



PHUMELELA

LOCAL MUNICIPALITY

PHUMELELA LOCAL MUNICIPALITY (FS195)
Annual Financial Statements
for the year ended June 30, 2022

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Index

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

	Page
Accounting Officer's Responsibilities and Approval	4
Accounting Officer's Report	5 - 6
Statement of Financial Position	7
Statement of Financial Performance	8
Statement of Changes in Net Assets	9
Cash Flow Statement	10
Statement of Comparison of Budget and Actual Amounts	11 - 17
Accounting Policies	18 - 39
Notes to the Annual Financial Statements	40 - 92

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Index

Abbreviations

ASB	Accounting Standards Board
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
CLLR	Councillor
CPI	Consumer Price Index
CRC	Current Replacement Cost
DORA	Division of Revenue Act
DTSL	Department of Transport, Safety and Liaison
DWS	Department of Water Affairs and Sanitation
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
GRAP	Generally Recognized Accounting Practice
GLCCM	General Landfill Closure Costing Model
HDF	Housing Development Fund
IAS	International Accounting Standards
IDP	Integrated Development Plan
IRD	Initial Rate of Deposition
IPSAS	International Public Sector Accounting Standards
INEP	Integrated National Electrification Programme
LFG	Landfill Gas
LG SETA	Local Government Sector Education Training Programme
LSA	Long Service Awards
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MLCCM	Municipal Landfill Closure Costing Model
mSCOA	Municipal Standard Chart of Accounts
MSIG	Municipal Systems Improvement Grant
NERSA	National Energy Regulator of South Africa
PAYE	Pay As You Earn
PEMA	Post-employment Medical Aid Subsidy Liability
PPP's	Public Private Partnerships
RDP	Reconstruction and Development Programme
SALGA	South African Local Government Association
SARS	South African Revenue Service
SA GAAP	South African Statements of Generally Accepted Accounting Practice
SDBIP	Service Delivery and Budget Implementation Plan
SDL	Skills Development Levy
SG	Surveyor-General
UIF	Unemployment Insurance Fund
VAT	Value Added Taxation
WCA	Workers Compensation Administration

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditor is 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 she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2023 and, in the light of this review and the current financial position, she 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 government grants for continued funding of operations and payments by residents. 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.

The external auditor is responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been audited by the municipality's external auditor and their report is presented on page 5 - 6.

The annual financial statements set out on pages 7 to 92, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2022



Mrs NF Malatjie
Accounting officer

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Officer's Report

The accounting officer submits her report for the year ended June 30, 2022.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interests of the local community.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 41,762,186 (2021: deficit R 1,879,801).

2. Going concern

We draw attention to the fact that at June 30, 2022, the municipality had an accumulated surplus of R 352,833,897 .

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.

These events and conditions outlined in note 48 indicates that a material uncertainty exists.

3. Accounting Officer's interest in contracts

The Accounting Officer does not have an interest in contracts with the municipality.

4. Accounting policies

The annual financial statements have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name
Mrs NF Malatjie

6. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all her activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. .

7. Bankers

ABSA Bank and First National Bank Limited will continue to provide banking services to the municipality.

8. Auditor

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

Phumelela Local Municipality (FS195)
Annual Financial Statements for the year ended June 30, 2022

Accounting Officer's Report

9. Public Private Partnership

The Municipality did not enter into any Public Private Partnership for the 2021/2022 financial year, nor does it have any existing PPP's.

10. Non-compliance with applicable legislation

In terms of section 65 (2)(e) of the Municipal Finance Management Act (No. 56 of 2003), all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement. Due to cash flow constraints, the municipality, could not settle all money owing within the prescribed period.

Mrs NF Malatjie
Accounting officer

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Statement of Financial Position as at June 30, 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories			
Receivables from exchange transactions	8	1,169,877	2,299,903
Receivables from non-exchange transactions	9&13	13,578,167	11,756,158
VAT receivable	10&13	4,349,225	2,932,815
Cash and cash equivalents	12	44,317,283	45,657,374
	14	648,899	4,277,035
		64,063,451	66,923,285
Non-Current Assets			
Investment property	3	13,401,803	13,355,897
Property, plant and equipment	4	763,924,918	757,836,962
Heritage assets	5	5,761	5,761
Other financial assets	6	392,300	405,035
		777,724,782	771,603,655
Total Assets		841,788,233	838,526,940
Liabilities			
Current Liabilities			
Payables from exchange transactions	17	394,926,545	361,315,629
Consumer deposits	18	236,881	225,323
Employee benefit obligation	7	768,313	964,759
Unspent conditional grants and receipts	15	10,867,438	3,726,100
		406,799,177	366,231,811
Non-Current Liabilities			
Employee benefit obligation	7	4,997,251	4,321,874
Provisions	16	77,157,908	73,377,170
		82,155,159	77,699,044
Total Liabilities		488,954,336	443,930,855
Net Assets		352,833,897	394,596,085
Accumulated surplus		352,833,897	394,596,085

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Statement of Financial Performance

Figures in Rand

	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges			
Rental of facilities and equipment	20	42,755,214	46,846,422
Other income	21	755,975	480,614
Interest received	25	3,479,662	1,474,690
Actuarial gains	26	16,945,808	16,199,141
	7	-	417,875
Total revenue from exchange transactions		63,936,659	65,418,742
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	27	16,327,656	12,883,815
Transfer revenue			
Government grants & subsidies	29	133,071,662	182,295,660
Public contributions and donations	30	5,942,545	32,014
Fines, Penalties and Forfeits	22	24,174	54,715
Interest received	23	3,564,391	3,130,558
Total revenue from non-exchange transactions		158,930,428	198,396,762
Total revenue	19	222,867,087	263,815,504
Expenditure			
Employee related costs	31	(81,566,075)	(77,905,109)
Remuneration of councillors	32	(6,255,706)	(6,375,101)
Depreciation and amortisation	33	(34,973,581)	(33,586,592)
Impairments	34	(426,824)	298,566
Finance costs	35	(14,339,190)	(15,543,616)
Debt Impairment	36	(46,197,427)	(45,547,094)
Bulk purchases	37	(36,065,883)	(31,395,425)
Transfers and Subsidies	28	-	(4,487,995)
Actuarial losses	7	(306,193)	-
Loss on disposal of assets	4	-	(565,274)
General Expenses	38	(44,498,394)	(50,587,665)
Total expenditure		(264,629,273)	(265,695,305)
(Deficit)/surplus for the year		(41,762,186)	(1,879,801)

