



INGQUZA HILL LOCAL MUNICIPALITY

Ingquza Hill Local Municipality
Annual Financial Statements
for the year ended June 30, 2022

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

General Information

Legal form of entity	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act No. 117 of 1998) read with section 155 (1) of the Constitution of the Republic of South Africa (Act No. 108 of 1996)
Nature of business and principal activities	Provision of services to the community as prescribed by the Local Government: Municipal Structures Act (Act No. 117 of 1998) and the Constitution of the Republic of South Africa (Act No. 108 of 1996)
Areas of operation	The Ingquza Hill local municipality is made up of the following areas Flagstaff Lusikisiki
Members of the Executive Council and Leadership	
Mayor	Cllr Ntombinkosi Prudence Pepping (started in November 2021) Cllr Ntandokazi Yolisa Capa (Ended in October 2021) Cllr Bulelani Mvulana (Ended in August 2021)
Speaker	Cllr Sibongile Buyiswa Vatsha (Started in November 2021) Cllr Ntombinkosi Prudence Pepping (Ended in October 2021) Cllr Ntandokazi Yolisa Capa (Ended in August 2021)
Chief Whip	Cllr Mbongeni Isaac Nkungu
Members of Executive Committee	Cllr Nomfundiso Abegail Gagai-Nkungu Cllr Nomonde P. Jam-Jam Cllr Zamile Mhlongo Cllr Simtthembele Hopewell Mtshazo Cllr Bulelani Nhula Mvulana Cllr Busisiwe J. Nkani Cllr Vuyokazi Somani Cllr Z. Sigcu (started in November 2021) Cllr Lusapho Isaac Ndziba Cllr Mbuyiselo Cameron Mkumla (Ended in October 2021) Cllr Thuliswa Jotile Cllr Mandisa Ritta Ziphathe (Ended in October 2021) Cllr Busisiwe Mabhedumana (Enden in October 2021)
Councillors	Cllr Noncedo.N. Cwecwe Cllr Nontyatyambo Daniso Cllr Zwelethemba Noncokwana Cllr Nozuko.B. Notyesi Cllr Zandile Princess Bambusiba Cllr Mzikayise Cyril Didiza Cllr Mlulami Alleck Guleni Cllr Zolile Jiba (Ended in October 2021) Cllr Mayenzeke Qwesha (Enden in October 2021) Cllr Niniza H Mgwili (Ended in October 2021) Cllr Bulelani Sivela (Ended in October 2021) Cllr Bonginkosi Ntungo (Ended in October 2021) Cllr Tembile Sibunge (Ended in October 2021) Cllr Nofezile Nomvelo Mhlakuvana (Endec in October 2021) Cllr Sihle Ndarane (Ended in October 2021) Cllr Dumisani Thwatshuka (Ended in October 2021) Cllr Manyathi Victoria Phandela (Ended in October 2021) Cllr Sizakele Theophilus Hlongwana (Ended in October 2021) Cllr Mbuyiselo Cyril Dlelanga (Ended in October 2021)

Ingquza Hill Local Municipality

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Cllr Andiswa O.N Nomchane (Ended in October 2021)
Cllr Khosi D Cele (Ended in October 2021)
Cllr Thobeka V Dumisa (Ended in October 2021)
Cllr Phumla Dutshwa (Ended in October 2021)
Cllr Ncumisa Matandabuzo (Ended in October 2021)
Cllr Jongintaba Pat Mdingi (Ended in October 2021)
Cllr Dumisani Mjokovana (Ended in October 2021)
Cllr Pazamile N Ngxamile (Ended in October 2021)
Cllr Nomathamsanqa E Nonkuba (Ended in October 2021)
Cllr Nolusapho M Nkani (Ended in October 2021)
Cllr Ntombekhongo Gandela (Ended in October 2021)
Cllr Zanemvula Jabavu (Ended in October 2021)
Cllr Sthembiso Nicholas Mabasa (Ended in October 2021)
Cllr Nomazwe Mapholoba (Ended in October 2021)
Cllr Nozandile Mbangatha (Ended in October 2021)
Cllr Gugulethu Mbiko (Ended in October 2021)
Cllr Mbulelo Nogciki (Ended in October 2021)
Cllr Thuliswa Jotile
Cllr M. Khwaza (started in November 2021)
Cllr Z. Mageza (started in November 2021)
Cllr S Mbendana (started in November 2021)
Cllr D.T. Mchosini (started in November 2021)
Cllr Tandazile Patricia Mgudu
Cllr Nonceba C.B Mngqinelwa
Cllr K. Mnyayiza (started in November 2021)
Cllr M Mqobho (started in November 2021)
Cllr Nompumelelo Mzothwa
Cllr Tandeka Ndzumo
Cllr Siphokazi Njisane
Cllr V. Nongumza (started in November 2021)
Cllr B. Nokhele (started in November 2021)
Cllr Z. Nomazele (started in November 2021)
Cllr Fundisile Nomgca
Cllr S. Nontswabu (started in November 2021)
Cllr M. Ntilini (started in November 2021)
Cllr V. Nowa (started in November 2021)
Cllr L. Ntshongwana (started in November 2021)
Cllr M. Ntshwela (started in November 2021)
Cllr Fundisile Wiseman Ranai
Cllr M. Sibulali (started in November 2021)
Cllr Mpofane Tenyane
Cllr Lungile Thimle
Cllr S. Tshabane (started in November 2021)
Cllr Kholiswa Vava
Cllr Z. Vatsha (started in November 2021)
Cllr N. Zathi (started in November 2021)
Cllr Z. Mtsotso (started in November 2021)
Cllr Ndzekezi (started in November 2021)
Cllr Mabhuyana (started in November 2021)
Cllr Busisiwe Mabhedumana

CCM

Ingquza Hill Local Municipality

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General Information

	Cllr Marafu (started in November 2021)
	Cllr P Suphu (started in November 2021)
	Cllr Mhle (started in November 2021)
	Cllr Somzana (started in November 2021)
	Cllr Khumalo (started in November 2021)
	Cllr Tshabiso (started in November 2021)
	Cllr Njovana (started in November 2021)
	Cllr Mlandelwa (started in November 2021)
	Cllr Nokwindla (started in November 2021)
	Cllr Sobayeni (started in November 2021)
	Cllr N. Ntshangase
Traditional leaders	Cllr Giyo (From November 2021 to May 2022)
	Chief Dinwayo (started in November 2021)
	Chief Cawekaz Sigcau
	Lindile Mgwili (Ended in October 2021)
	Bomikazi Tshicila (Ended in October 2021)
	Gugu Mfolozi (Ended in October 2021)
	Mpendulo Jiba (Ended in October 2021)
	Vuyokazi Cetywayo (Ended in October 2021)
	Soyiso Mdutshane (Ended in October 2021)
	Mongi Rula (Ended in October 2021)
	Veni Gontsana (Enden in October 2021)
	Mkwedini (Ended in October 2021)
	Ayanda Bushula (Ended in October 2021)
	Ntokozo Ntanta (Ended in October 2021)
Grading of local authority	Grade 3
Accounting Officer	Velile Castro Makedama
Chief Finance Officer (CFO)	Mzukisi Mhlifili
Registered office	No 135 Main Street Flagstaff 4810
Postal address	P.O. Box 14 Flagstaff 4810
Bankers	First National Bank
Auditors	Auditor General of South Africa (Eastern Cape) Registered Auditors
Attorneys	Jolwanamgidlana Inc F.T. Tayi & Co.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

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Abbreviations used:

SALGA	South African Local Government Authority
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
UIF	Unemployment Insurance Fund
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
MIG	Municipal Infrastructure Grant
DSRAC	Department of Sports, Recreation, Arts and Culture
SARS	South African Revenue Service
IHLM	Ingquza Hill Local Municipality
PPPFA	Preferential Procurement Policy Framework Act

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The municipality is wholly dependent on the grants from National and Provincial Treasury as well own revenue for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2022 and were signed on by:



Velile Castro Makedama
Municipal Manager

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Financial Position as at June 30, 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories	7	186,954	194,326
Receivables from exchange transactions (refer to Note 11)	8	1,277,292	1,133,711
Receivables from non-exchange transactions	9	25,642,059	24,457,928
VAT receivable	10	13,498,914	22,186,173
Cash and cash equivalents	12	208,732,514	207,373,787
		<u>249,337,733</u>	<u>255,345,925</u>
Non-Current Assets			
Investment property	3	913,528,650	861,170,155
Property, plant and equipment	4	700,275,847	841,004,679
		<u>1,613,804,497</u>	<u>1,702,174,834</u>
Total Assets		<u>1,863,142,230</u>	<u>1,957,520,759</u>
Liabilities			
Current Liabilities			
Payables from exchange transactions	5	45,511,951	27,466,060
Employee benefit obligation	6	1,126,000	898,000
Unspent conditional grants and receipts	13	5,908,528	1,058,420
Provisions	14	2,422,588	1,783,632
		<u>54,969,067</u>	<u>31,206,112</u>
Non-Current Liabilities			
Employee benefit obligation	6	4,777,960	4,657,960
Provisions	14	19,501,290	16,160,355
		<u>24,279,250</u>	<u>20,818,315</u>
Total Liabilities		<u>79,248,317</u>	<u>52,024,427</u>
Net Assets		<u>1,783,893,913</u>	<u>1,905,496,332</u>
Accumulated surplus		1,783,893,904	1,905,496,323
Total Net Assets		<u>1,783,893,904</u>	<u>1,905,496,323</u>

