



NGQUSHWA LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2023

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

General Information

Legal form of entity	Local Municipality Ngqushwa Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no. 117 of 1998). The municipality's operations are governed by the Municipal Finance Management Act No. 56 of 2003 and other legislation.
Nature of business and principal activities	Ngqushwa is a Local Municipality rendering basic services such as Refuse Collection, Infrastructure, Economic Development and Community Services.
Executive Committee	S. Maneli - Mayor D. Ncanywa - Speaker A. Nodikida - Chief Whip and Member of the Executive Committee M. Gqo - MPAC Chairperson L. Mdabula - Member of the Executive Committee Z. Ndonga - Member of the Executive Committee
Councillors	T. Dinginto N. Hempe N. Jako N. Lawu M. Luzipho X. Magini L. Mcoboki S. Mhlakane N. Mlotana N. Mtati P. Nodala L. Nomatye B. Ntabeni N. Ntsunguzi N. Seti R. Taylor N. Totyi
Traditional Leaders	Z. Njokweni (Chief) MM. Matomela (Prince)

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General Information

Grading of local authority	3
Chief Finance Officer (CFO)	Mr. S. Ndakisa (employment vacated: 30 April 2023) Mr. L. Gwayimani (acting from 01 May 2023 to 30 June 2023)
Accounting Officer	Mr. N. Mgengo
Registered office	Corner of N2 and R345 Road Peddie 5640
Business address	Corner of N2 and R345 Road Peddie 5640
Postal address	P.O. Box 539 Peddie 5640
Bankers	First National Bank
Auditors	Auditor General of South Africa
Attorneys	External Panel of Attorneys (for 36 months) N. Majikela (Internal - Legal Advisor up to 31 March 2023)
Contact number and e-mail addresses for the municipality	(040) 673 3095 nmgengo@ngqushwamun.gov.za lgwayimani@ngqushwamun.gov.za

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

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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 used:

AFS	Annual Financial Statements
IAS	International Accounting Standards
IASB	International Accounting Standard Board
IPSAS	International Public Sector Accounting Standards
INEP	Intergrated National Electrification Programme
mSCOA	Municipal Standard Chart of Accounts
MIG	Municipal Infrastructure Grant (Previously CMIP)
GRAP	Generally Recognised Accounting Practice
PAYE	Pay As You Earn
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund

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Annual Financial Statements for the year ended 30 June 2023

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The Annual Financial Statements set out on page 5 - 76 which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2023:



Mr. N. Mgengo
Municipal Manager

NGQUSHWA LOCAL MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Position as at 30 June 2023

Figures in Rand	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Inventories	3	15 458 590	15 458 590
Operating lease asset	4	2 845 558	2 261 454
Receivables from non-exchange transactions	5	20 338 284	17 674 421
VAT receivable	6	2 115 426	3 615 838
Receivables from exchange transactions	7	2 422 146	2 011 428
Cash and cash equivalents	8	67 044 033	56 979 297
		110 224 037	98 001 028
Non-Current Assets			
Investment property	9	34 444 265	29 088 689
Property, plant and equipment	10	305 507 856	292 253 199
Heritage assets	11	3	3
		339 952 124	321 341 891
		450 176 161	419 342 919
Total Assets			
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	20 704 100	20 309 900
Payables from non-exchange transactions	13	1 509 012	2 652 077
Employee benefit obligation	14	731 000	566 000
Unspent conditional grants and receipts	15	10 485 430	-
		33 429 542	23 527 977
Non-Current Liabilities			
Employee benefit obligation	14	4 098 000	3 937 000
Provisions	16	12 469 562	11 955 716
		16 567 562	15 892 716
		49 997 104	39 420 693
Total Liabilities			
Net Assets			
Accumulated surplus		400 179 057	379 922 226
Total Net Assets		400 179 057	379 922 226

* See Note 54

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Performance for the year ended 30 June 2023

Figures in Rand	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	1 554 321	1 596 702
Rental of facilities and equipment	18	1 047 963	1 141 697
Agency fees	19	413 141	400 805
Licences and permits	20	1 162 171	2 082 867
Other revenue	21	290 720	545 124
Interest earned on Outstanding Debtors	22	236 428	239 984
Interest received - investment	23	5 568 978	2 699 052
Total revenue from exchange transactions		10 273 722	8 706 231
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	24 530 102	25 796 062
Interest on Outstanding Debtors	22	2 629 813	2 441 546
Transfer revenue			
Government grants	25	133 681 570	124 236 627
Fines and penalties	26	454 350	286 750
Other transfer revenue	27	642 582	619 904
Total revenue from non-exchange transactions		161 938 417	153 380 889
Total revenue		172 212 139	162 087 120
Expenditure			
Employee related costs	28	(80 526 559)	(77 328 152)
Remuneration of councillors	29	(10 943 479)	(9 949 995)
Depreciation and amortisation	30	(16 318 684)	(17 136 976)
Impairment of assets	31	-	(10 508 707)
Finance costs	32	(520 652)	(815 020)
Debt Impairment	33	(1 876 171)	(373 563)
Contracted services	34	(11 136 483)	(7 464 852)
General Expenses	35	(35 678 172)	(30 263 689)
Total expenditure		(157 000 200)	(153 840 954)
Operating surplus (deficit)		15 211 939	8 246 166
Loss (gain) on disposal and revaluation of assets	36	(5 044 887)	14 586 293
Surplus (deficit) for the year		20 256 826	(6 340 127)

* See Note 54

NGQUSHWA LOCAL MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2023

Statement of Changes in Net Assets for the year ended 30 June 2023

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	386 262 353	386 262 353
Balance at 01 July 2021 as restated*	386 262 353	386 262 353
Changes in net assets		
Surplus for the period	(6 340 127)	(6 340 127)
Total changes	(6 340 127)	(6 340 127)
Restated* Balance at 01 July 2022	379 922 231	379 922 231
Changes in net assets		
Surplus for the year	20 256 826	20 256 826
Total changes	20 256 826	20 256 826
Balance at 30 June 2023	400 179 057	400 179 057

Refer to note 54 on prior year adjustments

* See Note 54

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

Cash Flow Statement

Figures in Rand	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Billed services		26 824 233	28 786 084
Government Grants		144 167 000	124 236 627
Interest income		5 720 398	2 699 052
Receipts from other services		5 751 494	3 935 450
		<u>182 463 125</u>	<u>159 657 213</u>
Payments			
Payments to and on behalf of employees and councillors		(91 144 038)	(86 902 147)
Cash paid to suppliers for goods and services		(50 850 087)	(44 832 604)
		<u>(141 994 125)</u>	<u>(131 734 751)</u>
Net cash flows from operating activities	48	40 469 000	27 922 462
Cash flows from investing activities			
Purchase of property, plant and equipment	10	<u>(30 404 264)</u>	<u>(29 784 494)</u>
Net increase/(decrease) in cash and cash equivalents		10 064 736	(1 862 032)
Cash and cash equivalents at the beginning of the year		56 979 297	58 841 329
Cash and cash equivalents at the end of the year	8	67 044 033	56 979 297

* See Note 54

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts for the year ended 30 June 2023

Budget on Cash 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	1 521 337	-	1 521 337	1 554 321	32 984	53.1
Rental of facilities and equipment	744 961	-	744 961	1 047 963	303 002	53.2
Agency fees	581 509	-	581 509	413 141	(168 368)	53.3
Licences and permits	2 568 699	-	2 568 699	1 162 171	(1 406 528)	53.4
Other revenue	4 798 734	-	4 798 734	290 720	(4 508 014)	53.5
Interest earned on Outstanding Debtors	5 463 328	-	5 463 328	236 428	(5 226 900)	53.6
Interest received - investment	4 724 397	1 500 000	6 224 397	5 568 978	(655 419)	53.7
Total revenue from exchange transactions	20 402 965	1 500 000	21 902 965	10 273 722	(11 629 243)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	41 322 057	-	41 322 057	24 530 102	(16 791 955)	53.8
Interest on Outstanding Debtors	-	-	-	2 629 813	2 629 813	53.6
Transfer revenue						
Government grants	138 658 436	6 200 000	144 858 436	133 681 570	(11 176 866)	53.9
Fines and penalties	652 559	-	652 559	454 350	(198 209)	53.10
Other transfer revenue	-	-	-	642 582	642 582	53.11
Total revenue from non-exchange transactions	180 633 052	6 200 000	186 833 052	161 938 417	(24 894 635)	
Total revenue	201 036 017	7 700 000	208 736 017	172 212 139	(36 523 878)	
Expenditure						
Employee related costs	(77 824 967)	(400)	(77 825 367)	(80 526 559)	(2 701 192)	53.12
Remuneration of councillors	(10 448 059)	-	(10 448 059)	(10 943 479)	(495 420)	53.13
Depreciation and amortisation	(40 348 658)	-	(40 348 658)	(16 318 684)	24 029 974	53.14
Finance costs	-	-	-	(520 652)	(520 652)	53.15
Debt Impairment	(4 993 331)	-	(4 993 331)	(1 876 171)	3 117 160	53.16
Contracted Services	(25 535 133)	(5 773 676)	(31 308 809)	(11 136 483)	20 172 326	53.17
Grant expenditure	(54 967)	54 967	-	-	-	
General Expenses	(29 102 262)	(2 606 650)	(31 708 912)	(35 678 172)	(3 969 260)	53.18
Total expenditure	(188 307 377)	(8 325 759)	(196 633 136)	(157 000 200)	39 632 936	
Operating surplus	12 728 640	(625 759)	12 102 881	15 211 939	3 109 058	
Loss on disposal and revaluation of assets	-	-	-	(5 044 887)	(5 044 887)	53.19
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	12 728 640	(625 759)	12 102 881	20 256 826	8 153 945	

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Statement of Comparison of Budget and Actual Amounts for the year ended 30 June 2023

