | 247 937 | - | - | - | - | 960 | 1 031 007 |
| | **81 386** | **4 162 973** | **926 019** | **1 229 865** | **273 871** | **187 731** | **109 295** | **46 000** | **5 366** | **7 022 506** |

**2022**

| Name | Remuneration | Contributions to UIF, Medical and Pension Funds | Car allowance | Bonus | Housing allowance | Cellphone allowance | Accommodation on travel and incidental | Total |
|---|---|---|---|---|---|---|---|---|
| Municipal Manager | 923 280 | 237 591 | 301 116 | 76 940 | 31 499 | - | - | 1 570 426 |
| Chief Financial Officer | 754 736 | 203 227 | 233 807 | 62 895 | - | 24 000 | - | 1 278 665 |
| General Manager Technical Services | 696 284 | 196 689 | 203 613 | - | - | 2 000 | - | 1 098 586 |

# Notes to the Annual Financial Statements

Figures in Rand

## 45. Related parties (continued)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| General Manager Economic and Development Planning | 754 736 | 137 978 | 94 860 | 115 307 | 198 098 | 24 000 | 32 203 | 1 357 182 |
| General Manager Corporate Services | 924 498 | 168 167 | 222 121 | 62 895 | - | - | 1 021 | 1 378 702 |
| General Manager Community Services | - | 177 | - | - | - | - | - | 177 |
| | **4 053 534** | **943 829** | **1 055 517** | **318 037** | **229 597** | **50 000** | **33 224** | **6 683 738** |

**Management class: Councillors**

**2023**

| Name | Basic salary | Cellphone allowance | Travelling Allowance | Total |
|---|---|---|---|---|
| Mayoral Committee | 2 953 424 | 190 400 | 1 511 286 | 4 655 110 |
| Other Councillors | 5 874 748 | 555 250 | 1 087 009 | 7 517 007 |
| Executive Mayor | 942 327 | 37 200 | - | 979 527 |
| Speaker | 752 067 | 37 200 | 4 117 | 793 384 |
| Cheifwhip | 516 040 | 37 200 | 195 517 | 748 757 |
| | **11 038 606** | **857 250** | **2 797 929** | **14 693 785** |

**2022**

| Name | Basic salary | Cellphone Allowance | Travel Allowance | Sitting Allowance | Arrears | Total |
|---|---|---|---|---|---|---|
| Mayoral committee members | 304 169 | 154 548 | 979 826 | 9 929 | 44 627 | 1 493 099 |
| Other Councillors | 7 707 399 | 118 584 | 1 590 903 | 687 315 | 22 078 | 10 126 279 |
| Executive Mayor | 839 677 | 63 513 | - | - | - | 903 190 |
| Speaker | 608 087 | 57 280 | 64 853 | - | - | 730 220 |
| Cheifwhip | 655 605 | 31 527 | - | - | - | 687 132 |
| | **10 114 937** | **425 452** | **2 635 582** | **697 244** | **66 705** | **13 939 920** |

### 45. Related parties (continued)

**Mayoral Committee members**

**2023**

| Name | Basic salary | Cellphone Allowance | Travel Allowance | Subsistence Allowance | Total |
| --- | --- | --- | --- | --- | --- |
| Mudunungu N.A | 305 556 | - | 120 971 | - | 426 527 |
| Chauke M.G | 303 756 | - | 186 401 | 442 | 490 599 |
| Tshifhango A.S | 309 556 | - | 186 265 | 3 317 | 499 138 |
| Sinyosi S.M | 527 137 | 37 200 | 295 046 | 7 643 | 867 026 |
| Mathukha N.R | 532 670 | 37 200 | 279 797 | 3 682 | 853 349 |
| Mundalamo T | 293 337 | 37 200 | 103 306 | 80 | 433 923 |
| Mamedzi A.M | 293 337 | 37 200 | 162 815 | 1 072 | 494 424 |
| Padelane T.S | 95 219 | 4 400 | 57 945 | 320 | 157 884 |
| Machovani R.G | 292 856 | 37 200 | 102 184 | - | 432 240 |
| | **2 953 424** | **190 400** | **1 494 730** | **16 556** | **4 655 110** |