* See Note 41

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	16	1,376,837	1,387,069
Rendering of services		363,475	302,587
Rental of facilities and equipment	17	1,056,814	973,143
Agency services	19	3,510,023	3,655,821
Licences and permits	20	58,544	42,048
Other income	21	165,568	35,185
Interest received - investment	22	7,744,747	6,510,222
Fair value adjustments	56	52,358,495	93,990,567
Total revenue from exchange transactions		66,634,503	106,896,642
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	33,140,701	32,896,741
Transfer revenue			
Government grants & subsidies	25	359,889,518	413,799,649
Fines, Penalties and Forfeits	18	1,216,560	1,382,006
Total revenue from non-exchange transactions		394,246,779	448,078,396
Total revenue	15	460,881,282	554,975,038
Expenditure			
Employee related costs	26	(159,313,964)	(140,784,358)
Remuneration of councillors	27	(24,425,464)	(22,625,939)
Depreciation and amortisation	28	(53,042,680)	(49,946,534)
Impairment of Assets	29	(163,775,611)	-
Finance costs	30	(2,258,632)	(2,375,190)
Debt Impairment	32	(8,336,006)	(8,190,727)
Contracted services	34	(68,231,313)	(43,162,428)
Transfers and Subsidies	24	(9,582,389)	(10,396,687)
Sale of goods/Inventory	55	(2,746,331)	(2,919,969)
General Expenses	33	(72,723,135)	(56,088,839)
Total expenditure		(564,435,525)	(336,490,671)
(Deficit) surplus for the year from continuing operations		(103,554,243)	218,484,367
Gains and Losses		(570,189)	750,871
(Deficit) surplus for the year		(104,124,432)	219,235,238

* See Note 41

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	1,286,223,003	1,286,223,003
Adjustments		
Prior year adjustments 41	400,038,082	400,038,082
Balance at July 1, 2020 as restated*	1,686,261,085	1,686,261,085
Changes in net assets		
Surplus for the year	219,235,238	219,235,238
Total changes	219,235,238	219,235,238
Restated* Balance at July 1, 2021	1,888,018,336	1,888,018,336
Changes in net assets		
Surplus for the year	(104,124,432)	(104,124,432)
Total changes	(104,124,432)	(104,124,432)
Balance at June 30, 2022	1,783,893,904	1,783,893,904
Note(s)		

* See Note 41

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Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Taxation		34,598,407	32,925,541
Sale of goods and services		1,651,148	1,017,778
Grants		364,739,626	397,737,778
Interest income		7,744,747	6,510,222
		<u>408,733,928</u>	<u>438,191,319</u>
Payments			
Employee costs		(183,391,419)	(165,624,295)
Suppliers		(119,375,402)	(70,268,314)
Finance costs		(475,000)	(527,000)
		<u>(303,241,821)</u>	<u>(236,419,609)</u>
Net cash flows from operating activities	35	<u>105,492,107</u>	<u>201,771,710</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(105,266,367)	(132,603,649)
Proceeds from sale of property, plant and equipment	4	2,916,619	2,084,444
Net cash flows from investing activities		<u>(102,349,748)</u>	<u>(130,519,205)</u>
Cash flows from financing activities			
Finance lease payments		(1,783,632)	(1,848,190)
Net increase/(decrease) in cash and cash equivalents		<u>1,358,727</u>	<u>69,404,315</u>
Cash and cash equivalents at the beginning of the year		207,373,787	137,969,472
Cash and cash equivalents at the end of the year	12	<u>208,732,514</u>	<u>207,373,787</u>

The accounting policies on pages 13 to 44 and the notes on pages 45 to 84 form an integral part of the annual financial statements.

* See Note 41

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

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	1,438,428	-	1,438,428	1,376,837	(61,591)	53.1
Rendering of services	332,712	-	332,712	363,475	30,763	53.2
Rental of facilities and equipment	13,140	-	13,140	1,056,814	1,043,674	53.3
Agency services	4,749,996	-	4,749,996	3,510,023	(1,239,973)	53.4
Licences and permits	213,000	-	213,000	58,544	(154,456)	53.5
Other income - (rollup)	-	-	-	165,568	165,568	53.6
Interest received - investment	30,800,004	142,152,423	172,952,427	7,744,747	(165,207,680)	53.7
Total revenue from exchange transactions	37,547,280	142,152,423	179,699,703	14,276,008	(165,423,695)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	44,092,620	-	44,092,620	33,140,701	(10,951,919)	53.8
Transfer revenue						
Government grants & subsidies	382,752,348	-	382,752,348	359,889,518	(22,862,830)	53.9
Fines, Penalties and Forfeits	400,488	-	400,488	1,216,560	816,072	53.10
Total revenue from non-exchange transactions	427,245,456	-	427,245,456	394,246,779	(32,998,677)	
Total revenue	464,792,736	142,152,423	606,945,159	408,522,787	(198,422,372)	
Expenditure						
Personnel	(180,902,028)	134,000	(180,768,028)	(159,313,964)	21,454,064	53.11
Remuneration of councillors	(27,591,972)	-	(27,591,972)	(24,425,464)	3,166,508	53.12
Depreciation and amortisation	(55,286,556)	-	(55,286,556)	(53,042,680)	2,243,876	53.13
Impairment loss/ Reversal of impairments	-	-	-	(163,775,611)	(163,775,611)	
Finance costs	(249,996)	(2,100,000)	(2,349,996)	(2,258,632)	91,364	53.14
Debt Impairment	(43,734,792)	2,100,000	(41,634,792)	(8,336,006)	33,298,786	53.15
Contracted Services	(40,901,328)	(54,148,564)	(95,049,892)	(68,231,313)	26,818,579	53.16
Transfers and Subsidies	(1,550,004)	(8,949,996)	(10,500,000)	(9,582,389)	917,611	53.17
Sale of goods/inventory	(4,070,016)	(9,845,000)	(13,915,016)	(2,746,331)	11,168,685	53.18
General Expenses	(61,334,604)	(44,169,820)	(105,504,424)	(72,723,135)	32,781,289	53.19
Total expenditure	(415,621,296)	(116,979,380)	(532,600,676)	(564,435,525)	(31,834,849)	
Operating deficit	49,171,440	25,173,043	74,344,483	(155,912,738)	(230,257,221)	
Fair value adjustments	-	-	-	52,358,495	52,358,495	
Deficit before taxation	49,171,440	25,173,043	74,344,483	(103,554,243)	(177,898,726)	
Deficit for the year from continuing operations	49,171,440	25,173,043	74,344,483	(103,554,243)	(177,898,726)	
Discontinued operations	7,598,424	-	7,598,424	(570,189)	(8,168,613)	53.20

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Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	56,769,864	25,173,043	81,942,907	(104,124,432)	(186,067,339)	
Reconciliation						

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

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	12,169,626	(9,845,000)	2,324,626	186,954	(2,137,672)	53.21
Receivables from exchange transactions (refer to Note 11)	2,672,298	(35,480,863)	(32,808,565)	90,120	32,898,685	53.22
Receivables from non-exchange transactions	38,192,621	-	38,192,621	25,642,059	(12,550,562)	53.23
VAT receivable	7,939,925	5,345,315	13,285,240	42,314,836	29,029,596	53.24
Cash and cash equivalents	123,222,901	139,438,423	262,661,324	208,732,514	(53,928,810)	53.25
	184,197,371	99,457,875	283,655,246	276,966,483	(6,688,763)	
Non-Current Assets						
Investment property	393,368,510	-	393,368,510	913,528,650	520,160,140	53.26
Property, plant and equipment	795,483,148	26,561,216	822,044,364	700,275,847	(121,768,517)	53.27
Intangible assets	6,764,304	900,000	7,664,304	-	(7,664,304)	53.28
	1,195,615,962	27,461,216	1,223,077,178	1,613,804,497	390,727,319	
Total Assets	1,379,813,333	126,919,091	1,506,732,424	1,890,770,980	384,038,556	
Liabilities						
Current Liabilities						
Payables from exchange transactions	52,318,935	131,881,600	184,200,535	45,511,951	(138,688,584)	53.29
VAT payable	1,185,106	5,345,315	6,530,421	28,815,922	22,285,501	53.30
Employee benefit obligation	362,582	(362,582)	-	1,126,000	1,126,000	53.31
Unspent conditional grants and receipts	17,120,291	-	17,120,291	5,908,528	(11,211,763)	53.32
Provisions	7,252	-	7,252	2,422,588	2,415,336	53.33
	70,994,166	136,864,333	207,858,499	83,784,989	(124,073,510)	
Non-Current Liabilities						
Employee benefit obligation	6,780,000	(6,780,000)	-	4,777,960	4,777,960	53.33
Provisions	-	-	-	19,501,290	19,501,290	53.34
	6,780,000	(6,780,000)	-	24,279,250	24,279,250	
Total Liabilities	77,774,166	130,084,333	207,858,499	108,064,239	(99,794,260)	
Net Assets	1,302,039,167	(3,165,242)	1,298,873,925	1,782,706,741	483,832,816	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,302,039,167	(3,165,242)	1,298,873,925	1,782,706,741	483,832,816	53.35

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

Figures in Rand	Note(s)	2022	2021
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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.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

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

Other significant judgments, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

Trade receivables / Held to maturity investments and/or loans and receivables

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

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

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

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

Provisions

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

Allowance for doubtful debts

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

Accounting by principals and agent

The municipality makes assessments on whether it is the principal or agent in principal-agent relationships. Significant judgments applied are as follow [State significant judgments made].

Additional information is disclosed in Note 54.

Impairment of statutory receivables

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures and impairment loss. The impairment loss is measured 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, are reduced, either directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

In estimating the future cash flows, the 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 municipality 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 are 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.

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.5 Investment property (continued)

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

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

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

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

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

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

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 entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

Ingquza Hill Local Municipality

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Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight-line	Undefined
Buildings	Straight-line	50
Infrastructure	Straight-line	24
Community	Straight-line	50
Other property, plant and equipment	Straight-line	15

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.

Ingquza Hill Local Municipality

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Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

1.7 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

Ingquza Hill Local Municipality

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Accounting Policies

1.8 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.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

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

Ingquza Hill Local Municipality

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Accounting Policies

1.9 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.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

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

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.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.9 Heritage assets (continued)

Subsequent measurement

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

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

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.

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).

1.10 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.

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

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').

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Accounting Policies

1.10 Financial instruments (continued)

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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

A financial asset is:

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

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

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

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

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

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

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

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

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

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

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

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

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.10 Financial instruments (continued)

- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

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

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

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

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

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
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Vat Receivable	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
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost
Vat payable	Financial liability measured at amortised cost

1.11 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.

Ingquza Hill Local Municipality

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Accounting Policies

1.11 Statutory receivables (continued)

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.

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.

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1.11 Statutory receivables (continued)

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

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

1.12 Leases

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

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

Finance leases - lessor

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

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

Ingquza Hill Local Municipality

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Accounting Policies

1.12 Leases (continued)

Finance leases - lessee

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

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

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

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

Operating leases - lessor

Operating lease 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.

