



INGQUZA HILL LOCAL MUNICIPALITY

Ingquza Hill Local Municipality
Annual Financial Statements
for the year ended June 30, 2023

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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
Speaker	Cllr Sibongile Buyiswa Vatsha
Chief Whip	Cllr Mbongeni Isaac Nkungu
Members of Executive Committee	Cllr Nomfundiso Abegail Gagai-Nkungu Cllr Nomonde P. Jam-Jam Cllr Zamilé Mhlongo Cllr Simtthembile Hopewell Mtshazo Cllr Bulelani Nhula Mvulana Cllr Busisiwe J. Nkani Cllr Vuyokazi Somani Cllr Z. Sigcu Cllr Lusapho Isaac Ndziba
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 T. Giyo Cllr T Jotile Cllr M. Khwaza Cllr Z. Mageza Cllr S Mbendana Cllr D.T. Mchosini Cllr T P Mgudu Cllr N. C. B. Mngqinelwa Cllr K. Mnyayiza Cllr M Mqobho Cllr N. Mzothwa Cllr T. Ndzumo Cllr Siphokazi Njisane Cllr V. Nongumza Cllr B. Nokhele Cllr Z. Nomazele Cllr Fundisile Nomgca Cllr S. Nontswabu Cllr M. Ntilini Cllr V. Nowa

Ingquza Hill Local Municipality

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General Information

	Cllt L. Ntshongwana
	Cllr M. Ntshwela
	Cllr Fundisile Wiseman Ranai (Passed on in March 2023)
	Cllr M. Sibulali
	Cllr Mpofane Tenyane
	Cllr Lungile Thimle
	Cllr S. Tshabane
	Cllr Kholiswa Vava
	Cllr Z. Vatsha
	Cllr N. Zathi
	Cllr Z. Mtsofso
	Cllr Ndzekeni
	Cllr Mabhuyana
	Cllr B Mabhedumana
	Cllr Marafu
	Cllr P Suphu
	Cllr Mhle
	Cllr Somzana
	Cllr Khumalo
	Cllr Tshabiso
	Cllr Njovana
	Cllr Mlandelwa
	Cllr Nokwindla
	Cllr Sobayeni
	Cllr N. Ntshangase
	Cllr S Chitha
Traditional leaders	Chief Dinwayo Chief Cawekaz Sigcau
Grading of local authority	Grade 3
Accounting Officer	Velile Castro Makedama
Chief Finance Officer (CFO)	Buhle Fikeni
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, 2023

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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

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Officer's Responsibilities and Approval

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

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

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent 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, 2024 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the 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 5.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2023 and were signed on by:

Velile Castro Makedama
Municipal Manager

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Statement of Financial Position as at June 30, 2023

Figures in Rand	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Inventories	3	142,084	186,954
Receivables from exchange transactions	4&6	1,159,036	1,277,292
Statutory receivables	5&6	12,968,823	25,760,385
VAT receivable	7	6,317,426	8,504,384
Cash and cash equivalents	8	225,657,101	208,732,514
		246,244,470	244,461,529
Non-Current Assets			
Investment property	9	518,146,500	518,146,500
Property, plant and equipment	10	759,979,243	703,935,840
		1,278,125,743	1,222,082,340
Total Assets		1,524,370,213	1,466,543,869
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	44,973,419	40,758,366
Employee benefit obligation	12	685,000	1,126,000
Unspent conditional grants and receipts	13	5,100,382	10,413,223
Provisions	14	3,024,315	2,422,588
		53,783,116	54,720,177
Non-Current Liabilities			
Employee benefit obligation	12	5,105,000	4,777,960
Provisions	14	20,940,147	19,501,290
		26,045,147	24,279,250
Total Liabilities		79,828,263	78,999,427
Net Assets		1,444,541,950	1,387,544,442
Accumulated surplus		1,444,541,951	1,387,544,442
Total Net Assets		1,444,541,951	1,387,544,442

* See Note 51

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	16	1,351,306	1,376,837
Rendering of services	17	325,452	363,475
Rental of facilities and equipment	18	894,163	1,056,814
Interest on outstanding debtors	19	81,541	-
Agency services	20	4,032,152	3,510,023
Licences and permits	21	41,582	58,544
Other income	22	272,608	165,568
Interest received - investment	23	15,421,705	7,744,747
Total revenue from exchange transactions		22,420,509	14,276,008
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	30,989,107	33,140,701
Interest on outstanding debtors	25	742,151	-
Transfer revenue			
Government grants & subsidies	26	393,248,047	354,347,403
Public contributions and donations	27	2,300,000	-
Fines, Penalties and Forfeits	28	1,450,304	1,189,960
Total revenue from non-exchange transactions		428,729,609	388,678,064
Total revenue	15	451,150,118	402,954,072
Expenditure			
Employee related costs	29	(156,224,348)	(159,313,963)
Remuneration of councillors	30	(24,369,420)	(24,425,464)
Depreciation and amortisation	31	(47,103,545)	(53,042,680)
Impairment of Assets	32	-	(163,775,611)
Finance costs	33	(2,996,588)	(2,258,632)
Debt Impairment	34	(12,360,791)	(8,332,919)
Contracted services	35	(50,784,876)	(68,231,313)
Transfers and Subsidies	36	(1,614,328)	(9,582,389)
General Expenses	37	(100,667,181)	(75,469,469)
Total expenditure		(396,121,077)	(564,432,440)
Surplus (deficit) for the year from continuing operations		55,029,041	(161,478,368)
Gains and Losses		1,456,544	(570,189)
Surplus (deficit) for the year		56,485,585	(162,048,557)

* See Note 51

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	1,884,117,396	1,884,117,396
Adjustments		
Change in accounting policy 51	(347,239,396)	(347,239,396)
Prior year adjustments Note 51	9,054,995	9,054,995
Balance at July 1, 2021 as restated*	1,545,932,995	1,545,932,995
Changes in net assets		
Surplus for the year	(162,048,557)	(162,048,557)
Total changes	(162,048,557)	(162,048,557)
Opening balance as previously reported	1,784,405,834	1,784,405,834
Adjustments		
Prior year adjustments Note 51	(396,349,468)	(396,349,468)
Restated* Balance at July 1, 2022 as restated*	1,388,056,366	1,388,056,366
Changes in net assets		
Surplus for the year	56,485,585	56,485,585
Total changes	56,485,585	56,485,585
Balance at June 30, 2023	1,444,541,951	1,444,541,951
Note(s)		

* See Note 51

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Cash Flow Statement

Figures in Rand	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Property rates		33,640,253	34,598,407
Sale of goods and services		9,498,025	1,651,148
Grants		387,935,206	364,739,626
Interest income		16,245,387	7,744,747
		<u>447,318,871</u>	<u>408,733,928</u>
Payments			
Employee costs		(180,558,986)	(183,391,419)
Suppliers		(152,686,190)	(119,850,405)
		<u>(333,245,176)</u>	<u>(303,241,824)</u>
Net cash flows from operating activities	38	<u>114,073,695</u>	<u>105,492,104</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(97,149,108)	(105,266,367)
Proceeds from sale of property, plant and equipment	10	-	2,916,622
		<u>(97,149,108)</u>	<u>(102,349,745)</u>
Cash flows from financing activities			
Finance lease payments		-	(1,783,632)
		<u>-</u>	<u>(1,783,632)</u>
Net increase/(decrease) in cash and cash equivalents		16,924,587	1,358,727
Cash and cash equivalents at the beginning of the year		208,732,514	207,373,787
Cash and cash equivalents at the end of the year	8	<u>225,657,101</u>	<u>208,732,514</u>

The accounting policies on pages 12 to 38 and the notes on pages 39 to 81 form an integral part of the annual financial statements.

