



MBHASHE LOCAL MUNICIPALITY (EC 121)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2021

General Information

Nature of business and principal activities

The Municipality is responsible for the following activities:-
- collection of rates in respect of property taxes;
- refuse and solid waste removal;
- construction and maintenance of access roads, storm water facilities and streetlights within its jurisdiction; and
- traffic control, issue of learners and drivers licences and renewal of drivers licences, law enforcement activities.

The following is the list of Councillors as at 30 June 2021

Mayoral Committee

Executive Mayor

Speaker

Members of the Mayoral Committee

Cllr S.Janda
Cllr B. Majavu
Cllr C Genyane
Cllr M. Mbomvu
Cllr MM Mcotsho
Cllr XO Willie
Cllr NM Mlandu
Cllr N Mkhedamo
Cllr N Nkomonye
Cllr N Ngomthi
Cllr L Mantshiyose
Cllr S. Sibingibingi
Cllr P Rulumeni
Cllr VN Kwedinana
Cllr LL Sangqu
Cllr NO Sogayise
Cllr P Mamba
Cllr N Nqwena
Cllr S Mwahla
Cllr B Jamnda
Cllr LM Soshankane
Cllr NE Mbane
Cllr M Peter
Cllr P Bhungu
Cllr T Tshika
Cllr S Mantshingilane
Cllr W Namba
Cllr L Mahobe
Cllr X Gabada
Cllr ST Sitwayi
Cllr S Mrobo
Cllr S Ndinisa
Cllr V Matiwane
Cllr N Magatya
Cllr NB Sirunu - Ntanga
Cllr NN Mboxela
Cllr NA Tyali
Cllr P. Mayiji
Cllr PP Kondile
Cllr N Ncethani
Cllr M.W Jiya

Chief WHIP

Councillors

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General Information

Cllr XP Baleni
Cllr N Ganda
Cllr SC Livi
Cllr B Siswana
Cllr M Tetyana
Cllr N Jonas
Cllr M Takani
Cllr L Matiti
Cllr WM Solontsi
Cllr XM Tyodana
Cllr N Mahlathi
Cllr N Tyelingane
Cllr F Mbiko
Cllr NT Tafeni
Cllr L Ganda
Cllr Mtyapi
Cllr P Makeleni
Cllr NN Ndlodaka
Cllr N Banjwa
Cllr T Bomvu
Cllr L Ganda
Cllr N Blorweni

Grading of local authority

3

Municipal Manager

Mr M. Nako

Chief Finance Officer

Mr N. Nokwe

Section 79 Chairpersons

Cllr SD Kalityi (MPAC Chair)
Cllr MK Makapela (Ethics and
Members Interest Chair)
Cllr X Tyhodana (Women`s
Caucus Chair)

Registered office

454 Steatfield Road
Dutywa
5000

Postal address

P.O. Box 25
Dutywa
5000

Bankers

First National Bank (62231175953)

Auditors

Auditor General South Africa

Attorneys

Nginda Attorneys
Tonise Attorneys
Vitshima Attorneys
Luthango Attorneys
Ximbi Ncolo
Siyathemba Sokutu Attorneys
Smith Tabata Attorneys

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2021

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

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Abbreviations

| | |
|-------|--|
| AFS | Annual Financial Statements |
| EPWP | Extended Public Works Programme |
| FMG | Financial Management Grant |
| GRAP | Generally Recognised Accounting Practice |
| IAS | International Accounting Standards |
| PPE | Property, Plant and Equipment |
| IPSAS | International Public Sector Accounting Standards |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |
| MPAC | Municipal Public Accounts Committee |
| MSIG | Municipal Systems Improvement Grant |
| SARS | South African Revenue Service |
| VAT | Value Added Tax |

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Responsibilities and Approval

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

The annual financial statements have been prepared in accordance with 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 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 behaviours are applied and managed within predetermined procedures and constraints. Salaries, allowances and benefits to public office bearers and Councillors of the municipality were within the upper limits of the framework envisaged in Section 219 of the Constitution.

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 2022 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 Interim financial statements set out on page 5 to , which have been prepared on the going concern basis, were approved by the Council on 26 August 2021.

Mr M. Nako
Municipal Manager

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2021.

1. Review of activities

Main business and operations

the municipality is responsible for the following activities:-

- collection of rates in respect of property taxes;
- refuse and solid waste removal;
- construction and maintenance of access roads, storm water facilities and streetlights within its jurisdiction; and
- traffic control, issue of learners and drivers licences and renewal of drivers licences, law enforcement activities. and operates principally in South Africa.

2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had accumulated surplus of 789 368 203 rands and that the municipality's total assets exceed its liabilities by 789 368 203 rands.

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 enforce strict cash flow management to oversee the operations. The municipality had an improved liquidity position due to the overcollection in revenue projections and also stringent cost containment measures, this has resulted in the municipal having ability to meet short term commitments within 30 days.

3. Subsequent events

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

4. Accounting Officer's interest in contracts

The Accounting Officer does not have any interest in the contract that the municipality has with various suppliers for procuring goods and/or services.

5. Borrowing potential

The current ratio is above 1. This signifies the progress made in the past financial year, with the municipality passing a more leaner budget with realistic targets. The cash and cash equivalents are more than trade payables as at 30 June 2021.

Our assets versus liabilities show that we have huge potential for borrowing which the municipality is currently not exploring. This option will only be taken to fund borrowings for income-generating assets with the objective of generating a commercial return.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

| Figures in Rand | Note(s) | 2021 | 2020 |
|--|---------|--------------------|--------------------|
| Assets | | | |
| Current Assets | | | |
| Receivables from exchange transactions | 8 | 385 039 | 1 576 449 |
| Receivables from non-exchange transactions | 9 | 2 403 | 2 403 |
| VAT receivable | 10 | 6 486 900 | 8 030 911 |
| Consumer debtors | 11 | 11 403 785 | 7 105 235 |
| Cash and cash equivalents | 12 | 181 519 351 | 111 716 738 |
| | | 199 797 478 | 128 431 736 |
| Non-Current Assets | | | |
| Investment property | 2 | 33 511 900 | 33 511 900 |
| Property, plant and equipment | 3 | 630 384 331 | 603 559 259 |
| Intangible assets | 4 | 692 127 | 896 046 |
| Heritage assets | 5 | 11 | 11 |
| | | 664 588 369 | 637 967 216 |
| Total Assets | | 864 385 847 | 766 398 952 |
| Liabilities | | | |
| Current Liabilities | | | |
| Payables from exchange transactions | 15 | 29 509 534 | 45 549 991 |
| Employee benefit obligation | 7 | 980 000 | 1 009 000 |
| Unspent conditional grants and receipts | 13 | 3 683 147 | 8 643 121 |
| | | 34 172 681 | 55 202 112 |
| Non-Current Liabilities | | | |
| Employee benefit obligation | 7 | 4 970 000 | 4 538 000 |
| Provisions | 14 | 35 874 963 | 34 004 704 |
| | | 40 844 963 | 38 542 704 |
| Total Liabilities | | 75 017 644 | 93 744 816 |
| Net Assets | | 789 368 203 | 672 654 136 |
| Accumulated surplus | | 789 368 203 | 672 654 136 |

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

| Figures in Rand | Note(s) | 2021 | 2020 |
|--------------------------------------|---------|----------------------|----------------------|
| Revenue | | | |
| Service charges | 17 | 3 490 932 | 309 216 |
| Rental of facilities and equipment | 18 | 1 654 342 | 1 773 886 |
| Interest received (trading) | 16 | 3 046 752 | 1 169 345 |
| Other income | 19 | 2 073 473 | 1 489 802 |
| Interest earned | 20 | 5 717 407 | 5 823 200 |
| Assessment rates | 21 | 11 621 772 | 12 760 143 |
| Licence and permits | | 2 689 023 | 1 228 229 |
| Grants and subsidies | 22 | 390 794 134 | 331 324 041 |
| Fines and penalties | | 1 083 420 | 2 102 954 |
| Total revenue | | 422 171 255 | 357 980 816 |
| Expenditure | | | |
| Employee related costs | 23 | (126 943 602) | (124 137 214) |
| Remuneration of Councillors | 24 | (22 045 391) | (22 203 367) |
| Depreciation and amortisation | 25 | (55 289 637) | (56 806 927) |
| Impairment loss | | (453 042) | (93 548) |
| Finance costs | 26 | (2 075 060) | (2 073 535) |
| Debt Impairment | 27 | (6 481 775) | (2 888 615) |
| Administrative and other expenditure | 28 | (96 858 079) | (84 328 390) |
| Total expenditure | | (310 146 586) | (292 531 596) |
| Operating surplus | | 112 024 669 | 65 449 220 |
| Profit/(Loss) on disposal of assets | | (320 312) | (5 226) |
| Surplus for the year | | 111 704 357 | 65 443 994 |

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Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---------------------|--------------------|
| Balance as previously reported | 593 926 497 | 593 926 497 |
| Other prior year adjustments | 13 283 645 | 13 283 645 |
| Balance at 01 July 2019 as restated* | 607 210 142 | 607 210 142 |
| Changes in net assets | | |
| Surplus/(Deficit) for the year | 65 443 994 | 65 443 994 |
| Total changes | 65 443 994 | 65 443 994 |
| Restated Opening balance | 665 703 924 | 665 703 924 |
| Other prior year adjustments | 5 009 710 | 5 009 710 |
| Balance at 01 July 2020 | 677 663 846 | 677 663 846 |
| Changes in net assets | | |
| Surplus/(Deficit) for the year | 111 704 357 | 111 704 357 |
| Total changes | 111 704 357 | 111 704 357 |
| Balance at 30 June 2021 | 789 368 203 | 789 368 203 |

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Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement

| Figures in Rand | Note(s) | 2021 | 2020 |
|---|---------|----------------------------|----------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Sale of goods and services | | 15 203 917 | 11 913 865 |
| Grants | | 385 834 160 | 334 342 888 |
| Interest income | | 5 717 407 | 5 823 200 |
| Other receipts | | 5 845 916 | 4 820 984 |
| | | <u>412 601 400</u> | <u>356 900 937</u> |
| Payments | | | |
| Employee costs | | (145 189 494) | (145 713 010) |
| Suppliers | | (115 054 562) | (49 691 539) |
| Finance costs | | (204 801) | (2 073 535) |
| | | <u>(260 448 857)</u> | <u>(197 478 084)</u> |
| Net cash flows from operating activities | 30 | <u>152 152 543</u> | <u>159 422 853</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 3 | (82 682 022) | (64 994 658) |
| Proceeds from disposal of non current assets | | 332 092 | - |
| Net cash flows from investing activities | | <u>(82 349 930)</u> | <u>(64 994 658)</u> |
| Net increase/(decrease) in cash and cash equivalents | | 69 802 613 | 94 428 195 |
| Cash and cash equivalents at the beginning of the year | | 111 716 738 | 17 288 543 |
| Cash and cash equivalents at the end of the year | 12 | <u>181 519 351</u> | <u>111 716 738</u> |

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|----------------------|---------------------|----------------------|------------------------------------|--|-----------|
| Figures in Rand | | | | | | |
| Statement of Financial Performance | | | | | | |
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Service charges | 500 000 | - | 500 000 | 3 490 932 | 2 990 932 | 44.1 |
| Rental of facilities and plant equipment | 1 850 000 | - | 1 850 000 | 1 654 342 | (195 658) | 44.2 |
| Interest received (trading) | - | - | - | 3 046 752 | 3 046 752 | 44.3 |
| Other income | 11 320 000 | 5 000 000 | 16 320 000 | 2 073 473 | (14 246 527) | 44.4 |
| Interest received - investment | 3 500 000 | (2 000 000) | 1 500 000 | 5 717 407 | 4 217 407 | 44.5 |
| Total revenue from exchange transactions | 17 170 000 | 3 000 000 | 20 170 000 | 15 982 906 | (4 187 094) | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Property rates | 9 500 000 | (2 000 000) | 7 500 000 | 11 621 772 | 4 121 772 | 44.6 |
| Licenses and permits | 2 100 000 | (1 500 000) | 600 000 | 2 689 023 | 2 089 023 | 44.7 |
| Transfer revenue | | | | | | |
| Government grants & subsidies | 341 682 000 | 44 253 000 | 385 935 000 | 390 794 134 | 4 859 134 | 44.8 |
| Fines, Penalties and Forfeits | 1 500 000 | (1 000 000) | 500 000 | 1 083 420 | 583 420 | 44.9 |
| Total revenue from non-exchange transactions | 354 782 000 | 39 753 000 | 394 535 000 | 406 188 349 | 11 653 349 | |
| Total revenue | 371 952 000 | 42 753 000 | 414 705 000 | 422 171 255 | 7 466 255 | |
| Expenditure | | | | | | |
| Employee related costs | (129 281 840) | - | (129 281 840) | (126 943 602) | 2 338 238 | 44.10 |
| Remuneration of councillors | (26 983 502) | - | (26 983 502) | (22 045 391) | 4 938 111 | 44.11 |
| Depreciation and amortisation | (55 000 000) | (5 000 000) | (60 000 000) | (55 289 637) | 4 710 363 | 44.12 |
| Impairment loss/ Reversal of impairments | - | - | - | (453 042) | (453 042) | |
| Finance costs | - | - | - | (2 075 060) | (2 075 060) | 44.13 |
| Debt impairment | (1 200 000) | - | (1 200 000) | (6 481 775) | (5 281 775) | 44.14 |
| General Expenses | (139 535 969) | (8 059 950) | (147 595 919) | (96 858 079) | 50 737 840 | 44.15 |
| Total expenditure | (352 001 311) | (13 059 950) | (365 061 261) | (310 146 586) | 54 914 675 | |
| Operating surplus | 19 950 689 | 29 693 050 | 49 643 739 | 112 024 669 | 62 380 930 | |
| Loss on disposal of assets and liabilities | - | - | - | (320 312) | (320 312) | |
| Surplus | 19 950 689 | 29 693 050 | 49 643 739 | 111 704 357 | 62 060 618 | |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | 19 950 689 | 29 693 050 | 49 643 739 | 111 704 357 | 62 060 618 | |