Budget on Cash 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						
Inventories	15 458 590	-	15 458 590	15 458 590	-	53.20
Operating lease asset	1 636 919	-	1 636 919	2 845 558	1 208 639	53.21
Receivables from non-exchange transactions	10 306 845	(2 415 000)	7 891 845	20 338 284	12 446 439	53.22
VAT receivable	-	-	-	2 115 426	2 115 426	53.23
Receivables from exchange transactions	2 224 182	642 559	2 866 741	2 422 146	(444 595)	53.24
Cash and cash equivalents	63 948 497	(3 889 935)	60 058 562	67 044 033	6 985 471	53.25
	93 575 033	(5 662 376)	87 912 657	110 224 037	22 311 380	
Non-Current Assets						
Investment property	49 265 419	(45 354)	49 220 065	34 444 265	(14 775 800)	53.26
Property, plant and equipment	269 257 626	1 794 063	271 051 689	305 507 856	34 456 167	53.27
Heritage assets	-	-	-	3	3	
	318 523 045	1 748 709	320 271 754	339 952 124	19 680 370	
Total Assets	412 098 078	(3 913 667)	408 184 411	450 176 161	41 991 750	
Liabilities						
Current Liabilities						
Payables from exchange transactions	7 272 646	1 125 068	8 397 714	20 704 100	12 306 386	53.28
Payables from non-exchange transactions	-	-	-	1 509 012	1 509 012	53.29
Employee benefit obligation	521 000	-	521 000	731 000	210 000	53.30
Unspent conditional grants and receipts	-	-	-	10 485 430	10 485 430	53.31
	7 793 646	1 125 068	8 918 714	33 429 542	24 510 828	
Non-Current Liabilities						
Provisions	14 748 353	-	14 748 353	16 567 562	1 819 209	53.32
Total Liabilities	22 541 999	1 125 068	23 667 067	49 997 104	26 330 037	
Net Assets	389 556 079	(5 038 735)	384 517 344	400 179 057	15 661 713	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	389 556 082	12 939 847	402 495 929	400 179 055	(2 316 874)	53.33

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Statement of Comparison of Budget and Actual Amounts for the year ended 30 June 2023

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Billed Services	42 121 299	-	42 121 299	26 824 233	(15 297 066)	53.34
Government Grants	138 658 436	6 200 000	144 858 436	144 167 000	(691 436)	53.35
Interest income	3 000 000	1 500 000	4 500 000	5 720 398	1 220 398	53.36
Receipt from other services	4 435 921	-	4 435 921	5 751 494	1 315 573	53.37
	188 215 656	7 700 000	195 915 656	182 463 125	(13 452 531)	
Payments						
Cash payments to suppliers for goods and services and to and on behalf of employees and councillors	(142 965 390)	(6 766 349)	(149 731 739)	(141 994 125)	7 737 614	53.38
Net cash flows from operating activities	45 250 266	933 651	46 183 917	40 469 000	(5 714 917)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(41 953 100)	(1 304 064)	(43 257 164)	(30 404 264)	12 852 900	53.39
Proceeds from sale of property, plant and equipment and investment property	100 000	-	100 000	-	(100 000)	53.40
Net cash flows from investing activities	(41 853 100)	(1 304 064)	(43 157 164)	(30 404 264)	12 752 900	
Net increase/(decrease) in cash and cash equivalents	3 397 166	(370 413)	3 026 753	10 064 736	7 037 983	53.41
Cash and cash equivalents at the beginning of the year	58 841 329	-	58 841 329	56 979 296	(1 862 033)	53.42
Cash and cash equivalents at the end of the year	62 238 495	(370 413)	61 868 082	67 044 032	5 175 950	

The accounting policies on page 12-33 and the notes on page 34-76 form an integral part of the annual financial statements.

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

Figures in Rand	Note(s)	2023	2022
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1. Presentation of Annual Financial Statements

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

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

Financial values are rounded to the nearest one Rand. No foreign exchange transactions are included in the statements.

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make judgements, estimates and assumptions that affect the carrying amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results in the future could differ from these estimates, which may be material to the annual financial statements. These estimates and underlying assumptions are reviewed 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. The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in the Annual Financial Statements:

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Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Property, plant and equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical, useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings, management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of Property, Plant and Equipment:

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciated replacement cost method, which was based on assumptions about the remaining duration of the assets.

The cost for depreciated replacement cost was determined by using either one of the following:

- Cost of items with a similar nature currently in the Municipality's asset register;
- Cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the Municipality and that the other municipality's asset register is considered to be accurate;
- Cost as supplied by suppliers.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

Intangible Assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciation cost method, which was based on assumptions about the remaining duration of the assets.

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Investment Property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

Provision for Landfill Sites

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the best estimate or net present value of the expected future cash flows to rehabilitate the landfill site at year-end. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.
- Interest rates (investment rate) linked to prime was used to calculate the effect of the time value of money.

Provision for Staff leave

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at the reporting date. This provision will be realised as employees take leave or when employment is terminated.

Provision for Performance bonuses

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historical patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by the Council.

Componentisation of Infrastructure assets

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the Standards of GRAP.

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Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post-retirement medical obligations, Long service awards

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

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

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

Impairment of Receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

Impairment of statutory receivables

The calculation in respect of the impairment of Statutory Receivables is based on an assessment of the expected recoverability of each individual receivable based on the history of recoverability of such receivables. When insufficient information is available to assess individual debtors, debtors are grouped into appropriate aggregated grouping levels. Aggregation is based on best practice. Thereafter receivables are assessed based on historical information available.

Revenue Recognition

Accounting Policy on Revenue from Non-Exchange Transactions and Accounting Policy on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.4 Investment property

Includes property 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. Investment property also includes land held for an undetermined future use.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. Where the classification of an investment property is based on management's judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties.

- Land held for a currently undetermined future use;

- A building owned (or held by under a finance lease) and leased out under one or more operating leases;

- Leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as investment properties. The rental revenue generated is incidental to the purposes for which the property is held;

- A building that is vacant but is held to be leased out under one or more operating leases;

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Accounting Policies

1.4 Investment property (continued)

- Property that is being constructed or developed for future use as investment property

Subsequent measurement - fair value model

Investment property is subsequently measured using the fair value model.

Investment property is carried at fair value, representing open market value determined by external valuers. Land is not depreciated as it is considered to have an indefinite useful life.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the Municipality determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value to be reliably measurable when construction is completed, it measures that investment property at cost until the fair value can be reliably determined or construction has been completed.

Where the Municipality has determined that the fair value of an investment property (other than investment property under construction) is not determinable on a continuing basis, the Municipality measures that investment property using the cost model.

Derecognition/Disposal

Investment properties are derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value [or carrying amount if cost model is used] at the date of change in use. If owner-occupied property becomes an investment property, the entity accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

1.5 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, its 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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1.5 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.

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight-line	15 - 60 years
Plant and machinery	Straight-line	10 - 20 years
Furniture and fixtures	Straight-line	5 - 7 years
Motor vehicles	Straight-line	7 - 15 years
Office equipment	Straight-line	5 - 18 years
Computer equipment	Straight-line	3 - 13 years
Security equipment	Straight-line	5 - 10 years
Other equipment	Straight-line	5 years
Infrastructure	Straight-line	See detail below
- Roads paved	Straight-line	30 years
- Roads graded	Straight-line	5 - 30 years
- Electricity (Street lights and High masts)	Straight-line	7 - 21 years
Minor assets		Immediately
Park facilities	Straight-line	5 - 60 years
Maintenance equipment	Straight-line	10 - 16 years
Landfill sites	Straight-line	69 - 98 years
Work-in-progress	Straight-line	Not depreciated

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

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

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

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

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

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Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

With regards to Land the Municipality makes reference to the principles contained within IGRAP 18 whereby legal title though an indicator of control does not necessarily always confer control itself. As a result, the Municipality assesses the control with regards regard to all land that it has legal title over to determine if it has the right to direct access to land, and to restrict or deny the access of others to land, by determining whether it can

**Direct the use of the land's future economic benefits or service potential to provide services to beneficiaries

**exchange, dispose of, or transfer the land; and/or

**use the land in any other way to generate future economic benefits or service potential.

1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

Accounting Policies

1.6 Intangible assets (continued)

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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

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.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

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Accounting Policies

1.7 Heritage assets (continued)

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

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

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

Classification

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

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

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost

1.9 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 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
- 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.

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Accounting Policies

1.9 Statutory receivables (continued)

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

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

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

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

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

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

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:
 - derecognises the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

Accounting Policies

1.9 Statutory receivables (continued)

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.

1.10 Leases

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.11 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

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Accounting Policies

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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Accounting Policies

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

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

Useful life is either:

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

1.14 Employee benefits

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

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

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

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

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

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

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

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

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

Accounting Policies

1.14 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.15 Provisions and contingencies (continued)

Provisions are not recognised for future operating surplus.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 45.

1.16 Capital 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.

1.17 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Accounting Policies

1.17 Revenue from exchange transactions (continued)

Interest, royalties and dividends

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

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

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

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

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

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

1.18 Revenue from non-exchange transactions

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

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

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

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

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

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

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

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Recognition

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

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

Measurement

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

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

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

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

Fines

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

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

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.19 Investment income

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

1.20 Borrowing costs

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

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

1.21 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 means:

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

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

Accounting Policies

1.23 Fruitless and wasteful expenditure

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

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

1.24 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), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25 Budget information

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

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

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

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

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

1.26 Related parties

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

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

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

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

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

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

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

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

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.26 Related parties (continued)

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

1.27 Events after reporting date

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

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

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

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

1.28 Value Added Tax (VAT)

The municipality accounts for value added tax on accrual basis but pays to/claims from SARS on a payment basis.

1.29 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Recognition

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

1.30 Segment information

A segment is an activity of an entity:

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

Management identifies reportable segments in accordance with the monthly section 71 report, which are regularly reviewed by management. Management reviews the performance on an aggregated basis of total revenue and total expenditure.

The municipality manages its assets and liability as a whole and are not reviewed on a segregated basis for each town. Segment reporting per geographical area is not deemed relevant.

The measurement basis per the monthly reports is the same as the annual financial statements.

On the first-time adoption of GRAP 18, comparative segment information is not required in terms of the transitional provisions.

Accounting Policies

1.30 Segment information (continued)

Measurement

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

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

1.31 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Standards of GRAP set out how an item should be recognised, measured and disclosed in the financial statements. In some cases, the Municipality does not recognise, measure, present or disclose information in accordance with the specific requirements outlined in the Standards of GRAP if the effect of applying those requirements are immaterial.

1.32 Cash and cash equivalents

Cash includes cash on hand, cash held with banks, and call deposits. Cash equivalents are short-term highly liquid investments with registered banking institutions with maturities of three months or less from inception, readily convertible to cash without significant change in value. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred in the Statement of Financial Performance. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any bank overdrafts.

1.33 Offsetting

Assets, liabilities, revenue and expenses have not been offset, except when offsetting is permitted or required by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise. The details of any changes in accounting policies are explained in the relevant notes to the financial statements.

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

2023

2022

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2023 or later periods:

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction

Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS@ 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board@ has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14@) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (iGRAP 7).

It is unlikely that the revisions will have a material impact on the municipality's annual financial statements.