1.13 Inventories

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

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

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

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

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.

Ingquza Hill Local Municipality

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Accounting Policies

1.13 Inventories (continued)

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

1.14 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.15 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents comprise bank balances, cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which are available on demand.

Bank overdrafts which are repayable on demand forms an integral part of the entity's cash management activities, and as such are included as a component of cash and cash equivalents.

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Accounting Policies

1.16 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.

Identification

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

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

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

Value in use

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

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

Accounting Policies

1.16 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.16 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.17 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.

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Accounting Policies

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

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

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

Useful life is either:

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

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

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

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

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

Ingquza Hill Local Municipality

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Accounting Policies

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.18 Transfers and Subsidies

Transfers and subsidies are monies paid by the municipality through contract for the development and assistance of small business i.e Spaza Shops.

The expenditure is recognised on accrual bases of accounting once a valid invoices has been received by the municipality. Planning and Development department is responsible for the function.

The nature of the expenditure qualifies as a subsidy (goods in kind) to small business owners i.e Spaza Shops

1.19 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.

Ingquza Hill Local Municipality

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Accounting Policies

1.19 Employee benefits (continued)

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.

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

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

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Accounting Policies

1.19 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

Post-employment benefit obligations are measured on a basis that reflects:

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

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

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.19 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

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

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

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

1.20 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus (deficit).

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

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.20 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.20 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.16 and 1.17.

1.21 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.22 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.

The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the accounting policy on Statutory Receivables).

Accounting Policies

1.22 Revenue from exchange transactions (continued)

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 services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

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

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

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

1.23 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.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.23 Revenue from non-exchange transactions (continued)

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.

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.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.23 Revenue from non-exchange transactions (continued)

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

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.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.24 Revenue

Revenue comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value-added taxation.

1.25 Investment income

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

1.26 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.

1.27 Accounting by principals and agents

Identification

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.27 Accounting by principals and agents (continued)

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).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

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.

1.28 Comparative figures

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

When the presentation or classification in the financial statement is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require restatements of comparative information. The nature and reason for reclassification is disclosed.

When material accounting errors have been identified in the current year the correction is made retrospectively as far as practice possible, and their prior year comparative amounts are restated accordingly.

Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as practical possible and the prior year comparatives are restated accordingly.

Accounting Policies

1.29 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.

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

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

1.30 Fruitless and wasteful expenditure

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

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

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

1.31 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

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

1.32 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.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.32 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.

1.33 Budget information

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

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

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

The approved budget covers the fiscal period from 7/1/2021 to 6/30/2022.

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

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

1.34 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.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.34 Related parties (continued)

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

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

1.35 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.

1.36 Value added tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15 (2) of the VAT Act (Act No. 89 of 1991).

1.37 Unspent conditional grant

This represents fund unspent at the end of the financial year on grants received from national and provincial government or any other external parties that can only be spent for the condition for which it was received. The amount is recognised as the current liability until the conditions of the grant are met or the money is transferred back to the funder.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

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 July 1, 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Guideline on Accounting for Landfill Sites	April 1, 2099	Unlikely there will be a material impact
• GRAP 25 (as revised): Employee Benefits	April 1, 2099	Unlikely there will be a material impact
• iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	April 1, 2099	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	April 1, 2099	Unlikely there will be a material impact
• GRAP 104 (as revised): Financial Instruments	April 1, 2025	Unlikely there will be a material impact
• iGRAP 21: The Effect of Past Decisions on Materiality	April 1, 2023	Unlikely there will be a material impact
• GRAP 2020: Improvements to the standards of GRAP 2020	April 1, 2023	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	April 1, 2023	Unlikely there will be a material impact

Ingquza Hill Local Municipality
Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2022		2021			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	913,528,650	-	913,528,650	861,170,155	-	861,170,155

Reconciliation of investment property - 2022

Investment property

Opening balance	861,170,155	Fair value adjustments	52,358,495	Total	913,528,650
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Reconciliation of investment property - 2021

Investment property

Opening balance	771,395,328	Other changes, movements	(4,215,740)	Fair value adjustments	93,990,567	Total	861,170,155
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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3. Investment property (continued)

Details of valuation

The effective date of the revaluations was Monday, July 1, 2019. Revaluations were performed by an independent valuer, MS Fungai Taruva [Bachelor of law and studying towards Master of law: Property Law], of Khwalo business accountants. Khwalo business accountants is not connected to the municipality and have extensive experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

All property registered in the name of the municipality were valued and categorised. After careful consideration , the valuer decided to increase the value of the Investment Property by 6% as the property values has not risen much in any of smaller towns in former transkie towns during the period under review. Suitable values were placed on each property based on the methodology identified for each category. Fair value was established for investment properties

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	1,056,814	973,143
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Amounts recognised in surplus or deficit

Rental revenue from Investment property	1,056,814	973,143
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Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

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4. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	56,258,000	-	56,258,000	56,258,000	-	56,258,000
Buildings	108,392,868	(18,663,147)	89,729,721	99,769,374	(14,626,064)	85,143,310
Plant and machinery	51,387,071	(21,847,552)	29,539,519	54,859,514	(20,681,493)	34,178,021
Furniture and fixtures	8,311,202	(4,011,426)	4,299,776	9,767,593	(3,914,407)	5,853,186
Motor vehicles	8,758,948	(4,920,809)	3,838,139	10,134,279	(4,822,450)	5,311,829
IT equipment	5,178,863	(1,887,870)	3,290,993	5,450,566	(3,070,445)	2,380,121
Infrastructure	804,669,221	(426,930,063)	377,739,158	677,722,100	(265,257,255)	412,464,845
Community	84,099,846	(20,180,384)	63,919,462	78,173,596	(16,837,830)	61,335,766
Work in Progress	71,661,079	-	71,661,079	178,079,601	-	178,079,601
Total	1,198,717,098	(498,441,251)	700,275,847	1,170,214,623	(329,209,944)	841,004,679

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	56,258,000	-	-	-	-	-	-	56,258,000
Buildings	85,143,310	-	-	8,623,494	-	(4,037,083)	-	89,729,721
Plant and machinery	34,178,021	474,372	(123,889)	-	-	(4,568,540)	(420,445)	29,539,519
Furniture and fixtures	5,853,186	145,354	(740,373)	-	-	(870,098)	(88,293)	4,299,776
Motor vehicles	5,311,829	1,560,000	(1,366,237)	-	-	(1,667,453)	-	3,838,139
IT equipment	2,380,121	2,587,257	(686,120)	-	-	(974,735)	(15,530)	3,290,993
Infrastructure	412,464,845	-	-	174,665,672	(8,557,799)	(37,582,217)	(163,251,343)	377,739,158
Community	61,335,766	-	-	5,926,250	-	(3,342,554)	-	63,919,462
Work in Progress	178,079,601	100,499,384	-	(189,215,416)	(17,702,499)	-	-	71,661,070
	841,004,679	105,266,367	(2,916,619)	-	(26,260,298)	(53,042,680)	(163,775,611)	700,275,838

Ingquza Hill Local Municipality
Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	56,258,000	-	-	-	-	-	56,258,000
Buildings	89,134,084	-	-	-	-	(3,990,774)	85,143,310
Plant and machinery	28,231,494	11,100,587	(364,101)	-	-	(4,789,959)	34,178,021
Furniture and fixtures	7,256,993	450,022	(745,331)	-	-	(1,108,498)	5,853,186
Motor vehicles	8,198,612	-	(898,560)	-	-	(1,988,223)	5,311,829
IT equipment	1,905,968	1,297,161	(76,452)	-	-	(746,556)	2,380,121
Leasehold improvements	-	-	-	-	-	-	-
Infrastructure	414,210,237	-	-	32,580,478	-	(34,325,870)	412,464,845
Community	47,567,850	-	-	16,764,570	-	(2,996,654)	61,335,766
Work in Progress	128,576,526	119,755,879	-	(49,345,048)	(20,907,756)	-	178,079,601
	781,339,764	132,603,649	(2,084,444)	-	(20,907,756)	(49,946,534)	841,004,679

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
4. Property, plant and equipment (continued)		
Property, plant and equipment in the process of being constructed or developed		
Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Ward 8 Mkhumbi, Luthulini, Mtshekelweni & Gcinillifu Villages	-	3,591,999
The project delayed due to Eskom Link line that was not completed		
Lusikisiki Town Hall Phase 1	-	7,497,016
The contractor was arguing that the BOQ design was incorrect and therefore work to be done as per drawings is not inline with the BOQ.		
Flagstaff Town Hall Phase 1	-	9,087,538
The contractor was arguing that the BOQ design was incorrect and therefore work to be done as per drawings is not inline with the BOQ.		
Flagstaff New Street lights	3,591,287	825,383
The project delayed due to its nature , it is directly linked to construction of R61		
Taxi Rank	2,837,391	-
The project is depending on the funding to be sourced from OTP		
Consultants for Lusikisiki Offices	11,753,794	-
The project is linked with construction of municipal offices in Lusikisiki		
Ward 18 Farmer Vabetshe	4,788,580	-
The project delayed due to Eskom Link line that was not completed		
Lusikisiki New Street	1,162,123	-
This is still at design stage and the construction is yet to start.		
Ward 2 Sport field	24,399,204	-
The project took longer due to application to Eskom for moving the electricity cable		
Ward 26 Sports field	15,862,382	-
The construction of sport field project delayed due community protest		
	64,394,761	21,001,936
Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)		
Ntlanjana, Dick Ext, Mcwabantsasa Ext, France Ext and Tyeni Ext	-	7,569,899
The project were completed and transferred in the current year		
Phase 5	-	3,211,321
The project were completed and transferred in the current year		
Nkanini Village	-	1,876,093
The project were completed and transferred in the current year		
Polokwana and Siciwenza Village	-	3,673,467
The project were completed and transferred in the current year		
Ward 9 Sigubudwini,Ngqayimbana,Ndukudeni	-	5,057,715
.]The project were completed and transferred in the current year.		
Ward 30 Xhophozo	-	388,955
The project were completed and transferred in the current year.		
Ward 31 Mafadobo Stop	-	973,163
The project were completed and transferred in the current year		
Landfill Sites	-	8,121,107
The project has not been active due to community unrest. The community does not want the landfill site		
	-	30,871,720

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

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4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	149,241,154	36,636,625	4,495,400	190,373,179
Additions/capital expenditure	63,419,010	17,238,059	19,842,315	100,499,384
Transferred to completed items	(199,266,911)	(6,915,260)	(12,583,921)	(218,766,092)
	13,393,253	46,959,424	11,753,794	72,106,471

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	93,242,697	33,306,125	2,027,704	128,576,526
Additions/capital expenditure	97,193,112	20,095,070	2,467,696	119,755,878
Transferred to completed items	(41,194,655)	(16,764,570)	-	(57,959,225)
	149,241,154	36,636,625	4,495,400	190,373,179

Expenditure incurred to repair and maintain property, plant and equipment

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

5. Payables from exchange transactions

Trade payables	14,858,576	1,433,060
Payments received in advanced - contract in process	1,585,533	406,272
Trade Creditor Accruals	2,900,003	1,887,187
Retention	11,484,955	9,878,178
Leave Provision	11,256,851	10,478,522
Overtime payables	949,172	956,462
Bonus Provision	2,476,861	2,426,378
Control Clearing	-	1
	45,511,951	27,466,060

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

6. Employee benefit obligations

Defined benefit plan

The municipality offers employees Long Services Awards for every five years of service completed from five years of service to 45 years of service inclusive.