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|-------------|--------------------|------------------------------------|--|-----------|
| Figures in Rand | | | | | | |
| Statement of Financial Position | | | | | | |
| Assets | | | | | | |
| Current Assets | | | | | | |
| Receivables from exchange transactions | 396 695 | - | 396 695 | 385 039 | (11 656) | 44.16 |
| Receivables from non-exchange transactions | 978 | - | 978 | 2 403 | 1 425 | 44.17 |
| VAT receivable | 7 473 172 | - | 7 473 172 | 6 486 900 | (986 272) | 44.18 |
| Consumer debtors | 4 170 458 | - | 4 170 458 | 11 403 785 | 7 233 327 | 44.19 |
| Cash and cash equivalents | 39 248 714 | - | 39 248 714 | 181 519 351 | 142 270 637 | 44.20 |
| | 51 290 017 | - | 51 290 017 | 199 797 478 | 148 507 461 | |
| Non-Current Assets | | | | | | |
| Investment property | 33 511 900 | - | 33 511 900 | 33 511 900 | - | |
| Property, plant and equipment | 736 784 467 | - | 736 784 467 | 630 384 331 | (106 400 136) | 44.21 |
| Intangible assets | 4 132 426 | - | 4 132 426 | 692 127 | (3 440 299) | 44.22 |
| Heritage assets | - | - | - | 9 | 9 | |
| | 774 428 793 | - | 774 428 793 | 664 588 367 | (109 840 426) | |
| Total Assets | 825 718 810 | - | 825 718 810 | 864 385 845 | 38 667 035 | |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| Payables from exchange transactions | - | - | - | 29 509 535 | 29 509 535 | 44.23 |
| Employee benefit obligation | 2 000 000 | - | 2 000 000 | 980 000 | (1 020 000) | 44.24 |
| Unspent conditional grants and receipts | - | - | - | 3 683 147 | 3 683 147 | 44.25 |
| | 2 000 000 | - | 2 000 000 | 34 172 682 | 32 172 682 | |
| Non-Current Liabilities | | | | | | |
| Employee benefit obligation | - | - | - | 4 970 000 | 4 970 000 | 44.24 |
| Provisions | 11 371 056 | - | 11 371 056 | 35 874 963 | 24 503 907 | 44.25 |
| | 11 371 056 | - | 11 371 056 | 40 844 963 | 29 473 907 | |
| Total Liabilities | 13 371 056 | - | 13 371 056 | 75 017 645 | 61 646 589 | |
| Net Assets | 812 347 754 | - | 812 347 754 | 789 368 200 | (22 979 554) | |
| Net Assets | | | | | | |
| Net Assets Attributable to Owners of Controlling Entity | | | | | | |
| Reserves | | | | | | |
| Accumulated surplus | 812 347 754 | - | 812 347 754 | 789 368 200 | (22 979 554) | |

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1. Presentation of Annual Financial Statements

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

The principal accounting policy adopted in the preparation of these annual financial statements are set out below. These accounting policies are consistent with the previous period, except for the policies relating to the new standards and interpretations under note 2.1.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. Amounts are rounded off to the nearest Rand.

1.2 Reporting entity

Mbhashe Local Municipality ("the municipality") is a low capacity local government institution covering Dutywa, Willowvale and Elliotdale in the Eastern Cape.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.3 Judgements, assumptions and estimates

The preparation of financial statements in conformity with GRAP requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of GRAP that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year include:

- Impairment of debtors. Management is required to assess the debtors portfolio on an individual and collective basis and to determine an appropriate impairment based on the collection trends, type of consumer and the general economic environment.
- Provision for landfill sites. Management is required to base the provision for the rehabilitation of the landfill sites on appropriate supporting documentation and assumptions relating to available permitted airspace, airspace utilization factor and waste acceptance rate.
- Assessment of conditions related to unspent grants. Management must exercise judgment in assessing the extent to which the conditions pertaining to grants have been met in order to release an appropriate amount to revenue.
- Assets. Management are required to exercise judgment when assessing the fair value / deemed cost of an asset, the extent of any potential impairment, the useful lives and depreciation methods applied to assets.
- Intangible assets. Management is required to assess the useful life of intangible assets based on the period the asset is expected to generate net cash inflows or service potential.

Going concern assumption

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

Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated refer to Note 35. The nature and reason for the re-classification is disclosed. Where accounting errors relating to prior years have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively in terms of the requirements of the standard, and the prior year comparatives are restated accordingly.

1.4 Value add tax

The municipality accounts for VAT on the payment basis. The municipality is liable to account for VAT at the standard rate (15%) in terms of section 7 (1)(a) of the VAT Act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or is out of scope for VAT purposes.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.5 Investment property

Initial recognition

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

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

Subsequent measurement and derecognition - cost model

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Investment property is depreciated on the straight line basis over its expected useful life to its estimated residual value. The depreciable amount is determined after taking into account an asset's residual value. If at any point the residual value exceeds the carrying amount of an investment property, no depreciation is calculated on that investment property. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful life of investment property is estimated to be 40 years.

Investment property is derecognised on disposal when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.6 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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1.6 Property, plant and equipment (continued)

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.

Subsequent measurement and derecognition - cost model

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

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

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

| Item | Depreciation method | Average useful life |
|------------------|---------------------|------------------------|
| Land | Straight line | Indefinite useful life |
| Buildings | Straight line | 30 years |
| Other assets | Straight line | 5 - 10 years |
| Infrastructure | Straight line | 10 - 60 years |
| Community assets | Straight line | 30 years |

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

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

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

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

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.

Derecognition of PPE

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.

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1.6 Property, plant and equipment (continued)

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

1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The municipality recognises an intangible asset in its statement of financial position only when it meets the definition of an intangible asset and 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 reliably.

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

For intangible assets with indefinite useful life 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. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with the Standards of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Initial recognition

The cost of an item of an asset is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality.

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

Subsequent measurement - cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life.

Amortisation

Amortisation is charged so as to write off the cost of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated asset average lives

| Item | Useful life |
|--------------------------|--------------------|
| Computer software, other | 3 to 5 years |

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefit or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the surplus or deficit.

1.8 Budget information

Municipality is 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.

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1.8 Investments in controlled entities (continued)

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

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

The approved budget covers the fiscal period from 2020/07/01 to 2021/06/30.

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.

1.9 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

The fair values cannot be measured due to nature of assets. The assets are shown in the financial statements at a nominal value of R11 for record keeping.

1.10 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Related parties include Councillors, key management personnel and close members of family.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other senior managers reporting directly to the Municipal Manager and supply chain officials.

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

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

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

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1.11 Events after reporting period

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

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

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

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

1.12 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

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

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition

A financial assets/ financial liability shall be recognised in the statement of financial position when, and only when the municipality becomes a party to the contractual provisions of instrument.

Initial measurement financial assets and financial liabilities

When a financial asset/liability is recognised initially, the municipality shall measure it at its fair value plus, in the case of a financial asset/liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset/liability.

Subsequent measurement of financial assets and financial liabilities

The municipality shall measure all financial assets/liabilities after initial recognition using the following categories:

- financial instruments at amortised cost
- financial instrument at fair value

All financial assets measured at amortised cost, or cost, are subject to an impairment review in terms of GRAP 104: Financial Instruments. Financial assets are recognised using trade date accounting.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost.

Receivables from exchange transactions

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments.

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Accounting Policies

1.12 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents are recognised at fair value and subsequently carried at amortised cost using the effective interest method. Cash includes cash on hand (including petty cash) and investments comprising cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. Trade and other payables from exchange transactions reflected on the face of the statement of financial position or in the notes thereto are classified as other financial liabilities.

Financial liabilities consist of trade payables and are initially measured at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

Derecognition

Financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the asset expires, is settled or waived, or it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another party.

An entity recognises financial assets using trade date accounting.

Financial liabilities

A financial liability is derecognised when and only when the financial liability is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived).

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Accounting Policies

1.12 Financial instruments (continued)

Impairment of financial assets

A financial asset measured at amortised cost or cost, is assessed at each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the municipality on terms that the municipality would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

The municipality considers evidence of impairment at both a specific asset and collective asset level.

All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. A report on the various categories of customers is drafted to substantiate the impairment evaluation.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment, the Municipality uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in surplus or deficit and reflected in an allowance account against receivables. If impaired financial assets are written off, the write off is made against the allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through surplus or deficit, subject to the restriction that the carrying amount of the financial instrument shall not exceed what the amortised cost would have been had the impairment not been recognised.

Payables from exchange transactions

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

1.13 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.

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

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

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

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

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

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Accounting Policies

1.13 Statutory receivables (continued)

- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

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:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable 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 receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

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1.14 Leases

Municipality as lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the assets fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and not guaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The municipality recognises the aggregate payments as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Municipality as lessee

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

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Operating leases - lessor

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

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

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

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

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

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1.14 Leases (continued)

Municipality as a lessor

Under a finance lease, the Municipality recognised the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight lined revenue and actual payment received will give rise to an asset. The Municipality recognised the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

1.15 Employee benefits

Short-term employee benefits

Remuneration to employees is recognised in surplus or deficit as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

Short term employee benefits (those payable within 12 months after the service is rendered) are measured on an undiscounted basis.

An accrual is recognised for the amount expected to be paid in terms of short term bonus or leave arrangements when the municipality has a present legal or constructive obligation to pay the amount as a result of a past service provided by an employee and the amount can be estimated reliably.

Liabilities for annual leave are recognised as they accrue to the employees. The liability is based on the total amount of leave days due to the employee and the total related remuneration package.

Defined contribution plans

A defined contribution plan is a plan under which the municipality pays fixed contributions to a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the surplus or deficit in the period in which the service is rendered by the relevant employees.

The municipality makes contributions to the following plans:

- South African Municipal Workers Union National Provident Fund
- Eastern Cape Group Municipal Pension Fund
- Eastern Cape Group Municipal Gratuity Fund

The municipality makes contributions to the following medical aid schemes:

- HOSMED
- Key Health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

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1.15 Employee benefits (continued)

Other long term employee benefit

For other long term employee benefit the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries. Gains and losses arising from actuarial valuation is recognised in surplus or deficit in the year in which they occur.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation.

The municipality has an unfunded other long term employee benefit that relates to long service awards.

1.16 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

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 judgment. 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 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.

Contingencies

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

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1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.18 Revenue from exchange transactions

Revenue from exchange transactions includes revenue from service charges, rental of facilities and equipment, other income and interest received on investments.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue from the sale of goods in the ordinary course of the municipality's activities is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts. Revenue from the rendering of the services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property that has improvements and receiving service. Tariffs are determined per category of property usage, and are levied at a fixed monthly rate based on the category of the customer.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Interest income is recognised using the effective interest rate method.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

1.19 Revenue from non-exchange transactions

Revenue from non-exchange transactions includes rates levied, licences and permits, fines and grants from other spheres of government.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and if applicable, there has been compliance with the relevant legal requirements or restrictions.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable.

Fines constitute both spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. As a result, revenue from spot fines and summonses is recognised when payment is received.

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Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the definition and recognition criteria of an asset have been met.

Unconditional grants and receipts

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached restrictions, the grants are recognised as revenue when received by the entity.

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant. If the compliance with the restrictions have not been met, the revenue is deferred and recognised as a liability

Interest earned on investments arising from grants is recognised as interest earned in surplus or deficit.

1.20 Borrowing costs

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

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

1.21 Comparative figures

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

1.22 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003).

Unauthorised expenditure is accounted for as an expense in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

1.23 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

1.24 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), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

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Accounting Policies

1.25 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.

1.26 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the municipality has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Revenues and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

1.27 Operating expenditure

These expenses are accounted for on accrual basis, in the financial statements these are disclosed as administrative costs on the face of the Statement of financial performance, then further disclosed in classes in the note for administrative costs. Expenditure such as debt write off, debt impairment, depreciation and amortisation as well as impairment losses relating to non current assets are disclosed separately on the face of the Statement of financial performance.

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2021 2020

2. Investment property

| | 2021 | | | 2020 | | |
|---------------------|---------------------|--|----------------|---------------------|--|----------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 33 511 900 | - | 33 511 900 | 33 511 900 | - | 33 511 900 |

Reconciliation of investment property - 2021

| | Opening balance | Total |
|---------------------|--------------------|------------|
| Investment property | 33 511 900 | 33 511 900 |

Reconciliation of investment property - 2020

| | Opening balance | Total |
|---------------------|--------------------|------------|
| Investment property | 33 511 900 | 33 511 900 |

Rental income and operating expenditure relating to investment property was identified as not being material . As such these amounts have not been disclosed separately.