GRAP 104 (as revised): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board@ amended its existing Standards to deal with these issues. The IASB issued IFRS@ Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS@ on Financial Instruments: Presentation and the IFRS Standard@ on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

iGRAP 21: The Effect of Past Decisions on Materiality

Background

The Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3) applies to the selection of accounting policies. Entities apply the accounting policies set out in the Standards of GRAP, except when the effect of applying them is immaterial. This means that entities could apply alternative accounting treatments to immaterial items, transactions or events (hereafter called "items").

The Board received questions from entities asking whether past decisions to not apply the Standards of GRAP to immaterial items effect future reporting periods. Entities observed that when they applied alternative accounting treatments to items in previous reporting periods, they kept historical records on an ongoing basis of the affected items. This was done so that they could assess whether applying these alternative treatments meant that the financial statements became materially "misstated" over time. If the effect was considered material, retrospective adjustments were often made.

This Interpretation explains the nature of past materiality decisions and their potential effect on current and subsequent reporting periods.

iGRAP 21 addresses the following two issues:

- Do past decisions about materiality affect subsequent reporting periods?
- Is applying an alternative accounting treatment a departure from the Standards of GRAP or an error?

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

An municipality applies judgement based on past experience and current facts and circumstances.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 25: Employee Benefits (revised April 2021)

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 103: Heritage Assets

The objective of this Standard is to prescribe the accounting and disclosure for Heritage Assets.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
3. Inventories		
Land held for distribution	15 458 590	15 458 590
Inventories consist of RDP houses not yet transferred and informal settlements on municipal land.		
4. Operating lease asset		
Leases for Land	2 845 558	2 261 454
The municipality leases land to tenants under leases covering periods ranging from 3-30 years. The leases are subject to escalation clauses as per lease agreements, resulting in straight-lining of the rentals received and receivable. The amount included above represents the difference between the actual rentals received and the calculated straight-line lease.		
Minimum lease payments receivable		
within one year	559 784	533 484
in second to fifth year inclusive	1 928 454	1 912 786
later than five years	23 779 929	24 169 282
	26 268 167	26 615 552
5. Receivables from non-exchange transactions		
Property Rates	11 443 947	9 319 675
Interest on Property Rates	11 578 689	9 097 349
Less: Impairment on Property Rates and Interest	(9 166 260)	(7 412 041)
Other Receivables	6 481 908	6 669 438
	20 338 284	17 674 421

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

	2023	2022
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5. Receivables from non-exchange transactions (continued)

Property Rates

0 - 30 days	1 373 602	273 871
31 - 60 days	533 480	396 570
61 - 90 days	500 609	166 569
91-120 days	291 332	330 106
121 - 150 days	482 087	361 651
> 151 days	20 756 776	17 198 439
	23 937 886	18 727 206

Summary of Total Debtors (Exchange and Non-Exchange) By Customer Classification:

Residential

0 - 30 days	507 406	1 018 364
31 - 60 days	194 433	188 762
61 - 90 days	172 224	175 846
91 - 120 days	142 973	141 551
121 - 150 days	156 314	160 550
> 151 days	7 905 730	6 794 291
Less: Allowance for Impairment	(7 470 627)	(6 474 676)
	1 608 453	2 004 688

Business

0 - 30 days	615 742	341 221
31 - 60 days	227 779	106 337
61 - 90 days	211 485	94 031
91 - 120 days	220 065	88 401
121 - 150 days	212 623	84 688
> 151 days	3 781 714	2 909 202
Less: Allowance for Impairment	(2 624 624)	(1 892 304)
	2 644 784	1 731 576

Government

0 - 30 days	460 928	(873 849)
31 - 60 days	165 475	179 467
61 - 90 days	168 560	177 085
91 - 120 days	(20 863)	153 500
121 - 150 days	161 592	165 175
> 151 days	11 079 786	9 479 893
	12 015 478	9 281 271

The long outstanding debtors' balances (>150 days) for the Government category relate to interest calculated on outdated/old valuations of properties.

Total debtors past due but not impaired

0 - 30 days	1 584 076	485 736
30 - 60 days	576 298	469 249
60 - 90 days	381 564	321 427
91 - 120 days	81 460	203 016
121 - 150 days	262 273	215 105
>151 days	13 383 045	11 323 003
	16 268 716	13 017 536

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Figures in Rand	2023	2022
5. Receivables from non-exchange transactions (continued)		
Reconciliation of provision for impairment allowance		
Opening balance	8 366 980	8 102 666
Contributions to allowance	1 728 271	264 314
	10 095 251	8 366 980
Total Debtors (Exchange and Non-exchange)		
Balances net of credit balances		
Balances inclusive of credit balances	26 363 967	21 384 515
Gross up of credit balances	1 509 012	2 652 077
	27 872 979	24 036 592
6. VAT receivable		
VAT	2 115 426	3 615 838
Included in the above line item are the following items:		
VAT Input Control account	663 680	593 391
VAT Receivable from SARS	1 451 746	3 022 447
	2 115 426	3 615 838
7. Receivables from exchange transactions		
Gross balances		
Refuse	1 782 738	1 708 544
Rent	406 133	329 038
Interest on Overdue Accounts	1 162 266	928 785
	3 351 137	2 966 367
Less: Allowance for impairment		
Refuse	(706 097)	(703 465)
Rent	(56 993)	(73 923)
Interest on Overdue Accounts	(165 901)	(177 551)
	(928 991)	(954 939)
Net balance		
Refuse	1 076 641	1 005 079
Rent	349 140	255 115
Interest on Overdue Accounts	996 365	751 234
	2 422 146	2 011 428
Refuse		
Current (0 -30 days)	174 743	199 715
31 - 60 days	53 195	69 997
61 - 90 days	50 649	55 739
91 - 120 days	49 831	45 348
121 - 150 days	47 430	41 708
> 151 days	1 468 141	1 385 425
	1 843 989	1 797 932

NGQUSHWA LOCAL MUNICIPALITY
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7. Receivables from exchange transactions (continued)

Rental		
Current (0 -30 days)	35 731	12 149
31 - 60 days	1 012	7 999
61 - 90 days	1 012	7 999
91 - 120 days	1 012	7 999
121 - 150 days	1 012	7 055
> 151 days	109 059	145 733
	148 838	188 934
Interest on Overdue Accounts		
> 151 days	433 254	453 790

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	62 661 801	55 581 002
Other cash and cash equivalents	4 382 232	1 398 295
	67 044 033	56 979 297

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2023	30 June 2022	30 June 2021	30 June 2023	30 June 2022	30 June 2021
FNB Main Account - 62022000898	62 661 801	55 581 002	55 476 271	62 661 801	55 581 002	55 476 271
FNB Rates Accounts - 62414349763	4 384 297	1 398 295	3 365 058	4 384 297	1 398 295	3 365 058
Petrol Card Account	(2 065)	-	-	(2 065)	-	-
Total	67 044 033	56 979 297	58 841 329	67 044 033	56 979 297	58 841 329

NGQUSHWA LOCAL MUNICIPALITY

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9. Investment property

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	34 444 265	-	34 444 265	29 088 689	-	29 088 689

Reconciliation of investment property - 30 June 2023

	Opening balance	Fair value adjustments	Total
Investment property	29 088 689	5 355 576	34 444 265

Reconciliation of investment property - 30 June 2022

	Opening balance	De-recognition	Fair value adjustments	Total
Investment property	43 342 419	(4 637 657)	(9 616 073)	29 088 689

Revenue derived from rental of Investment Property 1 047 963 1 141 697

Investment property relates to land and buildings as such no repairs and maintenance or other operating expenditure is incurred with respect to Investment Property.

There is no Investment Property which is in the process of being constructed or developed.

As there is no Investment Property which is in the process of being constructed or developed, there is no Investment Property that is taking a significant longer time to complete than expected.

There is no Investment Property where construction or development has been halted.

There are no contractual obligations to purchase, construct or develop Investment Property or for repairs, maintenance or enhancements.

No impairment losses or reversals are noted with respect to Investment Property.

There is no Investment Property used in Service Concession Agreements.

No items of Investment Property have been pledged as security.

Investment Property relates to land and buildings and is not depreciated.

Land controlled, but the Municipality does not have legal ownership or custodianship

Carrying value of land included in the carrying value of Investment property 320 150 320 150

The above relates to 6 properties for which there is no registered title deed, but for which the Municipality exercises control through lease or other binding agreements as well as having the ability to restrict others from accessing economic benefits and service potential.

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9. Investment property (continued)

Land not controlled, but the Municipality is the legal owner/custodian

Refer to the Property, Plant and Equipment, note 10 for details regarding these properties.

10. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	8 436 140	-	8 436 140	8 436 140	-	8 436 140
Buildings	158 496 999	(64 348 800)	94 148 199	154 519 086	(59 192 118)	95 326 968
Plant and Equipment	11 041 726	(5 539 600)	5 502 126	10 071 893	(4 602 438)	5 469 455
Office Furniture	2 019 163	(1 642 061)	377 102	2 019 163	(1 497 949)	521 214
Motor Vehicles	11 896 523	(5 058 497)	6 838 026	8 623 784	(4 100 634)	4 523 150
Office Equipment	1 978 162	(1 609 682)	368 480	1 834 295	(1 416 451)	417 844
IT Equipment	5 597 019	(3 432 380)	2 164 639	4 555 935	(3 008 574)	1 547 361
Infrastructure	346 490 186	(187 974 666)	158 515 520	319 652 257	(180 243 845)	139 408 412
Maintenance Equipment	1 641 729	(493 137)	1 148 592	1 062 257	(399 626)	662 631
Security Equipment	1 743 946	(744 245)	999 701	742 285	(684 557)	57 728
Other Equipment	563 430	(300 822)	262 608	563 430	(243 263)	320 167
Capital Works in Progress	17 384 412	-	17 384 412	25 692 267	-	25 692 267
Park Facilities	14 231 505	(4 869 194)	9 362 311	14 231 505	(4 361 643)	9 869 862
Minor Equipment	1 249 002	(1 249 002)	-	1 192 302	(1 192 302)	-
Total	582 769 942	(277 262 086)	305 507 856	553 196 599	(260 943 400)	292 253 199