Phumelela Local Municipality (FS195)
Annual Financial Statements for the year ended June 30, 2022

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported		
Adjustments	410,684,464	410,684,464
Correction of errors		
Balance at July 1, 2020 as restated*	(14,208,578)	(14,208,578)
Changes in net assets	396,475,886	396,475,886
Surplus for the year		
Total changes	(1,879,801)	(1,879,801)
	(1,879,801)	(1,879,801)
Opening balance as previously reported		
Adjustments	418,492,005	418,492,005
Correction of errors		
Balance at July 1, 2021 as restated*	(23,895,922)	(23,895,922)
Changes in net assets	394,596,083	394,596,083
Deficit for the year		
Total changes	(41,762,186)	(41,762,186)
	(41,762,186)	(41,762,186)
Balance at June 30, 2022	352,833,897	352,833,897

Phumelela Local Municipality (FS195)
Annual Financial Statements for the year ended June 30, 2022

Cash Flow Statement

Figures in Rand

	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Property rates taxation		13,238,838	9,547,220
Service charges		22,178,056	14,598,415
Grants		140,213,000	186,003,100
Interest income		336,505	1,065,792
		175,966,399	211,214,527
Payments			
Employee costs		(88,278,537)	(84,350,911)
Suppliers		(64,177,490)	(79,720,227)
		(152,456,027)	(164,071,138)
Net cash flows from operating activities	40	23,510,372	47,143,389
Cash flows from investing activities			
Additions to property, plant and equipment	4	(27,151,242)	(43,529,278)
Disposal of property, plant and equipment	4	-	565,274
Decrease in other financial assets		12,735	11,323
Net cash flows from investing activities		(27,138,507)	(42,952,681)
Net (decrease)/increase in cash and cash equivalents		(3,628,135)	4,190,708
Cash and cash equivalents at the beginning of the year		4,277,035	86,327
Cash and cash equivalents at the end of the year	14	648,900	4,277,035

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	42,403,825	1,195,748	43,599,573	42,755,214	(844,359)	Please refer below for reasons.
Rental of facilities and equipment	811,486	763,640	1,575,126	755,975	(819,151)	Please refer below for reasons.
Other income	1,857,766	1,555,871	3,413,637	3,479,662	66,025	Please refer below for reasons.
Interest received - investment	21,521,485	-	21,521,485	16,945,808	(4,575,677)	Please refer below for reasons.
Total revenue from exchange transactions	66,594,562	3,515,259	70,109,821	63,936,659	(6,173,162)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	12,910,989	-	12,910,989	16,327,656	3,416,667	Please refer below for reasons.
Transfer revenue						
Government grants & subsidies	87,893,998	1,750,000	89,643,998	133,071,662	43,427,664	Please refer below for reasons.
Public contributions and donations	-	-	-	5,942,545	5,942,545	
Fines, Penalties and Forfeits	157,725	-	157,725	24,174	(133,551)	Please refer below for reasons.
Interest received	-	-	-	3,564,391	3,564,391	
Total revenue from non-exchange transactions	100,962,712	1,750,000	102,712,712	158,930,428	56,217,716	
Total revenue	167,557,274	5,265,259	172,822,533	222,867,087	50,044,554	
Expenditure						
Personnel	(76,789,815)	532,973	(76,256,842)	(81,566,075)	(5,309,233)	Please refer below for reasons.
Remuneration of councillors	(6,624,144)	-	(6,624,144)	(6,255,706)	368,438	Please refer below for reasons.
Depreciation and amortisation	(9,901,987)	375,000	(9,526,987)	(34,973,581)	(25,446,594)	Please refer below for reasons.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Impairment loss/ Reversal of impairments	-	-	-	(426,824)	(426,824)	Please refer below for reasons.
Finance costs	(3,139,497)	1,321,723	(1,817,774)	(14,339,190)	(12,521,416)	Please refer below for reasons.
Debt Impairment	(13,302,812)	4,967,849	(8,334,963)	(46,197,427)	(37,862,464)	Please refer below for reasons.
Bulk purchases	(12,539,294)	(6,308,850)	(18,848,144)	(36,065,883)	(17,217,739)	Please refer below for reasons.
General Expenses	(32,013,797)	(9,161,950)	(41,175,747)	(44,498,394)	(3,322,647)	Please refer below for reasons.
Contracted services	(11,969,750)	679,741	(11,290,009)	-	11,290,009	Please refer below for reasons.
Total expenditure	(166,281,096)	(7,593,514)	(173,874,610)	(264,323,080)	(90,448,470)	
Operating deficit	1,276,178	(2,328,255)	(1,052,077)	(41,455,993)	(40,403,916)	
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	57,793,000	(1,750,000)	56,043,000	-	(56,043,000)	Please refer below for reasons.
Actuarial gains/losses	-	-	-	(306,193)	(306,193)	Please refer below for reasons.
	57,793,000	(1,750,000)	56,043,000	(306,193)	(56,349,193)	
Deficit before taxation	59,069,178	(4,078,255)	54,990,923	(41,762,186)	(96,753,109)	
Total expenditure	59,069,178	(4,078,255)	54,990,923	(41,762,186)	(96,753,109)	

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	938,846	2,695,491	3,634,337	1,169,877	(2,464,460)	Please refer below for reasons.
Receivables from exchange transactions	38,999,702	(32,869,458)	6,130,244	13,578,167	7,447,923	Please refer below for reasons.
Receivables from non-exchange transactions	(891,723)	93,097,193	92,205,470	4,349,225	(87,856,245)	Please refer below for reasons.
VAT receivable	-	-	-	44,317,283	44,317,283	Please refer below for reasons.
Cash and cash equivalents	2,553,459	(3,425,719)	(872,260)	648,899	1,521,159	Please refer below for reasons.
	41,600,284	59,497,507	101,097,791	64,063,451	(37,034,340)	
Non-Current Assets						
Investment property	13,775,842	(682,963)	13,092,879	13,401,803	308,924	Please refer below for reasons.
Property, plant and equipment	871,786,772	(4,895,860)	866,890,912	763,924,918	(102,965,994)	Please refer below for reasons.
Heritage assets	5,761	-	5,761	5,761	-	Please refer below for reasons.
Other financial assets	416,358	(11,323)	405,035	392,300	(12,735)	Please refer below for reasons.
	885,984,733	(5,590,146)	880,394,587	777,724,782	(102,669,805)	
Total Assets	927,585,017	53,907,361	981,492,378	841,788,233	(139,704,145)	
Liabilities						
Current Liabilities						
Payables from exchange transactions	356,963,845	60,053,683	417,017,528	394,926,545	(22,090,983)	Please refer below for reasons.
Consumer deposits	222,385	(2,609)	219,776	236,881	17,105	Please refer below for reasons.
Employee benefit obligation	-	-	-	768,313	768,313	Please refer below for reasons.
Unspent conditional grants and receipts	-	-	-	10,867,438	10,867,438	Please refer below for reasons.