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3. Property, plant and equipment

| | 2021 | | | 2020 | | |
|-------------------------------------|----------------------|--|--------------------|----------------------|--|--------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land and Buildings | 50 091 287 | (30 326 957) | 19 764 330 | 50 091 287 | (28 537 819) | 21 553 468 |
| Other Assets | 109 952 772 | (73 193 048) | 36 759 724 | 104 367 097 | (66 503 660) | 37 863 437 |
| Infrastructure and community assets | 938 159 779 | (547 644 110) | 390 515 669 | 882 646 443 | (505 138 905) | 377 507 538 |
| Landfill site | 30 551 609 | (7 637 902) | 22 913 707 | 30 551 609 | (5 091 935) | 25 459 674 |
| WIP | 160 430 901 | - | 160 430 901 | 141 175 142 | - | 141 175 142 |
| Total | 1 289 186 348 | (658 802 017) | 630 384 331 | 1 208 831 578 | (605 272 319) | 603 559 259 |

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Impairment loss | Total |
|-------------------------------------|----------------------------|-------------------|------------------|------------------|---------------------|----------------------------|--------------------|
| Land and Buildings | 21 553 468 | - | - | - | (1 789 138) | - | 19 764 330 |
| Other Assets | 37 863 437 | 7 914 538 | (320 056) | - | (8 245 713) | (452 482) | 36 759 724 |
| Infrastructure and community assets | 377 507 538 | - | - | 55 511 725 | (42 503 594) | - | 390 515 669 |
| Landfill site | 25 459 674 | - | - | - | (2 545 967) | - | 22 913 707 |
| WIP | 141 175 142 | 74 767 484 | - | (55 511 725) | - | - | 160 430 901 |
| | 603 559 259 | 82 682 022 | (320 056) | - | (55 084 412) | (452 482) | 630 384 331 |

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Impairment loss | Total |
|-------------------------------------|--------------------|-------------------|----------------|--------------|---------------------|-----------------|--------------------|
| Land and Buildings | 23 342 606 | - | - | - | (1 789 138) | - | 21 553 468 |
| Other assets | 44 483 842 | 1 830 480 | (7 755) | - | (8 349 581) | (93 549) | 37 863 437 |
| Infrastructure and community assets | 398 717 749 | - | - | 22 478 309 | (43 688 520) | - | 377 507 538 |
| Landfill site | 28 005 642 | - | - | - | (2 545 968) | - | 25 459 674 |
| WIP | 100 489 273 | 63 164 178 | - | (22 478 309) | - | - | 141 175 142 |
| | 595 039 112 | 64 994 658 | (7 755) | - | (56 373 207) | (93 549) | 603 559 259 |

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

4. Intangible assets

| | 2021 | | | 2020 | | |
|-------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 2 793 127 | (2 101 000) | 692 127 | 2 793 127 | (1 897 081) | 896 046 |

Reconciliation of intangible assets - 2021

| | Opening balance | Amortisation | Total |
|-------------------|-----------------|--------------|---------|
| Computer software | 896 046 | (203 919) | 692 127 |

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| | | |
|-----------------|------|------|
| Figures in Rand | 2021 | 2020 |
|-----------------|------|------|

4. Intangible assets (continued)

Reconciliation of intangible assets - 2020

| | Opening balance | Amortisation | Total |
|-------------------|--------------------|--------------|---------|
| Computer software | 1 313 182 | (417 136) | 896 046 |

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5. Heritage assets

| | 2021 | | | 2020 | | |
|--|------------------|-------------------------------|----------------|------------------|-------------------------------|----------------|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Heritage assets which fair values cannot be reliably measured: (Para .94) | | | | | | |
| Mayoral Chain and Gown | 2 | - | 2 | 2 | - | 2 |
| Historical monuments | 9 | - | 9 | 9 | - | 9 |
| Total | 11 | - | 11 | 11 | - | 11 |

Reconciliation of heritage assets 2021

| | Opening balance | Total |
|--|-----------------|-----------|
| Heritage assets which fair values cannot be reliably measured: (Para .94) | | |
| Mayoral Chain and Gown | 2 | 2 |
| Historical monuments | 9 | 9 |
| | 11 | 11 |

Reconciliation of heritage assets 2020

| | Opening balance | Total |
|--|-----------------|-----------|
| Heritage assets which fair values cannot be reliably measured: (Para .94) | | |
| Mayoral Chain and Gown | 2 | 2 |
| Historical monuments | 9 | 9 |
| | 11 | 11 |

Heritage assets which fair values cannot be reliably measured

Graves, Caves and Memorial Sites

The Municipality's heritage assets consists of graves, grave sites, traditional dwelling and caves. Their fair value cannot be reliably measured. Fair value cannot be determined reliably due to nature of the assets. The assets have been allocated a nominal value of 9 for record keeping.

Following is the list of heritage assets:

. Graves (Gcaleka's Grave, King Hintsa's Grave and King Sarhili's Grave)
Memorial sites (Nqadu Great Place, Fort Bowker and Fort Malan Memorial) . Caves (Sinqumeni Caves, Ngqamakhwe Rock Art and Ludiza Cave) . Mhlakaza's House
Nongqawuse's House.

Mayoral Chain and Gown

The other heritage assets is the Mayoral Chain and Gown, value to a total amount of R2

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| Figures in Rand | 2021 | 2020 |
|--|------------------|------------------|
| 6. Operating lease liability | | |
| Operating leases - as lessee (expense) | | |
| Minimum lease payments due | | |
| -Within one year | 1 560 419 | 1 560 419 |
| -In second to fifth year | 390 105 | 1 950 524 |
| At the Statement of Financial Position date, where the municipality is a lessee under operating leases, it will have an operating lease liability. | | |
| Operating lease payments represent rentals payable by the municipality for rental of its office equipment. No contingent rental is payable. | | |
| The municipality is party to one lease commitment, which is a lease of a photocopiers. | | |
| 7. Employee benefit obligations | | |
| Defined benefit plan | | |
| The municipality has an unfunded defined benefit plan that relates to long service awards. Benefits in the form of additional leave days and cash rewards accrue to employees based on the number of years of experience. | | |
| An actuarial valuation was performed using generally accepted actuarial principles | | |
| The reporting municipality and those charged with the governance of the municipality are responsible for determining the assumption used in valuations of this nature and should give evidence of their approval of the assumptions. | | |
| The disclosures shown below assumes that actuarial gain and losses are recognised immediately as required in terms of GRAP 25,. | | |
| Defined benefit obligation | | |
| Opening balance | 5 547 000 | 4 919 428 |
| Benefits payment | (425 000) | (326 163) |
| Net expense recognised in the statement of financial performance | 828 000 | 953 735 |
| | 5 950 000 | 5 547 000 |
| Amount recognised in surplus and deficit | | |
| Current service costs | 754 000 | 733 335 |
| Current interest cost | 366 000 | 372 911 |
| Actuarial (gains) losses | (292 000) | (152 511) |
| | 828 000 | 953 735 |
| Amount recognised in statement of financial position | | |
| Current Employee Benefit Obligation | 980 000 | 1 009 000 |
| Non-Current Employee Benefit Obligation | 4 970 000 | 4 538 000 |
| | 5 950 000 | 5 547 000 |
| Reconciliation of net statement of financial position amount | | |
| Opening balance | 5 547 000 | 4 919 428 |
| Expected return | 828 000 | 953 735 |
| Expected benefit payments | (425 000) | (326 163) |
| | 5 950 000 | 5 547 000 |

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7. Employee benefit obligations (continued)

Key assumptions

| | | |
|---|--------|--------|
| Discount rates used | 9.44 % | 7.24 % |
| General earnings inflation rate (long - term) | 5.84 % | 3.90 % |

GRAP 25 stipulates that the choice of discount rate should be derived from government bond yields consistent with the estimated term of the employee benefits liabilities. However, where there is no deep market in government bonds with sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve. Consequently, a discount rate of 9.44% per annum has been used. This yield was obtained by calculating the duration of the liability and then taking the yield from the yield curve at that duration using an iterative process (because the yield depends on the duration, which in turn depends on the liability). The corresponding liability - weighted index - linked yield is 3.91%. These rates do not reflect any adjustment for taxation, and were deduced from the interest rate data obtained from the JSE after the market close on 30 June 2021. The duration of the liability was estimated to be 10 years.

For the purposes of the valuation the difference between the discount rate and the salary inflation rate is more significant than the individual items. The salary inflation gap of 1.% applied in 2021 [2020: 1.0%] is consistent with rates generally used in the market for the valuation of benefits of this nature.

The results of the valuation are sensitive to the assumptions chosen.

Sensitivities

| | | |
|--|-----------|-----------|
| 1% increase in discount rate | 5 598 000 | 5 227 000 |
| Decreases in defined benefit obligation Percentage | 6.0 % | 6.0 % |
| | - | - |
| 1% decrease in discount rate | 6 346 000 | 5 909 000 |
| Increases in defined benefit obligation Percentage | 7.0 % | 7.0 % |
| | - | - |
| 1% increase in salary inflation | 6 330 000 | 5 891 000 |
| Increases in defined benefit obligation Percentage | 6.0 % | 6.0 % |

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

The municipality makes contributions to the following plans:

- South African Municipal Workers Union National Provident Fund
- Eastern Cape Municipal Pension Fund
- Eastern Cape Municipal Gratuity Fund

The municipality makes contributions to the following medical aid schemes:

- HOSMED
- Key health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

These contributions have been expensed.

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| Figures in Rand | 2021 | 2020 |
|--|----------------|------------------|
| 8. Receivables from exchange transactions | | |
| Prepayments | 210 759 | 1 409 973 |
| Staff Debtors | 174 280 | 166 476 |
| | 385 039 | 1 576 449 |

Staff debtors are made of rental income for municipal buildings rented by officials of the municipality which are not yet received from these tenants as at 30 June 2021. Included in the prepayments is an amount paid to Target Line for guns not yet received by 30 June 2021.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2021

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| | | |
|-----------------|------|------|
| Figures in Rand | 2021 | 2020 |
|-----------------|------|------|

9. Receivables from non-exchange transactions

| | | |
|---|-------|-------|
| Other receivables from non-exchange revenue | 2 403 | 2 403 |
|---|-------|-------|

Receivables from non-exchange transactions

Balance as at 30 June 2021

| | Opening balance | Movement | Amount written off | Closing balance |
|-------------|--------------------|----------|-----------------------|--------------------|
| SARS debtor | 2 403 | - | - | 2 403 |

This amount relates to unallocated payments due to the municipality as reflected in the SARS Statement of Account.

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| Figures in Rand | 2021 | 2020 |
|--|-------------------|-------------------|
| 10. VAT receivable | | |
| VAT refund due from SARS | 6 486 900 | 8 030 911 |
| 11. Consumer debtors | | |
| Gross balances | | |
| Rates | 38 054 345 | 27 456 653 |
| Refuse | 1 978 079 | 1 795 446 |
| | 40 032 424 | 29 252 099 |
| Less: Allowance for impairment | | |
| Consumer debtors impairment | (28 628 639) | (22 146 864) |
| Net balance | | |
| Rates | 38 054 345 | 27 456 653 |
| Refuse | 1 978 079 | 1 795 446 |
| Provision for debt impairment | (28 628 639) | (22 146 864) |
| | 11 403 785 | 7 105 235 |
| Included in above is receivables from exchange transactions | | |
| Refuse | 1 978 079 | 1 795 446 |
| Included in above is receivables from non-exchange transactions (taxes and transfers) | | |
| Rates | 38 054 345 | 27 456 653 |
| Gross balance | 40 032 424 | 29 252 099 |
| Rates | | |
| Current (0 -30 days) | 811 054 | 407 600 |
| 31 - 60 days | 818 617 | 427 402 |
| 61 - 90 days | 791 421 | 422 806 |
| 91 - 120 days | 35 633 253 | 26 198 845 |
| | 38 054 345 | 27 456 653 |
| Refuse | | |
| Current (0 -30 days) | 330 942 | 888 |
| 31 - 60 days | 326 700 | 887 |
| 61 - 90 days | 324 680 | 740 |
| 91 - 120 days | 995 757 | 1 792 931 |
| | 1 978 079 | 1 795 446 |
| General and specific impairment | (28 628 639) | (22 146 864) |

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Notes to the Annual Financial Statements

| Figures in Rand | 2021 | 2020 |
|--|---------------------|---------------------|
| 11. Consumer debtors (continued) | | |
| Summary of debtors by customer classification | | |
| Consumers | | |
| Current (0 -30 days) | 431 185 | 212 863 |
| 31 - 60 days | 457 419 | 213 854 |
| 61 - 90 days | 446 188 | 209 865 |
| 91 - 120 days | 17 927 085 | 13 951 097 |
| | <u>19 261 877</u> | <u>14 587 679</u> |
| Less: Allowance for impairment | (18 335 025) | (11 990 203) |
| | 926 852 | 2 597 476 |
| Industrial/ commercial | | |
| Current (0 -30 days) | 417 856 | 166 390 |
| 31 - 60 days | 394 639 | 164 008 |
| 61 - 90 days | 380 443 | 162 812 |
| 91 - 120 days | 9 621 027 | 7 454 789 |
| | <u>10 813 965</u> | <u>7 947 999</u> |
| Less: Allowance for impairment | (10 293 613) | (4 826 408) |
| | 520 352 | 3 121 591 |
| National and provincial government | | |
| Current (0 -30 days) | 292 956 | 29 235 |
| 31 - 60 days | 293 259 | 50 427 |
| 61 - 90 days | 289 469 | 50 869 |
| 91 - 120 days | 9 080 898 | 6 585 890 |
| | <u>9 956 582</u> | <u>6 716 421</u> |
| Total | | |
| Current (0 -30 days) | 1 141 996 | 408 488 |
| 31 - 60 days | 1 145 317 | 428 289 |
| 61 - 90 days | 1 116 101 | 423 545 |
| 91 - 120 days | 36 629 010 | 27 991 776 |
| | <u>40 032 424</u> | <u>29 252 098</u> |
| Less: Allowance for impairment | (28 628 639) | (22 146 863) |
| | 11 403 785 | 7 105 235 |
| Less: Provision for debt impairment | | |
| Impairment provision | (28 628 639) | (22 146 864) |
| Reconciliation of allowance for impairment | | |
| Balance at beginning of the year | (22 146 864) | (19 953 847) |
| Contributions to allowance | (6 481 775) | (2 193 017) |
| | (28 628 639) | (22 146 864) |
| 12. Cash and cash equivalents | | |
| Cash and cash equivalents consist of: | | |
| Cash on hand | 5 497 | 4 309 |
| Cash at bank | 152 637 040 | 6 516 402 |
| Short-term deposits | 28 876 814 | 105 196 027 |
| | <u>181 519 351</u> | <u>111 716 738</u> |