NGQUSHWA LOCAL MUNICIPALITY

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 30 June 2023

	Opening balance	Additions	Transfers	Derecognition/write-off (cost)	Depreciation	Total
Land	8 436 140	-	-	-	-	8 436 140
Buildings	95 326 968	3 846 103	131 810	-	(5 156 682)	94 148 199
Plant and Equipment	5 469 455	969 829	-	-	(937 158)	5 502 126
Office Furniture	521 214	-	-	-	(144 112)	377 102
Motor Vehicles	4 523 150	3 272 739	-	-	(957 863)	6 838 026
Office Equipment	417 844	143 867	-	-	(193 231)	368 480
IT Equipment	1 547 361	1 041 084	-	-	(423 806)	2 164 639
Infrastructure	139 408 412	8 196 363	18 641 563	-	(7 730 818)	158 515 520
Maintenance Equipment	662 631	579 472	-	-	(93 511)	1 148 592
Security Equipment	57 728	1 001 661	-	-	(59 688)	999 701
Other Equipment	320 167	-	-	-	(57 559)	262 608
Capital Works in Progress	25 692 267	14 599 815	(18 773 373)	(4 134 297)	-	17 384 412
Park Facilities	9 869 862	-	-	-	(507 551)	9 362 311
Minor Equipment	-	56 700	-	-	(56 700)	-
	292 253 199	33 707 633	-	(4 134 297)	(16 318 679)	305 507 856

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 30 June 2022

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	8 503 748	-	(67 608)	-	-	-	8 436 140
Buildings	100 263 671	196 911	-	-	(5 133 614)	-	95 326 968
Plant and Equipment	6 191 304	181 500	-	-	(903 349)	-	5 469 455
Office Furniture	711 111	-	-	-	(189 897)	-	521 214
Motor Vehicles	3 975 990	1 265 159	-	-	(717 999)	-	4 523 150
Office Equipment	642 138	28 600	-	-	(252 894)	-	417 844
IT Equipment	951 538	1 088 949	-	-	(493 126)	-	1 547 361
Infrastructure	131 656 013	12 409 209	(264 954)	4 326 083	(8 717 939)	-	139 408 412
Maintenance Equipment	258 339	478 396	-	-	(74 104)	-	662 631
Security Equipment	152 706	-	-	-	(94 978)	-	57 728
Other Equipment	377 727	-	-	-	(57 560)	-	320 167
Capital Works in Progress	26 392 289	14 134 768	-	(4 326 083)	-	(10 508 707)	25 692 267
Park Facilities	10 370 381	-	-	-	(500 519)	-	9 869 862
Minor Equipment	-	1 000	-	-	(1 000)	-	-
	290 446 955	29 784 492	(332 562)	-	(17 136 979)	(10 508 707)	292 253 199

Work-in-progress Disclosure

Cumulative expenditure amounts recognised in the Work-in-progress balance are for the following classes:

Roads	7 009 755	22 775 860
Land and Buildings	7 182 776	131 810
Electricity	2 504 357	2 356 213
Landfill site	687 524	428 384
	17 384 412	25 692 267

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Figures in Rand					2023	2022
10. Property, plant and equipment (continued)						
Reconciliation of Work-in-Progress 30 June 2023						
30 June 2023	Land and buildings	Electricity	Roads	Landfill	Total	
Opening balance	131 810	2 356 213	22 775 860	428 384	25 692 267	
Additions	7 182 776	148 144	7 009 755	259 140	14 599 815	
Write-off	-	-	(4 134 297)	-	(4 134 297)	
Transfer out	(131 810)	-	(18 641 563)	-	(18 773 373)	
	7 182 776	2 504 357	7 009 755	687 524	17 384 412	

Reconciliation of Work-in-Progress - 30 June 2022

30 June 2022	Buildings	Electricity	Roads	Landfill	Total	
Opening balance	-	12 864 920	13 098 984	428 385	26 392 289	
Additions	131 810	-	14 002 959	-	14 134 769	
Impairment	-	(10 508 707)	-	-	(10 508 707)	
Transfer out	-	-	(4 326 083)	-	(4 326 083)	
	131 810	2 356 213	22 775 860	428 385	25 692 268	

No items of Property, Plant and Equipment are considered to be taking a significantly longer period of time to complete than expected.

No items of Property, Plant and Equipment are noted where construction or development has been halted.

There have been no impairment losses in the current financial year.

Impairment losses of R 10,508,708 have been noted with respect to Work-in-Progress projects relating to the Integrated National Electrification Programme (INEP) for the year ended 30 June 2022. Please refer to note 31 on Impairment of Assets.

No changes in estimates have been noted with respect to Property, Plant and Equipment.

No items of Property, Plant and Equipment are subject to Service Concession Arrangements.

Land which the Municipality controls without legal ownership or custodianship

Carrying value of land included in the carrying value of Property, plant and equipment	283 500	283 500
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The above relates to 4 properties for which there is no registered title deed but which houses municipal buildings (offices and community halls), they are thus being used for municipal purposes. The Municipality is assessed as being in control of the economic benefits and service potential with respect to the items as they have the right to direct access to land, and to restrict/deny the access of others.

Land not controlled by the Municipality, however the Municipality is the legal owner/custodian

Number of parcels: 26

Value of Land Parcels	-	-
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Included in the above are 16 properties relating to housing projects which have been allocated as housing in terms of the National Housing Program and are thus not considered to be under the control of the Municipality in terms of the Housing Guideline and IGRAP18.

The remaining 10 properties are not considered to be under the control of the Municipality as the usage of the properties pertains to non-municipal activities such as schools, clinics and private enterprises.

NGQUSHWA LOCAL MUNICIPALITY

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11. Heritage assets

	2023		2022			
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical Monuments	3	-	3	3	-	3

Reconciliation of heritage assets - 30 June 2023

Historical Monuments	Opening balance	3	Total	3
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Reconciliation of heritage assets - 30 June 2022

Historical Monuments	Opening balance	3	Total	3
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All the municipality's heritage assets are held under a freehold interest and no heritage asset have been pledged as security for any liabilities of the municipality. The heritage assets comprise of the Dick King Memorial site, a Fingo Milkwood Tree and Fort Peddie Tower Complex.

These are not income generating assets and shown on the face of the statement of financial position at a nominal value of R 1 each.

No impairment losses have been recognised on the heritage assets of the municipality at the reporting date.

These heritage assets have not been revalued due to their fair value not being easily and reliably measured due to the lack of a market for these assets.

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
12. Payables from exchange transactions		
Trade payables	7 329 585	6 677 056
Accrued Leave Pay	5 826 913	6 081 351
Other payables	1 566 388	1 342 756
Accrued Bonus	1 909 914	1 874 550
Retentions	4 071 300	4 334 187
	20 704 100	20 309 900

13. Payables from non-exchange transactions

Receivables with credit balances	1 509 012	2 652 077
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All receivables with credit balances have been reallocated to Payables from non-exchange transactions to achieve fair presentation.

14. Employee benefit obligations

Long Service Awards

The Long Service Award is payable after every 5, 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service. The provision is an estimate of the amounts likely to be paid based on an actuarial valuation performed at the reporting date.

The actuarial valuation of the long service awards accrued liability was carried out by Arch Actuarial Consulting. The assumptions used in the valuation are outlined below:

Key Assumptions:

1. Discount Rate - 11.45%
2. General earnings inflation rate (long-term) - 6.68%
3. Net effective discount rate - 4.47%
4. Pre-retirement mortality rate of SA 85-90
5. Average retirement age of 62 years.

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

Carrying value		
Opening balance	(4 503 000)	(4 127 000)
Current service costs	(570 000)	(504 000)
Utilisation	566 000	521 000
Change in discount factor	(472 000)	(362 000)
Actuarial (loss)/gain for the period	150 000	(31 000)
	(4 829 000)	(4 503 000)
Non-current liabilities	(4 098 000)	(3 937 000)
Current liabilities	(731 000)	(566 000)
	(4 829 000)	(4 503 000)

NGQUSHWA LOCAL MUNICIPALITY

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14. Employee benefit obligations (continued)

Sensitivity analysis

The liability at the valuation date was recalculated to show the effect of:

- i) A 1% increase and decrease in the assumed general earnings inflation rate;
- ii) A 1% increase and decrease in the discount rate;
- iii) A two-year increase and decrease in the assumed average retirement age of eligible employees; and
- iv) A two-fold increase and a 50% decrease in the assumed rates of withdrawal from service.

The table below summarises the results of the sensitivity analysis:

Asumption	Change	Liability	%Change
Central assumption		4 829 000	
General earnings inflation rate	+1%	5 118 000	6%
	-1%	4 567 000	-5%
Discount rate	+1%	4 564 000	-5%
	-1%	5 126 000	6%
Average retirement age	+2yrs	5 029 000	4%
	-2yrs	4 615 000	-4%
Withdrawal rates	x2	3 885 000	-20%
	x0.5	5 462 000	13%
		-	

Other assumptions

	30 June 2023	30 June 2022	30 June 2021	30 June 2020	30 June 2019
	R	R	R	R	R
Long service awards (history of liability)	4 829 000	4 503 000	4 127 000	4 155 000	3 582 000

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	4 285 430	-
Municipal Disaster Relief Grant	6 200 000	-
	10 485 430	-

See note 25 for reconciliation of grants from National/Provincial Government.

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

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16. Provisions

Reconciliation of provisions - 30 June 2023

	Opening Balance	Change in discount factor	Total
Provision for Rehabilitation of Landfill Site	11 955 716	513 846	12 469 562

Reconciliation of provisions - 30 June 2022

	Opening Balance	Change in discount factor	Total
Provision for Rehabilitation of Landfill Site	11 142 353	813 363	11 955 716

Rehabilitation of Landfill Site Provision

The Provision for Rehabilitation of Landfill Sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation. The amount for the provision was adjusted retrospectively in accordance with the report produced by qualified engineers specialising in Landfill Sites valuations.

Total cost and estimated date of decommission of the sites are as follows:

Location	Estimated Decommission Date (Year)	2023	2022
Peddie	2029	16 051 103	19 577 912

In determining the cost of closure and rehabilitation of the landfill site, the following methodology was employed:

1. Site Visit and Assessment
2. Literature and Legislative Review
3. Assessment of Closure and Rehabilitation Requirements
4. Design Review and Quantity Calculation
5. Costing Analysis.

A risk always exists that the site could be required to close at any time based on acceptability of operations at the site by the Department of Environmental Affairs. That implies all the rehabilitation work would have to be carried out in that particular year should the site be required to close.

Future events may result in significant changes to the estimated total expenditures, capacity used and the estimated liability and would be recognized prospectively as a change in estimate, when applicable.

The most critical assumptions in generating the report on the provision for landfill site rehabilitation are as follows:

1. A service provider would be used for the work to be done pertaining to the closure and rehabilitation of the site and reliance will not be solely placed on municipal personnel to perform tasks. 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 (e.g. capping layers). In that case, work to be done is accounted for using other GRAP standards, which may influence the cost price for rehabilitation work to be done.
2. The 2019-2020 Ngqushwa feasibility study report was reviewed and considered to still be relevant.
3. The estimated lifespan for the site is still considered to be realistic.
4. The straight line method is considered to be the appropriate method used to calculate depreciation since it spreads the cost evenly over the life of the asset due to the uncertainty regarding the closure date of the site. This is useful when the timing of and cost of activities is not well known or yet clear to the Municipality. Locating landfills near residential areas is no longer acceptable or preferred even legally.
5. The average rate of inflation in South Africa over the last 10 years has been +/- 5 percent and it is accepted as such in the report on the provision for landfill site rehabilitation.