**2022**

| Name | Basic salary | Subsistence and Travel Allowance | Sitting allowance | Cellphone allowance | Arears | Total |
| --- | --- | --- | --- | --- | --- | --- |
| Chavani Phahlela Joe | 103 484 | 36 516 | - | - | - | 140 000 |
| Machete Mahlomola Sylvia | 169 056 | 53 064 | - | 26 273 | - | 248 393 |
| Magada M Robert | 103 484 | 49 255 | - | - | - | 152 739 |
| Magada T Samuel | 99 871 | 33 290 | - | 14 527 | - | 147 688 |
| Mathuka Ntsundeni Rose | 30 536 | 10 179 | - | 5 873 | - | 46 588 |
| Mbedzi Thinawanga Selina | 179 023 | 71 011 | - | 14 527 | - | 264 561 |
| Mukwevho Josephine | 137 979 | 2 042 | - | - | - | 140 021 |
| Radamba Ndivhuwo Calvin | 179 024 | 59 674 | - | 14 528 | - | 253 226 |
| Chauke MG | 145 319 | 114 841 | 1 103 | - | - | 261 263 |
| Mamedzi AM | 165 088 | 90 715 | - | 26 273 | - | 282 076 |
| Adv. Mudunungu NA | 145 319 | 63 640 | - | - | 11 040 | 219 999 |
| Sinyosi SM | 281 932 | 137 032 | - | 26 273 | 11 040 | 456 277 |
| Mundalamo T | 170 782 | 79 892 | - | 26 273 | 3 542 | 280 489 |
| Machovani RG | 199 050 | 78 347 | - | - | 3 542 | 280 939 |
| Padelane T | 45 559 | 34 771 | 7 723 | - | 4 422 | 92 475 |
| Tshifhango AS | 145 319 | 65 557 | 1 103 | - | 11 040 | 223 019 |
| | **2 300 825** | **979 826** | **9 929** | **154 547** | **44 626** | **3 489 753** |

### 46. Change in estimate

**Property, plant and equipment**

The Municipality entity has reassessed the useful lives and residual values of property, plant and equipment which resulted in certain infrastructure assets and movable assets remaining useful lives to change from 1 to 4 years on average. The effect of the change in accounting estimate has resulted in an increase in depreciation amounting to R10 752 115 for the current period. The effect on future periods could not reasonably be determined as municipality reassess useful life at the end of each year.

### 47. 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.

### 47. Risk management (continued)

**Liquidity risk**

Liquidity risk is the risk that the municipality will encounter in raising funds to cover future commitments. The municipality manages the liquidity risk through an ongoing review of future commitments and credit facilities.

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

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

**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 instruments exposed to credit risk at year end were as follows:

| Financial instrument | 2023 | 2022 |
| --- | --- | --- |
| Receivables from exchange transactions | 52 093 721 | 35 709 272 |
| Receivables from non-exchange transactions | 39 874 806 | 32 546 907 |
| Statutory receivables- VAT | 207 853 792 | 187 140 449 |
| Cash and Cash equivalent | 130 688 141 | 131 893 379 |
| Payables from exchange transaction | (459 206 540) | (460 238 739) |
| Taxes and transfers payable (non-exchange) | (2 086 000) | (2 086 000) |
| Consumer deposits | (4 409 170) | (4 409 170) |

**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.

### 48. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus (deficit) of 5 656 121 142 and that the municipality's total liabilities exceed its assets by 5 656 121 142.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note XX of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

### 49. Events after the reporting date

Non- adjusting post balance sheet event:
The municipality apointed the accounting officer on 1 July 2023.

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

### 50. Unauthorised expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 577 964 675 | 1 430 908 837 |
| Add: Unauthorised expenditure - current | 190 013 245 | 539 220 738 |
| Less: Amount written off by council | (545 383 611) | (1 392 164 900) |
| **Closing balance** | **222 594 309** | **577 964 675** |

**The over expenditure incurred by municipal departments during the year is attributable to the following categories:**

| | | |
|---|---|---|
| Non-cash | 190 013 245 | 498 061 578 |
| Cash | - | 41 159 160 |
| | **190 013 245** | **539 220 738** |

**Analysed as follows: non-cash**

| | | |
|---|---|---|
| Depreciation and amortisation | - | 19 431 566 |
| Provision of impairment | 190 013 245 | 478 630 012 |
| | **190 013 245** | **498 061 578** |

**Analysed as follows: cash**

| | | |
|---|---|---|
| Inventory consumed | - | 8 578 094 |
| Contracted services | - | 32 581 066 |
| | **-** | **41 159 160** |