* See Note 51

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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	1,503,156	-	1,503,156	1,351,306	(151,850)	(10%) A1
Rendering of services	537,996	-	537,996	325,452	(212,544)	(38%) A2
Rental of facilities and equipment	820,008	-	820,008	894,163	74,155	(9%) A3
Interest received (trading)	300,000	(300,000)	-	81,541	81,541	
Agency services	4,999,992	-	4,999,992	4,032,152	(967,840)	(19%) A4
Licences and permits	99,996	-	99,996	41,582	(58,414)	(58%) A5
Other income - (rollup)	1,550,004	-	1,550,004	272,608	(1,277,396)	(91%) A6
Interest received - investment	11,300,004	3,000,000	14,300,004	15,421,705	1,121,701	8% A7
Total revenue from exchange transactions	21,111,156	2,700,000	23,811,156	22,420,509	(1,390,647)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	39,000,000	-	39,000,000	30,989,107	(8,010,893)	(21%) A8
Interest, Dividends and Rent on Land	3,900,000	-	3,900,000	742,151	(3,157,849)	(81%) A7
Transfer revenue						
Government grants & subsidies	385,324,008	3,431,063	388,755,071	393,248,047	4,492,976	1% A9
Public contributions and donations	-	-	-	2,300,000	2,300,000	100% A36
Fines, Penalties and Forfeits	240,000	-	240,000	1,450,304	1,210,304	504% A10
Total revenue from non-exchange transactions	428,464,008	3,431,063	431,895,071	428,729,609	(3,165,462)	
Total revenue	449,575,164	6,131,063	455,706,227	451,150,118	(4,556,109)	
Expenditure						
Personnel	(173,214,804)	(393,040)	(173,607,844)	(156,224,348)	17,383,496	10% A11
Remuneration of councillors	(28,359,569)	-	(28,359,569)	(24,369,420)	3,990,149	14% A12
Depreciation and amortisation	(80,886,572)	17,235,356	(63,651,216)	(47,103,545)	16,547,671	26% A13
Finance costs	-	-	-	(2,996,588)	(2,996,588)	100% A14
Debt Impairment	(80,746,592)	29,922,824	(50,823,768)	(12,360,791)	38,462,977	76% A15
Contracted Services	(55,595,036)	(32,052,948)	(87,647,984)	(50,784,876)	36,863,108	42% A16
Transfers and Subsidies	(2,100,008)	(979,008)	(3,079,016)	(1,614,328)	1,464,688	48% A17
Sale of goods/Inventory	(6,255,444)	(2,344,700)	(8,600,144)	-	8,600,144	22% A18
General Expenses	(80,940,060)	(26,098,529)	(107,038,589)	(100,667,181)	6,371,408	12% A19
Total expenditure	(508,098,085)	(14,710,045)	(522,808,130)	(396,121,077)	126,687,053	
Surplus before taxation	(58,522,921)	(8,578,982)	(67,101,903)	55,029,041	122,130,944	
Surplus for the year from continuing operations	(58,522,921)	(8,578,982)	(67,101,903)	55,029,041	122,130,944	
Actuarial gains / (losses)	-	-	-	1,456,544	1,456,544	100% A14

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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	(58,522,921)	(8,578,982)	(67,101,903)	56,485,585	123,587,488	

The variances depicted above are explained in detail in the note 50 to the financial statements.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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	242,908	-	242,908	142,084	(100,824)	(42%) A21
Operating lease asset	1,675,614	-	1,675,614	-	(1,675,614)	(100%) A37
Receivables from exchange transactions	(10,890,849)	11,961,130	1,070,281	1,159,036	88,755	8% A22
Statutory receivables	53,627,663	15,666,994	69,294,657	12,968,823	(56,325,834)	(81%) A23
VAT receivable	8,456,231	-	8,456,231	40,115,756	31,659,525	417% A24
Cash and cash equivalents	183,370,765	3,030,000	186,400,765	225,657,101	39,256,336	(6%) A25
	236,482,332	30,658,124	267,140,456	280,042,800	12,902,344	
Non-Current Assets						
Investment property	724,911,322	-	724,911,322	518,146,500	(206,764,822)	(29%) A26
Property, plant and equipment	1,049,218,226	6,777,810	1,055,996,036	759,979,243	(296,016,793)	(28%) A27
Intangible assets	4,099,992	(2,700,000)	1,399,992	-	(1,399,992)	(100%) A28
Heritage assets	999,996	(999,996)	-	-	-	
	1,779,229,536	3,077,814	1,782,307,350	1,278,125,743	(504,181,607)	
Total Assets	2,015,711,868	33,735,938	2,049,447,806	1,558,168,543	(491,279,263)	
Liabilities						
Current Liabilities						
Payables from exchange transactions	14,000,202	41,315,976	55,316,178	44,973,419	(10,342,759)	(12%) A29
VAT payable	10,438,525	-	10,438,525	33,798,330	23,359,805	(176%) A30
Employee benefit obligation	-	-	-	685,000	685,000	100% A31
Unspent conditional grants and receipts	16,378,700	698,937	17,077,637	5,100,382	(11,977,255)	(70%) A32
Provisions	26,585,457	-	26,585,457	3,024,315	(23,561,142)	(89%) A33
	67,402,884	42,014,913	109,417,797	87,581,446	(21,836,351)	
Non-Current Liabilities						
Employee benefit obligation	5,822,450	-	5,822,450	5,105,000	(717,450)	(12%) A34
Provisions	-	-	-	20,940,147	20,940,147	100% A33
	5,822,450	-	5,822,450	26,045,147	20,222,697	
Total Liabilities	73,225,334	42,014,913	115,240,247	113,626,593	(1,613,654)	
Net Assets	1,942,486,534	(8,278,975)	1,934,207,559	1,444,541,950	(489,665,609)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,942,486,534	(8,278,975)	1,934,207,559	1,444,541,951	(489,665,608)	A35

The variances depicted above are explained in detail in the note 50 to the financial statements.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

Figures in Rand	Note(s)	2023	2022
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1. Significant accounting policies

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

1.1 Basis of preparations

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

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

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

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

These accounting policies are consistent with the previous period except for investment property which was accounted for using fair value model and is now on cost basis.

1.2 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.

1.3 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.

1.4 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.

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.

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.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

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.

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 an 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:

- 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.

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1.5 Investment property (continued)

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.

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	Indefinite
Property - buildings	7 - 50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 9).

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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.

Ingquza Hill Local Municipality

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Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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	25
Plant and machinery	Straight-line	10
Motor vehicles	Straight-line	5 - 10
Office equipment	Straight-line	10
IT equipment	Straight-line	3 - 5
Infrastructure	Straight-line	10 - 60
Community	Straight-line	15 -25
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.

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 35).

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Accounting Policies

1.6 Property, plant and equipment (continued)

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

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.

1.8 Financial instruments

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

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

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

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

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

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

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

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Accounting Policies

1.8 Financial instruments (continued)

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

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

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

A financial asset is:

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

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

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

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

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

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

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:

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Accounting Policies

1.8 Financial instruments (continued)

- 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
- 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

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

1.9 Statutory receivables

Identification

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

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

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Accounting Policies

1.9 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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1.9 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, a 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.

1.10 Leases

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

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

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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1.10 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.

1.11 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.

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Accounting Policies

1.11 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.

1.12 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.

1.13 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.

Ingquza Hill Local Municipality

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Accounting Policies

1.13 Impairment of cash-generating assets (continued)

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.

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

1.13 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.

1.14 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.

Ingquza Hill Local Municipality

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Accounting Policies

1.14 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

1.14 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 oversized or overcapacity asset. Oversized 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.

Ingquza Hill Local Municipality

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Accounting Policies

1.14 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.

1.15 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

1.16 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

1.16 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.

Defined benefit plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid fund which is associated with the municipality, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund upon retirement. In such cases, the municipality is liable for a portion of the medical aid membership fee.

The most recent actuarial valuations were carried out at 30 June 2022 by One Pangae Financial, Fellow of the Faculty of Actuaries and Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.16 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.

1.17 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

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Accounting Policies

1.17 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 40.

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

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Accounting Policies

1.17 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 1.13 and 1.14.

1.18 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-cancelable or only cancelable 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.

1.19 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).

Ingquza Hill Local Municipality

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Accounting Policies

1.19 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.

1.20 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

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Accounting Policies

1.20 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

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Accounting Policies

1.20 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.

1.21 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.

1.22 Investment income

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

1.23 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.

1.24 Accounting by principals and agents

Identification

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.24 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.

1.25 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.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.26 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.

1.27 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.

1.28 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).

1.29 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, 2023

Accounting Policies

1.29 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.

1.30 Budget information

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

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

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

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

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

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

1.31 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, 2023

Accounting Policies

1.31 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.

1.32 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.

1.33 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).

1.34 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, 2023

Notes to the Annual Financial Statements

Figures in Rand 2023 2022

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2023 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Guideline on Accounting for Landfill Sites	April 1, 2023	Unlikely there will be a material impact
• GRAP 103 (as revised): Heritage Assets	Not yet determined	Unlikely there will be a material impact
• GRAP 25 (as revised): Employee Benefits	April 1, 2023	Unlikely there will be a material impact
• iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	April 1, 2023	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	Not yet determined	Unlikely there will be a material impact
• GRAP 104 (as revised): Financial Instruments	April 1, 2025	Not expected to impact results but may result in additional disclosure
• 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

3. Inventories

Consumable stores	142,084	186,954
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No inventory was pledged as security.