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17. Service charges		
Refuse removal	1 554 321	1 596 702
18. Rental of facilities and equipment		
LAND AND OFFICES		
Various Rentals	1 047 963	1 141 697
Included in the above rentals are operating lease rentals at straight-lined amounts of R 1 165 046 (30 June 2022: R 1 150 126).		
19. Agency fees		
Amount received on behalf of the principal	1 930 592	2 111 733
Revenue the principal is entitled to	(1 517 451)	(1 710 928)
	413 141	400 805
The Municipality and the Department of Transport entered into an agreement for the transfer of registration and licensing of motor vehicles functions, wherein the Municipality will be entitled to the collection fee of 19%, including VAT for all fees collected in terms of the agreement entered into.		
All receipts on behalf of the principal were paid over during the year. There are no receivables or payables from agency transactions.		
20. Licences and permits		
Drivers' Licences	1 050 235	1 927 695
Learners' Licences	111 936	155 172
	1 162 171	2 082 867
21. Other revenue		
Insurance claims from loss of property, plant and equipment	10 978	203 407
Tender fees	16 513	-
Sundry Income	116 456	129 829
Building Plan Fees	54 902	119 700
Commission	91 871	92 188
	290 720	545 124
22. Interest earned on Outstanding Debtors		
Interest Earned on Outstanding Debtors - exchange transactions	236 428	239 984
Interest Earned on Outstanding Debtors - non-exchange transactions	2 629 813	2 441 546
	2 866 241	2 681 530
23. Investment revenue		
Interest from investments	5 568 978	2 699 052

NGQUSHWA LOCAL MUNICIPALITY

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Figures in Rand	2023	2022
24. Property rates		
Rates received		
Gross Property Rates	24 896 392	26 161 708
Less: Rebates	(366 290)	(365 646)
	24 530 102	25 796 062
Valuations		
Residential	393 391 600	391 815 600
Commercial	258 313 000	253 897 500
Government	483 511 700	483 511 700
Municipal	95 545 500	90 094 500
Farm agricultural	382 455 400	386 269 900
Place of Worship	10 277 500	10 277 500
Vacant Land	143 741 300	145 130 800
Other	4 126 000	4 126 000
	1 771 362 000	1 765 123 500

Valuations on land and buildings within the boundaries of the municipality are performed every 5 years. The last general valuation came into effect on 1 July 2019. Supplementary valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The last supplementary valuation (SV4) came into effect on 01 March 2023.

NGQUSHWA LOCAL MUNICIPALITY

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25. Government grants & subsidies

Equitable share	97 609 000	90 290 000
Expanded Public Works Programme	2 060 000	3 320 000
Municipal Infrastructure Grant	30 912 570	27 626 627
Finance Management Grant	3 100 000	3 000 000
	133 681 570	124 236 627

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	36 072 570	33 946 627
Unconditional grants received	97 609 000	90 290 000
	133 681 570	124 236 627

Equitable Share

In terms of section 227 of the Constitution, this is an unconditional grant and is used by the municipality to provide basic services and perform functions allocated to it.

The Equitable Share Grant also provides funding for the municipality to deliver free basic services to poor households and to subsidise the cost of administration and other core services for the municipality.

Equitable Share

Allocation for the year per Division of Revenue Act	97 609 000	90 290 000
Amount actually received	(97 609 000)	(83 407 000)
Conditions not met for the previous financial year - transferred from Municipal Infrastructure Grant	-	(2 164 014)
Conditions not met for the previous financial year - transferred from Integrated National Electrification Programme Grant	-	(4 718 986)
	-	-

Municipal Infrastructure Grant

Balance unspent at beginning of the period	-	6 212 646
Current-year receipts	35 198 000	23 578 000
Conditions met - transferred to revenue	(30 912 570)	(27 626 632)
Conditions not met - transferred to Equitable Share	-	(2 164 014)
	4 285 430	-

Conditions still to be met - remain liabilities (see note 15).

The grant was used for the construction of infrastructure assets.

The grant was received from National Treasury.

NGQUSHWA LOCAL MUNICIPALITY

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Figures in Rand	2023	2022
25. Government grants & subsidies (continued)		
Expanded Public Works Programme Grant		
Current-year receipts	2 060 000	3 320 000
Conditions met - transferred to revenue	(2 060 000)	(3 320 000)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
The grant was received from the National Department of Roads and Public Works for job creation efforts where labour intensive delivery methods can be maximised.		
Municipal Disaster Relief Grant		
Balance unspent at beginning of year	-	202 702
Current-year receipts	6 200 000	-
Conditions not met - transferred to Equitable Share	-	(202 702)
	6 200 000	-
Conditions still to be met - remain liabilities (see note 15).		
Provide explanations of conditions still to be met and other relevant information.		
Integrated National Electrification Programme Grant		
Balance unspent at beginning of the period	-	4 718 986
Conditions not met - transferred to Equitable Share	-	(4 718 986)
	-	-
Finance Management Grant		
Current-year receipts	3 100 000	3 000 000
Conditions met - transferred to revenue	(3 100 000)	(3 000 000)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
26. Fines and penalties		
Traffic fines issued during the year	454 350	286 750
27. Other Transfer Revenue		
Library Subsidy	500 000	500 000
LG Seta transfer	142 582	119 904
	642 582	619 904

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Figures in Rand	2023	2022
28. Employee related costs		
Basic Salaries	57 035 486	52 175 520
Annual Bonus (13th Cheques)	4 233 081	3 975 005
UIF	402 841	378 849
SDL	623 828	578 949
SALGA BC Levies	26 773	33 551
Redemption of Leave	564 051	2 035 465
Cellphone Allowance	499 007	400 802
Shift Allowance	284 808	267 155
Motor car, accommodation and other allowances	76 389	62 564
Overtime payments	464 914	456 512
Long-service awards	563 633	564 117
Acting allowances	403 945	318 838
Housing Allowances	198 052	192 644
Medical Aid Contributions	3 543 446	3 295 320
Pension Fund Contributions	8 393 368	7 607 269
Subsistence and Travel	3 212 937	4 985 592
	80 526 559	77 328 152
Remuneration: Municipal Manager		
Remuneration for the period	655 666	736 268
Bonus for the period	53 692	30 000
Backpay	44 804	-
SDL	10 934	11 827
UIF	1 948	2 154
Travel allowance	186 185	72 127
Medical allowance	107 634	176 103
Housing allowance	82 625	182 616
Bargaining council	119	124
	1 143 607	1 211 219
Remuneration: Chief Finance Officer		
Remuneration for the period	593 073	702 901
Bonus for the period	118 400	98 400
Provident allowance	12 800	-
Backpay	45 234	-
Travel allowance	163 000	195 600
SDL	11 465	11 324
UIF	1 948	2 154
Cellphone allowance	28 000	33 600
Bargaining Council	108	124
Medical allowance	117 501	141 001
	101 105	-
	1 192 634	1 185 104

The Chief Financial Officer resigned - effective date: 30 April 2023

NGQUSHWA LOCAL MUNICIPALITY

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28. Employee related costs (continued)

Remuneration of Former Director: Corporate Services

Remuneration for the period	459 967	545 146
Bonus for the period	71 929	45 429
Backpay	39 647	-
Travel allowance	134 819	161 782
Provident fund allowance	85 443	102 531
SDL	7 678	7 290
UIF	1 948	2 154
Medical aid allowance	44 740	53 688
Bargaining council levy	108	124
Termination leave	80 921	-
S&T Claims	2 149	-
	929 349	918 144

The Former Director:Corporate Service resigned - effective date 30 April 2023

Remuneration of Director: Technical Services

Remuneration for the period	633 914	624 802
Bonus for the period	24 000	81 673
Backpay	42 468	-
Travel allowance	60 000	54 000
Cellphone allowance	14 778	14 084
Housing allowance	96 512	87 512
Medical allowance	52 548	52 548
Provident allowance	168 697	168 697
SDL	9 108	9 038
UIF	2 125	2 154
Bargaining council	130	124
	1 104 280	1 094 632

Remuneration of Director: Community Services

Remuneration for the period	544 495	536 668
Bonus for the period	60 000	15 000
SDL	7 857	7 622
UIF	2 125	2 154
Bargaining council	130	124
Travel allowance	104 904	104 904
Medical allowance	99 048	99 048
Provident fund allowance	93 827	93 827
Backpay	59 818	7 676
	972 204	867 023

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Figures in Rand	2023	2022
28. Employee related costs (continued)		
Remuneration of Current Director: Corporate Services		
Annual Remuneration	101 113	-
Cellphone allowance	13 557	-
Travel allowance	16 852	-
Provident allowance	30 000	-
SDL	1 452	-
UIF	354	-
Bargaining levy	22	-
S&T Claims	3 341	-
	166 691	-

The current Director:Corporate Service's employment commenced on 01 May 2023.

29. Remuneration of councillors

Mayor	998 937	1 223 724
Speaker	813 149	1 097 934
Chief Whip	443 035	290 154
MPAC Chair	431 842	365 960
Exco	886 133	897 760
Other Councillors	5 926 083	5 070 139
Ward Committees	1 444 300	1 004 324
	10 943 479	9 949 995

Additional information

The Remuneration of Councillors is based on the upper limit as per Government Gazette.

The Mayor and the Speaker each have the use of separate Council-owned vehicles and are provided with an office and secretarial support at the cost of the Council for official duties. The Mayor and the Speaker have designated drivers.

There were no in-kind benefits declared nor received by the Councillors.

Included in the Remuneration of Councillors are costs relating to balances owing to councillors as per Government Gazette Nr. 49142.

30. Depreciation and amortisation

Property, plant and equipment	16 318 684	17 136 976
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31. Impairment of assets

Impairments

Property, plant and equipment	-	10 508 707
Work-in-progress projects assessed to be impaired.		

The main classes of assets affected by impairment losses are:

Work-in-progress

The main events and circumstances that led to the recognition of these impairment losses are as follows:

Work-in-progress projects relating the Integrated National Electrification Programme Grant were assessed for impairment during the 2021/22 financial year on the basis that the assets were not in the condition necessary to fulfill the municipality's obligation in terms of the agreement with the Department of Energy. These projects relate to the 2017/18 to 2020/21 financial years.