Phumelela Local Municipality (FS195)
Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Provisions	8,493,168	6,099,474	14,592,642	-	(14,592,642)	Please refer below for reasons.
	365,679,398	66,150,548	431,829,946	406,799,177	(25,030,769)	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	4,997,251	4,997,251	Please refer below for reasons.
Provisions	50,410,414	(6,412,853)	43,997,561	77,157,908	33,160,347	
Borrowing	2,500,000	(2,500,000)	-	-	-	Please refer below for reasons.
	52,910,414	(8,912,853)	43,997,561	82,155,159	38,157,598	
Total Liabilities	418,589,812	57,237,695	475,827,507	488,954,336	13,126,829	
Net Assets	508,995,205	(3,330,334)	505,664,871	352,833,897	(152,830,974)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	508,995,205	(3,330,334)	505,664,871	352,833,897	(152,830,974)	

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Category	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Revenue						
Service Charges						The decrease is due to billing on refuse is less than anticipated.
Rental of Facilities						The basis on rental of facilities was provided incorrectly. This now has been corrected in the new year to provide per property rented out with the percentage increase.
Other Income						This is due to an overall better increase in revenue management from the municipality coincided with a tariff increase.
Interest received- Investment						The decrease is due to less available fund to invest.
Property rates						The introduction of a new valuation roll saw an increase in the property rates charged. The valuation roll was only implemented on 01 July 2021 and was done subsequent to the budget being finalised.
Government grants & Subsidies						This is due to Capital and Operational Grants being separately disclosed. Capital grants being disclosed after Surplus/(Deficit).
Licenses and permits						This is a classification matter between other income and the budget statement.
Public contributions and donations						This is a classification matter between other income and the budget statement. The budget statement of 2022 has been corrected.
Fines, Penalties and Forfeits						This is the cash basis of funds received. The effect of iGrap 1 was not taken into consideration when calculating the revenue from fines. This will be attended to in the next budget process.
Expenditure						
Personnel						The difference relates to overtime paid out during the year that was not budgeted for including long service pay outs and leave pay outs.
Remuneration of Councillors						The councillors remuneration is in line on the budget and actual.
Depreciation and amortization						The budget amount used was incorrect. The Fixed asset register will be used going forward to assist the budget unit in the process. This will be attended to in the next budget process.
Finance costs						The budget amount used was incorrect. The bulk purchases reconciliation will be used as a basis going forward.. This will be attended to in the next budget process.
Impairment losses						The budget amount used was incorrect. The Fixed asset register will be used going forward to assist the budget unit in the process. This will be attended to in the next budget process.
Bulk Purchases						The budget amount used was incorrect. The bulk purchases reconciliation will be used as a basis going forward.. This will be attended to in the next budget process.
Debt Impairment						Although the year on year debt impairment (actual) is down due to an increase in credit control processes, the initial budget's base line used was not in relation with the debt impairment of 2022. This will be corrected in 2023's budget process.
Contracted Services						This is due to contracted services being disclosed on its nature and not the function of the expense. The estimated contracted services are deemed to be inline with the estimated budget.

Phumelela Local Municipality (FS195)
Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
General Expenses						Due to increase in repairs and maintenance, the municipality had an increase in expenditure. Overall based on the estimated expenditure vs total revenue on the budget process to the actual results, the general expenditure is still lower. This means the cost containment measures are deemed to be successful implemented by the municipality.
Operating Deficit						This is the overall effect of expenditure.
Actuarial gains/losses						Budget was not provided for. This will be corrected going forward.
Statement of Financial Position						
Current Assets						
Inventory						Inventory purchased during the 2021 financial year, more specifically dustbins, were allocated to residents across Memel, Vrede and Warden during the 2022 financial year which was not budgeted for.
Consumer Debtors						This is due the impairment provision not taken into consideration when the budget was performed. This will be corrected in the new budget process.
Receivables from exchange transactions						Credit Control Policies were implemented to ensure outstanding debtors are recovered and that debtors pay their accounts on time.
Receivables from non-exchangetransactions						Interest raised on outstanding debtors were taken into account during the budget process due to it being raised subsequent to the budget being finalised.
Vat Receivables						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Cash and Cash Equivalents						This is due to better cost containment processes and an increase in the collection rate.
Non-Current Assets						
Investment Property						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Property, plant and equipment						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Other financial assets						The decrease is due to movement as VKB release portion of the investment on the annual basis.
Heritage Assets						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Current Liabilities						
Other financial liabilities						The DBSA loan was settled, the baseline used for the budget was unaudited which resulted in an incorrect budget provision. This will be corrected going forward.
Payables from Exchange transactions						The increase is due to under budgeting for Eskom and DWA debt.
Employee Benefit obligation						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Unspent conditional grants and receipts						Funds received from grants were utilised else where due to the financial constraints that the municipality experienced during the current financial year.
Provisions						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.

Phumelela Local Municipality (FS195)
 Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Non-Current Liabilities						
Employee benefit obligation						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Provisions						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Borrowings						The municipality did not take out the loan as originally anticipated.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

Figures in Rand	Note(s)	2022	2021
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1. Presentation of Annual Financial Statements

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

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

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.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

1.2 Going concern assumption

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

1.3 Materiality

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

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

Material differences or variances are defined as any differences or variances above 10% with a value of more than R1 000 000. Explanations for material differences between the approved and final budget are included in the annual financial statements.