An employee who has completed a period of continuous service shall be entitled to a long services award as follows:-

- i. 5 days of accumulated leave for 5 years of service;
- ii. 10 days of accumulated leave for 10 years of service;
- iii. 15 days of accumulated leave for 15, 20, 25, 30 or more years of service.

Leave and Bonus provision

Leave Provision

Employees of the municipality are entitled to leave provision as per GRAP 25, the municipality is calculating the leave movement at the end each financial to the maximum of 48 days.

The leave provision is calculated at the daily rate of each employee that is entitled to leave X number of leave days available but limited to 48 days.

Bonus Provision

All permanently employed employees of the municipality are entitled to 13th cheque bonus, contract employees are having bonus by choice through the structuring of their all inclusive total package if they choose to structure bonus.

The amount of bonus provision is equal to one month basic salary X number of applicable months in a Financial year divide by 12

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(5,903,960)	(5,555,960)
Non-current liabilities	(4,777,960)	(4,657,960)
Current liabilities	(1,126,000)	(898,000)
	<u>(5,903,960)</u>	<u>(5,555,960)</u>

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

Opening balance	5,556,000	7,770,000
Net expense recognised in the statement of financial performance	348,000	(2,214,000)
	<u>5,904,000</u>	<u>5,556,000</u>

Net expense recognised in the statement of financial performance

Current service cost	834,000	1,101,000
Interest cost	475,000	527,000
Actuarial (gains) losses	(63,000)	337,000
Changes in earning definition	-	(3,189,000)
Expected benefits vesting	(898,000)	(990,000)
	<u>348,000</u>	<u>(2,214,000)</u>

Calculation of actuarial gains and losses

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

6. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10.72 %	9.27 %
General earning (inflation rate)	7.03 %	5.79 %
Net effective discount rate	3.45 %	3.29 %

The earnings used in the evaluation include an increase on the 1 July 2021 of 6.50% as per the SALGBC circular . The next general earnings increase was expected to take place on th 1 July 2022 at 4.9% as per SALGBC circular .

The average retirement age for both genders is expected to be **62** years

Sensitivity analysis results

The results presented in Section 6 are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made.

The assumptions which tend to have the greatest impact on the results are:

- (i) the general earnings inflation rate assumption;
- (ii) the discount rate assumption;
- (iii) the average retirement age of employees; and
- (iv) assumed rates of withdrawal of employees from service

7. Inventories

Consumables	186,954	194,326
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8. Receivables from exchange transactions (refer to Note 11)

Sundry debtors	970	1,064
Property Rentals	89,150	104,061
Consumer debtors - Refuse	1,187,172	1,028,586
	<u>1,277,292</u>	<u>1,133,711</u>

9. Receivables from non-exchange transactions (refer to Note 11)

Consumer debtors - Rates	25,506,748	24,418,973
Fines	135,311	38,955
	<u>25,642,059</u>	<u>24,457,928</u>

10. VAT receivable

VAT	13,498,914	22,186,173
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The municipality is category C as per VAT registration on SARS and is submitting vat 201 on a monthly basis. The amount disclosed above is from accrual (Vat input and Vat output) as well as Vat control as per Vat 201's and Statement of account from SARS

The municipality is submitting VAT 201's on efilling and is expected to submit on or before the last day of the month of the following transaction month.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
11. Consumer debtors disclosure		
Gross balances		
Consumer debtors - Rates	96,959,918	88,438,620
Consumer debtors - Refuse	11,363,693	10,492,978
Fines	4,120,301	2,962,401
	112,443,912	101,893,999
Less: Allowance for impairment		
Consumer debtors - Rates	(71,453,170)	(64,019,647)
Consumer debtors - Refuse	(10,176,521)	(9,464,392)
Fines	(3,984,990)	(2,923,446)
	(85,614,681)	(76,407,485)
Net balance		
Consumer debtors - Rates	25,506,748	24,418,973
Consumer debtors - Refuse	1,187,172	1,028,586
Fines	135,311	38,955
	26,829,231	25,486,514
Rates		
Current (0 -30 days)	-	1,412
121 - 365 days	377	16,538,132
> 365 days	96,959,542	71,899,075
Impairment	(71,453,171)	(64,019,646)
	25,506,748	24,418,973
Refuse		
Current (0 -30 days)	125,514	241,311
31 - 60 days	117,858	111,646
61 - 90 days	114,610	111,387
91 - 120 days	113,973	110,054
121 - 365 days	779,245	759,587
> 365 days	10,190,674	9,158,993
Impairment	(10,254,702)	(9,464,392)
	1,187,172	1,028,586
Fines		
121 - 365 days	1,157,900	1,290,351
> 365 days	2,962,401	1,672,050
Impairment	(3,984,990)	(2,923,446)
	135,311	38,955
12. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	35	35
Bank balances	65,415,130	68,548,951
Short-term deposits	143,317,349	138,824,801
	208,732,514	207,373,787

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

12. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2022	June 30, 2021	June 30, 2020
First National Bank - Primary Account- 622-417-5712	65,428,725	68,548,949	4,374,709	65,428,725	68,548,949	4,374,709
First National Bank- Call Account - 622-198-77836	229,953	224,817	221,765	229,953	224,817	221,765
First National Bank- Call Account - 742-336-99310	44,907,485	43,068,727	41,386,486	44,907,485	43,068,727	41,386,486
First National Bank - Call Account - 622-314-74537	4,335,396	4,219,402	4,115,197	4,335,396	4,219,402	4,115,197
First National Bank - Call Account - 622-314-73761	60,929,199	59,299,037	57,865,661	60,929,199	59,299,037	57,865,661
First National Bank - Call Account - 627-927-58503	32,915,314	32,012,819	31,249,956	32,915,314	32,012,819	31,249,283
Total	208,746,072	207,373,751	139,213,774	208,746,072	207,373,751	139,213,101

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG)	4,850,108	-
Intergrated National Progamme Grant (INEP)	21,000	21,000
LED Grant	1,037,420	1,037,420
	5,908,528	1,058,420

Movement during the year

Balance at the beginning of the year	1,058,420	13,740,750
Additions during the year	59,194,000	90,702,319
Income recognition during the year	(54,343,892)	(103,384,649)
	5,908,528	1,058,420

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

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

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

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

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

14. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Interest during the year	Change in obligation	Total
Environmental rehabilitation	17,943,987	1,783,632	2,196,259	21,923,878

Reconciliation of provisions - 2021

	Opening Balance	Interest during the year	Change in obligation	Total
Environmental rehabilitation	16,384,669	1,848,190	(288,872)	17,943,987
Non-current liabilities			19,501,290	16,160,355
Current liabilities			2,422,588	1,783,632
			21,923,878	17,943,987

Environmental rehabilitation provision

Decommissioning, restoration and similar liabilities. Landfill site decommissioning is estimated by means of a valuation performed by professional valuator to determine the future cost of dismantling the landfill site. The cost is then reduced by taking into account the following.

(a) The time value for money at the weighted average investing rate of the municipality.

(b) An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

(c) The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

15. Revenue

Rendering of services	363,475	302,587
Service charges	1,376,837	1,387,069
Rental of facilities and equipment	1,056,814	973,143
Agency services	3,510,023	3,655,821
Licences and permits	58,544	42,048
Other income	165,568	35,185
Interest received - investment	7,744,747	6,510,222
Property rates	33,140,701	32,896,741
Government grants & subsidies	359,889,518	413,799,649
Fines, Penalties and Forfeits	1,216,560	1,382,006
	408,522,787	460,984,471

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	1,376,837	1,387,069
Rendering of services	363,475	302,587
Rental of facilities and equipment	1,056,814	973,143
Agency services	3,510,023	3,655,821
Licences and permits	58,544	42,048
Other income	165,568	35,185
Interest received - investment	7,744,747	6,510,222
	14,276,008	12,906,075

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
15. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	33,140,701	32,896,741
Transfer revenue		
Government grants & subsidies	359,889,518	413,799,649
Fines, Penalties and Forfeits	1,216,560	1,382,006
	<u>394,246,779</u>	<u>448,078,396</u>
16. Service charges		
Refuse removal	1,376,837	1,387,069
17. Rental of facilities and equipment		
Premises		
Rental income	1,056,814	973,143
18. Fines, Penalties and Forfeits		
Pound Fees Fines	18,360	19,455
Court Traffic Fines	1,198,200	1,362,551
	<u>1,216,560</u>	<u>1,382,006</u>
19. Agency services		
Driver's Licenses	831,762	466,510
Vehicle Registration	2,678,261	3,189,311
	<u>3,510,023</u>	<u>3,655,821</u>
<p>The municipality has signed (SLA) Service Level Agreement with the department of transport for the collection of revenue on behalf of the Department of Transport. The municipality is entitled to 19% of the fees collected as per the agreement as compensation for the transactions carried out.</p> <p>The municipality records the amount to the value of 19% as Agency fees and there amount due to Department of transport is deposited direct to the department's account on regular basis, any amount owed to the department at the year end is recorded as a liability.</p>		
20. Licences and permits		
Trading	58,544	42,048
21. Other income		
Commission transaction handling	37,485	15,088
Staff and Councillors recoveries	128,083	20,097
	<u>165,568</u>	<u>35,185</u>

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

	2022	2021
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22. Investment revenue

Interest revenue

Bank	7,744,747	6,510,222
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The amount included in Investment revenue arising from exchange transactions amounted to 7 744 747.