4. Receivables from exchange transactions

Agency fees (ENATIS)	131,129	-
Sundry debtors	970	970
Property rentals	123,566	89,150
Consumer debtors - Refuse	903,371	1,187,172
	1,159,036	1,277,292

5. Statutory receivables

Consumer debtors - Rates	12,634,951	25,506,748
Fines	333,872	253,637
	12,968,823	25,760,385

6. Consumer debtors disclosure

Gross balances		
Consumer debtors - Rates	94,308,772	96,959,918
Consumer debtors - Refuse	12,126,734	11,363,693
Traffic fines	5,185,230	3,939,130
	111,620,736	112,262,741

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
6. Consumer debtors disclosure (continued)		
Less: Allowance for impairment		
Consumer debtors - Rates	(81,673,821)	(71,453,170)
Consumer debtors - Refuse	(11,223,363)	(10,176,521)
Traffic fines	(4,851,358)	(3,685,493)
	(97,748,542)	(85,315,184)
Net balance		
Consumer debtors - Rates	12,634,951	25,506,748
Consumer debtors - Refuse	903,371	1,187,172
Traffic fines	333,872	253,637
	13,872,194	26,947,557
Rates		
Current (0 -30 days)	2,409,128	-
31 - 60 days	1,177,962	-
61 - 90 days	1,136,441	-
91 - 120 days	1,126,191	-
> 365 days	88,459,051	96,959,919
Provision for impairment	(81,673,822)	(71,453,171)
	12,634,951	25,506,748
Rates - Residential		
Current (0 -30 days)	587,858	-
31 - 60 days	285,779	-
61 - 90 days	278,970	-
91 - 120 days	278,389	-
> 121 days	25,605,795	23,970,389
	27,036,791	23,970,389
Rates - Business		
Current (0 -30 days)	1,650,078	-
31 - 60 days	889,413	-
61 - 90 days	854,702	-
91 - 120 days	845,032	-
> 121 days	51,232,390	48,276,220
	55,471,615	48,276,220
Rates - Government		
Current (0 -30 days)	164,542	-
31 - 60 days	2,770	-
61 - 90 days	2,770	-
91 - 120 days	2,770	-
> 121 days	10,822,775	23,878,434
	10,995,627	23,878,434
Rates - Other		
Current (0 -30 days)	6,651	-
> 121 days	798,089	833,479
	804,740	833,479

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
6. Consumer debtors disclosure (continued)		
Refuse		
Current (0 -30 days)	206,907	125,514
31 - 60 days	119,850	117,858
61 - 90 days	115,931	114,610
91 - 120 days	113,964	113,973
121 - 365 days	11,497,517	10,891,739
Provision for impairment	(11,150,798)	(10,176,522)
	903,371	1,187,172
Refuse - Residential		
Current (0 -30 days)	103,448	53,384
31 - 60 days	55,866	53,384
61 - 90 days	54,919	53,131
91 - 120 days	54,630	52,994
> 121 days	6,633,425	6,013,567
	6,902,288	6,226,460
Refuse - Business		
Current (0 -30 days)	87,362	57,433
31 - 60 days	52,842	50,433
61 - 90 days	49,919	48,262
91 - 120 days	48,604	48,262
> 121 days	4,323,958	3,880,039
	4,562,685	4,084,429
Refuse - Government		
Current (0 -30 days)	16,097	12,210
31 - 60 days	11,141	11,691
61 - 90 days	11,093	10,868
91 - 120 days	10,729	10,367
> 121 days	610,724	896,011
	659,784	941,147
Refuse - Other		
Current (0 -30 days)	-	2,488
31 - 60 days	-	2,350
61 - 90 days	-	2,350
91 - 120 days	-	2,350
> 121 days	2,946	176,048
	2,946	185,586
Fines		
Current (0 -30 days)	117,800	-
31 - 60 days	127,100	-
61 - 90 days	78,000	-
91 - 120 days	50,700	-
121 - 365 days	4,811,629	3,939,130
Provision for impairment	(4,851,357)	(3,685,493)
	333,872	253,637

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand 2023 2022

6. Consumer debtors disclosure (continued)

Reconciliation of allowance for impairment

Balance at beginning of the year	85,315,184	76,982,265
Contributions to allowance	12,360,791	8,332,919
	97,675,975	85,315,184

7. VAT receivable

VAT Receivables	6,317,426	8,504,384
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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.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	-	35
Bank balances	68,231,609	65,415,130
Short-term deposits	157,425,492	143,317,349
	225,657,101	208,732,514

No Cash and cash equivalents was pledged as collateral.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2023	June 30, 2022	June 30, 2021
First National Bank - Primary Account- 622-417-5712	68,231,608	65,428,725	68,548,949	68,231,609	65,428,725	68,548,949
First National Bank- Call Account - 622-198-77836	242,040	229,953	224,817	242,040	229,953	224,817
First National Bank-Call Account -742-336-993 10	47,902,682	44,907,485	43,068,727	47,902,682	44,907,485	43,068,727
First National Bank - Call Account - 622-314-74537	4,578,646	4,335,396	4,219,402	4,578,646	4,335,396	4,219,402
First National Bank - Call Account - 622-314-73761	64,347,816	60,929,199	59,299,037	64,347,816	60,929,199	59,299,037
First National Bank - Call Account - 627-927-58503	34,828,571	32,915,314	32,012,819	34,828,571	32,915,314	32,012,819
First National Bank - Call Account - 630 289 492 54	1,245,093	-	-	1,245,093	-	-
First National Bank - Call Account - 630 289 482 14	760,140	-	-	760,140	-	-
First National Bank - Call Account - 630-289-455-25	2,118,955	-	-	2,118,955	-	-
First National Bank - Call Account -630-289-465-99	1,176,036	-	-	1,176,036	-	-
First National Bank - Call Account - 630-289-444-86	225,512	-	-	225,513	-	-
Total	225,657,099	208,746,072	207,373,751	225,657,101	208,746,072	207,373,751

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand

9. Investment property

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	518,146,500	-	518,146,500	518,146,500	-	518,146,500

Reconciliation of investment property - 2023

Investment property	Opening balance	Total
	518,146,500	518,146,500

Reconciliation of investment property - 2022

Investment property	Opening balance	Total
	518,146,500	518,146,500

Pledged as security

No Investment Properties is pledged as security.

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.

Amounts recognised in surplus or deficit

Rental revenue from Investment property	894,163	1,056,814
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Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	56,258,000	-	56,258,000	56,258,000	-	56,258,000
Buildings	108,392,868	(22,999,164)	85,393,704	108,392,868	(18,663,147)	89,729,721
Plant and machinery	53,995,052	(27,147,161)	26,847,891	51,543,186	(21,887,737)	29,655,449
Furniture and fixtures	9,879,973	(5,148,232)	4,731,741	8,915,823	(4,400,397)	4,515,426
Motor vehicles	8,758,949	(6,360,854)	2,398,095	8,758,948	(4,920,808)	3,838,140
IT equipment	6,871,754	(3,877,621)	2,994,133	6,588,923	(2,958,946)	3,629,977
Infrastructure	827,542,830	(458,298,277)	369,244,553	807,658,650	(426,930,063)	380,728,587
Community	84,497,634	(23,632,031)	60,865,603	84,099,846	(20,180,385)	63,919,461
Work in progress	151,245,523	-	151,245,523	71,661,079	-	71,661,079
Total	1,307,442,583	(547,463,340)	759,979,243	1,203,877,323	(499,941,483)	703,935,840

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Transfers	Depreciation	Total
Land	56,258,000	-	-	-	56,258,000
Buildings	89,729,721	-	-	(4,336,017)	85,393,704
Plant and machinery	29,655,449	2,379,889	-	(5,187,447)	26,847,891
Furniture and fixtures	4,515,426	1,036,129	-	(819,814)	4,731,741
Motor vehicles	3,838,140	-	-	(1,440,045)	2,398,095
IT equipment	3,629,977	285,006	-	(920,850)	2,994,133
Infrastructure	380,728,587	6,721,675	12,742,017	(30,947,726)	369,244,553
Community	63,919,461	-	397,788	(3,451,646)	60,865,603
Work in progress	71,661,079	92,724,249	(13,139,805)	-	151,245,523
	703,935,840	103,146,948	-	(47,103,545)	759,979,243

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand

10. 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	-	-	8,623,493	-	(4,037,082)	-	89,729,721
Plant and machinery	33,873,506	474,372	(123,889)	-	-	(4,568,540)	-	29,655,449
Furniture and fixtures	6,068,837	145,354	(740,375)	-	-	(870,098)	(88,292)	4,515,426
Motor vehicles	5,311,829	1,560,000	(1,366,238)	-	-	(1,667,451)	-	3,838,140
IT equipment	2,719,105	2,587,257	(686,120)	-	-	(974,738)	(15,527)	3,629,977
Infrastructure	415,874,720	-	-	174,665,672	(8,557,799)	(37,582,217)	(163,671,789)	380,728,587
Community	61,335,765	-	-	5,926,250	-	(3,342,554)	-	63,919,461
Work in progress	178,079,610	100,499,384	-	(189,215,415)	(17,702,500)	-	-	71,661,079
	844,664,682	105,266,367	(2,916,622)	-	(26,260,299)	(53,042,680)	(163,775,608)	703,935,840

Pledged as security

There is no Property, Plant and Equipment is pledged as security.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022		
10. 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				
Taxi Rank The project is depending on the funding to be sourced from OTP.	3,799,922	2,837,391		
Consultants for Lusikisiki Offices The project is linked with construction of municipal offices in Lusikisiki	14,292,730	11,753,794		
Ward 18 Farmer Vabetshe The project delayed due to Eskom Link line that was not completed	4,788,580	4,788,580		
Lusikisiki New Street This is still at design stage and the construction is yet to start.	-	1,162,123		
Ward 2 Sport field The project took longer due to application to Eskom for moving the electricity cable	32,166,237	24,399,204		
Ward 26 Sports field The construction of sport field project delayed due community protest	20,946,518	15,862,382		
	75,993,987	60,803,474		
Reconciliation of Work-in-Progress 2023				
	Infrastructure	Community	Other PPE	Total
Opening balance	7,998,415	47,948,434	15,714,221	71,661,070
Additions/capital expenditure	64,130,960	25,143,842	3,449,447	92,724,249
Transferred to completed items	(12,703,439)	(397,788)	-	(13,101,227)
	59,425,936	72,694,488	19,163,668	151,284,092
Reconciliation of Work-in-Progress 2022				
	Infrastructure	Community	Other PPE	Total
Opening balance	136,947,576	36,636,625	4,495,400	178,079,601
Additions/capital expenditure	63,419,010	17,238,059	19,842,315	100,499,384
Other movements	(17,702,499)	-	-	(17,702,499)
Transferred to completed items	(174,665,672)	(5,926,250)	(8,623,494)	(189,215,416)
	7,998,415	47,948,434	15,714,221	71,661,070
Expenditure incurred to repair and maintain property, plant and equipment				
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance				
Contracted services			21,622,208	36,290,440