1.4 Significant judgements and sources of estimation uncertainty

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

Allowance for slow moving, damaged and obsolete stock

Allowance is made 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 operating surplus note when found material.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets and is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The calculation in respect of the impairment of receivables is based on an assessment of the extent to which debtors have defaulted on payments already due and an assessment of their ability to make payments based on their historical collection trend. This was performed individually across all debtors by discounting the future cashflows using the interest rate earned on the primary bank account. The calculation in respect of the impairment of Traffic fines is based on the same principle as for other receivables except that it is not performed on an individual fine basis and discounting of future cashflows by using a rate that reflects the current risk free rate. The discounting of future cashflows for Property rates is also based on a rate that reflects the current risk-free rate. The municipality used the interest rate on primary bank account as the effective interest rate for impairment, except for Statutory receivables the average interest rate on Short-term investments are used. Impact of COVID-19 on Impairment testing judgement: With regards to the Impairment of Financial Assets, the same policies were applied than in the previous year, although the basis on which it is calculated has changed due to changes circumstances, e.g. the collection rate of a specific debtor was impacted by the COVID-19 pandemic.

Provisions and Contingent liabilities

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Contingent liabilities were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of contingent liabilities are included in note 43.

Investment Property

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

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

The Municipality considers a project to be significantly delayed after a period of 12 months.

The Municipality makes use of the principles outlined in iGRAP 18 to determine if it is the custodian of the land classified as Investment Property.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of Property, Plant and Equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements.

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

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

The Municipality considers a project to be significantly delayed after a period of 12 months.

The Municipality makes use of the principles outlined in iGRAP 18 to determine if it is the custodian of the land classified as Property, Plant and Equipment.

Post-retirement benefits

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

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

Effective interest rate

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

Recognition and Derecognition of Land

In some instances the municipality is not the legal owner or the custodian of land appointed in terms of legislation, but assessed that it controls such land. Key judgements made and assumptions applied to conclude that it controls such land, are as follows:

- Free access to the land parcel;
- Whether the land parcel has been occupied by a unrelated third party.

Revenue recognition

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

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

Budget information

Material differences or variances are defined as any differences or variances above 10% with a value of more than R1 000 000. Explanations for material differences between the approved and final budget are included in the annual financial statements.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

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.

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.

Cost model

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 instalments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	15 - 60 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.

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.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land		
Buildings	Straight-line	Indefinite
Plant and machinery	Straight-line	10 to 50 years
Furniture and fixtures	Straight-line	10 years
Motor vehicles	Straight-line	10 years
Office equipment	Straight-line	10 years
IT equipment	Straight-line	10 years
Landfill sites	Straight-line	10 years
Electricity network	Straight-line	20 to 33 years
Roads and stormwater	Straight-line	15 to 50 years
Wastewater network	Straight-line	10 to 80 years
Water network	Straight-line	12 to 50 years
	Straight-line	10 to 80 years

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

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

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

Accounting Policies

1.6 Property, plant and equipment (continued)

The municipality assesses at each reporting date whether there is any indication that the municipality's 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.

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.

1.8 Heritage assets

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

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

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

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

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

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

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

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.8 Heritage assets (continued)

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

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

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

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

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

Derecognition

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

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

1.9 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.

Financial instruments are classified into three categories namely, financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost. The Municipality determines the classification of its financial instruments at initial recognition.

Initial recognition and measurement

A financial instrument is recognised, when the Municipality becomes a party to the contractual provisions of the instrument, and are initially measured at fair value. In the case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added or deducted from the fair value, as appropriate on initial recognition.

Subsequent measurement – financial assets

Financial assets consist of cash and cash equivalents, deposits, receivables and investments.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.9 Financial instruments (continued)

A provision for impairment of receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Changes in the carrying amount of the provision is recognised in the Statement of Financial Performance. When a receivable is considered uncollectible, it is written off against the provision. Any gains or losses arising from the change in fair value of investments measured at fair value are recognised in the Statement of Financial Performance.

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

Residual interests that do not have a quoted market price in an active market, and the fair value of which cannot be reliably measured are subsequently measured at cost less any impairment. Impairment is considered when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Any calculated impairment is recognised in the Statement of Financial Performance.

Subsequent measurement – financial liabilities

Financial liabilities consist of payables, interest bearing loans and bank overdrafts. These liabilities are subsequently measured at amortised cost, using the effective interest rate method. Finance costs are expensed in the Statement of Financial Performance in the period in which they are incurred except where stated otherwise (see accounting policy on borrowing costs).

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Municipality establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs.

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are carried at amortised cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.9 Financial instruments (continued)

Classification

The municipality 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
Trade receivables from Exchange transactions	Financial asset measured at amortised cost
Trade receivables from Non-Exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
VAT Receivable	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The municipality 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
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Employee benefit obligations	Financial liability measured at amortised cost
Provisions	Financial liability measured at amortised cost
Finance lease obligations	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

1.10 Statutory receivables

Identification

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

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

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

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

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the accounting policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the accounting policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the accounting 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.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.10 Statutory receivables (continued)

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.

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.

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 are recognised in the Statement of Financial Performance.

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 the Statement of Financial Performance.

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.

1.11 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.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.11 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 interest rate implicit in the lease.

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.

1.12 Inventories

Inventory consist of consumables, which are valued at the lower of cost, determined on the first in first out basis, and net realisable value, except for items which are valued at the tariffs charged. Where it is held for distribution or consumption at no charge or for a nominal amount, inventories are valued at the lower of cost and current replacement value.

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

Redundant and slow moving inventory are identified and written down to their estimated net realisable values estimated by management. Inventories are written down according to their age, condition and utility. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventory arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventory recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventory is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Water Inventory

Water is regarded as inventory when the Municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the Municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the Municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the Statement of Financial Position.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.12 Inventories (continued)

The basis of determining the cost of water purchased and not yet sold at Statement of Financial Position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates. Water is valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

1.13 Impairment of non-cash-generating assets

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

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

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

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

A Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

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

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.

Administrative/owner-occupied assets

It is accepted that all administrative assets, for example, vehicles, office equipment/furniture, plant and machinery, computer equipment and administrative land and buildings are non-cash generating assets as they do not generate any return.