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R7 744 747 (PY: R6 510 222).

23. Property rates

Rates received

Property rates	33,140,701	32,896,741
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Valuations

Residential	304,655,700	296,053,200
Commercial	1,140,487,600	1,151,088,600
State	918,077,200	918,077,200
Municipal	647,744,303	647,924,303
Small holdings and farms	24,756,000	24,756,000
Public Services Properties	203,300	203,300
	<u>3,035,924,103</u>	<u>3,038,102,603</u>

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2024.

24. Transfer and subsidies

Other subsidies

Rural Development Assistance	9,582,389	10,396,687
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Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
25. Government grants & subsidies		
Operating grants		
Equitable share	283,556,000	326,079,000
Library Grant	800,000	800,000
Expanded Public Works Grant (EPWP)	1,385,000	1,443,000
Finance Management Grant (FMG)	1,650,000	1,700,000
LG Seta	883,807	933,381
	288,274,807	330,955,381
Capital grants		
Municipal Infrastructure Grant (MIG)	52,693,892	51,188,330
Small Town Regeneration Grant (STR)	18,920,819	29,336,938
Integrated National Electrification Programme Grant (INEP)	-	2,319,000
	71,614,711	82,844,268
	359,889,518	413,799,649
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	57,412,699	58,383,711
Unconditional grants received	302,476,819	355,415,938
	359,889,518	413,799,649
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	-	12,703,330
Current-year receipts	57,544,000	38,485,000
Conditions met - transferred to revenue	(52,693,892)	(51,188,330)
	4,850,108	-
Conditions still to be met - remain liabilities (see note 13).		
This grant is allocated for the construction of roads and community assets, to provide new , rehabilitation and upgrading of municipal infrastructure as part of service delivery and upgrading of poor household, micro enterprise and social institutions		
Finance Management Grant (FMG)		
Current-year receipts	1,650,000	1,700,000
Conditions met - transferred to revenue	(1,650,000)	(1,700,000)
	-	-
This is grant is allocated for the implementation of Financial management reforms as per the MFMA requirements.		
Integrated National Electrification Grant (INEP)		
Balance unspent at beginning of year	21,000	-
Current-year receipts	-	2,340,000
Conditions met - transferred to revenue	-	(2,319,000)
	21,000	21,000

Ingquza Hill Local Municipality

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Figures in Rand	2022	2021
25. Government grants & subsidies (continued)		
Conditions still to be met - remain liabilities (see note 13).		
This grant is allocated for addressing electrification backlog of all existing and planned residential dwellings (including informal settlements,new and existing dwellings) and installation of relevant bulk infrastructure.		
LED Grant		
Balance unspent at beginning of year	1,037,420	1,037,420
Conditions still to be met - remain liabilities (see note 13).		
This grant is allocated for the implementation and funding of LED projects and its a provincial grant.		
Library Grant		
Current-year receipts	800,000	800,000
Conditions met - transferred to revenue	(800,000)	(800,000)
	-	-
This grant is allocated by DSRAC to the municipality for Library services and its a provincial grant.		
LG Seta Grant		
Current-year receipts	883,807	933,381
Conditions met - transferred to revenue	(883,807)	(933,381)
	-	-
The LGSETA grant is allocated to address the national priorities as set out in the National Skills Development Plan (NSDP 2030).		
Expanded Public Works Programme Grant (EPWP)		
Current-year receipts	1,385,000	1,443,000
Conditions met - transferred to revenue	(1,385,000)	(1,443,000)
	-	-
This grant is allocated for Job creation.		
Local Small Town Revamp (STR)		
Current-year receipts	18,920,819	29,336,936
Conditions met - transferred to revenue	(18,920,819)	(29,336,936)
	-	-
This grant is allocated to the municipality by the Office of the Premier for revitalization project.		

Ingquza Hill Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
26. Employee related costs		
Basic	101,697,580	89,708,535
Bonus	5,659,535	3,462,163
Medical aid - company contributions	7,801,806	6,856,883
UIF	741,588	618,163
Leave pay provision charge	2,861,065	2,583,930
Bargaining Council	42,314	36,046
Overtime payments	13,461,836	13,170,206
Acting allowances	754,375	1,390,508
Car allowance	9,667,618	8,216,812
Housing benefits and allowances	3,377,509	3,022,643
Cellphone Allowance	639,869	639,182
Pension Contributions	12,608,869	11,079,287
	159,313,964	140,784,358
Remuneration of municipal manager - M Pinyana		
Annual Remuneration	265,597	-
Subsistence & Travelling	40,840	-
	306,437	-
Remuneration of Chief Finance Officer - M Mhlifili		
Annual Remuneration	811,455	811,455
Car Allowance	270,485	270,485
Subsistence & Travelling	18,630	-
	1,100,570	1,081,940
Remuneration of Technical Services director - N Ntloko		
Annual Remuneration	901,940	240,485
Car Allowance	180,000	30,000
Subsistence & Travelling	31,591	-
	1,113,531	270,485
<p>Technical services director Miss Ntloko started in April 2021 after Mr Tshangela whose contract as Director Technical services ended 2021.</p>		
Remuneration of Coporate Services director - M Matubatuba		
Annual Remuneration	901,940	901,940
Car Allowance	180,000	180,000
Subsistence & Travelling	25,605	-
Acting Allowance	19,651	-
	1,127,196	1,081,940
Remuneration of Local Economic Development director - A Mbarane		
Annual Remuneration	1,081,940	90,162
Acting Allowance	-	13,527
Subsistence & Travelling	28,249	-
	1,110,189	103,689

Mr A Mbarane started in June 2021 as the Director Local Economic Department after Mr G R Tobia resigned in December 2021

Ingquza Hill Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
26. Employee related costs (continued)		
Remuneration of Community Services director - M Garane		
Annual Remuneration	574,977	766,636
Car Allowance	162,119	216,158
Leave pay	61,474	19,492
Contributions to UIF, Medical and Pension Funds	59,740	79,654
Subsistence & Travelling	32,906	-
Cellphone allowance	14,619	-
Acting Allowance	-	19,651
	905,835	1,101,591
The contract of Mr Garane came to an end in March and was not renewed		
Remuneration of Chief Audit Executive - N Jiki		
Annual Remuneration	1,081,940	1,081,940
Subsistence & Travelling	12,598	-
	1,094,538	1,081,940
Acting director Community Services : Mr Dakwa		
Annual Remuneration	4,303	-
Remuneration of Municipal Manager - M Fihlani		
Annual Remuneration	-	772,638
Car Allowance	-	123,135
Performance Bonuses	-	43,198
Other	-	164,718
Termination benefits	-	2,140,903
	-	3,244,592
Additional text		
Remuneration of Director Infrastructure Services - LS Tshangela		
Annual Remuneration	-	249,653
Car Allowance	-	64,937
Cellphone allowance	-	25,253
Other	-	1,259,722
	-	1,599,565
Contract terminated in october 2020		
Remuneration of Director Planning and Development - G R Tobia		
Annual Remuneration	-	455,068
Car Allowance	-	90,000
Other	-	152,414
	-	697,482
Resigned in December 2020		
Remuneration of Acting Municipal Manager - MS Gqada		

Ingquza Hill Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
26. Employee related costs (continued)		
Annual Remuneration	-	19,115
Acted in the month of Jult 2020		
27. Remuneration of councillors		
Mayor	985,155	901,659
Speaker	768,172	729,488
Mayoral Committee Members	3,040,052	3,208,456
Chief Whip	700,559	686,446
Councillors	18,079,697	16,464,120
Section 79 committee chairperson	851,829	635,770
	24,425,464	22,625,939
In-kind benefits		
The Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor, Speaker and Chief Whip have use of a Council owned vehicle for official duties.		
The Mayor, Speaker and Chief Whip each have the use of separate Council owned vehicles for official duties.		
The Mayor, Speaker ann Chief Whip have full-time driver and bodyguard each paid by the municipality.		
Additional information		
The salaries, allowance and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa and are within the limits set by minister for COGTA as per Remuneration of Public Office Bearers Act no 20 of 1998.		
28. Depreciation and amortisation		
Property, plant and equipment	53,042,680	49,946,534
29. Impairment loss		
Impairments		
Property, plant and equipment	163,775,611	-
The municipality undertook a full verification and conditional assessment of Property Plant and Equipment and some assets were found to has deforested and warranted some impairment due to they condition. the split for the total value of R163 775 611 is made up of the following classes. Infrastructure to the value of (R163 251 343, IT Equipment (R15 530), Furniture and Office Equipment (R88 293) and Machinery and equipment (R420 445).		
30. Finance costs		
Employee benefits obligations	475,000	527,000
Provision for Landfill site obligation	1,783,632	1,848,190
	2,258,632	2,375,190
31. Auditors' remuneration		
Fees	6,797,683	5,272,989