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12. Cash and cash equivalents (continued)

The municipality had the following bank and investment accounts:

| Account number / description (Continued) | Bank statement balances | | | Cash book balances | | |
|---|-------------------------|--------------------|-------------------|--------------------|--------------------|-------------------|
| | 30 June 2021 | 30 June 2020 | 30 June 2019 | 30 June 2021 | 30 June 2020 | 30 June 2019 |
| First National Bank Limited- Call Account - Account number 62562355373 | 106 663 | 104 641 | 100 281 | 106 663 | 104 641 | 100 281 |
| First National Bank Limited - Call Account - Account number 62562352410 | 12 470 | 12 439 | 6 790 | 12 470 | 12 439 | 6 790 |
| First National Bank Limited - Call Account - Account number 62562829188 | 222 672 | 110 411 | 36 221 | 222 672 | 110 411 | 36 220 |
| First National Bank Limited - Call Account - Account number 62562827364 | 41 217 | 86 293 | 989 890 | 41 217 | 86 293 | 989 890 |
| First National Bank Limited - Call Account - Account number 62562354002 | 99 419 | 97 583 | 879 639 | 99 419 | 97 583 | 879 640 |
| First National Bank Limited - Cheque account - Account number 62231175953 | 144 104 264 | 5 255 557 | 3 415 961 | 152 587 381 | 6 516 402 | 3 396 508 |
| First National Bank - Call Account - Account Number 62857917010 | 355 884 | - | - | 355 884 | - | - |
| First National Bank Limited - Call Account - Account Number 62015966099 | 4 004 | 4 810 | 4 791 | 4 005 | 4 811 | 4 791 |
| First National Bank Limited - Call Account - Account Number 62231177769 | 15 285 222 | 12 134 285 | 26 090 | 15 285 222 | 12 134 285 | 26 090 |
| First National Bank Limited - Money Market Account - Account Number 62231195323 | 94 403 | 92 884 | 89 923 | 94 403 | 92 884 | 89 923 |
| First National Bank - Call Account - Account Number 62232870487 | 246 567 | 167 563 | 123 520 | 246 567 | 167 563 | 123 520 |
| First National Bank - 7 Day Interest Plus - Account Number 74321424942 | 1 755 952 | 87 105 341 | 11 632 941 | 1 755 951 | 87 105 340 | 11 632 941 |
| First National Bank - Call Account - Account Number 74813155287 | 10 652 340 | 5 279 778 | - | 10 652 340 | 5 279 778 | - |
| Cash on hand | - | - | - | 5 497 | 4 309 | 1 949 |
| Total | 172 981 077 | 110 451 585 | 17 306 047 | 181 469 691 | 111 716 739 | 17 288 543 |

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Figures in Rand 2021 2020

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

| | | |
|-----------------|------------------|------------------|
| Covid 19 Grant | - | 835 148 |
| MIG | 799 345 | - |
| Library Grant | 1 202 921 | 715 135 |
| TETA SETA Grant | 4 620 | 4 620 |
| INEP | 1 676 261 | 7 088 218 |
| | 3 683 147 | 8 643 121 |

Movement during the year

| | | |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | 8 643 121 | 5 624 274 |
| Additions during the year | 71 833 161 | 84 878 888 |
| Income recognition during the year | (76 793 135) | (81 860 041) |
| | 3 683 147 | 8 643 121 |

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

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

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

These amounts are invested in a ring-fenced investment until utilised or paid back to National Revenue Fund

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14. Provisions

Reconciliation of provisions - 2021

| | Opening Balance | Increase due to unwinding of discount | Total |
|------------------------------|----------------------------|--|--------------|
| Environmental rehabilitation | 34 004 704 | 1 870 259 | 35 874 963 |

Reconciliation of provisions - 2020

| | Opening Balance | Increase due to unwinding of discount | Total |
|------------------------------|----------------------------|--|--------------|
| Environmental rehabilitation | 32 231 948 | 1 772 756 | 34 004 704 |

Environmental rehabilitation provision

The Waste Act, through the DWAF minimum requirements for landfilling, sets out the regulatory requirements for properly close and maintain all active and inactive landfill sites. Under Environmental Law, there is a requirement or closure and post closure care of solid waste landfill sites. This requirement is to be provided for over the estimated remaining life of the landfill site based on usage. Landfill closure and post closure care requirements have been defined in accordance with industry standards and include final covering and landscaping of the landfill, pumping of ground water and leachates from the site, and on-going environmental monitoring, site inspection and maintenance.

The reported liability is based on estimates and assumptions with respect to events extending over the lifespan of the site using the best information available as at 30 June 2021..

The liability reported herein has been recognised based on estimates of future expenses, long term inflation rates and discount rates..

Dutywa, Willowvale and Elliotdale landfill sites

Based on the recent report done by the Environmental Expert, the expected useful life of the three landfill sites is 10 years respectively.

The most critical assumptions used in arriving to the figures that are disclosed for the provision of rehabilitation of the three sites were as follows:

A service provider would be used for the work to be done , not municipal personnel. It should be noted that part of the work done or to be done with regard to rehabilitation can be or is done by municipal personnel (Capping layers). In that case work to be done is accounted for using other GRAP Standards and necessary influencing the provision. For example an entity can have some of the necessary machinery used during rehabilitation such as dozers and trucks as it is the case with MLM. This then influence the cost price for rehabilitation work to be done since municipal personnel would be used. The average rate of inflation in South Africa over the last 10 years has been +/- 5.5% and that is the rate that has been used in provision figures that have been calculated and adjusted for retrospectively up to 30 June 2021.

The accounting for depreciation has been done on straight line basis..

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| Figures in Rand | 2021 | 2020 |
|---|--------------------|--------------------|
| 15. Payables from exchange transactions | | |
| Trade payables | 9 729 699 | 30 429 099 |
| Debtors with credit balances | 2 315 450 | 2 837 147 |
| Accrued leave pay | 10 404 635 | 9 969 666 |
| Accrued bonus (13th Cheque) | 5 166 436 | 2 204 905 |
| Contract retentions | 1 893 314 | 109 174 |
| | 29 509 534 | 45 549 991 |
| 16. Revenue | | |
| Service charges | 3 490 932 | 309 216 |
| Rental of facilities and equipment | 1 654 342 | 1 773 886 |
| Interest received (trading) | 3 046 752 | 1 169 345 |
| Other income | 2 073 473 | 1 489 802 |
| Interest received - investment | 5 717 407 | 5 823 200 |
| Property rates | 11 621 772 | 12 760 143 |
| Licences and permits | 2 689 023 | 1 228 229 |
| Government grants & subsidies | 390 794 134 | 331 324 041 |
| Fines and Penalties | 1 083 420 | 2 102 954 |
| | 422 171 255 | 357 980 816 |
| The amount included in revenue arising from exchanges of goods or services are as follows: | | |
| Service charges | 3 490 932 | 309 216 |
| Rental of facilities and equipment | 1 654 342 | 1 773 886 |
| Interest received (trading) | 3 046 752 | 1 169 345 |
| Other income (Refer to note 19) | 2 073 473 | 1 489 802 |
| Interest earned - investments | 5 717 407 | 5 823 200 |
| | 15 982 906 | 10 565 449 |
| The amount included in revenue arising from non-exchange transactions is as follows: | | |
| Taxation revenue | | |
| Property rates | 11 621 772 | 12 760 143 |
| Licence and permits | 2 689 023 | 1 228 229 |
| Transfer revenue | | |
| Government grants & subsidies | 390 794 134 | 331 324 041 |
| Fines and penalties | 1 083 420 | 2 102 954 |
| | 406 188 349 | 347 415 367 |
| 17. Service charges | | |
| Refuse removal | 3 490 932 | 309 216 |
| 18. Rental of facilities and equipment | | |
| Premises | | |
| Premises | 1 545 056 | 1 473 990 |
| Rental of Halls | 27 635 | 135 688 |
| Rentals of Billboards | 81 651 | 164 208 |
| | 1 654 342 | 1 773 886 |

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| Figures in Rand | 2021 | 2020 |
|---|-----------------------|-----------------------|
| 19. Other income | | |
| Administrative Fees | 1 500 043 | 1 184 456 |
| Building Plans | 352 610 | 155 146 |
| Burial and cemetery | 6 860 | 4 250 |
| Sundry income | 213 960 | 145 950 |
| | 2 073 473 | 1 489 802 |
| 20. Interest received - external investments | | |
| Interest revenue | | |
| Interest on bank accounts and investment balances | 5 717 407 | 5 823 200 |
| 21. Property rates | | |
| Rates charged | | |
| Assessment rates | 11 621 772 | 12 760 143 |
| Valuations | | |
| Residential | 19 140 130 300 | 19 140 130 300 |
| Commercial | 16 068 465 800 | 16 068 465 800 |
| State | 15 924 730 000 | 15 924 730 000 |
| Municipal | 26 433 124 500 | 26 433 124 500 |
| | '7 566 450 600 | '7 566 450 600 |

The Applicable general rates for current financial period and its comparative year is as follows:

A general rate of 0.00712 (2020: 0.00712) is applied to residential property valuations to determine assessment rates.
A general rate of R 0.00946 (2020: R 0.00946) is applied to business property valuations to determine assessment rates.
A general rate of R 0.01064 (2020: R 0.01064) is applied to government property valuations to determine assessment rate
A general rate of R 0.00827 (2020: R 0.00827) is applied to Vacant Sites valuations to determine assessment rates

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| Figures in Rand | 2021 | 2020 |
|--|--------------------|--------------------|
| 22. Government grants and subsidies | | |
| Operating grants | | |
| Equitable share | 314 001 000 | 249 464 000 |
| Covid 19 Grant | 835 148 | 505 852 |
| Integrated Electrification Programme | 11 903 957 | 7 992 782 |
| Finance Management Grant | 1 699 999 | 1 770 000 |
| TETA SETA | - | 375 005 |
| Disaster Emergency Housing Grant | - | 5 284 162 |
| Municipal Infrastructure Grant | 58 064 655 | 59 992 000 |
| LG SETA Grant | 130 161 | 185 263 |
| Library subsidies | 12 214 | 124 977 |
| Extended Public Works Programme | 4 147 000 | 5 630 000 |
| | 390 794 134 | 331 324 041 |

Conditional and Unconditional

Included in above are the following grants and subsidies received:

| | | |
|--|--------------------|--------------------|
| Conditional grants received and transferred to revenue | 76 793 134 | 81 860 041 |
| Unconditional grants received | 314 001 000 | 249 464 000 |
| | 390 794 134 | 331 324 041 |

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Finance Management Grant

| | | |
|---|-------------|-------------|
| Current-year receipts | 1 700 000 | 1 770 000 |
| Conditions met - transferred to revenue | (1 700 000) | (1 770 000) |
| | - | - |

The Financial Management Grant is a conditional grant. The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA. The focus of the FMG Grant is to build awareness and undertake training on MFMA reforms including budgeting, reporting and financial processes.

Municipal Infrastructure Grant

| | | |
|---|--------------|--------------|
| Current-year receipts | 58 864 000 | 59 992 000 |
| Conditions met - transferred to revenue | (58 064 655) | (59 992 000) |
| Unspent conditional grant | (799 345) | - |
| | - | - |

The Municipal Infrastructure Grant is a conditional grant, the purpose of which is to provide all South Africans with at least a basic level of service through the provision of grant finance to cover the capital cost of basic infrastructure for the poor. It is part of government's overall strategy to eradicate poverty and to create good conditions for local economic development. The Municipality utilises these funds to primarily fund access roads and related infrastructure.

Disaster Emergency housing grant

| | | |
|---|---|-------------|
| Balance unspent at beginning of year | - | 5 284 162 |
| Conditions met - transferred to revenue | - | (5 284 162) |
| | - | - |

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

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|-----------------|------|------|

22. Government grants and subsidies (continued)

Covid 19 Grant

| | | |
|---|-----------|----------------|
| Balance unspent at beginning of year | 835 148 | - |
| Current-year receipts | - | 1 341 000 |
| Conditions met - transferred to revenue | (835 148) | (505 852) |
| | - | 835 148 |

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

EPWP

| | | |
|---|-------------|-------------|
| Current-year receipts | 4 147 000 | 5 630 000 |
| Conditions met - transferred to revenue | (4 147 000) | (5 630 000) |
| | - | - |

The Expanded Public Works Programme (EPWP) is a conditional grant and is one of government's short-to-medium term programs aimed at alleviating and reducing unemployment. The EPWP will achieve this aim through the provision of work opportunities coupled with training.