Infrastructure assets

Infrastructure assets can be divided into five main groups, roads, water, electricity, sewer and waste management. Roads do not generate any return and is therefore categorised as non-cash generating assets.

Water and electricity infrastructure assets in the municipality generate a return in the form of water and electricity service charges. These returns are not considered to be commercial returns for the following reason:

- These levies are determined annually based on:
 - the funds required as per the budget; and
 - the fees set by ESKOM and NERSA.
- The budget is prepared to meet the objective of the municipality as set out in the IDP and SDBIP;
- The objectives of the municipality set in the IDP and SDBIP is to deliver services to the community and not to generate a commercial return.

Water and electricity infrastructure assets are non-cash generating assets.

Waste management do generate a return in the form of a fee charged at landfill sites for the disposing of household waste when the load is of a certain size.

These landfill sites are however management to protect health, well-being and the environment by providing the facility to safely dispose of household waste. Landfill sites are treated as non-cash generating assets.

Community assets

Community assets are all categorised as non-cash generating assets even if some of these assets, for example, swimming pool, community hall or cemeteries generate a return. The return generated by these assets is small and immaterial in relation to the cost of the assets and therefore is not considered to be a commercial return. In addition, all community assets are held with the primary objectives of service delivery in the community, to uplift the communities and to stimulate and enhance economic growth in the different communities.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.14 Employee benefits

The Municipality provides short term benefits, long term benefits and retirement benefits for its employees and councillors.

Short-term employee benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service.

Leave pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end and is shown as an accrual in the Statement of Financial Position.

Bonus Provisions

The Municipality recognises the expected cost of bonuses as a provision only when the Municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made at reporting date.

Post-employment benefits: Defined contribution plans

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

The Municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees.

Past-service costs are recognised immediately, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Post-employment benefits: Defined benefit plans

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out by independent qualified actuaries regularly, as may be required for fair presentation.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

Long-service Allowance

The Municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the Municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The Municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

1.15 Provisions and contingencies

Provisions are recognised when the Municipality has a present (legal or constructive) obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.15 Provisions and contingencies (continued)

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances, where the provision being measured involves a large population of items; the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

Contingent assets and contingent liabilities are not recognized. Contingencies are disclosed in note 43.

Environmental Rehabilitation Provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

1.16 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.17 Revenue

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Recognition and measurement

The Municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.17 Revenue (continued)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Service Charges – exchange revenue

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Pre-paid Electricity – exchange revenue

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

Sale of goods – exchange revenue

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

- the Municipality has transferred to the buyer 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;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividends – exchange revenue

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

Revenue Recognition of Unclaimed Deposits – exchange revenue

Unclaimed deposits into the bank account of the municipality older than three (3) years are recognised as revenue.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.18 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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.

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

Rates and Taxes – non-exchange revenue

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines – non-exchange revenue

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the Municipality is entitled to collect.

Subsequent to initial recognition and measurement, the Municipality assess the collectability of the revenue and recognises a separate impairment loss where appropriate.

Donations and Contributions – non-exchange revenue

Donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Transfers and subsidies – non-exchange revenue

Unconditional Grants

Equitable share allocations are recognised in revenue in the beginning of the financial year.

Conditional Grants

Conditional grants recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Interest earned on grants received and invested is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Services Received In-kind – non-exchange revenue

Services in kind are recognised at its fair value when it is significant to the operations and/or service delivery objectives and when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, only the nature and type of services in-kind received during the reporting period is disclosed.

Transfers and subsidies – non-exchange expenditure

The Municipality transfers money to individuals, organisations and other sectors of government from time to time. These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

Rates and Taxes – non-exchange revenue

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

1.19 Investment income

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

1.20 Borrowing costs

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

1.21 Accounting by principals and agents

Identification

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

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

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

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.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.21 Accounting by principals and agents (continued)

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 a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

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.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.22 Comparative figures

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

1.23 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.24 Fruitless and wasteful expenditure

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

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

1.25 Irregular expenditure

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

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.25 Irregular expenditure (continued)

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

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

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.26 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.

1.27 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 economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2021/07/01 to 2022/06/30.

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.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.28 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, Municipal Manager, executive directors and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.29 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.

1.30 Value added tax

The municipality is registered with the SARS for VAT on the payment basis, in accordance with the Section 15(2)(a) of the Value Added Tax Act no 89 of 1991. Revenue, expenses and assets are recognised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.

Revenue, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- Receivables and payables that are stated with the amount VAT included.

1.31 Grants-in aid (Expense)

The municipality annually awards grants to individuals and organisations based on merit. When making these transfers, the municipality does not

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
 - expect to be repaid in future; or
 - expect a financial return, as would be expected from an investment.
-

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022 2021

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Guideline on Accounting for Landfill Sites	June 30, 2022	Not expected to impact results but may result in additional disclosure
• Guideline: Guideline on the Application of Materiality to Financial Statements	June 30, 2022	Not expected to impact results but may result in additional disclosure
• GRAP 1 (amended): Presentation of Financial Statements	April 1, 2023	Not expected to impact results but may result in additional disclosure
• GRAP 108: Statutory Receivables	April 1, 2019	Not expected to impact results but may result in additional disclosure

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2022 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 25 (as revised 2021): Employee Benefits	To be announced	Unlikely there will be a material impact
• GRAP 104 (amended): Financial Instruments	April 1, 2025	Unlikely there will be a material impact

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2022		2021			
	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation	Accumulated depreciation and impairment	Carrying value
Investment property	32,567,668	(19,165,865)	13,401,803	32,567,668	(19,211,771)	13,355,897

Reconciliation of investment property - 2022

Investment property	Opening balance	Reversal of impairments	Depreciation	Total
	13,355,897	410,167	(364,261)	13,401,8

Reconciliation of investment property - 2021

Investment property	Opening balance	Additions	Reversal of impairments	Depreciation	Total
	13,435,097	145,288	121,624	(346,112)	13,355,8

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.