Ingquza Hill Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
32. Debt impairment		
Bad debts written off	8,336,006	8,190,727
33. General expenses		
Advertising	770,989	1,355,693
Auditors remuneration	6,797,683	5,272,989
Bank charges	122,767	108,615
Electricity	5,086,114	2,327,667
Hire	3,439,633	3,278,013
Insurance	2,402,395	1,613,772
IT expenses	5,154,014	3,051,091
Skills Development Levy (SDL)	1,189,539	956,647
Motor vehicle expenses	415,057	490,626
Seating Allowance : Traditional leaders	142,698	468,000
Fuel and oil	6,649,200	4,910,728
Postage and courier	1,250	1,087
Printing and stationery	6,120	21,092
Protective clothing	418,861	1,382,862
Subscriptions and membership fees	2,137,130	2,284,800
Telephone and fax	4,866,253	3,670,534
Transport and freight	1,197,474	366,670
Travel - local	13,987,779	4,276,569
Travel - overseas	-	1,380
Ward Committes	4,357,288	7,300,602
Leranships and Internships	3,770,257	2,993,378
Busaries: Employees	847,456	463,059
Workmen's Compansation Fund	852,860	908,763
Indigent Relief	7,739,730	8,017,469
Communication	161,800	185,000
Other expenses	208,788	381,733
	72,723,135	56,088,839
34. Contracted services		
Outsourced Services		
Burial Services	69,161	33,340
Business and Advisory	6,206,044	3,205,235
Catering Services	3,980,599	782,792
Cleaning Services	25,100	-
Clearing and Grass Cutting Services	693,000	381,000
Hygiene Services	-	595,656
Personnel and Labour	474,783	568,800
Drivers Licence Cards	122,692	188,178
Electrical	1,435,778	46,630
Consultants and Professional Services		
Business and Advisory	8,113,162	4,088,390
Infrastructure and Planning	185,000	242,045
Legal Cost	7,516,008	10,210,673

Ingquza Hill Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
34. Contracted services (continued)		
Contractors		
Audio-visual Services	172,500	-
Catering Services	594,100	217,470
Employee Wellness	193,296	101,046
Event Promoters	5,600	18,818
Interior Decorator	59,680	22,045
Maintenance of Buildings and Facilities	1,212,271	1,579,967
Maintenance of Equipment	3,249,031	4,126,652
Maintenance of Unspecified Assets	31,829,138	15,412,461
Pest Control and Fumigation	924,554	193,200
Plants, Flowers and Other Decorations	11,660	9,850
Sewerage Services	1,026,506	1,121,500
Stage and Sound Crew	131,650	16,680
	68,231,313	43,162,428
35. Cash generated from operations		
(Deficit) surplus	(104,124,432)	219,235,238
Adjustments for:		
Depreciation and amortisation	53,042,680	49,946,534
Gain (loss) on discontinued operations	570,189	(750,871)
Fair value adjustments	(52,358,495)	(93,990,567)
Finance costs - Finance leases	1,783,632	1,848,190
Impairment deficit	163,775,611	-
Debt impairment	8,336,006	8,190,727
Movements in retirement benefit assets and liabilities	348,000	(2,214,000)
Movements in provisions	3,979,891	1,559,318
Movement in tax receivable and payable	8,212,111	79,803,941
Changes in working capital:		
Inventories	7,372	624,800
Receivables from exchange transactions (refer to Note 11)	(143,581)	(318,363)
Consumer debtors	(8,336,006)	(8,190,727)
Other receivables from non-exchange transactions	(1,184,131)	(2,529,857)
Payables from exchange transactions	18,156,000	(19,828,692)
VAT	8,577,152	(15,552,090)
Unspent conditional grants and receipts	4,850,108	(16,061,871)
	105,492,107	201,771,710
36. Fair value adjustments		
Investment property (Fair value model)	52,358,495	93,990,567
37. Financial instruments disclosure		
Categories of financial instruments		
2022		
Financial assets		
	At amortised cost	Total
Trade and other receivables from exchange transactions	1,277,292	1,277,292
Other receivables from non-exchange transactions	25,642,059	25,642,059
Cash and cash equivalents	208,732,514	208,732,514
	235,651,865	235,651,865

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
37. Financial instruments disclosure (continued)		
Financial liabilities		
	At amortised cost	Total
Trade and other payables from exchange transactions	45,511,951	45,511,951
Taxes and transfers payable (non-exchange)	5,908,528	5,908,528
Employee benefit obligation	1,126,000	1,126,000
Provisions	2,422,588	2,422,588
	<u>54,969,067</u>	<u>54,969,067</u>
2021		
Financial assets		
	At amortised cost	Total
Trade and other receivables from exchange transactions	1,133,711	1,133,711
Other receivables from non-exchange transactions	24,457,928	24,457,928
Cash and cash equivalents	207,373,786	207,373,786
	<u>232,965,425</u>	<u>232,965,425</u>
Financial liabilities		
	At amortised cost	Total
Trade and other payables from exchange transactions	27,466,060	27,466,060
Taxes and transfers payable (non-exchange)	1,058,420	1,058,420
Employee benefit	898,000	898,000
Provisions	1,783,632	1,783,632
	<u>31,206,112</u>	<u>31,206,112</u>
38. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	<u>64,917,472</u>	<u>71,689,786</u>
Total capital commitments		
Already contracted for but not provided for	<u>64,917,472</u>	<u>71,689,786</u>
Total commitments		
Total commitments		
Authorised capital expenditure	<u>64,917,472</u>	<u>71,689,786</u>

This committed expenditure relates to property, plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

	2022	2021
39. Contingencies		
Contingent Liability		
Sifiso Hlayedwa v IHLM		
Damages for alleged wrongful removal of the container. (R61 400 is for estimated liability and R30 000 is for estimated legal cost).	91,400	91,400
Ayanda Mdodana v IHLM - Magistrates		
Damages for wrongful removal of the container. (R31 900 is for estimated liability and R30 000 is for estimated legal cost)	61,900	61,900
Mawande Sataka & others v IHLM		
Damages for wrongful removal of the container (R55 000 is for estimated liability and R30 000 is for estimated legal cost)	85,000	85,000
Brenda Lamla Dana v IHLM		
Claim for unpaid salary wages or underpayment dismissed by the magistrate	-	165,804
Jongilanga W. Ngwane v IHLM		
Claim of wrongful arrest by the municipal office (R100 000 is for estimated liability and R50 000 is for estimated legal cost)	150,000	150,000
Dynamic Kitchen and 5 others v IHLM		
Removal of containers in Flagstaff town (R0 is for estimated liability and R35 000 is for estimated legal cost)	35,000	35,000
Gamnca v IHLM		
Claimed for impounded livestock (Horses) (R100 000 is for estimated liability and R40 000 is for estimated legal cost)	140,000	140,000
Luvuyo Melato v IHLM		
Application for interdict (R0 is for estimated liability and R80 000 is for estimated legal cost)	80,000	80,000
Geospatial Evaluation Technologies vs IHLM		
Claim for breach of agreement, defence of detective performance	-	566,844
Ndikhonam Ndlela v IHLM		
Damages to vehicle (R40 000 is for estimated liability and R87 565.32 is for estimated legal cost)	127,565	137,565
Tozama Dada v IHLM		
Damages to a vehicle travelling in back street pathway in Lusikisiki (R40 000 is for estimated liability and R100 000 is for estimated legal cost)	140,000	146,275
Sobosa Trading (PTY) LTD v IHLM		
Vehicle damaged inside the municipal premises's (R0 is for estimated liability and R1 456 000 is for estimated legal cost)	1,456,000	1,756,000
Andile Macingwane v IHLM		
Various cases against IHLM employer assaulted another party whilst at work not acting on the cause and scope of employment. (R150 000 is for estimated liability and R500 000 is for estimated legal cost)	650,000	650,000
Louis Botha vs IHLM		
Damages to motor vehicle (R7 563.91 is for estimated liability and R103 691.22 is for estimated legal cost)	111,255	-
Tauris Garden PTY LTD v IHLM		
Arbitration in respect of faults and non-payment construction fees	-	9,515,806
Ligman Qeqe vs IHLM		
Civilian allegation that they were shot by a municipal employee. (R0 is for estimated liability and R400 000 is for estimated legal cost)	400,000	400,000
Nceba Dinwayo and Others v IHLM		
Land Grabbers (R0 is for estimated liability and R700 000 is for estimated legal cost)	700,000	700,000
Madikizela & others v IHLM		
Selling of business sites (R0 is for estimated liability and R1 500 000 is for estimated legal cost)	1,500,000	1,500,000
Maximum Profit Recovery (Pty) LTD vs IHLM		
Contractual disputes	-	1,528,423
Sizwe Chitha & Others vs IHLM		
Unlawful protest by community	-	280,000

Ingquza Hill Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
39. Contingencies (continued)		
Botani Mandela and another v IHLM	-	100,000
Unlawfull selling of properties	-	1,500,000
Malibongwe Mlenga v IHLM		
Eviction of Mr Mlenga and others for unlawful occupation of erf 102 in Flagstaff	1,000,000	2,500,000
EFF v IHLM		
Application by EFF (R500 000 is for estimated liability and R500 000 is for estimated legal cost)	-	1,300,000
Ayanda Mfolozi and Other v IHLM		
	94,055	400,000
Ntombizodwa Lugongolo v IHLM		
Damages arising out of shooting a community member (R0 is for estimated liability and R94 055 is for estimated legal cost)	400,000	350,000
Quanza group v IHLM		
The municipality interdict for poor performance (R200 000 is for estimated liability and R200 000 is for estimated legal cost)	-	1,200,000
J.P Mdingi v IHLM		
Removal of Mayor	700,000	3,000,000
O.R TAMBO v IHLM		
Replacement of council (R350 000 is for estimated liability and R350 000 is for estimated legal cost)	-	1,500,000
Mluleki Fihlani vs IHLM		
	-	200,000
Rhini, Mangcotywa and others v IHLM		
Unfair dismissal	-	200,000
Gonya and Stoffela vs IHLM		
Unfair dismissal	600,000	-
Zanele Sodladla vs IHLM		
Employee appealing decision by CCMA (R0 is for estimated liability and R600 000 is for estimated legal cost)	250,000	-
MTN vs IHLM		
Breach of contract (R100 000 is for estimated liability and R150 000 is for estimated legal cost)		
	8,772,175	30,240,017

Ingquza Hill Local Municipality

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Figures in Rand

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40. Related parties

Relationships
Accounting Officer
Members of key management

Refer to accounting officers' report note
Mawetu Pinyana - Acting Municipal Manager
Mzukisi Mhlifili - Chief financial Officer
Miranda Matubatuba - Director Coporate Services
Andile Mbarane - Director Planning
Nomahlubi Ntloko - Director Technical Services
Mthokozisi Garane - Director Community Services
(ended March)
Sibonile Dakwa - Acting Director Community Services

Remuneration of management

Management class: Key advisors/Sub committees

2022

Name

Mr Makhanya (Chairpeson)
Ms Mngadi
Mr Zakuza
Mr Makhabeni

Fees for services as a member of management	Total
44,558	44,558
31,739	31,739
83,470	83,470
29,957	29,957
189,724	189,724