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
32. Finance costs		
Interest on late payment of suppliers	6 806	1 657
Finance costs on Landfill Site Provision and Long Service Awards Obligation	513 846	813 363
	520 652	815 020
33. Debt impairment		
Debt impairment	(345 820)	373 563
Bad debts written off	2 221 991	-
	1 876 171	373 563
Debt impairment is an assessment of the amounts that will not be recovered from the debtors, based on the municipality's policy.		
Debt impairment reconciliation		
Contributions to debt impairment provision - service charges and property rates	1 728 271	264 314
Contributions to debt impairment provision - traffic fines	147 900	109 250
Reversal of impairment - traffic fines debtors	(2 221 991)	-
	(345 820)	373 564
34. Contracted services		
Repairs and Maintenance - PPE	3 394 600	2 379 875
Other Contractors	7 741 883	5 084 977
	11 136 483	7 464 852

As per GRAP 17 (Paragraph 88), repairs and maintenance amounting to R 3,394,600 (30 June 2022: R 2,379,875) relates to repairs and maintenance to property, plant and equipment.

NGQUSHWA LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
35. General expenses		
Accommodation Expenses	1 339 863	1 303 725
Advertising	759 553	591 971
Bank charges	47 744	59 701
Computer expenses	44 929	48 000
Legal expenses	1 415 991	1 485 206
Audit committee fees	351 807	323 539
Audit fees	5 320 788	3 931 359
Consultation and Professional Fees	1 370 414	734 257
Conferences and seminars	513 146	414 585
Motor vehicle expenses	335 956	384 214
Fuel and oil	2 799 884	1 519 619
Catering	849 085	352 989
Printing and stationery	288 664	321 832
Town Planning costs	33 000	36 200
Royalties and license fees	1 201 823	927 538
Learnerships and interns	2 405 733	3 434 848
Employee Assistance Programme	43 885	329 542
Subscriptions and membership fees	1 603 340	888 543
Telephone	1 700 160	1 533 476
Training	1 776 278	716 674
Refuse	530 900	240 000
Electricity	5 208 096	6 225 687
Water - municipal use	322 098	641 183
Uniforms	326 395	462 199
Tourism development	-	34 139
Agriculture	9 430	42 470
Special Programmes Unit	2 301 794	903 136
PMS Review	2 455	7 200
Financial Management Enhancement	719 542	1 326 353
Consumables	206 753	177 215
Miscellaneous expenses	1 848 666	866 289
	35 678 172	30 263 689

36. Loss/(gain) on Disposal and Revaluation of Assets

The significant variance in the loss on disposal and revaluation of assets from the prior financial year to the current financial year is due to the disposal of non-municipal land items as well as the revaluation of Investment Property.

Loss/(gain) on disposal of property, plant and equipment	5 044 887	14 586 293
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NGQUSHWA LOCAL MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
37. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	35 578 713	10 397 414
Contracted for service delivery by accounting officer		
• Property, plant and equipment	2 709 191	2 641 085
Total capital commitments		
Already contracted for but not provided for	35 578 713	10 397 414
Contracted for service delivery by accounting officer	2 709 191	2 641 085
	38 287 904	13 038 499

This committed expenditure relates to property, plant and equipment and will be financed through Municipal Grants, existing cash resources and funds internally generated.

38. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

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

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

NGQUSHWA LOCAL MUNICIPALITY

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38. Risk management (continued)

Credit risk

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

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

Financial instruments exposed to credit risk at period end were as follows:

Financial instrument	30 June 2023	30 June 2022
Receivables from exchange transactions	2 422 146	2 011 428
Receivables from non-exchange transactions	5 924 462	7 502 989
Cash and cash equivalents	67 044 033	56 979 297
Payables from exchange transactions	12 967 273	12 353 999
Payables from non-exchange transactions	1 509 012	2 652 077

Market risk

Interest rate risk

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

There is no impact on other market risks.

39. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus of R 400 179 057 and that the municipality's total liabilities do not exceed its assets.

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.

40. Events after the reporting date

The following adjusting events were noted:

- Government Gazette Nr. 49142., dated 14 August 2023, was issued after the reporting date, but before the Annual Financial Statements were authorised for issue. This gazette details the Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils. The total financial effect of the amendments to the upper limits is assessed to be R 360,811 for the 2022/2023 financial year.

41. Unauthorised expenditure

Opening balance as previously reported	-	28 830 771
Less: Approved/condoned/authorised by council	-	(28 830 771)
Closing balance	-	-

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
42. Fruitless and wasteful expenditure		
Opening balance as previously reported	12 641 307	549 114
Add: Expenditure identified - current year	404 131	25 603
Add: Fruitless and wasteful expenditure identified - prior period	-	12 085 013
Less: Amount written off - current	(2 126)	(18 423)
Closing balance	13 043 312	12 641 307

Fruitless and wasteful expenditure is presented inclusive of VAT

Fruitless and wasteful expenditure incurred and identified during the current period relates to interest from late payments of suppliers, cancelled travel and accommodation arrangements and amounts considered not recoverable from a supplier where goods were not delivered.

Fruitless and wasteful expenditure in the comparative year includes expenditure (VAT inclusive) incurred in prior financial years on projects relating to the Integrated National Electrification Programme. The assets were assessed for impairment in the current financial year due to non-completion of the projects by appointed service providers. The related matter has been referred to the South African Police Service (SAPS) for investigation.

43. Irregular expenditure

Opening balance as previously reported	81 722 948	105 710 332
Add: Irregular expenditure - current	3 491 952	327 212
Less: Amount written off - current	(551 310)	(33 864)
Less: Amount written off - prior period	-	(24 280 732)
Closing balance	84 663 590	81 722 948

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

Supply Chain Management Processes not followed in making awards	3 175 095	39 992
Expenditure in excess of contract amount	316 857	137 220
Deviation criteria not met, identified during and paid after reporting date but before those AFS were authorised.	-	150 000
	3 491 952	327 212

44. 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 accounting officer and includes a note to the annual financial statements.

Listed below are various circumstances where goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reason for these deviation from the normal supply chain management regulations.

Incidents

Deviations due to emergency procurement	37 663	1 489 871
Deviations due to sole supplier procurement	243 908	1 483 289
Deviations due to the impracticality of following SCM processes	5 250 056	5 615 790
	5 531 627	8 588 950

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45. Contingencies		
Contingencies arise from pending litigation on contractual disputes and damage claims. As the conclusion of the process is dependent on the setting of dates by the respective courts, the timing of the economic flows is therefore uncertain.		
Contingent liabilities		
Dielanga Trading CC A claim by Dielanga Trading CC based on a dispute for services rendered The matter was removed from the court roll by agreement of the parties	-	595 872
EC Black Contractors Forum & 2 others - Case Number: 1080/2021 Notice of motion brought against Municipality in respect of a disregard of a court order dated 08 September 2020 Matter scheduled in High Court for 15 September 2022 on opposed roll	-	1 542 870
SAMWU obo L.Jack ECD122013& PR164/21 A review application was brought on behalf of the municipality on an award which was granted by the SALGBC in favour of an employee Awaiting opposition from SAMWU to review supplementary affidavit	-	175 000
Monwabisi Welcome Mbanzi A claim has been lodged for damages sustained by the vehicle belonging to Mr Mbanzi.	81 813	-
Limitless Strategic Solutions A letter of demand has been issued on behalf of Limitless Solutions who rendered services in the development of landfill rehabilitation plan and operational plan for Peddie Landfill Site under tender no. 8/2/759/2019-2020	74 000	-
Nombonise Lillian Dike & 6 Others Notice of Motion brought on behalf of the applicant and the affected households of Khangelihle Buck Kraal Farm, wherein a claim is pursued for services including housing, water and sanitation, roads, etc.	1 000 000	-
	1 155 813	2 313 742

Contingent assets

In 2020, Councillor MT Siwisa brought to an application alleging various bizarre, irregular and unlawful resolutions were taken by the council in the special council meetings held on 10 March 2020, 16 March 2020, 14 May 2020 & 29 May 2020. The application was dismissed in court with costs to be paid by the applicant. The contingent asset is estimated at R 150,000.

Litigation was brought on behalf of the municipality for the recovery of costs which were paid to the service provider (Vezokuhle Youth Development Project) for services not rendered. The related contingent asset is estimated at R 977,144.

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46. Related parties		
Related party balances		
Amounts included in the Statement of Financial Position are the following regarding related parties:		
Councillor Jowela (late) - unpaid salary	(4 461)	(4 461)
Councillor Moyeni (late) - tax liability	550	550
Mayor - backpay	(36 298)	(23 340)
Speaker - backpay	(29 559)	(22 047)
Chief Whip - backpay	(16 702)	-
Exco - backpay	(49 692)	(36 010)
Other Councillors - backpay	(228 560)	(142 486)
Municipal manager - backpay	(56 216)	-
Chief Financial Officer	(46 677)	-
Director: Corporate services (former)	(40 005)	-
Director: Corporate services (current)	(8 446)	-
Director: Community services	(52 049)	-
Director: Technical services	(47 576)	-
	(615 691)	(227 794)

Included in the Statement of Financial Position are balances owing to councillors as per Government Gazette Nr. 49142, issued on 18 August 2023.

Included in the Statement of Financial Position are balances owing to the municipal manager, former chief financial officer and directors as per Government Gazette Nr.48789, issued on 14 June 2023.

GRAP 20 requires a disclosure of related party transactions during the financial period of the financial statements as well as the nature of the related party relationship, the nature of the transactions and outstanding balances including commitments. However, those disclosures are not required for transactions which occurred in the normal course of business.

Further, the municipality is also required to disclose the remuneration of its management having the authority to direct the business of the municipality. Key management include the Mayor, Speaker, Mayoral Committee members, Councillors, Municipal Manager, Chief Financial Officer and the Directors. For the remuneration of key management and Councillors, refer Notes 28 and 29 respectively.

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 591 139	882 285
Amount paid - current year	(1 591 139)	(882 285)
	-	-

Audit fees

Current year subscription / fee	5 323 982	3 931 359
Amount paid - current year	(5 320 788)	(3 931 359)
	3 194	-

PAYE, SDL and UIF

Current year subscription / fee	11 658 696	12 647 641
Amount paid - current year	(11 658 696)	(12 647 641)
	-	-

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Figures in Rand	2023	2022
47. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Pension and Medical Aid Deductions		
Current year subscription / fee	20 120 827	18 611 050
Amount paid - current year	(20 120 827)	(18 611 050)
	-	-

VAT

VAT receivable	2 115 426	3 615 838
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VAT output payables and VAT input receivables are shown in note 6.