Phumelela Local Municipality (FS195)
 Annual Financial Statements for the year ended June 30, 2022
Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2022		2021			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying va value
Land						
Buildings	75,821,664	(25,627,767)	50,193,897	75,821,664	(25,575,864)	50,245,8
Landfill site	150,454,991	(83,572,404)	66,882,587	149,386,672	(80,739,092)	68,647,5
Plant and machinery	40,034,580	(29,748,897)	10,285,683	39,293,864	(26,683,675)	12,610,1
Motor vehicles	975,664	(456,977)	518,687	697,165	(294,136)	403,0
Office equipment	18,977,548	(10,502,836)	8,474,712	15,072,087	(9,370,840)	5,701,2
IT equipment	2,210,995	(1,791,794)	419,201	2,103,468	(1,673,254)	430,2
Infrastructure - Road network	5,011,708	(3,848,021)	1,163,687	4,619,144	(3,509,698)	1,109,4
Infrastructure - Electricity network	352,644,638	(213,729,030)	138,915,608	351,114,542	(200,462,283)	150,652,2
Work In Progress	37,596,030	(8,952,964)	28,643,066	37,596,030	(7,765,512)	29,830,5
Wastewater network	76,024,328	-	76,024,328	68,305,240	-	68,305,2
Water network	152,828,412	(67,219,166)	85,609,246	141,921,948	(63,985,833)	77,936,1
	421,132,122	(124,337,906)	296,794,216	406,246,592	(114,281,267)	291,965,3
Total	1,333,712,680	(569,787,762)	763,924,918	1,292,178,416	(534,341,454)	757,836,9

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	WIP additions	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Land	50,245,800	-	-	-	-	(639,692)	587,789	50,193,8
Buildings	68,647,580	42,104	-	1,026,215	(4,204,629)	(265,788)	1,637,105	66,882,5
Landfill site	12,610,189	740,715	-	-	(3,065,221)	-	-	10,285,6
Plant and machinery	403,029	278,500	-	-	(86,861)	(87,408)	11,427	518,6
Motor vehicles	5,701,247	3,905,461	-	-	(1,208,922)	(7,622)	84,548	8,474,7
Office equipment	430,214	107,527	-	-	(91,761)	(35,013)	8,234	419,2
IT equipment	1,109,446	392,564	-	-	(212,220)	(236,016)	109,913	1,163,6
Infrastructure - Road network	150,652,259	-	-	1,530,095	(12,219,862)	(1,851,126)	804,242	138,915,6
Infrastructure - Electricity network	29,830,518	-	-	-	(1,187,452)	-	-	28,643,0
Work in progress	68,305,240	-	35,724,294	(28,005,206)	-	-	-	76,024,3
Wastewater network	77,936,115	-	-	10,906,464	(3,269,873)	(207,742)	244,282	85,609,2
Water network	291,965,325	343,098	-	14,542,432	(9,062,517)	(3,108,643)	2,114,521	296,794,2
	757,836,962	5,809,969	35,724,294	-	(34,609,318)	(6,439,050)	5,602,061	763,924,9

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	WIP additions	Disposals	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Land	50,620,166	-	-	(565,274)	-	-	(1,465,933)	1,656,841	50,245,8
Buildings	68,884,783	36,490	-	-	4,602,161	(4,159,387)	(1,512,988)	796,521	68,647,5
Landfill site	14,302,752	917,215	-	-	-	(2,609,778)	-	-	12,610,1
Plant and machinery	397,120	113,878	-	-	-	(50,673)	(70,063)	12,767	403,0
Motor vehicles	705,708	5,172,087	-	-	-	(381,186)	(35,345)	239,983	5,701,2
Office equipment	385,980	133,083	-	-	-	(89,416)	(13,305)	13,872	430,2
IT equipment	927,578	478,613	-	-	-	(240,181)	(113,390)	56,826	1,109,4
Infrastructure - Roads network	162,706,906	-	-	-	-	(12,276,437)	(371,361)	593,151	150,652,2
Infrastructure - Electricity network	31,018,278	-	61,012,135	-	(26,071,532)	(1,187,760)	-	-	29,830,5
Work in progress	37,852,632	-	-	(4,487,995)	8,174,712	(3,309,886)	(395,625)	42,405	68,305,2
Wastewater network	73,424,509	-	-	-	13,294,659	(8,925,161)	(775,429)	1,507,398	77,936,1
Water network	286,780,463	83,395	-	-	-	-	-	-	291,965,3
	728,006,875	6,934,761	61,012,135	(5,053,269)	-	(33,229,865)	(4,753,439)	4,919,764	757,836,9

Pledged as security

None of the Property, plant and equipment has been pledged as security.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
4. Property, plant and equipment (continued)		
Capitalised expenditure (excluding borrowing costs)		
Buildings	1,334,389	4,638,651
Plant and machinery	278,500	113,878
Motor vehicles	3,905,461	5,172,087
Office equipment	107,527	133,083
IT equipment	521,564	478,613
Roads network	1,530,095	-
Wastewater network	10,906,464	8,174,712
Water network	14,885,530	13,378,055
	33,469,530	32,089,079

Other information

Details of properties

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.

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment

Infrastructure - Roads network	9,291,058	468,944
Community	2,056,780	1,697,709
Infrastructure - Electricity network	16,408,247	13,938,117
Infrastructure - Water network	21,905,120	31,779,781
Wastewater network	26,363,123	20,420,689
	76,024,328	68,305,240

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected

Currently capital projects are on schedule no contracts exists that are significantly overdue

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Total
Opening balance	68,305,239	68,305,239
Additions/capital expenditure	35,724,295	35,724,295
Transferred to completed items	(28,005,206)	(28,005,206)
	76,024,328	76,024,328

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Total
Opening balance	37,852,632	37,852,632
Additions/capital expenditure	61,012,134	61,012,134
Transferred to completed items	(30,559,527)	(30,559,527)
	68,305,239	68,305,239

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
4. Property, plant and equipment (continued)		
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		
Expenditure incurred to repair and maintain property, plant and equipment	8,536,846	9,178,630

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.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022 2021

5. Heritage assets

	2022			2021		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	5,761	-	5,761	5,761	-	5,761

Reconciliation of heritage assets 2022

	Opening balance	Total
Art Collections, antiquities and exhibits	5,761	5,761

Reconciliation of heritage assets 2021

	Opening balance	Total
Art Collections, antiquities and exhibits	5,761	5,761

6. Other financial assets

Designated at fair value

VKB Shares	392,300	405,035
Unlisted shares at fair value.		