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, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
11. Payables from exchange transactions		
Trade payables	1,515,421	14,858,576
Payments received in advance	854,558	1,585,533
Trade Creditor Accruals	16,638,808	2,900,003
Retention	10,479,210	6,731,370
Leave Provision	11,747,743	11,256,851
Overtime payables	1,007,719	949,172
Bonus provision	2,708,711	2,476,861
Unallocated deposits	21,249	-
	44,973,419	40,758,366
12. Employee benefit obligations		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	5,790,000	5,903,960
Non-current liabilities	5,105,000	4,777,960
Current liabilities	685,000	1,126,000
	5,790,000	5,903,960
There are no assets set aside by the municipality to cover for the liabilities. The liabilities due are budgeted for through the three year MRTEF budget.		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	5,903,960	5,555,960
Current-service cost	797,040	-
Interest cost	574,000	-
Expected benefits vesting	(1,126,000)	-
Actuarial loss / (gain)	(245,000)	-
Net expense recognised in the statement of financial performance	(114,000)	348,000
	5,790,000	5,903,960
Net expense recognised in the statement of financial performance		
Current service cost	797,000	834,000
Interest cost	574,000	475,000
Actuarial (gains) losses	(359,000)	(63,000)
Expected benefits vesting	(1,126,000)	(898,000)
	(114,000)	348,000
Eligible Employees		
	Male	Female
Number of eligible employees	139	159
Number of eligible employees	230,187	235,781
Average age	44.3	44.9
Average past service	10.5	9.0

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand 2023 2022

12. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	11.47 %	10.72 %
General earning (inflation rate)	6.83 %	7.03 %
Net effective discount rate	4.34 %	3.45 %

The earnings used in the evaluation include an increase on the 1 July 2023 of 5.40% as per the SALGBC circular No.: 01/2013.

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

Sensitivity analysis results

The results presented in here 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

Other assumptions

The table above indicates, for example, that if earnings inflation is one percentage point greater than the long-term assumption made, the liability will be 6% higher than the results shown in above.

	One percentage point increase	One percentage point decrease
General earnings inflation rate	6,124,000	5,485,000
Discount rate	5,475,000	6,140,000

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG)	-	10,295,486
Finance Management Grant (FMG)	-	96,737
Integrated National Electrification Grant (INEP)	-	21,000
Municipal Disaster Response Grant	5,100,382	-
	<u>5,100,382</u>	<u>10,413,223</u>

Movement during the year

Balance at the beginning of the year	10,316,486	21,000
Additions during the year	77,315,341	59,194,000
Income recognition during the year	(82,531,445)	(48,801,777)
	<u>5,100,382</u>	<u>10,413,223</u>

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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13. Unspent conditional grants and receipts (continued)

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 26 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, 2023

Notes to the Annual Financial Statements

Figures in Rand 2023 2022

14. Provisions

Reconciliation of provisions - 2023

	Opening Balance	Additions	Interest cost	Total
Environmental rehabilitation	21,923,878	(382,004)	2,422,588	23,964,462

Reconciliation of provisions - 2022

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	17,943,987	1,783,632	2,196,259	21,923,878

Non-current liabilities			20,940,147	19,501,290
Current liabilities			3,024,315	2,422,588
			23,964,462	21,923,878

Summary of rehabilitation and closure costs

	Flagstaff	Lusikisiki	Total
Planning for closure	1,055,379	1,592,381	2,647,760
Rehabilitation and Closure	4,398,285	10,222,394	14,620,679
Post-closure monitoring	3,325,281	4,110,277	7,435,558
	8,778,945	15,925,052	24,703,997

Key financial assumptions used

Discount rate (D)		12.62%	11.05%
Consumer price inflation (C)		7.39%	7.23%
Net discount rate $((1+D)/(1+H)-1)$		4.87%	3.56%

Site life calculation table

Average density of waste		0.7 T/m3	
Expected growth rate of waste generation		0.9%	
Excavatable cover depth		2.5m	
Cover to waste ratio		1 to 4 or 1.25	
			-

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 in to account the following:

- The time value for money at the weighted average investing rate of the municipality.
- 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.
- The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
15. Revenue		
Rendering of services	325,452	363,475
Service charges	1,351,306	1,376,837
Rental of facilities and equipment	894,163	1,056,814
Interest received (trading)	81,541	-
Agency services	4,032,152	3,510,023
Licences and permits	41,582	58,544
Other income	272,608	165,568
Interest received - investment	15,421,705	7,744,747
Property rates	30,989,107	33,140,701
Interest, Dividends and Rent on Land	742,151	-
Government grants & subsidies	393,248,047	354,347,403
Public contributions and donations	2,300,000	-
Fines, Penalties and Forfeits	1,450,304	1,189,960
	451,150,118	402,954,072
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1,351,306	1,376,837
Rendering of services	325,452	363,475
Rental of facilities and equipment	894,163	1,056,814
Interest on outstanding debtors	81,541	-
Agency services	4,032,152	3,510,023
Licences and permits	41,582	58,544
Other income	272,608	165,568
Interest received - investment	15,421,705	7,744,747
	22,420,509	14,276,008
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	30,989,107	33,140,701
Interest, Dividends and Rent on Land	742,151	-
Transfer revenue		
Government grants & subsidies	393,248,047	354,347,403
Public contributions and donations	2,300,000	-
Fines, Penalties and Forfeits	1,450,304	1,189,960
	428,729,609	388,678,064
Nature and type of Bequests, gifts, donations and goods in-kind are as follows:		
Donations	Donation of Compactor Truck	
16. Service charges		
Refuse removal	1,351,306	1,376,837
17. Rendering of services		
Advertising rental income	135,711	128,873
Land use and building plans	156,810	212,193
Cemetery and burial fees	32,931	22,409
	325,452	363,475

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
18. Rental of facilities and equipment		
Premises		
Rental income	<u>894,163</u>	<u>1,056,814</u>
19. Interest on outstanding debtors		
Interest - Receivables	81,541	-
20. Agency services		
Driver's Licenses	1,222,848	831,762
Vehicle Registration	<u>2,809,304</u>	<u>2,678,261</u>
	<u>4,032,152</u>	<u>3,510,023</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. Refer to Note 49 for more details.</p>		
21. Licences and permits		
Trading	<u>41,582</u>	<u>58,544</u>
22. Other income		
Commission transaction handling	63,055	37,485
Unauthorised debit orders refunded	138,942	-
Staff and Council recoveries	<u>70,611</u>	<u>128,083</u>
	<u>272,608</u>	<u>165,568</u>
23. Investment revenue		
Interest revenue		
Bank	<u>15,421,705</u>	<u>7,744,747</u>

The amount included in Investment revenue arising from exchange transactions amounted to R15 421 705.

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R15 421 705 (2022: R7 744 747).

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
24. Property rates		
Rates received		
Property rates	<u>30,989,107</u>	<u>33,140,701</u>
Valuations		
Residential	304,655,700	304,655,700
Commercial	1,140,487,600	1,140,487,600
State	918,077,200	918,077,200
Municipal	647,744,303	647,744,303
Small holdings and farms	24,756,000	24,756,000
Public services properties	203,300	203,300
	<u>3,035,924,103</u>	<u>3,035,924,103</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.

25. Interest on outstanding debtors

Interest - Receivables	<u>742,151</u>	<u>-</u>
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During the year, the council took a decision to start charging interest on debtors in arrears. Interest is charged on debtors outstanding for more than 60 days at a rate of 10% per annum.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
26. Government grants & subsidies		
Operating grants		
Equitable share	310,567,223	283,556,000
Library grant	800,000	800,000
Expanded Public Works Grant (EPWP)	1,616,000	1,385,000
Finance Management Grant (FMG)	1,650,000	1,553,263
LG Seta	2,081,800	883,807
Municipal Disaster Response Grant	3,167,618	-
	319,882,641	288,178,070
Capital grants		
Municipal Infrastructure Grant (MIG)	63,247,905	47,248,514
Office of the Premier : Small Town Revitalisation Grant	3,532,501	18,920,819
Integrated National Electrification Programme Grant (INEP)	6,585,000	-
	73,365,406	66,169,333
	393,248,047	354,347,403
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	84,227,704	57,412,699
Unconditional grants received	314,099,724	302,476,819
	398,327,428	359,889,518
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	10,295,486	-
Current-year receipts	63,247,904	57,544,000
Conditions met - transferred to revenue	(63,247,905)	(47,248,514)
Unspent conditional grant returned to treasury (rollover not approved)	(10,295,485)	-
	-	10,295,486
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)		
Balance unspent at beginning of year	96,737	-
Current-year receipts	1,650,000	1,650,000
Conditions met - transferred to revenue	(1,650,000)	(1,553,263)
Unspent conditional grant returned to treasury (rollover not approved)	(96,737)	-
	-	96,737
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	-

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
26. Government grants & subsidies (continued)		
Current-year receipts	6,564,000	2,340,000
Conditions met - transferred to revenue	(6,585,000)	(2,319,000)
	<u>-</u>	<u>21,000</u>

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.