2021

Name

Mr Makhanya (Chairpeson)
Ms Mngadi
Mr Zakuza

Fees for services as a member of management	Total
21,000	21,000
13,000	13,000
13,000	13,000
47,000	47,000

41. 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

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand		2022	2021		
41. Prior-year adjustments (continued)					
2021					
	Note	As previously reported	Correction of error	Re-classification	Restated
Property plant and equipment		793,646,564	59,651,693	-	853,298,257
Investment Property		865,385,896	(4,215,741)	-	861,170,155
Receivables from non-exchange transactions		24,550,702	(74,774)	-	24,475,928
Receivables from exchange transactions		1,093,442	40,269	-	1,133,711
Cash and cash equivalents		206,823,428	550,358	-	207,373,786
Unspent Grant		(9,534,197)	8,475,774	-	(1,058,423)
Payables from exchange		(24,007,178)	12,917,908	(16,376,790)	(27,466,060)
Payables from non-exchange		(406,272)	-	406,272	-
Employee benefit obligations		(16,868,518)	-	15,970,518	(898,000)
Accumulated surplus		-	(77,345,487)	-	(77,345,487)
		<u>1,840,683,867</u>	<u>-</u>	<u>-</u>	<u>1,840,683,867</u>

Statement of financial performance

2021

	Note	As previously reported	Correction of error	Re-classification	Restated
Other Income		(325,899)	248,666	42,048	(35,185)
licence and permits		-	-	(42,048)	(42,048)
Government grants & subsidies		(405,323,872)	(8,475,774)	-	(413,799,646)
Employee benefit		140,737,556	46,802	-	140,784,358
Depreciation		74,380,992	(24,434,458)	-	49,946,534
Contracted services		45,244,442	(2,082,014)	-	43,162,428
General expenditure		67,323,478	2,082,014	(13,316,656)	56,088,836
Inventory consumed		-	-	2,919,969	2,919,969
Transfers and subsidies		-	-	10,396,687	10,396,687
Surplus for the year		<u>(77,963,303)</u>	<u>(32,614,764)</u>	<u>-</u>	<u>(110,578,067)</u>

Cash and Cash Equivalents

The amount disclosed on Cash at bank was misstated by an amount of R550 358 when compared to the bank account and a correction of prior error.

Receivables from exchange and non-exchange

The municipality performed a reclassification of cost and accumulated impairment and aligned to 2020_21 Debtors aged analysis.

Unspent Grant and Transfers and subsidies

The municipality disclosed an amount of R8 475 774 as unspent grant, after carefully reconciling the payments against Misa submitted report. The amount was fully spent and as result a restatement of unspent grant and revenue was performed.

Contracted services and General expense

An invoice for Auditor General was incorrectly capture under contracted services instead of general expenditure. After carefully investigation of contracted services and general expenses a correction of error was performed.

Property plant and Equipment

The municipality reconciled the and reviewed the Fixed asset register and change in depreciation

Ingquza Hill Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

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41. Prior-year adjustments (continued)

Reclassifications

Payable from exchange

reclassification of payables to be in line with Trail balance and for all current liabilities. The reclassification is for leave and bonus accruals .

Employee benefit obligation

The reclassification of leave and bonus accrual to payables from exchange as per trail balance. The employee benefit is made up of long service awards calculation by the actuaries

Transfers and Subsidies

reclassification of Transfers and subsidies from general expense to have a separate note in the face of the annual financial statement

General expenses

The reclassification of general expenditure is as a result of transfer and subsidies and inventory consumed.

Sale of goods/ Inventory consumed

The reclassification of inventory consumed from general expenditure to have a separate note in the face of annual financial statement

Property Plant and Equipment

Property plant and equipment correction for depreciation that was incorrectly calculated as well operational expenditure that was incorrectly capitalised.

Investment Property

Investment property correction of land as per iGRAP 18 , municipality has lost control due to land invasion.

Irregular expenditure

Irregular expenditure of R1 560 749 was identified in the current year and it was incurred in the prior year

42. Comparative figures

Certain comparative figures have been restated and reclassified.

43. Risk management

Financial risk management

Liquidity risk

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

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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43. 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 counterparty.

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.

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.

44. Going concern

We draw attention to the fact that at June 30, 2022, the municipality had an accumulated surplus (deficit) of 1,783,893,904 and that the municipality's total liabilities exceed its assets by 1,783,893,904.

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.

45. Events after the reporting date

During the verification of fixed assets the municipality noted that there are assets that should be written off from the financial records of the municipality. The Executive Committee of the Municipality took the decision before 31 August 2022 to write-off these assets, however the council only approved the write off on 17 November 2022. This is an adjusting event as the events existed before the reporting date. The total of these write-offs amounts to R26 286 361 and this is included in the Property, Plant and Equipment note disclosed in note 4 .

46. Unauthorised expenditure

The municipality does not have unauthorise expenditure to report in the current year 2021_22 and prior year 2020_21

Unauthorised expenditure: Budget overspending – per municipal department:

47. Fruitless and wasteful expenditure

Opening balance as previously reported	11,522	-
Add: Fruitless and wasteful expenditure identified - current	5,768	11,522
Closing balance	17,290	11,522

Fruitless and wasteful expenditure is presented inclusive of VAT

The amount disclosed above relates to interest expense paid by the municipality to Eskom as a result of late payments for free basic services

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48. Irregular expenditure

Opening balance as previously reported	3,500,565	1,594,017
Add: Irregular expenditure - current	6,786,907	1,906,548
Add: Irregular expenditure - incurred prior year but identified in the current year	1,560,749	-
Closing balance	11,848,221	3,500,565

The irregular expenditure disclosed for the prior year is in the process of investigation by the Municipal Public Accounts Committee and the irregular expenditure identified in the current year has not yet been investigated and will be investigated before the end of the 2022/2023 financial year. All balances of irregular expenditure are disclosed incursive of VAT.

49. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net (deficit) surplus per the statement of financial performance	(104,124,432)	219,235,238
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50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	2,034,563	1,968,260
Amount paid - current year	(2,034,563)	(1,968,260)
	-	-

Audit fees

Current year subscription / fee	6,797,683	5,272,989
Amount paid - current year	(6,797,683)	(5,272,989)
	-	-

PAYE and UIF

Current year subscription / fee	29,916,929	26,657,511
Amount paid - current year	(29,916,929)	(26,657,511)
	-	-

Pension and Medical Aid Contribution

Current year subscription / fee	20,663,117	18,070,066
Amount paid - current year	(20,663,117)	(18,070,066)
	-	-

VAT

VAT receivable	42,314,836	50,891,987
VAT payable	(28,815,922)	(28,705,814)
	13,498,914	22,186,173

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

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

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

Supply chain management regulations

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

51. 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.

<u>Deviations</u>		
Decontamination and fumigation of offices	602,260	1,222,627
Procurement of decontamination and fumigation of offices was made through the emergency system and the number of incidents were Six in 2022 and Seven (2021)		
Hiring of VIP toilets	-	1,119,700
Procurement of VIP toilets for offices was made through the emergency system and number of incidents were eight		
Procurement of laptops	-	140,168
Procurement of laptops was made through the emergency system and the number of incidents were two in 2021.		
Plant hiring	67,725	-
The hiring of plant was done through emergency procurement and the number of incident was once.		
Supply and delivery of stationery	115,752	-
The procurement of stationery was done through emergency procurement for second quarter council , the incident was one.		
Transport Services	66,120	-
The procurement of transport service was done through emergency procurement, the number of incident was one		
Configuration and server repairs	241,107	-
The procurement of server repairs and configuration was done through emergency procurement and the number of incident was one		
Independent investigator	708,918	-
The procurement of independent investigator was done through emergency procurement and the number of incident was one		
	<u>1,801,882</u>	<u>2,482,495</u>

52. Segment information

General information

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52. Segment information (continued)

Identification of segments

The municipality is organised and reports to management on the basis of three major functional areas: primary, secondary and tertiary educational services. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

For management purposes, the municipality is organised and operates in nine 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 eight key business units comprise of

- (i) Community and Social Services
- (ii) Energy Sources
- (iii) Executive and Council
- (iv) Finance and Administration
- (v) Internal Audit
- (vi) Planning and Development
- (vii) Road Transport
- (viii) Waste Management

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 (if any)

Management does monitor performance geographically but does not at present have reliable separate financial information for decision making purposes. Processes have been put in place to generate this information at a transaction level and in the most cost effective manner

Aggregated segments

The municipality operates in the district of OR Tambo and covers areas of Lusikisiki and Flagstaff . Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout Ingquza Hill were sufficiently similar to warrant aggregation.

Types of goods and/or services by segment

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

Reportable segment

Community and Social services
Energy Sources
Executive and Council
Finance and administration
Internal Audit
Planning and Development
Road Transport
Waste Management

Goods and/or services

Traffic management and social services
Electricity connections
Oversight Role and political leadership
Billing and Skills development
Good governance
Business development
Construction and Maintenance of roads
Refuse collection

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52. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2022

Revenue	Community and Social Services	Energy Sources	Executive and Council	Finance and Administration	Internal Audit	Planning and Development	Road Transport	Waste Management	Total
Revenue from non-exchange transactions	-	-	-	33,140,701	-	-	-	-	33,140,701
Revenue from exchange transactions	-	-	-	-	-	-	-	1,376,837	1,376,837
Transfers and Subsidies -Capital	-	-	-	-	-	18,920,819	52,693,892	-	71,614,711
Transfers and subsidies- Operational	2,185,000	-	-	286,089,807	-	-	-	-	288,274,807
Rental of facilities	-	-	-	-	-	1,054,640	-	2,174	1,056,814
Interest revenue	-	-	-	7,744,747	-	-	-	-	7,744,747
Fair value adjustments	-	-	-	52,358,495	-	-	-	-	52,358,495
Fines and penalties	1,157,960	-	-	-	-	-	-	58,600	1,216,560
Agency fees	3,510,023	-	-	-	-	-	-	-	3,510,023
Other income	-	-	-	165,568	-	-	-	-	165,568
Licence and permits	-	-	-	-	-	58,544	-	-	58,544
Rendering of services	-	-	-	-	-	363,475	-	-	363,475
Total segment revenue	6,852,983	-	-	379,499,318	-	20,397,478	52,693,892	1,437,611	460,881,282
Entity's revenue									460,881,282