TETA SETA GRANT

| | | |
|---|--------------|--------------|
| Balance unspent at beginning of year | 4 620 | - |
| Current-year receipts | - | 379 625 |
| Conditions met - transferred to revenue | - | (375 005) |
| | 4 620 | 4 620 |

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

Integrated Electrification Programme Grant

| | | |
|---|------------------|------------------|
| Balance unspent at beginning of year | 7 088 218 | - |
| Current-year receipts | 6 492 000 | 15 081 000 |
| Conditions met - transferred to revenue | (11 903 957) | (7 992 782) |
| | 1 676 261 | 7 088 218 |

The Integrated Electrification Programme is a conditional grant. The purpose of the Integrated Electrification Programme Grant is to facilitate the development of the electrical infrastructure grid as part of the Integrated National Electrification Programme. The unspent conditional grant is as follows R838 185.70 relates to the current year receipt, R838 074.63 relates to the 2019/20 rollover amount.

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|--|--------------------|--------------------|
| 23. Employee related costs | | |
| Bargaining council contributions | 31 664 | 29 479 |
| Basic | 64 379 802 | 66 824 117 |
| Bonus (13th cheque) | 8 486 989 | 5 914 425 |
| Casual wage employment | 12 419 766 | 14 281 893 |
| Cellphone Allowance | 6 108 786 | 6 825 615 |
| Performance bonus | - | 647 310 |
| Housing benefits and allowances | 3 201 734 | 2 866 116 |
| Leave related costs | 906 758 | 2 247 099 |
| Long-service awards | 938 610 | 228 270 |
| Medical aid - company contributions | 6 539 067 | 6 145 921 |
| Overtime payments | 594 630 | 950 261 |
| Post-employment benefits | 15 373 905 | 13 635 110 |
| Stand by Allowances | 387 665 | 131 069 |
| Travel, motor car, accommodation, subsistence and other allowances | 6 801 015 | 2 768 906 |
| Unemployment Insurance Fund | 773 211 | 641 623 |
| | 126 943 602 | 124 137 214 |

Remuneration of Municipal Manager

| | | |
|---|------------------|------------------|
| Annual remuneration | 1 139 787 | 1 073 861 |
| Backpay | - | 88 341 |
| Bonus (Structured) | 44 480 | 44 480 |
| Performance bonus | - | 118 612 |
| Contributions to UIF, medical and pension funds | 12 054 | 18 532 |
| Travel, motor car, accommodation, subsistence and other allowance | 394 755 | 372 670 |
| Acting allowance | 9 797 | - |
| | 1 600 873 | 1 716 496 |

Mr M. Nako was appointed as Municipal Manager from December 2017. Miss T Bacela acted as Municipal Manager in February 2021.

Remuneration of Chief Finance Officer

| | | |
|---|----------------|------------------|
| Annual remuneration | 658 414 | 655 612 |
| Backpay | - | 59 927 |
| Bonus | 25 000 | 61 464 |
| Performance bonus | - | 159 805 |
| Travel, motor car, accommodation, subsistence and other allowance | 242 365 | 230 489 |
| Contributions to UIF, medical and pension funds | 38 117 | 16 322 |
| Acting allowance | 4 201 | 2 734 |
| Leave pay | - | 186 254 |
| | 968 097 | 1 372 607 |

Mr V Jam jam acted as the CFO from June 2020 to August 2020, Mr N Nokwe was appointed as Chief Finance Officer from September 2020.

Remuneration of Senior Manager - Community Services

| | | |
|---|------------------|------------------|
| Annual remuneration | 893 024 | 843 062 |
| Performance bonus | - | 89 442 |
| Travel, motor car, accommodation, subsistence and other allowance | 297 675 | 281 021 |
| Contributions to UIF, medical and pension funds | 11 029 | 15 497 |
| | 1 201 728 | 1 229 022 |

Mr NP Mlungu was appointed as director from July 2018.

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| | 2021 | 2020 |
|--|------|------|
|--|------|------|

23. Employee related costs (continued)

Remuneration of Senior Manager Corporate Services

| | | |
|--|------------------|----------------|
| Annual remuneration | 773 863 | 343 396 |
| Performance bonus | - | 122 927 |
| Leave pay | - | 214 191 |
| Backpay | - | 19 289 |
| Bonus (Structured) | 15 000 | - |
| Travel, motorcar, accomodation, subsistance and other allowances | 336 753 | 51 220 |
| Contributions to UIF, medical and pension funds | 46 424 | 17 348 |
| Acting allowance | - | 90 776 |
| | 1 172 040 | 859 147 |

Mr MP Nini was appointed as director from June 2015 and resigned on 30 August 2019. Ms G Sityata started acting as Director: Corporate Services on 01 September 2019. Ms Mahlathi-Nkuhlu was appointed as Director from April 2020.

Remuneration of Senior Manager Infrastructure Services

| | | |
|---|------------------|------------------|
| Annual remuneration | 820 694 | 771 422 |
| Backpay | - | 65 696 |
| Bonus (Structured) | 60 000 | 60 000 |
| Travel, motor car, accomodation, subsistence and other allowances | 294 874 | 277 141 |
| Contributions to UIF, Medical and Pension Fund | 24 251 | 47 325 |
| | 1 199 819 | 1 221 584 |

Mr S.Z.I Msipha was appointed as Senior Manager from May 2019.

Remuneration of Senior Manager Operations

| | | |
|---|------------------|------------------|
| Annual remuneration | 837 123 | 787 161 |
| Backpay | - | 66 616 |
| Bonus (Structured) | 55 901 | 55 901 |
| Performance bonus | - | 156 524 |
| Travel, motor car, accomodation, subsistence and other allowances | 304 739 | 281 021 |
| Contributions to UIF, Medical and Pension Funds | 10 569 | 16 173 |
| | 1 208 332 | 1 363 396 |

Mrs T Bacela was appointed as Senior Manager Operations from July 2018.

Remuneration of Senior Manager Planning and Development

| | | |
|--|------------------|------------------|
| Annual remuneration | 820 694 | 771 422 |
| Backpay | - | 65 696 |
| Bonus (Structured) | 60 000 | 60 000 |
| Travel, motor car, accomodation, subsistence and other allowance | 295 522 | 277 141 |
| Contributions to UIF, medical and pension funds | 44 655 | 47 325 |
| | 1 220 871 | 1 221 584 |

Mr A Mashaba was appointed as Director from May 2019.

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|---|-------------------|-------------------|
| 24. Remuneration of Councillors | | |
| Mayor | 860 859 | 921 737 |
| Speaker | 688 688 | 737 644 |
| Executive Committee Members | 3 416 739 | 3 480 351 |
| Chief WHIP | 645 645 | - |
| Council remuneration | 14 596 205 | 14 502 442 |
| Councillors' allowance | 1 837 255 | 2 561 194 |
| | 22 045 391 | 22 203 368 |
| 25. Depreciation and amortisation | | |
| Property, plant and equipment | 55 289 637 | 56 806 927 |
| 26. Finance costs | | |
| Interest paid on trade and other payables | 204 801 | 31 016 |
| Change in landfill site provision | 1 870 259 | 2 042 519 |
| | 2 075 060 | 2 073 535 |
| 27. Debt impairment | | |
| Debt impairment | 6 481 775 | 2 888 615 |

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| Figures in Rand | 2021 | 2020 |
|---|-------------------|-------------------|
| 28. Administrative and other expenditure | | |
| Accounting and Professional fees | 3 773 782 | 4 608 290 |
| Advertising | 1 320 928 | 1 230 661 |
| Audit committee fees | 588 733 | 235 173 |
| Auditors remuneration | 3 660 231 | 5 325 928 |
| Bank charges | 536 967 | 569 696 |
| Catering | 1 108 635 | 1 185 741 |
| Cleaning | 810 244 | 673 021 |
| Conferences and seminars | 819 782 | 285 650 |
| Consumables | 270 110 | 67 605 |
| Electricity | 1 962 320 | 3 055 506 |
| Fuel and oil | 6 550 771 | 5 855 351 |
| Hiring charges | 3 954 981 | 840 492 |
| IT Expenses | 2 102 681 | 1 923 274 |
| Indigent subsidies | 252 917 | 822 602 |
| Insurance | 1 870 949 | 1 576 553 |
| Lease rentals on operating lease | 1 795 431 | 4 560 849 |
| Legal costs | 2 824 713 | 2 182 673 |
| Library expenses | 12 214 | 124 977 |
| Motor vehicle expenses | 222 674 | 55 173 |
| Other expenses | 712 205 | 3 484 121 |
| Postage and courier | 100 | 3 558 |
| Printing and stationery | 1 122 613 | 1 077 491 |
| Project maintenance costs | 10 102 302 | 9 712 712 |
| Promotions and Branding | 423 994 | 82 124 |
| Protective clothing | 286 116 | 1 461 174 |
| Refuse | 806 989 | 2 924 048 |
| Repairs and maintenance | 27 031 276 | 11 121 488 |
| Safety Plan | 227 000 | 196 882 |
| Security (Guarding of municipal property) | 7 061 922 | 5 913 642 |
| Skills development | 987 399 | 892 948 |
| Special programme | 165 303 | 21 026 |
| Subscriptions and membership fees | 2 076 244 | 1 082 132 |
| Telephone and fax | 674 254 | 856 112 |
| Tourism development | 221 500 | 227 201 |
| Traditional leaders | 422 924 | 778 976 |
| Training and development | 943 791 | 634 670 |
| Travel - local | 2 716 707 | 3 015 007 |
| Ward Committees | 4 301 393 | 4 323 000 |
| Water | 2 134 984 | 1 340 863 |
| | 96 858 079 | 84 328 390 |

29. Auditors' remuneration

| | | |
|------|-----------|-----------|
| Fees | 3 660 231 | 5 325 928 |
|------|-----------|-----------|

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| Figures in Rand | 2021 | 2020 |
|--|--------------------|--------------------|
| 30. Cash generated from operations | | |
| Surplus | 111 704 357 | 65 443 994 |
| Adjustments for: | | |
| Depreciation and amortisation | 55 289 637 | 56 806 927 |
| Gain on sale of assets and liabilities | 320 312 | 5 226 |
| Impairment deficit | 453 042 | 93 548 |
| Debt impairment | 6 481 775 | 2 888 615 |
| Movements in retirement benefit assets and liabilities | 403 000 | 627 571 |
| Movements in provisions | 1 870 259 | 1 772 756 |
| Changes in working capital: | | |
| Receivables from exchange transactions | 1 191 410 | (1 183 915) |
| Consumer debtors | (10 780 325) | 1 535 382 |
| Other receivables from non-exchange transactions | - | (1 425) |
| Payables from exchange transactions | (16 040 453) | 25 180 913 |
| VAT | 1 544 011 | (3 975 021) |
| Unspent conditional grants and receipts | (4 959 974) | 3 018 847 |
| Other non cash movements due to error adjusting journals | 4 675 492 | 7 209 435 |
| | 152 152 543 | 159 422 853 |

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31. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

| | At amortised cost | Total |
|--|------------------------------|--------------------|
| Trade and other receivables from exchange transactions | 385 039 | 385 039 |
| Receivables from non-exchange transactions | 2 403 | 2 403 |
| Consumer debtors | 11 403 785 | 11 403 785 |
| Cash and cash equivalents | 181 519 351 | 181 519 351 |
| VAT Receivable | 6 486 900 | 6 486 900 |
| | 199 797 478 | 199 797 478 |

Financial liabilities

| | At amortised cost | Total |
|------------------------------|------------------------------|-------------------|
| Accrued bonus | 5 166 436 | 5 166 436 |
| Staff leave accrual | 10 404 635 | 10 404 635 |
| Contract retentions | 1 893 314 | 1 893 314 |
| Provisions | 35 874 963 | 35 874 963 |
| Trade payables | 9 729 699 | 9 729 699 |
| Unspent conditional grant | 3 683 147 | 3 683 147 |
| Employee benefit obligation | 5 950 000 | 5 950 000 |
| Debtors with credit balances | 2 315 450 | 2 315 450 |
| | 75 017 644 | 75 017 644 |

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31. Financial instruments disclosure (continued)

2020

Financial assets

| | At amortised cost | Total |
|--|------------------------------|--------------------|
| Trade and other receivables from exchange transactions | 1 576 449 | 1 576 449 |
| Receivables from non-exchange transactions | 2 403 | 2 403 |
| Consumer debtors | 8 030 911 | 8 030 911 |
| Cash and cash equivalents | 111 716 738 | 111 716 738 |
| Vat receivable | 7 105 235 | 7 105 235 |
| | 128 431 736 | 128 431 736 |

Financial liabilities

| | At amortised cost | Total |
|-------------------------------|------------------------------|-------------------|
| Accrued bonus | 2 204 905 | 2 204 905 |
| Staff leave accrual | 9 969 666 | 9 969 666 |
| Trade payables | 30 429 099 | 30 429 099 |
| Provisions | 34 004 704 | 34 004 704 |
| Employee benefits obligations | 5 547 000 | 5 547 000 |
| Contract retentions | 109 174 | 109 174 |
| Unspent conditional grant | 8 643 121 | 8 643 121 |
| Debtors with credit balances | 2 837 147 | 2 837 147 |
| | 93 744 816 | 93 744 816 |