Library Grant

Current-year receipts	800,000	800,000
Conditions met - transferred to revenue	(800,000)	(800,000)
	<u>-</u>	<u>-</u>

This grant is allocated by DSRAC to the municipality for Library services and its a provincial grant.

LG Seta Grant

Current-year receipts	2,081,800	883,807
Conditions met - transferred to revenue	(2,081,800)	(883,807)
	<u>-</u>	<u>-</u>

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	1,616,000	1,385,000
Conditions met - transferred to revenue	(1,616,000)	(1,385,000)
	<u>-</u>	<u>-</u>

This grant is allocated for Job creation.

Office of the Premier : Small Town Revitalisation Grant

Current-year receipts	3,532,501	18,920,819
Conditions met - transferred to revenue	(3,532,501)	(18,920,819)
	<u>-</u>	<u>-</u>

This grant is allocated to the municipality by the Office of the Premier for revitalization project.

Municipal Disaster Response Grant

Current-year receipts	8,268,000	-
Conditions met - transferred to revenue	(3,167,618)	-
	<u>5,100,382</u>	<u>-</u>

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

The grant is used to help in flood intervention measures.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
27. Public contributions and donations		
Capital asset recieved	2,250,000	-
Public school support initiation	50,000	-
	2,300,000	-

During the year, the municipality received a Refuse Compactor truck from the Department of Environmental Affairs.

28. Fines, Penalties and Forfeits

Pound Fees Fines	25,304	18,360
Traffic Fines	1,425,000	1,171,600
	1,450,304	1,189,960

29. Employee related costs

Basic	95,056,963	101,697,580
Bonus	6,349,900	5,659,535
Medical aid - company contributions	8,067,108	7,806,068
UIF	726,084	741,588
Leave pay provision charge	2,497,847	2,861,065
Bargaining Council	43,060	42,314
Long service awards	554,160	(4,263)
Acting allowances	300,004	754,375
Overtime payments	14,000,542	13,461,836
Car allowance	11,073,561	9,667,618
Housing benefits and allowances	4,607,394	3,377,509
Cellphone Allowance	598,616	639,869
Pension Contributions	12,349,109	12,608,869
	156,224,348	159,313,963

For a detailed breakdown of remuneration of senior management, please refer to note 41

30. Remuneration of councillors

Mayor	931,424	985,155
Speaker	759,000	768,172
Chief Whip	710,871	700,559
Section 79 committee chairperson	748,769	851,829
Mayoral Committee Members	3,029,278	3,040,052
Councillors	18,190,078	18,079,697
	24,369,420	24,425,464

In-kind benefits

The Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time.

Each is provided with

- (i) an office and secretarial support at the cost of the Council.
- (ii) use of a Council owned vehicle for official duties.
- (iii) 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

Ingquza Hill Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
31. Depreciation and amortisation		
Property, plant and equipment	47,103,545	53,042,680
32. Impairment loss		
Impairments		
Property, plant and equipment	-	163,775,611
33. Finance costs		
Employee benefits obligations	574,000	475,000
Provision for Landfill site obligation	2,422,588	1,783,632
	2,996,588	2,258,632
34. Debt impairment		
Contributions to debt impairment provision	12,360,791	8,332,919
35. Contracted services		
Outsourced Services		
Burial Services	75,993	69,161
Business and Advisory	5,036,503	6,206,044
Catering Services	5,993,635	4,574,699
Cleaning Services	162,392	25,100
Clearing and Grass Cutting Services	587,000	693,000
Drivers Licence Cards	141,173	122,692
Electrical	2,069,699	1,435,778
Hygiene Services	23,042	-
Personnel and Labour	-	474,783
Security Services	222,175	-
Consultants and Professional Services		
Business and Advisory	6,050,036	8,113,162
Infrastructure and Planning	-	185,000
Legal Cost	4,820,461	7,516,008
Contractors		
Artists and Performers	10,000	-
Audio-visual Services	86,250	172,500
Employee Wellness	220,441	193,296
Event Promoters	282,627	5,600
Interior Decorator	100,340	59,680
Maintenance of Buildings and Facilities	281,244	1,212,271
Maintenance of Equipment	3,301,370	3,249,031
Maintenance of Infrastructure assets	18,059,981	31,829,138
Pest Control and Fumigation	79,370	924,554
Plants, Flowers and Other Decorations	10,450	11,660
Sewerage Services	2,947,344	1,026,506
Stage and Sound Crew	223,350	131,650
	50,784,876	68,231,313
36. Transfer and subsidies		
Other subsidies		
Rural Development Assistance	1,614,328	9,582,389

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
37. General expenses		
Advertising	1,331,316	770,989
Auditors remuneration	6,080,375	6,797,683
Bank charges	346,249	122,770
Bursaries: Employees	1,100,987	847,456
Cleaning	1,482	-
Communication	316,500	161,800
Electricity	5,065,793	5,086,114
Fuel and oil	8,339,353	6,649,200
Hire	3,169,826	3,439,633
IT expenses	7,299,155	5,154,014
Indigent Relief	10,402,614	7,739,730
Insurance	3,004,421	2,402,395
LED Projects	6,748,324	2,746,331
Learnerships and Internships	3,637,137	3,770,257
Motor vehicle expenses	397,010	415,057
Other expenses	1,606,508	208,788
Postage and courier	-	1,250
Printing and stationery	29,373	6,120
Protective clothing	2,247,560	418,861
Seating Allowance : Traditional leaders	73,216	142,698
Skills Development Levy (SDL)	1,201,819	1,189,539
Subscriptions and membership fees	4,421,539	2,137,130
Telephone and fax	8,937,614	4,866,253
Transport and freight	1,673,125	1,197,474
Travel - local	14,531,851	13,987,779
Ward Committees	7,837,102	4,357,288
Workmen's Compansation Fund	866,932	852,860
	100,667,181	75,469,469
38. Cash generated from operations		
Surplus (deficit)	56,485,585	(162,048,557)
Adjustments for:		
Depreciation and amortisation	47,103,545	53,042,680
Gain on discontinued operations	-	570,189
Finance costs - Finance leases	2,996,588	1,783,632
Impairment deficit	-	163,775,611
Debt impairment	12,433,358	8,332,919
Movements in retirement benefit assets and liabilities	34,782	348,000
Movements in provisions	(382,004)	3,979,891
Movement in tax receivable and payable	-	8,212,111
Non-cash donations and other in-kind benefits	(2,250,000)	-
Movement in other non cash items	511,923	141,838
Interest on debtors	(742,151)	-
Changes in working capital:		
Inventories	44,870	7,372
Receivables from exchange transactions	-	(143,581)
Consumer debtors	11,744,720	(8,332,919)
Other receivables from non-exchange transactions	(10,526,109)	(1,302,457)
Payables from exchange transactions	(255,529)	18,156,000
VAT	2,186,958	8,577,152
Unspent conditional grants and receipts	(5,312,841)	10,392,223
	114,073,695	105,492,104

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
39. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	<u>72,259,253</u>	<u>64,917,472</u>
Total capital commitments		
Already contracted for but not provided for	<u>72,259,253</u>	<u>64,917,472</u>
Authorised operational expenditure		

This committed expenditure relates to Property, plant and equipment and will be financed by available grants from National Treasury and internal resources.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
40. Contingencies		
Contingent liabilities		
Subsequent to the disciplinary hearing in respect of the fruitless and wasteful expenditure referred to in Note 45, civil proceedings have commenced against the employees concerned to recover an amount of -. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.		
Sifiso Hlayedwa v IHLM Damages for alleged wrongfully removal of the container. (R61 400 is for estimated liability and R30 000 is for estimated legal cost).	91,400	91,400
Ayanda Mdozana 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 (R85 000 is for estimated liability and R30 000 is for estimated legal cost)	115,000	85,000
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 R350 000 is for estimated legal cost)	350,000	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
Ndikhonam Ndlela v IHLM Damages to vehicle (R40 000 is for estimated liability and R87 565.32 is for estimated legal cost).	127,565	127,565
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). This matter has been finalised.	-	140,000
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). This matter was withdrawn by the plaintiff.	-	1,456,000
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	111,255