Non-current assets

Designated at fair value	392,300	405,035
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Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Unlisted shares	392,300	416,358
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As the shares are traded on an open market security exchange - fair value is taken on year end for the share price traded on the exchange. The fair value measurement level 1 inputs was used to determine the fair value of the investment. Any gains or losses are accounted through fair value through profit and loss.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

7. Employee benefit obligations

Defined benefit plan

It is the policy of the municipality to provide retirement benefits to all its employees who elect to participate in the different available schemes. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose. The majority of employees belong to three benefit retirement funds. One fund is administered by the Provincial Pension Fund. These benefit funds are multi-employer funds and as such they are treated as contribution plans in terms of exemption included in GRAP 25.

The last actuarial valuation was dated 30 June 2022.

Post retirement medical aid plan

NET DISCOUNT RATE

The key assumptions used in the valuation, with the prior years assumptions shown for comparison, are summarised below:

Assumption	30 June 2022	30 June 2021
Discount Rate (D)	10.22%	7.71%
Consumer price inflation (CPI)	6.71%	4.27%
Health care cost inflation (H = 1.50% + CPI)	8.21%	5.77%
Net discount rate $((1+D)/(1+H)-1)$	1.86%	1.83%

It is the relative levels of the discount rate and health care cost inflation to one another that are important, rather than the nominal values. The assumption regarding the relative levels of these two rates is our expectation of the long-term average.

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2021 the duration of liabilities was 5.80 years. At this duration, the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2022 is 10.22% per annum, and the yield on the inflation-linked bonds of a similar term was about 2.82% per annum, implying an underlying expectation of inflation of 6.71% per annum $([1 + 10.22\% - 0.5\%] / [1 + 2.82\%] - 1)$.

A healthcare cost inflation rate of 8.21% was assumed. This is 1.50% in excess of the expected inflation over the expected term of the liability, consistent with the previous actuary.

All post-employment subsidies are subject to a maximum of R 5,007 as at 1 July 2022. The maximum subsidy amount has been assumed to increase in future at 75% of salary inflation.

DEMOGRAPHIC AND DECREMENT ASSUMPTIONS

The demographic and decrement assumptions were consistent in the previous and current valuation period, and are as follows:

Assumption	Continuation Pensioners 30 June 2022	Continuation Pensioners 30 June 2021
Age difference between spouses	5 years	5 years
Proportion married	Data provided	Data provided
Mortality	PA (90) - 1 with a 1% mortality improvement p.a from 2010	PA (90) - 1 with a 1% mortality improvement p.a from 2010

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

7. Employee benefit obligations (continued)

POST EMPLOYMENT MEDICAL SUBSIDY:

The employer's post-employment health care liability consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member.

Phumelela is committed to pay subsidies broadly as follows:

In-service members are not eligible to receive the post employment medical subsidy.

All continuation members and their eligible dependants receive a 60% subsidy. As at the valuation date none of the continuation pensioners had a spouse.

All post-employment subsidies are subject to a maximum of R 5,007 per month as at 1 July 2022. The maximum subsidy amount has been assumed to increase in future at 75% of salary inflation.

Long service award liability

The Municipality offers employees LSA for every five years of service completed, from five years of service to 45 years of service, inclusive.

Table below describes the benefits awarded.

Completed Service (in years)	Long Service Bonuses (% of Annual Salary)	Description
5	4.0%	$(5 / 250 + 2\%) \times \text{annual earnings}$
10	7.0%	$(10 / 250 + 3\%) \times \text{annual earnings}$
15	10.0%	$(15 / 250 + 4\%) \times \text{annual earnings}$
20	11.0%	$(15 / 250 + 5\%) \times \text{annual earnings}$
25, 30, 35, 40, 45	12.0%	$(15 / 250 + 6\%) \times \text{annual earnings}$

Notes to above Table:

-Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed. Phumelela advised that in most cases, employees choose to exercise the option to wholly convert their accumulative leave bonus days into cash.

-The amount of the gift is assumed to stay level, consistent with the assumption at the previous valuation.

VALUATION ASSUMPTIONS:

NET DISCOUNT RATE

The key assumptions used in the valuation, with the prior years' assumptions shown for comparison, are summarised below:

Assumption	30 June 2022	30 June 2021
Discount Rate	9.83%	9.29%
CPI	6.56%	4.39%
Salary increase rate	7.56%	5.39%
Net discount rate	2.11%	3.70%

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

7. Employee benefit obligations (continued)

The methodology of setting financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2021 the duration of liabilities was 5.37 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2022 is 10.02% per annum, and the yield on inflation-linked bonds of a similar term was about 2.60% per annum. This implies an underlying expectation of inflation of 6.56% per annum $([1 + 9.83\% - 0.5\%] / [1 + 2.60\%] - 1)$.

We have assumed that salary inflation would exceed general inflation by 1.00% per annum, i.e. 7.56% per annum.

However, it is the relative levels of the discount rate and salary inflation to one another that is important, rather than the nominal values. We have thus assumed a net discount factor of 2.11% per annum $([1 + 10.02\%] / [1 + 7.65\%] - 1)$.

PROMOTIONAL SALARY INCREASE RATES

In addition to the normal salary inflation rate, we have assumed promotional salary increases consistent with the prior actuary. The rates are reflected in the table below:

Age band	Additional promotional scale
20 – 24	5.0%
25 – 29	4.0%
30 – 34	3.0%
35 – 39	2.0%
40 – 44	1.0%
> 44	0.0%

DEMOGRAPHIC AND DECREMENT ASSUMPTION

The demographic and decrement assumptions were consistent in the previous and current valuation period, and are as follows:

Assumption	30 June 2021	30 June 2020
Normal retirement age (years)	65	65
Average retirement age (years)	62	62
Mortality	SA85-90	SA85-90

The average retirement age for all active employees was assumed to be 62 years to implicitly allow for ill-health and early retirements

The following withdrawal assumptions were applicable over the prior and current valuation periods

Age	Withdrawal rates (Male)	Withdrawal rates (Female)
20	9%	9%
25	8%	8%
30	6%	6%
35	5%	5%
40	5%	5%
45	4%	4%
50	3%	3%
55+	-	-