32. Commitments

Authorised capital expenditure

Already contracted and provided for

| | | |
|----------------------|-------------------|-------------------|
| • Land and buildings | 8 671 694 | 17 769 460 |
| • Infrastructure | 24 932 890 | 33 198 708 |
| • Community Halls | 15 049 631 | 26 145 420 |
| | 48 654 215 | 77 113 588 |

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| Figures in Rand | | 2021 | 2020 |
|---|--|-------------|-------------|
| 33. Contingencies | | | |
| Contingent liabilities | | | |
| The municipality is currently party to the following contingent liabilities: | Nature of Contingent Liability | 2021 | 2020 |
| Umhlaba Consulting Group vs Mbhashe LM | Breach of contract | 172 196 | 172 196 |
| Jo Van Der Merwe Quantity Surveyor vs Mbhashe LM | | 19 634 | 19 634 |
| Changing tides 1153 vs Mbhashe LM | Breach of contract | 2 290 415 | 2 290 415 |
| Ligwa Moringa Co. vs Mbhashe LM | Breach of contract | 650 000 | 625 000 |
| L. Mrasi vs Mbhashe LM | Damages claim arising from alleged unlawful detention. | 1 200 000 | 1 200 000 |
| Zebros vs Mbhashe LM | Damages from fire | - | 81 464 |
| B. Mphikwa vs Mbhashe LM | Damages | - | 50 000 000 |
| KFC Dutywa vs MLM | Renovations | - | 684 000 |
| Mziwonke Manxiwa vs Mbhashe Local Municipality | Damages claim arising from alleged unlawful demolition of a house. | 762 525 | 762 525 |
| V.Madotyeni vs Mbhashe LM | Assault | 988 000 | 988 000 |
| M. Magalela vs Mbhashe LM | Unlawful arrest | 500 000 | 500 000 |
| Moses Mbambo vs Mbhashe LM and others | Damages claim arising from alleged assault. | - | 500 000 |
| N. Qudatele vs Mbhashe LM | Assault & Unlawful arrest | - | 700 000 |
| N. Ngxelo vs Mbhashe LM | Injury on Duty | - | 550 000 |
| S.Sondli vs Mbhashe LM | Damages claim arising from alleged unlawful demolition of a house. | 488 488 | 488 488 |
| V.Nosilela vs Mbhashe LM | Damages claim arising from alleged unlawful demolition of a house. | 905 492 | 905 492 |
| S.Manxiwa vs Mbhashe LM | Damages claim arising from alleged unlawful demolition of a house. | 1 659 043 | 1 659 043 |
| Z.Majebe vs Mbhashe LM | Damages claim arising from alleged unlawful demolition of a house. | 864 861 | 864 861 |
| S.Mlakuhlwa vs Mbhashe LM | Damages claim arising from alleged unlawful demolition of a house. | - | 114 524 |
| S.Gobeni vs Mbhashe LM | Damages claim arising from alleged unlawful demolition of a house. | - | 762 543 |
| M.H. Kepe vs Mbhashe LM | Eviction , Placement | 500 000 | 500 000 |

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| Figures in Rand | | 2021 | 2020 |
|--|--|-------------------|--------------------|
| 33. Contingencies (continued) | | | |
| M.M Mkwedi vs Mbhashe LM | Impounded vehicle | 189 920 | 189 920 |
| M.M. Nguqu vs Mbhashe LM | Unlawful search & Seizure | 200 000 | 200 000 |
| Centre Point Developers vs Mbhashe LM | Breach of contract | 18 000 000 | 43 000 000 |
| B. Njoza vs Mbhashe Local Municipality | Reversal of traffic fine | - | 2 100 |
| M. Mlonyeni vs Mbhashe LM | Unlawful arrest & prosecution | 3 000 000 | 3 900 000 |
| L.Singqumba vs Mbhashe Local Municipality | Unlawful arrest | - | 500 000 |
| Tyekes Security Services vs Mbhashe LM | Breach of contract - arrears payment | - | 2 401 622 |
| B. Mbem vs Mbhashe LM | Assault & Unlawful arrest | 400 000 | 1 150 000 |
| M. Silekwa vs Mbhashe LM | Assault & Unlawful arrest | 400 000 | 1 150 000 |
| T. Zimela vs Mbhashe LM | Assault & unlawful arrest | 400 000 | 1 150 000 |
| A. Mqikela vs Mbhashe LM | Assault & unlawful arrest | 400 000 | 1 400 000 |
| G. Sondlo vs Mbhashe LM | Assault & Unlawful arrest | 750 000 | 750 000 |
| Embo Media vs Mbhashe LM | Breach of contract | - | 500 000 |
| S. Dinca vs Mbhashe LM | Assault | 200 000 | 200 000 |
| N & S Bacela vs Mbhashe Local Municipality | Demolition of property | 10 000 | 10 000 |
| N.E Rulashe vs Mbhashe LM | Damages, loss of profit | 296 000 | 296 000 |
| Mlakuhlwa vs Mbhashe LM | Illegal demolition | - | 284 750 |
| Balintulo vs Mbhashe Local Municipality | Breach of contract | 3 112 651 | 3 112 651 |
| L.Mkhondweni vs Mbhashe LM | | - | 123 548 |
| Luyanda Tshona | Unlawful arrest | 700 000 | 700 000 |
| Nkamela Mphuthumi | Unlawful arrest | 800 000 | 800 000 |
| C.Siwndla vs Mbhashe Local Municipality | Illegal demolition | 284 750 | - |
| S. Danti vs Mbhashe Local Municipality | Damages Claim | 400 000 | - |
| P. Sinqola vs Mbhashe Local Municipality | Damages from MVA | 16 061 | - |
| M Ngqeleni vs Mbhashe Local Municipality | Damages from MVA | 28 422 | - |
| N. Jele vs Mbhashe Local Municipality | Damages from MVA | 6 026 | - |
| N. Mbana vs Mbhashe Local Municipality | Pothole Damages | 1 700 000 | - |
| Nomveliso Faniso vs Mbhashe Local Municipality | Damages Claim for unlawful removal of containers | 200 000 | - |
| Kebede Deseleng vs Mbhashe Local Municipality | Damages Claim for unlawful removal of containers | 200 000 | - |
| Boxer Superstore vs Mbhashe Local Municipality | Fire Damages | 37 200 000 | - |
| C. Ekeneziee vs Mbhashe Local Municipality | Damages Claim for unlawful removal of containers | 200 000 | - |
| | | 80 094 484 | 126 188 776 |

The following are litigations against the Municipality for which no estimate is available:

Mawethu Sakwe vs Mbhashe Local Municipality

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33. Contingencies (continued)

Mangathi Community vs Mbashe Local Municipality

Mputhi Community vs Mbashe Local Municipality

B.S. Matshabane vs Mbashe Local Municipality

Seven Days Trading 5 (Pty) Ltd vs Mbashe Local Municipality

Nkosinathi Ndlodaka vs Mbashe Local Municipality

N.S. Nombabela vs Mbashe Local Municipality

M. Macholi vs Mbashe Local Municipality

SAMWU obo Qunta, Baliso vs Mbashe Local Municipality

A.M Msindwana vs Mbashe Local Municipality

MLM// MMM Mbuli

State vs Ntlokwinendaba & Mbambo

Colmate Construction vs Mbashe Local Municipality

L. Ntshona vs Mbashe Local Municipality

A detailed register of litigation matters is maintained and available for inspection at the Municipality's registered office.

Contingent assets

The following are cases where the Municipality is a claimant:

The municipality is currently party to the following litigations:

| | Nature of the Contingent Asset | 2021 | 2020 |
|--|--|------------------|------------------|
| Fraudulent payment (Telkom) reported to SAPS | Fraudulent payment | 18 484 | 18 484 |
| Mbashe Local Municipality vs Medichex | Fraudulent deductions | 1 207 469 | 1 207 469 |
| Mbashe LM vs Various Ratepayers | Contravention of by-laws | 1 650 000 | 1 650 000 |
| Mbashe LM vs Various Tenants | Forensic investigation into land ownership | 1 100 000 | 1 100 000 |
| Mbashe LM vs S. Goben | Illegal demolition | 85 000 | 85 000 |
| | | 4 060 953 | 4 060 953 |

The following are Litigations the Municipality is the claimant, for which no estimate is available:

Shack demolition (Mbashe vs various rate payers).

Land invasion: Elliotdale

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34. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include Councillors, key management personnel and close members of family.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager and supply chain officials.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public.

Related party balances

Assessment Rates - Owing/(Owed to) by related parties

| | | |
|----------------|--------|---------|
| C.Genyane | (75) | 30 |
| M Sibingibingi | 359 | (1 387) |
| L Matiti | 13 852 | 1 643 |

Balances of amounts received from related parties for sale of land

| | | |
|--------------|--------|--------|
| M Peter | 63 600 | 63 600 |
| Sinazo Dyasi | 82 400 | 74 500 |
| M Mbomvu | 20 000 | 20 000 |
| M Mcotsho | 40 000 | 40 000 |
| N N Ndlodaka | 59 000 | 59 000 |
| B Majavu | 78 600 | 78 600 |
| M Noyila | 15 000 | 15 000 |
| T Tshika | 91 700 | 91 700 |
| M Nako | 68 800 | 48 800 |

In the prior years the municipality sold land to the community. Included in deposit received are the above amounts from councillors and employees of the municipality.

The land has not been transferred to the buyers, the municipality is still busy with the process of transferring the properties to the relevant buyers.

Related party transactions

During the year the Municipality rendered services to various Councillors residing within its jurisdiction. These services include rates and refuse charges.

Please refer to Note 25 for a detail of remuneration of Councillors.

During the year the Municipality actively monitored the amounts outstanding by Councillors and sent communications to remind all Councillors to ensure that all accounts are paid to date. And the Municipality did not have any write off of the

Below is a list of Sale of land Purchase prices and balance outstanding as at 30 June 2021 that relates to Related parties as disclosed above.

Sale of land Purchase prices and balance outstanding as at 30 June 2021

| | Purchase price | Payments received | Balance outstanding |
|--|----------------|-------------------|---------------------|
| Thembinkosi Tshika (ERF: 1133, ERF: 1132, ERF: 1131) | 95 200 | (91 700) | 3 500 |
| Mkhululi Nako (ERF: 508D) | 68 800 | (68 800) | - |
| Mninawa Peter (ERF: 469D) | 68 800 | (63 600) | 5 200 |
| Nkosinathi Nicholas Ndlodaka (ERF: 463D) | 69 000 | (69 000) | - |
| Mazola Mbomvu (ERF) | 74 000 | (20 000) | 54 000 |
| Mbongi Noyila (ERF: 472D) | 75 300 | (15 000) | 60 300 |
| Babalwa Majavu (ERF: 477) | 68 800 | (78 600) | (9 800) |
| M Mcotsho | 52 800 | (40 000) | 12 800 |
| Sinazo Dyasi (ERF 497) | 74 500 | (82 400) | (7 900) |
| | 647 200 | (529 100) | 118 100 |

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34. Related parties (continued)

Key management information

| Position | Name | Description |
|---|-----------------------|--|
| Municipal Manager | Mr M Nako | Employed in terms of Section 56 of MSA |
| Chief Financial Officer | Mr N. Nokwe | Employed in terms of Section 57 of MSA |
| Senior Manager Infrastructure Services | Mr SZI Msipha | Employed in terms of Section 57 of MSA |
| Senior Manager Corporate Services(Acting) | Mrs N Mahlathi Nkuhlu | Employed in terms of Section 57 of MSA |
| Senior Manager Community Services | Mrs NP Mlungu | Employed in terms of Section 57 of MSA |
| Senior Manager Operations | Mrs T Bacela | Employed in terms of Section 57 of MSA |
| Senior Manager Planning and Development | Mr A Mashaba | Employed in terms of Section 57 of MSA |