Ingquza Hill Local Municipality

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Figures in Rand	2023	2022
40. Contingencies (continued)		
Ligman Qeque vs IHLM Civilian allegation that they were shot by a municipal employee. (R9 000 000 is for estimated liability and R400 000 is for estimated legal cost)	9,400,000	400,000
Nceba Dinwayo and Others v IHLM Land Grabbers (R1 000 000 is for estimated liability and R700 000 is for estimated legal cost)	1,700,000	700,000
Madikizela & others v IHLM Selling of business sites (R0 is for estimated liability and R1 500 000 is for estimated legal cost). The matter was finalised.	-	1,500,000
Mathenjwa v IHLM Claims for legal costs for services rendered to the municipality. R597 000 is for estimated liability and R6 000 000 is for estimated legal cost	850,000	-
EFF v IHLM Application by EFF (R0 is for estimated liability and R500 000 is for estimated legal cost)	500,000	1,000,000
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)	94,055	94,055
Quanza group v IHLM The municipality interdict for poor performance (R is for estimated liability and R400 000 is for estimated legal cost)	400,000	400,000
O.R TAMBO v IHLM Replacement of council (R0 is for estimated liability and R300 000 is for estimated legal cost) Matter was finalised.	-	700,000
Ayagu Trading v IHLM Application by the applicant to challenge decision to rescind tender award as a result of court order.	300,000	-
Madikane v IHLM Claim for past loss of income	9,300,000	-
Zanele Sodladla vs IHLM Employee appealing decision by CCMA (R3 000 000 is for estimated liability and R1 000 000 is for estimated legal cost).	4,000,000	600,000
MTN vs IHLM Breach of contract (R0 is for estimated liability and R150 000 is for estimated legal cost). Matter was finalised.	-	250,000
IHLM v Ayanda Mfolozi Claim for damages as a result of demolition of houses / structures at new rest.	12,500,000	-
IHLM v Luvo Joji The matter is still pending before bargaining counsel for review.	1,500,000	-
	42,421,175	8,772,175

Ingquza Hill Local Municipality

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Figures in Rand 2023 2022

41. Related parties

Relationships

Accounting Officer

Members of key management

Refer to accounting officers' report note

VC Makedama - Municipal Manager

M Pinyana - Former Municipal Manager

M Mhlifili - Former Chief financial Officer

A Ndabeni - Acting Chief Financial Officer

M Matubatuba - Former Director Corporate Services

M Macingwane - Acting Director Corporate Services

A Mbarane - Former Director Planning

S Batyi - Director Planning

N Ntloko - Former Director Technical Services

B Tshitshi - Acting Director Technical Services

N Jiki - Former Chief Audit Executive

B Godo - Acting Director Community Services

S Batyi - Former Director Technical Services

Related party balances

Leave accrual owed to Executive Management

VC Makedama	37,997	-
M Pinyana - Municipal Manager	-	25,295
M Matubatuba - Corporate Services Director	-	170,581
M Mhlifili - Chief Finance Officer	-	141,683
N Ntloko - Technical Services Director	-	89,478
N Jiki - Chief Audit Executive	-	42,934
A Ndabeni - Acting Chief Finance Officer	65,499	-
B Godo - Acting Director Community Services	44,158	-
M Mfingwana - Acting Director Corporate Services	35,878	-
S Bhatyi - Director Planning	8,716	-
B Tshitshi - Acting Director Technical Services	11,567	-

Staff Leave accrues to the staff of the municipality on an annual basis, subject to certain conditions. The liability is an estimate of the amount due at the reporting date.

The cost of leave accrual is recognised in the period in which the service is rendered and are not discounted. 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 measure the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date. The leave accrual is expected to be paid out through the compensated absence of employees in the next 12 months.

No leave encashment is made unless an employee has left the municipality.

There are no assets that have been set aside for the leave accrual, these are provided for through the three year MTREF budgeting of employee costs.

13th cheque

A Ndabeni - Acting Chief Finance Officer	14,951	14,686
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Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

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41. Related parties (continued)

Remuneration of management

Management class: Councillors

2023

	Basic salary	Cellphone allowance	Travelling and subsistence	Total
Mayor - Cllr N Pepping	888,837	40,800	1,787	931,424
Speaker - Cllr SB Vatsha	716,170	40,800	2,030	759,000
Chief Whip - Cllr M Nkungu	666,630	40,800	3,441	710,871
MPAC Chairperson	545,236	40,800	162,733	748,769
Mayoral Committee Members	2,264,233	285,600	479,445	3,029,278
Councillors	14,414,294	2,097,800	1,677,984	18,190,078
	19,495,400	2,546,600	2,327,420	24,369,420

2022

	Basic salary	Total
Mayor - Cllr N Pepping	985,155	985,155
Speaker - Cllr SB Vatsha	768,172	768,172
Chief Whip - Cllr M Nkungu	700,559	700,559
MPAC Chairperson	851,829	851,829
Mayoral Committee Members	3,040,052	3,040,052
Councillors	18,079,697	18,079,697
	24,425,464	24,425,464

Ingquza Hill Local Municipality

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41. Related parties (continued)

Management class: Executive management

2023

Name	Other allowances	Basic salary	Car allowances	Acting allowances	Leave payout	Backpay	Cellphone allowance	Subsistence & Travelling	Total
VC Makedama - Municipal Manager (N1)	46,051	613,529	93,874	-	-	116,401	23,468	9,537	902,860
M Pinyana - Municipal Manager (N2)	-	126,270	-	-	44,599	20,350	-	64,922	256,141
M Matubatuba - Corporate Services Director (N3)	-	605,149	-	-	55,491	47,683	-	41,548	749,871
M Mhlifili - Chief Finance Officer (N4)	-	611,296	202,864	-	246,633	47,389	-	17,927	1,126,109
N Ntloko - Technical Services Director	-	666,681	135,000	-	157,113	47,389	-	78,036	1,084,219
N Jiki - Chief Audit Executive (N5)	-	1,088,702	-	-	-	47,389	-	36,307	1,172,398
A Ndabeni - Acting Chief Finance Officer (N6)	44,057	710,213	156,000	27,454	-	20,575	-	46,230	1,004,529
A Mbarane - Director Corporate services	-	540,970	-	-	155,734	44,684	-	30,184	771,572
A Mfingwana - Acting Corporate Services N7	-	460,474	120,000	27,454	-	15,634	-	15,498	639,060
B Tshitshi - Acting Director Technical Services (N8)	59,665	721,289	144,000	27,454	169,718	43,331	-	55,699	1,221,156
B Godo - Acting Director Community Services (N9)	-	480,216	105,000	27,454	-	4,598	-	5,589	622,857
S. Batyi - Former Director Technical Services (N10)	-	91,514	-	-	-	-	-	-	91,514
	149,773	6,716,303	956,738	109,816	829,288	455,423	23,468	401,477	9,642,286

2022

Name	Basic salary	Car allowances	Acting allowances	Leave payout	Contributions to benefits	Cellphone allowance	Subsistence & Travelling	Total
M Pinyana - Municipal Manager	265,597	-	-	-	-	-	40,840	306,437
M Mhlifili - Chief Finance Officer	811,455	270,485	-	-	-	-	18,630	1,100,570
N Ntloko - Technical Services Director	901,940	180,000	-	-	-	-	31,591	1,113,531

Ingquza Hill Local Municipality

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41. Related parties (continued)

M Matubatuba - Corporate Services Director	901,940	180,000	19,651	-	-	-	25,605	1,127,196
A Mbarane - Local Economic Development Director	1,081,940	-	-	-	-	-	28,249	1,110,189
M Garane - Community Services Director	574,977	162,119	-	61,474	59,740	14,619	32,906	905,835
Mr Dakwa - Community Services Director	-	-	4,303	-	-	-	-	4,303
N Jiki - Chief Audit Executive	1,094,538	-	-	-	-	-	-	1,094,538
	5,632,387	792,604	23,954	61,474	59,740	14,619	177,821	6,762,599

N1: Municipal Manager was appointed on the 1st of November 2022;

N2: Municipal Managers term ended on 31 October 2022;

N3: Corporate Services Director term ended on 31 March 2023;

N4: Chief Financial Officers term ended on 31 March 2023;

N5: Chief Audit Executives term ended on 31 May 2023;

N6: Acting appointment from 21 April 2023 to 21 July 2023

N10: Appointed on 1 June 2023 and resigned on 31 July 2023

42. Financial instruments disclosure

Categories of financial instruments

2023

Financial assets

	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	1,159,036	-	1,159,036
Cash and cash equivalents	-	225,657,101	225,657,101

Ingquza Hill Local Municipality

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Notes to the Annual Financial Statements

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42. Financial instruments disclosure (continued)

	2023	2022
	<u>1,159,036</u>	<u>226,816,137</u>

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	30,495,716	30,495,716

2022

Financial assets

	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	1,277,292	-	1,277,292
Cash and cash equivalents	-	208,732,514	208,732,514
	<u>1,277,292</u>	<u>208,732,514</u>	<u>210,009,806</u>

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	27,024,654	27,024,654

43. 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.

Credit risk

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

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

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

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these are listed below:

Ingquza Hill Local Municipality

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Figures in Rand	2023	2022
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44. Going concern (continued)

- i. The Council adopted the 2024 to 2026 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to supported the ongoing delivery of municipal services to residents reflected that the Budget was cash-backed over the three-year period.
- ii. The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.
- iii. Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the Budget. The cash management processes is complemented by monthly and quarterly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.
- iv. As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the annual financial statements 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. Fruitless and wasteful expenditure

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

46. Irregular expenditure

Opening balance as previously reported	11,645,639	3,297,983
Add: Irregular expenditure - current	3,413,719	6,786,907
Add: Irregular expenditure - prior period	-	1,560,749
Less: Amount written off - current	(3,297,983)	-
Closing balance	11,761,375	11,645,639

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. All balances of irregular expenditure are disclosed inclusive of VAT.