### 51. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 84 018 | 8 917 |
| Add: Fruitless and wasteful expenditure identified - current | 2 565 578 | 93 425 |
| Less: Amount recovered - current | - | (4 165) |
| Less: Amount written off | (108 252) | (14 159) |
| **Closing balance** | **2 541 344** | **84 018** |

Fruitless and wasteful expenditure is presented inclusive of VAT

| Figures in Rand | 2023 | 2022 |
|---|---|---|

### 52. Irregular expenditure

| | 2023 | 2022 |
|---|---|---|
| Opening balance as previously reported | 54 896 841 | 140 565 426 |
| Add: Irregular expenditure - current | 81 604 955 | 105 183 314 |
| Add: Irregular expenditure - prior period | - | 11 143 742 |
| Less: Amount written off - current | (136 464 421) | (201 995 641) |
| **Closing balance** | **37 375** | **54 896 841** |

**Incidents/cases identified/reported in the current year include those listed below:**

| | | |
|---|---|---|
| Appointment of service providers after expiry of validity period | 2 595 648 | 3 141 405 |
| Award made to supplier of which the partner is in the service of the municipality | - | 3 494 534 |
| Bids without local content declaration | 1 219 944 | 12 359 529 |
| Employees or relative employed by state or municipal that have interests in entities that made business with the municipality and other state employees have interest in VDM | 2 608 201 | 8 195 639 |
| Evaluation criteria not consistent with the Preferential Procurement Regulation | 57 258 185 | 44 827 807 |
| Non-compliance with Tax Matters | 4 064 091 | 16 288 006 |
| Supply Chain Management Process were not followed | 13 024 072 | 26 244 532 |
| Wrong application of Contract RT57-2019 or MMA and SM General Projects and Logistics | 834 814 | 1 775 605 |
| | **81 604 955** | **116 327 057** |

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

**SALGA**

| | 2023 | 2022 |
|---|---|---|
| Current year subscription / fee | 7 299 231 | 6 700 409 |
| Amount paid - current year | (7 299 231) | (6 700 409) |
| | - | - |

**Material losses**

| | 2023 | 2022 |
|---|---|---|
| Opening balance as previously reported | 866 922 211 | 457 328 431 |
| Current year movements | 363 519 232 | 409 593 780 |
| | **1 230 441 443** | **866 922 211** |

**Audit fees**

| | 2023 | 2022 |
|---|---|---|
| Current year subscription / fee | 7 287 730 | 6 796 505 |
| Amount paid - current year | (7 287 730) | (6 796 505) |
| | - | - |

**PAYE and UIF**

| | 2023 | 2022 |
|---|---|---|
| Opening balance | - | 7 891 033 |
| Current year subscription / fee | 110 772 615 | 108 414 077 |
| Amount paid - current year | (110 772 615) | (108 414 077) |
| Amount paid - previous years | - | (7 891 033) |
| | - | - |

# Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|---|---|---|

### 53. Actual operating expenditure versus budgeted operating expenditure (continued)

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Opening balance | - | 43 831 475 |
| Current year subscription / fee | 44 510 848 | 22 366 827 |
| Amount paid - current year | (44 510 848) | (22 366 827) |
| Amount paid - previous years | - | (43 831 475) |
| | - | - |

**VAT**

| | | |
|---|---|---|
| VAT receivable | 207 853 792 | 187 140 449 |

All VAT returns have been submitted by the due date throughout the year.

**Deviations from Supply Chain Management Regulations**

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviations from the supply chain management policy needs to approved/condoned by the accounting officer and noted by council. The expenses incurred as listed hereunder have been approved by the accounting officer and noted by council.

| | | |
|---|---|---|
| **Incident** | | |
| Repairs and maintenance of vehicles and equipment | 6 069 992 | 4 934 725 |
| Advertising and Marketing | 612 120 | 1 443 217 |
| Staff Training and development | 1 834 644 | 991 908 |
| IT services | 1 311 275 | 459 934 |
| Professional Fees | 95 424 | 70 409 |
| Event Management | 442 461 | 178 270 |
| Stationery | 113 295 | 120 215 |
| Accommodation and Meals | 143 750 | - |
| | **10 622 961** | **8 198 678** |

### 54. Accounting by principals and agents

The municipality is a party to a principal-agent arrangement(s).

Vhembe District Municipality which is a water authority entered to a principal -agent agreement with Musina Local Municipality.

Vhembe District Municiplity is a Principal and Musina Local municipality is an agent on the agreement.

Vhembe District Municipality which is a water authority entered to an agreement with Musina Local Municipality, where Musina Local Municipality bill and collect water and sanitation revenue on behalf of Vhembe District Municipality.