Remuneration of key management and Council

Councillors, Chiefs and Mayoral committee members

2021

| Name | Basic salary | Travel, accomodation , subsistence and other reimbursive claims | Structured housing allowance | Cellphone allowance paid as part monthly salary |
|---|--------------|---|------------------------------|---|
| Mayor - Cllr S. Janda | 404 316 | - | 456 543 | |
| Speaker - Cllr B. Majavu | 688 688 | - | - | |
| Chief WHIP - M. Sibingibingi | 484 234 | - | - | |
| Cllr Mr SD Kalityi (MPAC Chairperson) | 474 505 | 2 844 | - | |
| Cllr Ms X Tyodana (Womens`s Caucus Chairperson) | 349 618 | - | - | |
| Cllr Ms MK Makapela (Ethics and Members Interest Chairperson) | 262 213 | 1 929 | - | |
| Cllr Ms C Genyane (Memeber of Mayoral Committee) | 270 144 | 1 502 | - | |
| Cllr Mr M Mbomvu (Memeber of Mayoral Committee) | 484 234 | 10 593 | - | |
| Cllr Mr MM Mcotho (Memeber of Mayoral Committee) | 484 234 | 4 371 | - | |
| Cllr Ms XO Willie (Memeber of Mayoral Committee) | 270 144 | - | - | |
| Cllr Ms NM Mlandu (Memeber of Mayoral Committee) | 270 144 | - | - | |
| Cllr Ms NM Mkhedamo (Memeber of Mayoral Committee) | 360 192 | - | - | |
| Cllr Ms N Nkomonye (Memeber of Mayoral Committee) | 270 144 | - | - | |
| Cllr Mrs NN Ngomthi (Memeber of Mayoral Committee) | 360 192 | - | - | |
| Cllr Mr L Mantshiyose (Memeber of Mayoral Committee) | 484 234 | 1 254 | - | |
| Cllr Mr P Rulumeni | 204 323 | - | - | |
| Cllr Ms VN Kwedinana | 204 323 | 417 | - | |
| Cllr Mr LL Sangqu | 204 323 | 1 683 | - | |
| Cllr Mrs NO Sogayise | 204 323 | - | - | |
| Cllr Miss P Mamba | 204 323 | 1 851 | - | |
| Cllr Ms N Nqwena | 204 323 | 1 441 | - | 34 000 |
| Cllr Mr S Mwahla | 204 323 | - | - | |
| Cllr Mr B Jamnda | 204 323 | 1 523 | - | |
| Cllr Ms LM Soshankane | 204 323 | 417 | - | |
| Cllr Mr NE Mbane | 204 323 | - | - | |
| Cllr Mr M Peter | 204 323 | - | - | |
| Cllr Mr P Bungu | 272 430 | - | - | |
| Cllr Mr T Tshika | 272 430 | - | - | |
| Cllr Mr S Mantshingilane | 204 323 | - | - | |
| Cllr Mr W Namba | 204 323 | 417 | - | |
| Cllr Mr L Mahobe | 204 323 | - | - | |
| Cllr Mr ST Sitwayi | 204 323 | 417 | - | |
| Cllr Mr S Mrobo | 272 430 | 1 759 | - | |
| Cllr Mr S Ndinisa | 204 323 | - | - | |

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34. Related parties (continued)

| | | | | | | | |
|-----------------------------|---------|-------|---|--------|---|--------|---------|
| Cllr Ms V Matiwane | 204 323 | 417 | - | - | - | 68 107 | 272 847 |
| Cllr Mrs N Magatya | 204 323 | - | - | - | - | 68 107 | 272 430 |
| Cllr Mrs NB Sirunu - Ntanga | 204 323 | - | - | - | - | 68 107 | 272 430 |
| Cllr Mrs NN Mboxela | 203 668 | 2 181 | - | - | - | 67 889 | 273 738 |
| Cllr Mr NA Tyali | 204 323 | - | - | - | - | 68 107 | 272 430 |
| Cllr Mr P Mayiji | 204 323 | - | - | - | - | 68 107 | 272 430 |
| Cllr Ms PP Kondile | 204 323 | 417 | - | - | - | 68 107 | 272 847 |
| Cllr Ms N Ncetani | 204 323 | 417 | - | - | - | 68 107 | 272 847 |
| Cllr Mr M Jiya | 272 430 | - | - | - | - | - | 272 430 |
| Cllr Ms XP Baleni | 204 323 | 1 520 | - | - | - | 68 107 | 273 950 |
| Cllr Ms N Ganda | 272 430 | 417 | - | - | - | - | 272 847 |
| Cllr Ms SC Livi | 272 430 | - | - | - | - | - | 272 430 |
| Cllr Ms B Siswana | 272 430 | - | - | - | - | - | 272 430 |
| Cllr Mr M Tetyana | 204 323 | - | - | - | - | 68 107 | 272 430 |
| Cllr Mr M Takani | 204 323 | - | - | - | - | 68 107 | 272 430 |
| Cllr Mr L Matiti | 272 430 | - | - | - | - | - | 272 430 |
| Cllr Mr WM Solontsi | 204 323 | - | - | - | - | 68 107 | 272 430 |
| Cllr Miss YG Mhlathi | 272 430 | - | - | - | - | - | 272 430 |
| Cllr Mr N Mahlathi | 204 323 | - | - | - | - | 68 107 | 272 430 |
| Cllr Mrs N Tyelingane | 204 323 | - | - | - | - | 68 107 | 272 430 |
| Cllr Mr M Tshaka | 204 323 | - | - | - | - | 68 107 | 272 430 |
| Cllr Miss TP Mtyapi | 272 430 | 2 007 | - | - | - | - | 274 437 |
| Cllr Mr P Makeleni | 272 430 | 417 | - | - | - | - | 272 847 |
| Cllr Mr NN Ndlodaka | 272 430 | - | - | 34 000 | - | - | 306 430 |
| Cllr Mr S Mdikinda | 272 430 | - | - | - | - | - | 272 430 |
| Cllr Ms N Banjwa | 158 918 | - | - | - | - | - | 158 918 |
| Cllr Miss F Mbiko | 90 810 | 1 191 | - | 13 600 | - | - | 105 601 |
| Cllr Mr L Ganda | 90 810 | 308 | - | 13 600 | - | - | 104 718 |
| | - | - | - | - | - | - | - |

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34. Related parties (continued)

Remuneration of Senior Managers

2021

| | Acting Allowance | Basic salary | Self structured bonus | Contributions to UIF, medical and pension fund | Travel, motor car, accommodation, subsistence and other allowance | Total |
|---|------------------|------------------|-----------------------|--|---|------------------|
| Position | | | | | | |
| Municipal Manager | 9 797 | 1 139 787 | 44 480 | 12 054 | 394 755 | 1 600 873 |
| Chief Financial Officer | 4 201 | 658 414 | 25 000 | 38 117 | 242 365 | 968 097 |
| Senior Manager Community Services | - | 893 024 | - | 11 029 | 297 675 | 1 201 728 |
| Senior Manager Corporate Services | - | 773 863 | 15 000 | 46 424 | 336 753 | 1 172 040 |
| Senior Manager Infrastructure Services | - | 820 694 | 60 000 | 24 251 | 294 874 | 1 199 819 |
| Senior Manager Operations | - | 837 123 | 55 901 | 10 569 | 304 739 | 1 208 332 |
| Senior Manager Planning and Development | - | 820 694 | 60 000 | 44 655 | 295 522 | 1 220 871 |
| | 13 998 | 5 943 599 | 260 381 | 187 099 | 2 166 683 | 8 571 760 |

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34. Related parties (continued)

2020

| Position | Acting Allowance | Basic salary | Self structured bonus | Performance Bonus | Contributions to UIF, medical and pension fund | Travel, motor car, accommodation, subsistence and other allowance | Leave pay | Backpay | Total |
|---|------------------|------------------|-----------------------|-------------------|--|---|----------------|----------------|------------------|
| Municipal Manager | - | 1 073 861 | 44 480 | 118 612 | 18 532 | 372 670 | - | 88 341 | 1 716 496 |
| Chief Financial Officer | 2 734 | 655 612 | 61 464 | 159 805 | 16 322 | 230 489 | 186 254 | 59 927 | 1 372 607 |
| Senior Manager Community Services | - | 843 062 | - | 89 442 | 15 497 | 281 021 | - | - | 1 229 022 |
| Senior Manager Corporate Services | 90 776 | 343 396 | - | 122 927 | 17 348 | 51 220 | 214 191 | 19 289 | 859 147 |
| Senior Manager Infrastructure Services | - | 771 422 | 60 000 | - | 47 325 | 277 141 | - | 65 696 | 1 221 584 |
| Senior Manager Operations | - | 787 161 | 55 901 | 156 524 | 16 173 | 281 021 | - | 66 616 | 1 363 396 |
| Senior Manager Planning and Development | - | 771 422 | 60 000 | - | 47 325 | 277 141 | - | 65 696 | 1 221 584 |
| | 93 510 | 5 245 936 | 281 845 | 647 310 | 178 522 | 1 770 703 | 400 445 | 365 565 | 8 983 836 |

35. Prior period errors

1. During the preparation of AFS for the year, the municipality identified that some projects that were sitting in work- in-progress were already completed in the prior years and therefore they had to be capitalised into Infrastructure and community assets.

2. As a result of the issue mentioned in point 1 and the outcome of 100% verification of all assets including Infrastructure Assets the municipality had to restate comparative figures of the Commitment register.

3. During the finalisation of the 2020/2021 Audit AGSA suggested that expenditure incurred for rural electrification programme be re-classified to Work in progress then expensed into income statement when the project is complete, therefore since the amount incurred in 2019/2020 is for projects that are still in progress, we had to reclassify.

The correction of the error(s) and adjustments resulted in the following impact in the relevant annual financial statements components

Statement of financial position

| | | |
|---|---|--------------|
| Increase in amount of Property, plant and equipment | - | 24 679 934 |
| Increase in Accumulated surplus | - | (9 238 119) |
| Increase in the provisions | - | (15 441 814) |

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36. Prior-year adjustments

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

Statement of financial position

2019

| | Note | As previously reported | Correction of error | Re-assessment of Landfill Rehabilitation provision | Restated |
|-------------------------------------|------|------------------------|---------------------|--|--------------------|
| Other assets | | 44 245 525 | 238 317 | - | 44 483 842 |
| Infrastructure and community assets | | 395 530 034 | 3 187 715 | - | 398 717 749 |
| Work in progress | | 103 819 590 | (3 330 317) | - | 100 489 273 |
| Landfill Site | | 612 462 | - | 27 393 180 | 28 005 642 |
| Provisions | | (11 371 056) | - | (20 860 892) | (32 231 948) |
| | | 532 836 555 | 95 715 | 6 532 288 | 539 464 558 |

2020

| | Note | As previously reported | Correction of error | Re-assessment of Landfill Rehabilitation provision | Re-classification | Restated |
|-------------------------------------|------|------------------------|---------------------|--|-------------------|--------------------|
| Other assets | | 37 606 064 | 257 373 | - | - | 37 863 437 |
| Infrastructure and community assets | | 367 236 905 | 10 270 633 | - | - | 377 507 538 |
| Work in progress | | 145 022 529 | (10 797 599) | - | 6 950 212 | 134 224 930 |
| Landfill Site | | 510 147 | - | 24 949 527 | - | 25 459 674 |
| Provisions | | (18 562 890) | - | (15 441 814) | - | (34 004 704) |
| | | 531 812 755 | (269 593) | 9 507 713 | 6 950 212 | 541 050 875 |

Statement of financial performance

2020

| | Note | As previously reported | Correction of error | Re-assessment of Landfill Rehabilitation provision | Re-classification | Restated |
|---------------------------------------|------|------------------------|---------------------|--|-------------------|----------------------|
| Depreciation and amortisation | | (54 075 880) | (2 731 047) | - | - | (56 806 927) |
| Administrative and other expenditure | | (91 169 037) | (109 565) | - | 6 950 212 | (84 328 390) |
| Finance costs | | (300 777) | - | (1 772 758) | - | (2 073 535) |
| (deficit) Surplus for the year | | (145 545 694) | (2 840 612) | (1 772 758) | 6 950 212 | (136 355 900) |

MBHASHE LOCAL MUNICIPALITY (EC 121)

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37. Risk management

Financial risk management

The Municipality is exposed to the following risks:

- market risk (including interest rate risk);
- credit risk; and
- liquidity risk

The municipality seeks to minimise the effects of these risks in accordance with the municipality's policies approved by the Council. The municipality does not enter into or trade in financial instruments for speculative purposes.

Liquidity risk

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

The Council has the ultimate responsibility for liquidity risk management, and has established an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and cash flow requirements.

The municipality manages liquidity risk by maintaining adequate reserves and banking facilities. The Finance Department monitors the cash flow requirements on a regular basis.

The Municipality's investment portfolio consists of short term deposits and current accounts with a notice period of 30 days or less. Due to the short term nature of the portfolio a maturity analysis is not required.

Interest rate risk

Market risk is the risk that changes in market prices, such as interest rates will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Market risk consists primarily of interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipality does not enter into long term financing arrangements thereby minimising the interest rate cash flow risk exposures on long-term financing.

The exposure to interest rate risk is limited as the municipality's investment portfolio is entirely cash based. The Municipality's primary focus is not to generate interest income but rather to preserve the capital value of the funds. There has been no change since the previous financial year to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

Credit risk

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

Potential concentrations of credit rate risk consist mainly of investments, trade receivables and cash and cash equivalents.

Trade receivables comprise of a large number of consumers, dispersed across different industries and geographical areas. Trade receivables are presented net of an allowance for impairment.

The existing trade receivable portfolio has historically been significantly impaired as a result of a number of contributing factors, including an inaccurate and unreliable customer database. The municipality has started the process of cleansing its trade receivable portfolio to ensure completeness of its trade receivables. All policies affecting trade receivables have been reviewed and updated to assist the municipality in the cleansing process. Refer note 4 for more detailed information on the composition of the trade receivables portfolio.

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

| Cash and cash equivalents (including investments) are held with the following counter parties: | 2021 | 2020 |
|---|-------------|-------------|
| First National Bank | 172 981 078 | 110 451 584 |

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38. Unauthorised expenditure

Unauthorised expenditure relates to expenditure incurred which is in excess of the budgeted amount on the individual votes. No unauthorised expenditure that have been identified during the year.

39. Fruitless and wasteful expenditure

| | | |
|---|----------------|----------------|
| Opening balance | 215 044 | 184 028 |
| Fruitless and wasteful expenditure - current year | 204 783 | 31 016 |
| | 419 827 | 215 044 |

Details / incidents of fruitless and wasteful expenditure relating to this period only

| | | |
|--------------------------------------|----------------|---------------|
| SARS penalties | 189 110 | - |
| Interest on overdue accounts (Eskom) | 15 673 | 31 016 |
| | 204 783 | 31 016 |

No fruitless and wasteful expenditure was recovered during the year, And no fruitless and wasteful that has been written off by Council during the year.