Amount written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of 3,297,983 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	4,333,588	2,034,563
Amount paid - current year	(4,333,588)	(2,034,563)
	-	-

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
47. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Audit fees		
Current year subscription / fee	6,080,375	6,797,683
Amount paid - current year	(6,080,375)	(6,797,683)
	<u>-</u>	<u>-</u>
PAYE and UIF		
Current year subscription / fee	29,533,532	29,916,929
Amount paid - current year	(29,533,532)	(29,916,929)
	<u>-</u>	<u>-</u>
Pension and Medical Aid Deductions		
Current year subscription / fee	20,416,217	20,414,937
Amount paid - current year	(20,416,217)	(20,414,937)
	<u>-</u>	<u>-</u>
VAT		
VAT receivable	40,115,756	37,320,306
VAT payable	(33,798,330)	(28,815,922)
	<u>6,317,426</u>	<u>8,504,384</u>

VAT output payables and VAT input receivables are shown in note 7.

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

Councillors' arrear consumer accounts

There are no Councillors having arrear accounts outstanding for more than 90 days at June 30, 2023:

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.

Ingquza Hill Local Municipality

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Notes to the Annual Financial Statements

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48. 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.		
Decontamination and fumigation of offices 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)	62,100	602,260
Procurement of laptops and IT Equipment Procurement of laptops was made through the emergency system and the number of incidents were two in 2021.	218,016	-
Plant hiring The hiring of plant was done through emergency procurement and the number of incident was once.	96,575	67,725
Supply and delivery of stationery The procurement of stationery was done through emergency procurement for second quarter council , the incident was one.	-	115,752
Transport Services The procurement of transport service was done through emergency procurement, the number of incident was one.	134,560	66,120
Configuration and server repairs The procurement of server repairs and configuration was done through emergency procurement and the number of incident was one	-	241,107
Independent investigator The procurement of independent investigator was done through emergency procurement and the number of incident was one.	-	708,918
Repairs to motor vehicles The procurement of repairs and maintenance of motor vehicles and plant through single source.	2,119,908	-
Advertising Procurement of advertising services from a widely read paper in the eastern cape.	502,561	-
Funeral services material Procurement of funeral material on emergency procurement deviation.	48,447	-
Security Procurement of security services.	171,648	-
	3,353,815	1,801,882

49. Accounting by principals and agents

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

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

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49. Accounting by principals and agents (continued)

Details of the arrangement(s) is/are 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.

Entity as agent

Revenue recognised

The Municipality is an agent for the Department of Transport wherein it is delegated to register and licence motor vehicles on its behalf.

There are no assets or liabilities that are held or incurred on behalf of the principal and recognised in our financial statements. The risks associated with the principal-agent relationship that exist on any monies collected by the municipality on behalf of the principal lies solely with the municipality.

During the year, all collections made are banked and paid over to the Department of Transport two times a month. The income due to the municipality according to the agreement is 19% of the amount collected subject to certain conditions as per the Service Level Agreement and National Road Traffic Act, Act 93 of 1996.

During the year, a total of R15 870 628 was collected gross of commission.

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the principal is 3,901,023 (2022: 3,510,023).

No monies are due to the principal at year end. Minimal risk was transferred from the Department of Transport, as the principal, to Ingquza Hill Municipality, as the agent, beyond the cash collected on behalf of the principal.

50. Budget differences

Material differences between budget and actual amounts

Below are explanations of variances that are more than 15% between budgeted amounts and actual amounts for the year.

A1: The difference between the budget and actual is less than 15%

A2: The municipality over budgeted expecting to collect more on advertising fees, application of land use and cemetery fees.

A3: The municipality over budgeted because of the decrease in market for rental of facility but the market changed.

A4: The municipality anticipated an increase in vehicle licensing and testing but there were delays with the department of transport in relation to vehicle testing.

A5: The municipality over budget, the municipality anticipated that business would apply for trading licences.

A6: Included in this budget was the budget for insurance refunds of which the municipality has taken it to gains and losses, hence the variance.

A7: The municipality under budgeted for interest on investment, however, the municipality managed to get favourable interest income from its investments.

A8: The municipality anticipated an increase in registration of Erf and building structures in both towns, Lusikisiki and Flagstaff.

A9: The municipality budgeted for R4 130 000 for Disaster Management Grant but received an additional R4 138 000 in June 2023 which will be included in the adjusted budget of 2023/24 financial year and R3 532 501.48 for Small Town Revitalization Grant.

Ingquza Hill Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand

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50. Budget differences (continued)

A10: The municipality anticipated a decrease in traffic fines due to road constructions. Also, the municipality budgeted R240 000 which is net of impairment.

A11: The municipality anticipated an increase for employee costs and filling of vacant posts. Also, the municipality lost many employees by death, resignation and pension and their posts have not yet been filled.

A12: The municipality anticipated an increase in remuneration of political office bearers, the municipality also lost two councillors by death and suspension.

A13: The municipality anticipated the completion of projects which were delayed due to unforeseen circumstances beyond the municipality's control.

A14: The municipality budgeted for interest from suppliers, the interest in landfill site and employee obligation caused the difference.

A15: The municipality budgeted for write-off of debtors which did not materialize.

A16: The municipality's budget for contracted services was affected by contracts which expired, projects which were not finished and the implementation of cost containment measures.

A17: The variance is caused by projects which were delayed and not finished.

A18: The budget for inventory consumed was affected by the introduction of new PPR 2022 changing the BBBEE to specific goals.

A19: The budget for inventory consumed was affected by the introduction of new PPR 2022 changing the BBBEE to specific goals.

A20: The municipality anticipated a write-off of obsolete assets.

A21: The budget for inventory consumed was affected by the introduction of new PPR 2022 changing the BBBEE to specific goals.

A22: The municipality over budgeted for receivable from exchange as it expect a poor payment parten from the consumers

A23: The municipality anticipated an increase in deeds registration and construction of houses in both towns, Lusikisiki and Flagstaff.

A24: The difference is caused by a review of prior year vat submission to SARS

A25: The municipality budgeted for construction of municipal offices but the project was not implemented due to unforeseen circumstances beyond the municipality's control.

A26: The municipality previously measured investment property at fair value but has since moved to cost accounting, hence the variance.

A27: The municipality anticipated an increase PPE but there were delays in the implementation of projects such as municipal offices, roads infrastructure and community assets due to unforeseen circumstances beyond the municipality's control.

A28: The municipality budgeted for purchase of Electronic Document Management System and other IT software which ware not implemented due to unforeseen circumstances.

A29: The municipality anticipated an increase in payable due to late submission of invoices as well as increase in leave and bonus accrual.

A30: The municipality budgeted for Vat in consolidation and anticipated a vat receivable.

A31: The municipality did not budget for employee benefit change.

Ingquza Hill Local Municipality

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Notes to the Annual Financial Statements

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50. Budget differences (continued)

A32: The municipality anticipated delays in projects due to bad weather in the surrounding areas, however there was better project management of appointed service providers leading to better performance.

A33: The municipality budgeted for the total under current liabilities and the variance is covered under non-current liabilities.

A34: The municipality did not budget for employee benefit obligation.

A35: The difference is caused by the movement in other components that has an impact in accumulated surplus as detailed above.

A36: The municipality received a donation of a truck from the Department of Environmental Affairs which was not budgeted for.

A37: Operating lease receivable had been budgeted for but non was acquired during the year.

51. Prior-year adjustments

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

Statement of financial position

2021

	Note	As previously reported	Correction of error	Change in accounting policy	Restated
Investment property (N1)		861,170,155	4,215,741	-	865,385,896
Property, plant and equipment (N7)		793,646,564	3,659,996	-	797,306,560
Unspent conditional grant (N2)		(1,058,420)	1,037,420	-	(21,000)
Receivables from non-exchange (N3)		24,457,928	141,838	-	24,599,766
Investment property (N9)		-	-	(347,239,396)	(347,239,396)
Accumulated surplus (N5)		(1,888,018,336)	(9,054,995)	347,239,396	(1,549,833,935)
		(209,802,109)	-	-	(209,802,109)

2022

	Note	As previously reported	Correction of error	Change in accounting policy	Restated
Investment property (N1)		913,528,650	4,215,741	(399,597,891)	518,146,500
Property, plant and equipment (N7)		700,275,847	3,659,996	-	703,935,843
Receivables from non-exchange transactions (N3)		25,642,059	118,326	-	25,760,385
Unspent conditional grants (N2)		(5,908,528)	(4,504,695)	-	(10,413,223)
VAT Receivables (N6)		13,498,914	(4,994,530)	-	8,504,384
Trade and other payables (N4)		(45,511,951)	4,753,585	-	(40,758,366)
Accumulated surplus (N5)		(1,783,893,904)	(3,248,423)	399,597,891	(1,387,544,436)
		(182,368,913)	-	-	(182,368,913)

Statement of financial performance

Ingquza Hill Local Municipality

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Figures in Rand		2023	2022		
51. Prior-year adjustments (continued)					
2022					
	Note	As previously reported	Correction of error	Change in accounting policy	Restated
Government grants and subsidies (N2)		359,889,518	(5,542,115)	-	354,347,403
Fair value adjustments (N9)		52,358,495	-	(52,358,495)	-
Fines, Penalties and Forfeits (N3)		1,216,560	(26,600)	-	1,189,960
Debt Impairment (N3)		(8,336,006)	3,087	-	(8,332,919)
General Expenditure (N8)		(72,723,135)	(2,746,331)	-	(75,469,466)
(Deficit) surplus for the year from continuing operations (N5)		104,124,432	5,565,628	52,358,495	162,048,555
Inventory consumed (N8)		(2,746,331)	2,746,331	-	-
Surplus for the year		433,783,533	-	-	433,783,533

N1: The prior period error of R4 215 741 was corrected in 2021 as the factual error.