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

Councillors' arrear consumer accounts

No councillors had arrear accounts outstanding for more than 90 days as at 30 June 2023:

SCM Regulation 45 disclosure

In terms of the Municipal Supply Chain Management Regulation 45, the Municipality must disclose particulars of any award of more than R 2000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous 12 months, including the name of the person, the capacity in which that person is in the service of the state, and the amount of the award. The following awards were made to entities with relationships with officials of the service of state (Municipality and other organisations):

Supplier Name	Name of official	Position	Relationship to entity directors	Amount
Andile SG Trading and Projects	Anelisa Boqwana	Budget Clerk	Spouse	159 255
SMS ICT Choice	Nomonde Joan Maqula	Employee: Eastern Cape Department of Human Settlements	Spouse	3 857 000
				4 016 255

48. Cash generated from operations

Surplus (deficit)	20 256 826	(6 340 127)
Adjustments for:		
Depreciation and amortisation	16 318 684	17 136 976
Loss on sale of assets and liabilities	(5 044 887)	14 586 292
Impairment deficit	-	10 508 707
Debt impairment	1 876 171	373 563
Movements in operating lease assets and accruals	(584 104)	(616 501)
Movements in retirement benefit assets and liabilities	326 000	376 000
Movements in provisions	513 846	813 363
Changes in working capital:		
Receivables from exchange transactions	(384 774)	(632 278)
Receivables from non-exchange transactions	(765 980)	234 412
Payables from exchange transactions	(2 885 559)	2 234 984
VAT	1 500 412	(1 415 534)
Taxes and transfers payable (non-exchange)	(1 143 065)	1 594 237
Unspent conditional grants and receipts	10 485 430	(10 931 632)
	40 469 000	27 922 462

NGQUSHWA LOCAL MUNICIPALITY

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49. Segment information

General information

Identification of segments

For management purposes, the municipality is organised and operates in two key functional segments (or business units). To this end, management monitors the operating results of these business units for the purpose of making decisions about resource allocations and assessment of performance. Revenues and expenditures relating to these business units are allocated at a transactional level. Costs relating to the governance and administration of the municipality are not allocated to these business units.

The two key business units comprise of:

Community and public safety which includes community and cleansing services, library services, community hall rental and recreation

Technical services which include Project management, road construction and maintenance

The grouping of these segments is consistent with the functional classification of government activities which considers the nature of the services, the beneficiaries of such services and the fees charged for the services rendered.

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

Community and public safety

Technical Services

Goods and/or services

Cleansing services, library services, community hall rental and recreation

Project management, road construction and maintenance

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49. Segment information (continued)

Segment surplus or deficit, assets and liabilities

30 June 2023

	Community Services	Technical Services	Total
Revenue			
Revenue from non-exchange transactions	454 350	-	454 350
Revenue from exchange transactions	4 414 024	54 902	4 468 926
Total segment revenue	4 868 374	54 902	4 923 276
Entity's revenue			4 923 276
Expenditure			
Employee costs	27 201 282	11 549 580	38 750 862
Depreciation, amortisation and impairment	5 699 395	7 823 211	13 522 606
Finance costs	513 846	-	513 846
Debt impairment and bad debts written off	121 952	-	121 952
Contracted services	1 062 786	712 784	1 775 570
General expenditure	3 479 587	658 658	4 138 245
(Loss)/gain on disposal of assets	(5 355 576)	-	(5 355 576)
Total segment expenditure	32 723 272	20 744 233	53 467 505
Total segmental surplus/(deficit)			(48 544 229)
Assets			
Segment assets	164 884 560	179 079 176	343 963 736
Total segment assets			343 963 736
Liabilities			
Segment liabilities	(12 469 562)	(6 200 000)	(18 669 562)
Total segment liabilities			(18 669 562)

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49. Segment information (continued)

30 June 2022

	Community Services	Technical Services	Total
Revenue			
Revenue from non-exchange transactions	286 750	-	286 750
Revenue from exchange transactions	5 462 054	1 19 700	5 581 754
Total segment revenue	5 748 804	1 19 700	5 868 504
Entity's revenue			5 868 504
Expenditure			
Employee costs	25 596 889	10 821 707	36 418 596
Depreciation, amortisation and impairment	5 665 139	19 348 327	25 013 466
Finance costs	813 363	-	813 363
Debt impairment	238 963	-	238 963
Contracted services	811 018	419 496	1 230 514
General expenditure	1 428 698	101 493	1 530 191
Loss on disposal and revaluation of assets	14 253 730	-	14 253 730
Total segment expenditure	48 807 800	30 691 023	79 498 823
Total segmental surplus/(deficit)			(73 630 319)
Assets			
Segment assets	160 288 741	167 983 606	328 272 347
Total assets as per Statement of financial Position			328 272 347
Liabilities			
Segment liabilities	(11 955 716)	-	(11 955 716)
Total liabilities as per Statement of financial Position			(11 955 716)

NGQUSHWA LOCAL MUNICIPALITY

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Notes to the Annual Financial Statements

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49. Segment information (continued)

Information about geographical areas

The Municipality is not split into Geographical Segments as only operates within it's own Demarcated area within the Eastern Cape Province:

Reconciliation of segment revenue to the Statement of Financial Performance

	30 June 2023	30 June 2022
Total segment revenue	(4 923 276)	(5 868 504)
Revenue from exchange transactions allocated to departments that do not meet the definition of a segment - Finance	(5 804 797)	(3 124 475)
Revenue from non-exchange transactions allocated to departments that do not meet the definition of a segment - Finance	(161 484 067)	(153 094 138)
Total Revenue per the Statement of Financial Performance	(172 212 140)	(162 087 117)

Reconciliation of segment expenditure to the Statement of Financial Performance

	30 June 2023	30 June 2022
Total segment expenditure	53 467 506	79 498 825
Employee related cost	41 775 696	40 909 555
Remuneration of councillors	10 943 479	9 949 995
Depreciation and impairment	2 796 078	2 632 220
Finance costs	6 806	1 657
Debt impairment and Bad debts written off	1 754 219	134 601
Contracted services	9 360 912	6 234 337
General expenditure	31 539 926	28 733 497
Loss/(gain) on disposal of assets	310 689	332 558
Total Expenditure per Statement of Financial Performance	151 955 311	168 427 245
Surplus/(deficit)	20 256 830	(6 340 127)
Total Segment Assets	343 963 736	328 272 348
Assets not allocated to reportable segments	106 212 423	91 070 571
Total assets per statement of Financial Position	450 176 159	419 342 919
Total Segment Liabilities	(18 669 562)	(11 955 716)
Liabilities not allocated to reportable segments	(31 327 542)	(27 464 977)
Total liabilities per statement of Financial Position	(49 997 104)	(39 420 693)

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50. Statutory Receivables		
The entity had the following statutory receivables included in the Statement of Financial Position:		
Gross	25 761 407	24 495 428
Including Property Rates, Interest on Property Rates, VAT Receivable and Traffic Fine Receivables. Refer to the tables below for the individual line items.		
Impairment	(9 314 160)	(9 634 032)
Including impairment on Property Rates, Interest on Property Rates and Traffic Fine Receivables. Refer to the tables below for the individual line items.		
	16 447 247	14 861 396
Property Rates		
Property Rates	11 443 947	9 319 675
Interest on Property Rates	11 578 689	9 097 349
Impairment on Property Rates	(9 166 260)	(7 412 041)
	13 856 376	11 004 983
VAT Receivables		
VAT Receivables	2 115 426	3 615 838
Other receivables		
Traffic Fines	623 345	2 462 566
Impairment on Traffic Fines	(147 900)	(2 221 991)
	475 445	240 575

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50. Statutory Receivables (continued)

Statutory receivables general information

Transactions arising from statute and the determination of transaction amounts

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.

Property rates are levied in accordance with the The Local Government: Municipal Property Rates Act 6 of 2004. Property rates are determined as a rate in the rand on the value of all rateable property recorded in the municipality's valuation or supplementary valuation roll and the rates applied to the rateable properties are determined annually as part of the annual budgeting process.

Value-Added Tax is calculated in accordance with the The Value-Added Tax Act 89 of 1991. The municipality declares output tax on the taxable supply of goods and services and claim input tax credits on expenses incurred in the course or furtherance of the enterprise (the taxable supplies).

Traffic fines are levied in accordance with the Criminal Procedures Act 51 of 1977. Fines constitute both spot fines and camera fines and it is measured at the best estimate, based on past experience, of the amount of revenue the Municipality is entitled to collect.

Interest or other charges levied/charged

In accordance with the municipality's Credit Control and Debt collection policy, interest on outstanding debtors, including property rates receivables, are charged on all accounts that are in arrears for 90 days and above at 1% per month.

No interest is levied on outstanding traffic fines.

Basis used and factors considered in assessing and testing whether a statutory receivable is impaired or past due, but not impaired

The municipality assesses at each reporting date whether there is any indication that statutory receivable may be impaired.

The provision for doubtful debts for property rates, in accordance with the municipality's Credit control and Debt Collection policy, is calculated by assessing the levels of risk of recoverability of debt for each category of receivables (Government, Business and Residential). Based on the risk assessment, different provision percentages are applied to each category of receivables and based on the ageing of the outstanding debt.

At each reporting date, traffic fine receivables are assessed for impairment based on the provisions of S 341 and S56 of the Criminal Procedures Act and the guidance provided by the NPA with regards to the validity period for fines. Based on this guidance, the municipality assesses that fines outstanding at the reporting date for a period exceeding 18 months, will be considered to be impaired.

Factors which were considered in arriving at the bases and the assessment for impairment of the statutory receivables and also receivables past due, but not impaired, include the following:

1. Historical information/experience and the level of engagement between the municipality and the debtor
2. Financial viability of the debtors as well as whether the debtor is easily identifiable and traceable.

Discount rate applied to the estimated future cash flows

No discount rate has been applied to estimate future cash flows.

Statutory receivables past due but not impaired

At 30 June 2023, Property Rates and Interest on Property Rates balances of R14 771 626 (2022: R11 531 820) were assessed to be past due but not impaired. Also refer to note 5 for the disclosure of the total consumer debtors balances past due, but not impaired. All receivables amounts outstanding at the reporting date is considered to be due and has therefore been taken into account in the assessment of receivables past due, but not impaired.