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	Community and Social Services	Energy Sources	Executive and Council	Finance and Administration	Internal Audit	Planning and Development	Road Transport	Waste Management	Total
52. Segment information (continued)									
Expenditure									
Salaries and wages	62,829,119	-	20,663,835	44,565,107	3,290,819	9,495,580	18,469,504	-	159,313,964
Remuneration of councillors	-	-	24,425,464	-	-	-	-	-	24,425,464
Contracted services	-	3,147,459	10,931,116	12,329,222	-	5,588,420	33,622,903	2,612,193	68,231,313
Impairment of debtors	-	-	-	8,336,006	-	-	-	-	8,336,006
Depreciation	3,891,861	-	30,484,516	1,777,739	-	732,266	16,156,298	-	53,042,680
Finance Cost	-	-	-	2,258,632	-	-	-	-	2,258,632
Transfers and subsidies	-	-	-	-	-	9,582,389	-	-	9,582,389
Gains and Losses	-	-	-	570,189	-	-	-	-	570,189
General expenses	2,261,475	5,086,114	14,901,568	45,207,288	74,736	3,423,030	1,768,924	-	72,723,135
Gain and Impairment	-	-	-	163,775,611	-	-	-	-	163,775,611
Sale of inventory	-	-	-	2,746,331	-	-	-	-	2,746,331
Total segment expenditure	68,982,455	8,233,573	101,406,499	281,566,125	3,365,555	28,821,685	70,017,629	2,612,193	565,005,714
Total segmental surplus/(deficit)									(104,124,432)

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.

2021

	Community and Social Services	Energy Sources	Executive and Council	Finance and Administration	Internal Audit	Planning and Development	Road Transport	Waste Management	Total
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52. Segment information (continued)									
Revenue									
Revenue from non-exchange transactions	-	-	32,896,741	-	-	-	-	-	32,896,741
Revenue from exchange transactions	-	-	-	-	-	-	-	1,387,069	1,387,069
Transfers and subsidies - Capital	-	2,319,000	-	-	-	29,336,938	51,188,330	-	82,844,268
Transfers and subsidies - operational	2,243,000	-	328,712,381	-	-	-	-	-	330,955,381
Rental of facilities	-	-	-	-	-	962,017	-	11,126	973,143
Interest revenue	-	-	6,510,222	-	-	-	-	-	6,510,222
Fines and penalties	1,382,006	-	-	-	-	-	-	-	1,382,006
Fair value adjustments	3,655,821	-	93,990,567	-	-	-	-	-	93,990,567
Agency fees	-	-	-	-	-	-	-	-	3,655,821
Other revenue	-	-	35,185	-	-	-	-	-	35,185
Licences and Permits	-	-	42,048	-	-	-	-	-	42,048
Rendering of services	-	-	-	-	-	302,587	-	-	302,587
Total segment revenue	7,280,827	2,319,000	462,187,144	-	30,601,542	51,188,330	1,398,195	554,975,038	554,975,038
Entity's revenue									
Expenditure									
Salaries and wages	59,884,472	-	24,563,924	-	76,802	8,618,010	15,285,581	-	140,784,358
Remuneration of Councillors	-	-	22,625,939	-	-	-	-	-	22,625,939
Contacted services	754,373	46,630	7,438,220	13,000	2,732,150	20,649,055	568,800	-	43,162,428
Impairment of debtors	-	-	8,190,727	-	-	-	-	-	8,190,727
Depreciation	3,864,743	-	1,977,915	-	532,274	14,531,931	-	-	49,946,534
Finance Cost	-	-	2,375,190	-	-	10,396,687	-	-	2,375,190
Transfers & Subsidies	-	-	-	-	-	-	-	-	10,396,687
Gains and losses	-	-	(750,871)	-	-	-	-	-	(750,871)
General Expenditure	3,612,901	2,331,483	10,974,997	50,403	1,169,789	218,755	-	-	56,088,839
Sale of goods	-	-	2,919,969	-	-	-	-	-	2,919,969
Total segment expenditure	68,116,489	2,378,113	92,237,230	140,205	23,448,910	50,685,322	568,800	335,739,800	335,739,800
Total segmental surplus/(deficit)									219,235,238

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.

Information about geographical areas

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52. Segment information (continued)

The municipality's operations are in the Eastern Cape Province in OR Tambo District. The municipality has offices in Lusikisiki and Flagstaff and is servicing 32 wards

53. Budget differences

Material differences between budget and actual amounts

The Ingquza Hill local Municipality management takes 15% and above as material difference and explanation not is provided below. The explanation note will be provided per component as per statement of comparison of budget actual's, any different below 15% is judged as normal and needs no detailed explanation.

STATEMENT OF FINANCIAL PERFORMANCE

Revenue

Revenue from exchange transactions

1. Service Charges

The difference between the budget and actual is less than 15%

2. Rendering of Services

The difference is less than 15%

3. Rental of facilities and equipment

The municipality under budgeted due to decrease in market for rental of facility

4. Agency services

The municipality anticipated an increase in vehicle licences

5. Licences and Permits

The municipality over budget, the municipality anticipated that business will apply for licences for trading

6. Other Income

The municipality did not budget for other revenue due to its nature, but received revenue from recoveries

7. Interest received - investment

The municipality budgeted for revenue from reserves that was not transferred

Revenue from non-exchange transactions

Taxation revenue

8. Property rates

The municipality anticipated an increase in registration of Erf and building structures in both towns

Transfer revenue

9. Government grants & subsidies

The municipality budgeted for STR grant for revitalization of both towns that was not fully transferred

Ingquza Hill Local Municipality

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53. Budget differences (continued)

10. Fines, Penalties and Forfeits

The municipality anticipated a decrease in traffic fines due to road constructions

Expenditure

11. Personnel

The municipality anticipated an increase for employee cost and filling of vacant post.

12. Remuneration of councillors

The municipality anticipated an increase in remuneration of officer bearers, the local government election had an impact as well

13. Depreciation and amortisation

The municipality anticipated the completion of projects and due to the suspension of PPPFA this was delayed

14. Finance costs

The municipality budgeted for interest from suppliers, the interest for landfill site and employee obligation caused the difference

15. Debt impairment

The municipality budgeted for write off of debtors which did not materialize

16. Contracted Services

The municipality budget for contracted services was affected by the suspension of PPPFA by supreme court of appeal

17. Transfers and subsidies

The difference is caused by incremental cost in the project

18. Sale of goods/inventory

The budget for inventory consumed was affected by the suspension of PPPFA by the supreme court of appeal

19. General Expenses

The municipality budgeted for general expense and this was affected by the suspension of PPPFA by supreme court of appeal

20. Discontinued operations

The municipality anticipated a write off of obsolete assets

STATEMENT OF FINANCIAL POSITION

Assets

Current Assets

21. Inventories

The budget for inventory was affected by suspension of PPPFA

Ingquza Hill Local Municipality

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53. Budget differences (continued)

22. Receivables from exchange transactions

The municipality over budgeted for receivable from exchange

23. Receivables from non-exchange transactions

The municipality anticipated an increase in deeds registration and construction of houses in both towns

24. VAT Receivable

The difference is caused by a review of prior year vat submission to SARS

25. Cash and cash equivalents

The municipality anticipated an increase in savings and reserves

Non-Current Assets

26. Investment property

The municipality anticipated a decrease in the value of property due to decline in market

27. Property, plant and equipment

The municipality anticipated an increase in depreciation and disposal of old assets

28. Intangible assets

The municipality budget for purchase of software and this was affected by suspension of PPPFA

Liabilities

Current Liabilities

29. Payables from exchange transactions

The municipality anticipated an increase in payable due to late submission of invoices as well as increase in leave and bonus accrual

30. Impairment loss

The municipality did not budget for impairment loss of assets

31. Employee Benefit Obligation

The municipality did not budget for employee benefit change

32. Unspent Conditional grants and receipts

The municipality anticipated delays in project due to bad weather in the surrounding area

33. Provision

The municipality anticipated a decrease in landfill site provision.

Non-Current Liabilities

34. Employee Benefit Obligation

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53. Budget differences (continued)

The municipality did not budget for employee benefit obligation

Reserves

35. Accumulated Surplus

The difference is caused by the movement in other components that has an impact in accumulated surplus as detailed above

Differences between budget and actual amounts basis of preparation and presentation

The budget and the accounting bases differ. The annual financial statements for the whole-of-government are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The annual financial statements are consolidated statements that include all controlled entities, including government business enterprises for the fiscal period from 7/1/2021 to 6/30/2022. The annual financial statements differ from the budget, which is approved on the cash basis and which deals only with the general government sector that excludes government business enterprises and certain other non-market government entities and activities.

The amounts in the annual financial statements were recast from the accrual basis to the cash basis and reclassified by functional classification to be on the same basis as the final approved budget. In addition, adjustments to amounts in the annual financial statements for timing differences associated with the continuing appropriation and differences in the entities covered (government business enterprises) were made to express the actual amounts on a comparable basis to the final approved budget. The amounts of these adjustments are identified in the following table.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to pages for statement of comparison of Budget actual in the financial statement.

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to pages statement of comparison of budget actual's in the financial statement

54. Accounting by principals and agents

The entity is a party to a principal-agent arrangement.

Details of the arrangement is as follows:Details of the arrangement is as follows:

The agreement is between Ingquza Hill local municipality and department of transport for collection of revenue related to vehicle registration and licensing, through the service level agreement the municipality is keeping an amount of Agency fees. The amount due to department of transport is deposited direct to the department's account frequently through SBV cash in transit.

The entity is the agent. Refer to note 19 for significant judgments applied in making this assessment.

Entity as agent

Revenue recognised

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the principal is 3,510,023 (2022: 3,655,821) 2021. The amount recognised is in Rands

55. Sale of goods/ Inventory consumed

Inventory consumed		
Consumables	1,066,213	480,726
Materials and Supplies	1,680,118	2,439,243
	<u>2,746,331</u>	<u>2,919,969</u>

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56. Fair Value Adjustments

Investment property

52,358,495

93,990,567