N2: The National Treasury did not approve a roll forward application, this led to the MIG grant being reversed and restated in the financial performance. Furthermore, a grant previously accounted for as unspent conditional grant has since been restated as there are no conditions attached to it. This LED grant has been recognised as revenue through the accumulated surplus.

N3: Traffic fines revenue, debtors and provision for impairment have been restated after an exercise to account for all traffic fines was undertaken and concluded. This has led to a reduction in impairment and an increase in revenue.

N4: A previously recognised creditor was reversed during the asset restatements as no liability was due. Furthermore, there was an adjustment to retention after previously recognised retention was reversed as it was raised incorrectly.

N5: These are the impact of the above restatements to the financial performance and position.

N6: Correcting the audited VAT to the VAT Control as per SARS statement and VAT Input and VAT output accrual.

N7: The restatement R61 cost which was understated on capitalisation and restatement of movable asset incorrectly written off as unverified assets.

N8: Being correction of the LED Projects that were previously classified as inventory consumed and have been classified under General Expenditure.

N9: The accounting policy for Investment Properties was changed from Fair Value model to Cost model which led to the changes in the values of the assets. The change in policy was instigated by the continuous increase in the cost of obtaining the fair values and to reflect more reliable and relevant information on the cost of investment property.

Cash flow statement

2022

	Note	As previously reported	Restated
Cash flow from operating activities			
Other 1		(119,375,402)	(119,850,402)
Other 2		(475,000)	-
		(119,850,402)	(119,850,402)

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51. Prior-year adjustments (continued)

Change in accounting policy

During the year, the municipality change the Investment property accounting policy from Fair Value to Cost model. The necessary adjustments to the corresponding figures has been applied as depicted in above. Refer to N10

Investment Property - Fair value to Cost model

GRAP 16 - Investment property

Change in accounting policy is made in accordance with its GRAP 16 and GRAP 3 change in Accounting policies

Voluntary change in accounting policy - Fair value to Cost model

The change in accounting policy is made to reflect more relevant and reliable information on cost of investment property and its voluntary change in accounting policy .

This change in accounting policy has been accounted for retrospectively and the comparative amounts have been appropriately restated. The municipality used 2018 Valuation roll values as the base for cost of investment property.

During 2020/21(2021/22) financial period, the municipality changed its accounting policy on investment property from fair-value model to cost model as this would result in more reliable and more relevant information on the effects of transactions, other events or conditions on the entity's financial position, financial performance or cashflows. The effects of the change in accounting policy is R 399 597 891.

Table below showing effect of change in accounting policy.

Heading	2020/21 Opening Balance	2021/22 Opening Balance	2021/22 Closing Balance
Opening	771,395,329	518,146,500	917,744,391
Fair value adjustment	-	93,990,567	52,358,495
Change in accounting policy	(253,248,829)	(93,990,567)	(52,358,495)
Total change	-	-	(399,597,891)
	518,146,500	518,146,500	518,146,500

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.

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.

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52. Segment information (continued)

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

2023

	Community and Social Services	Energy Sources	Executive and Council	Finance and Administration	Internal Audit	Planning and Development	Road Transport	Waste Management	Total
Revenue									
Revenue from non-exchange transactions	-	-	-	30,989,107	-	-	-	-	30,989,107
Revenue from exchange transactions	-	-	-	-	-	-	-	1,351,306	1,351,306
Transfers and Subsidies -Capital	-	6,585,000	-	-	-	3,532,501	60,296,081	-	70,413,582
Transfers and subsidies- Operational	2,416,000	-	-	314,299,023	-	50,000	6,119,457	-	322,884,480
Rental of facilities	-	-	-	-	-	894,163	-	-	894,163
Interest revenue Investments	-	-	-	15,421,705	-	-	-	-	15,421,705
Interest revenue Investments	-	-	-	823,693	-	-	-	-	823,693
Fines and penalties	1,450,304	-	-	-	-	-	-	-	1,450,304
Agency fees	4,032,152	-	-	-	-	-	-	-	4,032,152
Other income	-	-	-	133,666	-	-	-	-	133,666
Licence and permits	-	-	-	-	-	41,582	-	-	41,582
Rendering of services	-	-	-	-	-	325,453	-	-	325,453
Donation	-	-	-	2,250,000	-	-	-	-	2,250,000
Gain on disposal of assets and liabilities	-	-	-	138,927	-	-	-	-	138,927
Total segment revenue	7,898,456	6,585,000	-	364,056,121	-	4,843,699	66,415,538	1,351,306	451,150,120
Entity's revenue									451,150,120

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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	62,893,170	-	22,981,027	37,971,150	2,883,972	11,470,966	18,024,063	-	156,224,348
Remuneration of councillors	-	-	24,369,420	-	-	-	-	-	24,369,420
Contracted services	2,531,757	2,069,699	9,588,829	8,000,453	621,012	5,734,368	22,238,758	-	50,784,876
Impairment of debtors	-	-	-	12,360,791	-	-	-	-	12,360,791
Depreciation	1,440,045	3,180,389	-	6,928,115	-	3,451,646	32,103,354	-	47,103,549
Finance Cost	-	-	-	2,996,588	-	-	-	-	2,996,588
Transfers and subsidies	147,200	-	-	-	-	1,467,128	-	-	1,614,328
Gains and Losses	-	-	-	(1,456,544)	-	-	-	-	(1,456,544)
General expenses	3,448,141	5,167,747	19,377,330	63,089,628	294,079	1,144,551	1,397,378	-	93,918,854
Inventory consumed	2,295,415	-	48,750	962,403	-	3,441,756	-	-	6,748,324
Total segment expenditure	72,755,728	10,417,835	76,365,356	130,852,584	3,799,063	26,710,415	73,763,553	-	394,664,534
Total segmental surplus/(deficit)	(64,857,272)	(3,832,835)	(76,365,356)	233,203,537	(3,799,063)	(21,866,716)	(7,348,015)	1,351,306	56,485,586

2022

	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	-	-	-	33,140,701	-	-	-	-	33,140,701
Revenue from exchange transactions	-	-	-	-	-	-	-	1,376,837	1,376,837
Transfers and Subsidies -Capital	-	-	-	-	-	18,920,819	47,248,514	-	66,169,333
Transfers and subsidies- Operational	2,185,000	-	-	285,993,070	-	-	-	-	288,178,070
Rental of facilities	-	-	-	-	-	1,054,640	-	2,174	1,056,814
Interest revenue	-	-	-	7,744,747	-	-	-	-	7,744,747
Fines and penalties	1,157,960	-	-	-	-	-	-	32,000	1,189,960
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	-	-	327,044,086	-	20,397,478	47,248,514	1,411,011	402,954,072

Entity's revenue

402,954,072

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
Debt impairment	-	-	-	8,332,919	-	-	-	-	8,332,919
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	45,213,216	74,736	3,423,030	1,762,999	-	72,723,138
Impairment loss (Non current assets)	-	-	-	163,775,611	-	-	-	-	163,775,611
Inventory consumed	-	-	-	2,746,331	-	-	-	-	2,746,331
Total segment expenditure	68,982,455	8,233,573	101,406,499	281,568,966	3,365,555	28,821,685	70,011,704	2,612,193	565,002,630
Total segmental surplus/(deficit)	(62,129,472)	(8,233,573)	(101,406,499)	45,475,120	(3,365,555)	(8,424,207)	(22,763,190)	(1,201,182)	(162,048,558)

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53. Events after the reporting date

1. There is a litigation against the Ingquza Hill Local Municipality and another (Responded) by Pharaoh Construction JV Kuzobalula (Applicant). The case against the municipality was instituted in the Mthatha High Court under the case number 4794/2023. Pharaoh Construction JV Kuzobalula seeks to interdict the appointment of a contractor for the construction of municipal offices and that the municipality must appoint Pharaoh Construction JV Kuzobalula as their preferred bidder for the construction of offices project. The case was postponed on the 12th of December 2023 as the applicant could not prove urgency and the matter will be heard on 23 January 2024.

2. There is a litigation against the Ingquza Hill Local Municipality and others (Responded) by Luvulweni Construction (Applicant). The case against the municipality was instituted in the Flagstaff Magistrate Court under case number 72/23. Luvulweni Construction obtained an interim interdict against the municipality on the 14th of December 2023 to interdict the continuation of a project of phase 2 of the Lusikisiki Town Hall and they require the cession to be signed on their behalf. The matter has been postponed for 22 March 2024.