40. Irregular expenditure

| | | |
|--|-------------------|-------------------|
| Opening balance | 53 814 923 | 12 360 325 |
| Add: Irregular Expenditure - current year movement | 21 120 100 | 41 454 598 |
| Less: Irregular expenditure - written off by council | (53 794 923) | - |
| | 21 140 100 | 53 814 923 |

Council has referred Irregular expenditure to EMPAC for investigation, MPAC has subsequently investigated and recommended to Council to do write off amounting R53 794 923.

Details of irregular expenditure – current year

| | |
|--|-------------------|
| BAC composition - Non-compliance with SCM | 19 616 129 |
| No Municipal rates clearance certificate/lease agreement | 1 503 971 |
| | 21 120 100 |

Analysis of Irregular Expenditure Balance - current year

| | |
|----------------------------|------------|
| Recurring from prior years | 21 120 100 |
|----------------------------|------------|

41. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA Fees

| | | |
|---------------------------------|-------------|--------------------|
| Opening balance | (1 199 213) | - |
| Current year subscription / fee | 1 199 213 | 1 041 825 |
| Amount paid - current year | - | (2 241 038) |
| | - | (1 199 213) |

The amount of R1 199 213 is a prepayment for 2020/2021 Financial year SALGA fees, these were paid early in order to take advantage of the discount offered by SALGA for early payment.

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

Contract awarded to close family members of person in the service of the state

1. During the year 2017/18 and 2018/19 awards were made to ICT Choice for the (i) Supply and delivery of Computers, (ii) Installation of Fibre and additional points, (iii) Renewal of 150 Cibecs licenses, the owner/director of ICT Choice Mr. S. Maqula is a spouse of Mrs N. Maqula who works at the Department of Human Settlements. The total value of all awards amount to R1 533 644.61 of which R16 030.63 relates to 2017/18. The total award and spending to ICT Choice for the year ended 2019/20 is R698 346.27. Total payment for 2020/2021 R1 088 393.68

Audit fees

| | | |
|---------------------------------|-------------|-------------|
| Current year subscription / fee | 4 209 266 | 5 325 928 |
| Amount paid - current year | (4 209 266) | (5 325 928) |
| | - | - |

PAYE and UIF

| | | |
|---------------------------------|--------------|--------------|
| Current year subscription / fee | 19 039 460 | 20 266 885 |
| Amount paid - current year | (19 039 460) | (20 266 885) |
| | - | - |

Pension and Medical Aid Deductions

| | | |
|---------------------------------|--------------|--------------|
| Current year subscription / fee | 27 588 608 | 21 062 589 |
| Amount paid - current year | (27 588 608) | (21 062 589) |
| | - | - |

VAT

| | | |
|----------------|-----------|-----------|
| VAT receivable | 6 486 900 | 8 030 911 |
|----------------|-----------|-----------|

VAT output payables and VAT input receivables are shown in note .

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2021:

| 30 June 2021 | Outstanding less than 90 days | Outstanding more than 90 days | Total |
|------------------------------------|-------------------------------------|-------------------------------------|---------------|
| Councillor L MATITI | 446 | 10 000 | 10 446 |
| Councillor Sibingibingi (10001855) | 597 | (238) | 359 |
| | 1 043 | 9 762 | 10 805 |

| 30 June 2020 | Outstanding less than 90 days | Outstanding more than 90 days | Total |
|---------------------|-------------------------------------|-------------------------------------|-------|
| Councillor L MATITI | 446 | 1 197 | 1 643 |

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned. Refer to note 42

Incident

| | | |
|--------------------------------------|---------------|-------------------|
| Emergency | - | 71 625 |
| Sole Supplier | - | 3 134 |
| Other exceptional cases(Impractical) | 99 485 | 13 444 014 |
| | 99 485 | 13 518 773 |

42. Deviation from supply chain management regulations

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

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

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43. Segment information

General information

Identification of segments

The Mbhashe Local Municipality reportable segments have been identified in accordance with GRAP 18. The segments of Mbhashe Local Municipality have been identified as those activities of the municipality that generate economic benefits or service potential 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.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making strategic decisions including the allocation of resources after also considering the economic and basic needs of communities as translated into the IDP. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

Aggregated segments

The Mbhashe Local Municipality divided into three units which are Dutywa, Willowvale and Elliotdale. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments between the three units are sufficiently similar to warrant aggregation.

Types of goods and/or services by segment

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

| Reportable segment | Goods and/or services |
|------------------------------------|---|
| Property rates | Levies charged for owning registered property within Mbhashe Jurisdiction |
| Refuse removal | Collecting waste, and providing waste management services to communities with Mbhashe local governance jurisdiction |
| Property rentals | Renting out municipal properties to earn income |
| Traffic Police and Law Enforcement | Maintenance of law and order, and enforcing Municipal Bylaws |
| Libraries | Offering library services to communities of Mbhashe Local Municipality |
| Cemeteries | For provision of burial sites, and maintenance thereof |
| Licensing | Offering license services |
| Roads | Provision and maintenance of roads Infrastructure and community assets |
| Tourism | Tourism development within the Mbhashe area |
| Fleet Management Services | Management of Mbhashe Fleet including yellow fleet used in the maintenance of internal roads |

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43. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2021

| | Property rates | Refuse removal | Property rentals | Traffic Police | licensing | Total |
|--|-------------------|-------------------|------------------|-------------------|------------------|---------------------|
| Revenue | | | | | | |
| Revenue from non-exchange transactions | 11 621 772 | - | - | 1 083 420 | 2 689 023 | 15 394 215 |
| Revenue from exchange transactions | - | 3 490 932 | 1 654 342 | - | - | 5 145 274 |
| Interest revenue | - | - | - | - | - | 8 764 159 |
| Total segment revenue | 11 621 772 | 3 490 932 | 1 654 342 | 1 083 420 | 2 689 023 | 29 303 648 |
| Other unallocated revenue 1 | | | | | | 390 794 134 |
| Other unallocated revenue 2 | | | | | | 2 073 473 |
| Total revenue reconciling items | | | | | | 392 867 607 |
| Municipality's revenue | | | | | | 422 171 255 |
| Expenditure | | | | | | |
| Salaries and wages | 3 085 839 | 19 501 353 | - | 9 673 788 | 2 568 509 | 34 829 489 |
| Depreciation and amortisation | - | 502 790 | 1 789 138 | 76 082 | - | 2 368 010 |
| General expenses | 604 482 | 2 643 746 | 371 740 | 351 511 | 118 043 | 4 089 522 |
| Debt impairment | 6 481 775 | - | - | - | - | 6 481 775 |
| Total segment expenditure | 10 172 096 | 22 647 889 | 2 160 878 | 10 101 381 | 2 686 552 | 47 768 796 |
| Total segmental surplus/(deficit) | | | | | | (18 465 148) |
| Total revenue reconciling items | | | | | | 392 867 607 |
| Interest expense | | | | | | (2 075 060) |
| Unallocated expenses | | | | | | (259 849 688) |
| Loss on disposal of assets | | | | | | (320 312) |
| Impairment loss | | | | | | (453 042) |
| Municipality's surplus (deficit) for the period | | | | | | 111 704 357 |

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| | Property rates | Refuse removal | Property rentals | Traffic Police | licensing | Total |
|---|----------------|----------------|------------------|----------------|-----------|--------------------|
| 43. Segment information (continued) | | | | | | |
| Assets | | | | | | |
| Segment assets | - | 4 428 106 | - | 595 000 | - | 5 023 106 |
| Unallocated assets | | | | | | 859 362 741 |
| Total assets as per Statement of financial Position | | | | | | 864 385 847 |
| Liabilities | | | | | | |
| Debtors with credit balances | 2 315 450 | - | - | - | - | 2 315 450 |
| Unallocated liabilities | | | | | | 72 702 194 |
| Total liabilities as per Statement of financial Position | | | | | | 75 017 644 |
| Other information | | | | | | Total |
| Non current assets additions | | | | | | 82 682 022 |
| Cash flows from operating activities | | | | | | 152 152 543 |
| Cash flows from investing activities | | | | | | (82 682 022) |

44. Budget differences

Material differences between budget and actual amounts

44.1 The variance is caused by the difference between the amount that was budgeted for and the actual billing. During the 2018/19 financial year, the municipality performed an exercise to clean up its billing database of invalid accounts and accounts that were unknown even though they were billed. Therefore budget considered everything including those accounts that were invalid and the actual billing excluded those invalid.

44.2 Rental of facilities is showing a negative variance against the budget, this is a reflection of poor collection rate from rental of facilities even though there was great improvement on lease rentals. However the budget has been revised down in the 2020/21 financial year due to the impact of the COVID-19 lockdown.

44.3 This relates to interest raised on outstanding debtors as per the municipality's Credit Control and Debt Collection Policy.

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44. Budget differences (continued)

44.4 The negative variance is caused by the inclusion of the VAT refunds in the budget and the actual excludes the VAT refunds since the refunds are offsetted from the balance of VAT raised when capturing transactions into the system.

44.5 The positive variance is caused by the large amounts of funds that were held in call accounts thus generating interest. This also shows that the liquidity position of the municipality improved during the 2019/20 and 2020/2021 financial year.

44.6 The municipality has been very realistic in terms of budgeting for Property Rates to make sure that it collects what it has billed. The positive variance can be attributed to government properties that were not previously billed incorrectly but corrected in the 2019/20 financial year after carrying out the cleansing exercise.

44.7 The negative variance is may be attributed to the poor collection and the impact of the COVID-19 lockdown worsened things as the collection rate dropped significantly in the first quarter.

44.8 The variance is below the significance threshold of 10% and the municipality had an unspent portion on the INEP grant

44.9 The variance is below the significant threshold of 10%

44.10 The variance is below the significance threshold of 10%.

44.11 The variance is caused by the fact that the municipality budgeted for 6.25% increment, however the MEC through the Gazette on Upper Limits approved only 4% increment for councillors and office bearers.

44.12 The variance is below the significance threshold of 10%

44.13 The actual expenditure relates to interest and penalties incurred on overdue accounts

44.14 This variance relates to the write-offs and adjustments that were made during the year in enhancing the accuracy of the billing system. Also included in the actual balance is the impairment debt provision raised on the potential uncollectable debt. The budget for this could not be projected since its based on the collection trends.

44.15 The negative variance on general expenditure is caused by strict monitoring of cash flow projections to ensure that departments spend within their approved budgets. The impact of the COVID-19 lockdown can also be seen through the low expenditure rate on general expenses which contributes to the variance.

44.16 The actual amount includes prepayment for guns that are not yet delivered and rental due from municipal staff.

44.17 Actual amount relates to the credit amount from SARS for the EMP 201

44.18 The municipality budgeted for VAT under other income on the SOFP and the actual amount relates to the VAT receivable at year-end

44.19 Actual amount has taken impairment into consideration for debtors. The municipality expects to collect the whole amount billed when budgeting.

44.20 The budgeted amount was based on the balance from previous financial year, however due to the COVID-19 lockdown the municipality was not able to complete all its projects and hence it was able to save some funds and increase its reserves.

44.21 The budget amount included previous year audited carrying amount plus Capital budget year for the current year while the actual amount is carrying amount for the current year, therefore variance is mainly made of depreciation which is budgeted for under Income Statement.

44.22 The budget amount included previous year audited carrying amount while the actual amount is carrying amount for the current year, therefore variance is made of depreciation which is budgeted for under Income Statement.

44.23 At year-end the transactions relating to June 2021 were processed, however because on the bank side they were only paid in July 2021 we have to raise them as part of our accrual list. The difference is caused by that reason because the municipality had planned to pay every invoice that belonged to 2020/21 by the end of June 2021.

44.24 On the budget these are provided for under the personnel costs.

44.25 Due to the COVID-19 lockdown, the municipality could not finish its INEP Grant hence the unspent portion.

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44. Budget differences (continued)

COVID 19

All areas of society were affected by the global pandemic as a result of the COVID-19 virus. South African government announced the national state of disaster and further gazetted regulations implementing National lockdown between level 5 to 1. 2nd wave has hit the Eastern Cape badly and affected income of some residents which in turn contributed again to low revenue collections and also has affected our procurement patterns and service delivery expectations.

The municipality continued to provide services during the national state of national disaster and raised revenue in accordance with services provided under both exchange and non-exchange revenue. Management has assessed that there have been no material changes in revenue raised for services. The nationwide lockdown has had a negative impact on the entity's recovery of income generated.

Management has considered the impact of COVID-19 and that there have been no material changes in the use of asset that would require a change in the expected useful life of assets.

Due to the lockdown and limited movement, the municipality has seen a reduction in the spending on capital projects and operational budget hence the increase in the payables from exchange transactions at year end. The municipality has disclosed any delays in capital projects as a result of national state of disaster and has applied for rollover where applicable.

Management further adjusted the 2020/2021 financial year budget as a result of additional R50 million additional equitable grant received in quarter one of the financial year and was tabled and approved by council.

No material information has come to the attention of management to suggest that there is a going concern issue. The financial statements for the year ended 30 June 2021 have been prepared under the going concern assumption.

In 2019/20 Budget for the year had to be adjusted to cater for the Covid Grant of R1 341 000 received which the municipality has managed to have a 100% spending on this grant as at 30 June 2021.