Musina Local Municipality collect warer and sanitation revenue and hand it to Vhembe District Municipality and Vhembe District Municipality reimburse Musina Local Municipality all the costs incurred in billing and collecting water and sanitation revenue of behalf of Vhembe District Municipality.

Vhembe District also pay 15 % commission fee of amount collected to Musina Local Municipality for billing and collecting water and sanitation revenue on behalf of Vhembe District Municipality.

There were are no changes which occurred during the reporting period]

**Fee paid**

| | | |
|---|---|---|
| Fee paid as compensation to the agent | 4 728 626 | 4 300 268 |

### 55. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E(1) for the comparison of actual operating expenditure versus budgeted expenditure.

## Actual versus Budget for the year ended 30 June 2023

**Income**

| Description | Budget | Actual | Varience | | Explanation of Significant Variances greater than 10% versus Budget |
|---|---|---|---|---|---|
| Sale of goods and rendering of services | 896 990,00 | 961 252,00 | 64 262,00 | 7% | N/A |
| Service charges | 624 629 970,00 | 746 265 505,00 | 121 635 535,00 | 19% | averaging than actual readings (more estimating than actual readings) |
| Licences and permits | - | 442,00 | 442,00 | #DIV/0! | |
| Rental of facilities and equipment | 1 990,00 | 942,00 | (1 048,00) | -53% | The significate variance is as a result of over budgeting on hiring of council facilities |
| Operational revenue | 117 490,00 | 53 269,00 | (64 221,00) | -55% | The amount collected was significantly less than budgeted, revenue from skills development levy, breakages and loss recovered and commission and collection charges. |
| Interest on receivables | 70 435 000,00 | 83 200 031,00 | 12 765 031,00 | 18% | The significate variance on interest on receivables is due to the increase in billing through averaging than actual readings, which increses the receivables from non-exchange resulting to 7% interest charged on outstanding debtors. |
| Interest on investments | 16 000 000,00 | 28 590 547,00 | 12 590 547,00 | 79% | The increase in transfers resulting in an interest received from our bank accounts, thefore there was much cash in the accounts to gain interest. |
| Licences and Permits (Non-exchange) | 384 000,00 | 270 785,00 | (113 215,00) | -29% | The amount collected was less than budgeted, revenue from landing depot depends on demand from customers as it is seasonal (Cultivating mealified) |
| Government grants & subsidies | 1 940 709 007,00 | 1 903 012 478,00 | (37 696 529,00) | -2% | |
| **Total** | **2 653 174 447,00** | **2 762 355 251,00** | **109 180 804,00** | 4% | |

## Actual versus Budget for the year ended 30 June 2023

**Expenditure**

| Description | Budget | Actual | Varience | | Explanation of Significant Variances greater than 10% versus Budget |
|---|---|---|---|---|---|
| Employee related costs | (722 071 686,00) | (706 417 968,00) | - 15 653 718,00 | 2% | |
| Remuneration of councillors | (18 818 374,00) | (14 693 785,00) | - 4 124 589,00 | 22% | The budget for the remuneration of councillors included a possible increase due to the implementation of the upper limit which was not paid, therefore contributing to the underperformance of 22%. |
| Impairment losses | (629 000 000,00) | (839 252 936,00) | 210 252 936,00 | -33% | The significant difference is due to impairment of debtors which resulted from billing (revenue estimates) made in the 2023 financial year. |
| Depreciation and amortisation | (186 175 002,00) | (186 175 002,00) | - | 0% | |
| Finance charges | (2 565 578,00) | (2 565 578,00) | - | 0% | |
| Inventory consumed | (213 904 059,00) | (213 828 149,00) | - 75 910,00 | 0% | |
| Lease rentals on operating lease | (3 900 001,00) | (3 326 266,00) | - 573 735,00 | 15% | The significate variance is due to over budgeting on lease rental on operating lease |
| Contracted services | (235 247 125,00) | (231 692 413,00) | - 3 554 712,00 | 2% | |
| Transfers and subsidies | (400 000,00) | (400 000,00) | - | 0% | |
| Operational expenditure | (199 335 415,00) | (193 095 377,00) | - 6 240 038,00 | 3% | |
| **Total** | **(2 211 417 240,00)** | **(2 391 447 474,00)** | **180 030 234,00** | -8% | |
| Operating surplus | **441 757 207,00** | **370 907 777,00** | **289 211 038,00** | | |