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50. Statutory Receivables (continued)		
At 30 June 2023, Traffic Fine receivable balances of R 475 445 (2022: R 240 575) were past due but not impaired. All debtor amounts outstanding at the reporting date is considered to be due and has therefore been taken into account in the assessment of past due, but not impaired.		
VAT Receivable	2 115 426	3 615 838
Property Rates and Interest on Property Rates		
0-30 days	1 438 306	430 298
30-60 days	523 266	415 693
60-90 days	346 451	284 742
90-120 days	73 964	179 845
120-150 days	238 138	190 555
>150 days	12 151 503	10 030 688
	14 771 628	11 531 821
Traffic Fines		
0-6 months	107 470	86 275
6-12 months	275 300	154 300
12-18 months	86 275	-
>18months	6 400	-
	475 445	240 575
Statutory receivables impaired		
As of 30 June 2023, the Impairment on Property Rates and Interest on Property Rates receivables was assessed at R9 166 260 (2022: R7 412 042)		
The amount of the impairment of the Traffic Fine receivable was assessed at R147 900 as of 30 June 2023 (2022: R2 221 991).		
The ageing of these receivables are as follows:		
Property Rates		
30-60 days	10 341	4 710
61-90 days	154 997	111 208
91 -120 days	236 723	159 843
121 - 150days	243 571	173 017
>151 days	8 520 628	6 963 264
	9 166 260	7 412 042
Traffic Fines		
0-18months	-	109 250
>18months	147 900	2 112 741
	147 900	2 221 991
Reconciliation of provision for impairment for statutory receivables		
Opening balance	(9 634 032)	(9 390 181)
Contributions to Provision for impairment - property rates and interest on property rates	(1 754 219)	(134 601)
Contributions to Provision for impairment - traffic fines	(147 900)	(109 250)
Amounts written off as uncollectible	2 221 991	-
	(9 314 160)	(9 634 032)

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50. Statutory Receivables (continued)

Main events and circumstances that led to the reversal of impairment losses on statutory receivables

Significant impairment losses reversed

An amount of R 2,221,991 relating to outstanding traffic fine receivables was reversed against the impairment loss and subsequently written off during the financial year. Management performed a detailed analysis of the recoverability of the receivables balance from the 2017-18 financial year up to 30 June 2022 and the assessment indicated that a very small percentage of traffic fines debt is recovered on an annual basis, either by way of direct deposits into the municipality's account, cash settlement at the cashiers or deposits received from the courts.

Taking the provisions of S 341 and S56 of the Criminal Procedures Act and the guidance provided by the NPA with regards to the validity period for fines into account, the impairment of balances older than 2 financial years, i.e. as at 30 June 2021, was re-assessed and it was found that the recovery of this debt has become highly unlikely.

51. Accounting by principals and agents

The Municipality is a party to principal-agent agreements as follows:

The Department of Transport is responsible for registration, licensing and testing functions in terms of the applicable national and provincial road traffic legislation. The Municipality and the Department of Transport entered into an agreement for the transfer of registration and licensing of motor vehicles functions, wherein the Municipality will be entitled to the collection fee of 19%, including VAT for all fees collected in terms of the agreement entered into.

No resources were held on behalf of the principals.

No liabilities have been incurred on behalf of the principals.

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the Department of Transport is R 413,141 (30 June 2022: R 400,805).

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52. Financial instruments disclosure

Categories of financial instruments

30 June 2023

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	2 422 146	2 422 146
Receivables from non-exchange transactions	5 924 462	5 924 462
Cash and cash equivalents	67 044 033	67 044 033
	75 390 641	75 390 641

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	(12 967 273)	(12 967 273)
Payables from non-exchange transactions	(1 509 012)	(1 509 012)
Unspent conditional grants and receipts	(10 485 430)	(10 485 430)
	(24 961 715)	(24 961 715)

30 June 2022

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	2 011 428	2 011 428
Receivables from non-exchange transactions	7 502 989	7 502 989
Cash and cash equivalents	56 979 297	56 979 297
	66 493 714	66 493 714

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	(12 353 999)	(12 353 999)
Payables from non-exchange transactions	(2 652 077)	(2 652 077)
	(15 006 076)	(15 006 076)

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53. Budget differences

Material differences between budget and actual amounts - Statement of Financial Performance

53.1 Service charges - 2% - The variance is considered immaterial.

53.2 Rental of facilities and equipment - 41% - The variance is due to an increase/escalation in lease contracts and lease rentals..

53.3 Agency fees - 29 % - The variance is due to the under collection due to the introduction of online vehicle registration platforms

53.4 Licences and permits - 55% - The variance is due to the under collection due to the introduction of online licence testing platforms and the impact of load shedding.

53.5 Other revenue - 94% - Other revenue is made of Tender fees, Advertising fees, Use of public toilets, Building plans fees, Cemetary fees, etc - all these depend on the use by the public of which the demand has decreased in the financial year under review.

53.6 Interest on Outstanding Debtors - 48% - The variance is due to an increase in collection and the reversal of interest based on arrangements with individual debtors

53.7 Interest received - Investment - 11% - The variance is due to less than anticipated funds have been invested to date.

53.8 Property rates - 41% - The variance is as the results of changes in tarriffs which remained unchanged in the year under review as per Council.

53.9 Government grants - 8% - The variance is due to less than anticipated revenue realised from MIG at financial year end..

53.10 Fines and Penalties - 30% - The variance is due to a decrease in the collection of outstanding fines and less than anticipated traffic infringements compared to previous financial years

53.11 Other transfer revenue - 100% - Other transfer revenue was not separately budgeted for

53.12 Employee related costs - 3% - The variance is considered immaterial.

53.13 Remuneration of councillors - 5% - The variance is considered immaterial.

53.14 Depreciation and amortisation - 60% - The unbundling of assets resulted in a lower than expected depreciation charge for the year.

53.15 Finance costs - 100% - The municipality did not budget for finance charges

53.16 Debt impairment - 62% - The variance is due to less than anticipated bad debt write-offs and lower than anticipated debtors balances outstanding for a substantial period of time.

53.17 Contracted Services - 64% - The variance is due to less than anticipated expenditure relating to the maintenance of PPE and appointment of specialised Contractors.

53.18 General expenditure - 13% - The variance considered to be reasonable - the increase in expenditure relates to transport services, advertising and other municipal running costs.

53.19 Loss/profit on disposal and revaluation of assets - 100% - Not budgeted for.

Material differences between budget and actual amounts - Statement of Financial Position

53.20. Inventory - 0% - No variance is noted.

53.21. Operating lease asset - 74% - The variance is due to the commencement of new lease agreements towards to end of the previous financial year and the current financial year and the full effect of the straight-lining of operating leases not taken into account during the budgeting process.

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53. Budget differences (continued)

53.22. Receivables from Non-exchange transactions - 158% - The variance occurred due to the budget that was prepared based on the estimated decrease on rates tariffs for government properties

53.23. VAT receivable - 100% - Not budgeted for

53.24. Receivables from exchange transactions - 16% - The variance occurred due to greater than expected settlement of outstanding debt at financial year end.

53.25. Cash and cash equivalents - 12% - The variance occurred due to better than expected results from strong cash management and expenditure control processes

53.26. Investment property - 30% - The variance is due to the revaluation and disposals of Investment Property.

53.27. Property, Plant and Equipment - 13% - The variance occurred due to a lower than expected depreciation charge to Property, Plant and equipment

53.28. Payables from exchange transactions - 147% - the variance is a result of increase in trade payables and retentions not released at year end.

53.29. Payables from non-exchange transactions - 100% not budgeted for.

53.30. Employee Benefit Obligation (short-term) - 40% - the variance occurred due to an increase in the expected benefits vested for the following financial year than anticipated.

53.31 Unspent conditional grants - 100% - The variance occurred due to the unspent liability not budgeted for.

53.32. Employee Benefit Obligation (long-term) and Provisions (long term) - 12% over - budgeted - change in discount factor calculation delivered a greater than expected change in the provision liability.

53.33. Accumulated surplus - 1% - Variance is not considered material.

Material differences between budget and actual amounts - Cash Flow Statement

53.34. Billed Services - 36% - The variance is due to a decrease in Property Rates billing.

53.35. Government Grants - 0% - The variance is not considered material.

53.36. Interest income - 27%- The variance is due to better than expected results from strong cash management and investment decisions.

53.37. Receipts from other revenue - 30% - The variance is due to an increase in expected revenue from other services (other revenue).

53.38. Payments (Suppliers and Employees) - 5% - The variance is not considered material.

53.39. Purchase of PPE - 30% - The variance is due to less additions to PPE than anticipated.

53.40. Proceeds from the sale of PPE and Investment Property - 100% - The revaluation on Investment Property and disposal of Land items were not budgeted for.

53.41. Net decrease in cash and cash equivalents - 233% - Taking into account the proportion of investing activities to operating activities per actual amounts are smaller than the budgeted amounts, the net decrease in cash and cash equivalents is less than budgeted.

53.42. Cash and cash equivalents at the beginning of the year - 3% - The final closing balances for cash and cash equivalents for the prior financial year not taken into account during the budgeting process.

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Annual Financial Statements for the year ended 30 June 2023

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54. Prior-year adjustments

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

Statement of financial position

30 June 2022

	Note	As previously reported	Correction of error	Restated
Investment Property		33 726 346	(4 637 658)	29 088 688
Accumulated surplus		(384 559 883)	4 637 658	(379 922 225)
		(350 833 537)	-	(350 833 537)

Investment property - The comparative figure was restated to take into account properties which was incorrectly included as part of investment properties in the prior financial year. The effect of the correction on the balance for Investment Property: R 4,637,657.74 (decrease in valuation)

Statement of Financial Performance

30 June 2022

	Note	As previously reported	Correction of error	Re-classification	Restated
Interest earned on Outstanding debtors - exchange transactions		(2 681 530)	-	2 441 546	(239 984)
Interest earned on Outstanding debtors - non-exchange transactions		-	-	(2 441 546)	(2 441 546)
Loss/(gain) on disposal/revaluation/derecognition of assets		9 948 636	4 637 658	-	14 586 294
		7 267 106	4 637 658	-	11 904 764

Loss on disposal/derecognition and revaluation of asset and investment property -The comparative figure was restated to take into account the derecognition of properties which was incorrectly included as part of investment properties in the prior financial year. The effect of the correction on the account total: R 4,637,657.74 (increase in account total).

Interest on outstanding debtors (exchange transactions) - The comparative figure was restated to take into account the reclassification of transactions relating to non-exchange transactions. The net effect of the reclassification is R 2,441,545.81.

Cash flow statement

2022 - Cash Flow Statement

	Note	As previously reported	Restated
Cash generated from operating activities			
Surplus/(loss) for the year		(1 702 471)	(6 340 129)
Loss/(gain) on disposal/revaluation/derecognition of assets		9 948 636	14 586 294
		8 246 165	8 246 165

Surplus for the year and Loss on disposal and revaluation of asset and investment property -The comparative figures were restated to take into account the derecognition of properties which was incorrectly included as part of investment properties in the prior financial year. The effect of the correction on both line items is: R 4,637,657.74