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
7. Employee benefit obligations (continued)		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation - Post employment benefit plan	(857,866)	(1,027,009)
Present value of the defined benefit obligation - Long service awards	(4,907,698)	(4,259,624)
	(5,765,564)	(5,286,633)
Non-current liabilities	(4,997,251)	(4,321,874)
Current liabilities	(768,313)	(964,759)
	(5,765,564)	(5,286,633)
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	(5,286,634)	(5,775,208)
Actuarial gains	(306,194)	417,874
Net expense recognised in the statement of financial performance	(172,738)	70,700
	(5,765,566)	(5,286,634)
Net expense recognised in the statement of financial performance		
Current service cost	(459,805)	(423,557)
Interest cost	(447,605)	(443,240)
Benefits paid	734,672	937,497
	(172,738)	70,700
Calculation of actuarial gains and losses		
Actuarial (gains) losses – Long service awards	(417,300)	(93,002)
Actuarial (gains) losses – Post employment benefit plan	111,106	510,876
	(306,194)	417,874

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

7. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10.22 %	7.71 %
Health care cost inflation rate	8.21 %	5.77 %

Sensitivity Analysis for Post Employment benefit plan:

	1% decrease R's	30 June 2022 Valuation basis R's	1% increase R's
Medical inflation rate			
Employer's accrued liability	817,217	857,867	901,546
Employer's service cost	-	-	-
Employer's interest cost	78,226	82,359	86,802
Discount Rate			
Employer's accrued liability	910,825	857,867	810,242
Employer's service cost (year following)	-	40,410-	-
Employer's interest cost (year following)	79,183	82,359	85,074

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

7. Employee benefit obligations (continued)

As per the table above, a 1% increase in the medical inflation rate results in a 5.09% increase in the accrued liability whilst a 1% decrease in the medical inflation rate will result in a 4.74% decrease in the accrued liability.

Inversely, a 1% increase in the discount rate results in a 5.55% decrease in the accrued liability whilst a 1% decrease in the discount rate will result in a 6.17% increase in the accrued liability.

PEMA Liability Reconciliation:

Opening Accrued Liability	(1,027,009)	(1,614,781)
-Current-service Cost	-	-
-Interest Cost	(72,274)	(130,860)
-Contributions (benefits paid)	130,310	207,756
Total Annual Expense	58,037	76,896
-Actuarial Loss / (Gain)	(111,106)	510,876
Closing Accrued Liability	(857,866)	(1,027,009)

LSA Liability Reconciliation:

Opening Accrued Liability	(4,259,625)	(4,160,427)
-Current-service Cost	(459,805)	(423,557)
-Interest Cost	(375,331)	(312,380)
-Contributions (benefits paid)	604,362	729,741
Total Annual Expense	(230,773)	6,196
-Actuarial Loss / (Gain)	417,300	(93,002)
Closing Accrued Liability	(4,907,698)	(4,259,625)

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

7. Employee benefit obligations (continued)

Other disclosures

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

PEMA Disclosure: Amounts for the current and previous four years are as follows:

Summary of the accrued liabilities and the plan assets for the current period and the previous four periods.

	2022 R	2021 R	2020 R	2019 R	2018 R
Accrued liability	(857,867)	(1,027,009)	(1,614,781)	(1,889,000)	(1,723,000)
Surplus	857,867	1,027,009	1,614,781	1,889,000	1,723,000

Summary of the experience adjustments for the current period and the previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred.

	2022 R	2021 R	2020 R	2019 R	2018 R
Liabilities: (Gain) / Loss	(111,106)	510,876	168,199	(67,000)	107,000

LSA Disclosure: Summarises the accrued liabilities and the plan assets for the current period and the previous four periods.

	2022 R	2021 R	2020 R	2019 R	2018 R
Accrued liability	(4,907,699)	(4,259,625)	(4,160,427)	(4,178,230)	(3,470,129)
Surplus	4,907,699	4,259,625	4,160,427	4,178,230	3,470,129

Summary of the experience adjustments for the current and previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred

	2022 R	2021 R	2020 R	2019 R	2018 R
Liabilities: (Gain) / Loss	417,300	(93,002)	265,547	(198,652)	(86,028)

8. Inventories

Consumable stores	1,128,684	2,226,026
Water for distribution	41,193	73,877
	1,169,877	2,299,903
Carrying value of inventories carried at the lower of cost and net realisable value	1,169,877	2,299,903
Inventories recognised as an expense during the year	736,868	1,210,524

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
9. Receivables from exchange transactions		
Sundry debtors	608,089	608,089
Prepaid expenses	-	62,977
Consumer debtors - Electricity	779,271	467,908
Consumer debtors - Water	2,169,044	2,155,658
Consumer debtors - Sewerage	3,037,106	2,730,894
Consumer debtors - Refuse	3,411,729	2,951,506
Consumer debtors - Interest	2,819,275	2,393,720
Consumer debtors - Housing rental	199,349	1,775
Consumer debtors - Sundry	554,304	383,631
	13,578,167	11,756,158
Trade and other receivables pledged as security		
No consumer debtors were pledged as security.		
Fair value of trade and other receivables		
Trade and other receivables	13,578,167	11,756,158
10. Receivables from non-exchange transactions		
Other receivables from non-exchange revenue	400,000	-
Consumer debtors - Rates	3,949,225	2,932,815
	4,349,225	2,932,815
Statutory receivables included in receivables from non-exchange transactions above are as follows:		
Taxes	3,949,225	2,932,815
Financial asset receivables included in receivables from non-exchange transactions above	400,000	-
Total receivables from non-exchange transactions	4,349,225	2,932,815
Fair value of receivables from non-exchange transactions		
Other receivables from non-exchange transactions	4,349,225	2,932,815

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
11. Statutory receivables		
Rates	3,949,225	2,932,815
VAT receivable	44,317,283	45,657,374
The relating line item where statutory receivables are included is [Receivables from exchange and non exchange transactions]		
	48,266,508	48,590,189

Statutory receivables

Transaction(s) arising from statute

Property rates related transactions arise in terms of the Municipal Property Rates Act, 6 of 2004, Municipal Finance Management Act, 56 of 2003, as well as the Property Rates Policy of the municipality approved by Council as part of the Budget Process.

Traffic fines arise from the National Road Traffic Act 93 of 1996, National Road Traffic Regulations 2000, National Land Transport Act 5 of 2009 and Criminal Procedure Act 51 of 1971. Prosecutor performs prosecutorial functions in terms of a general delegation awarded by the National Prosecuting Authority and is subject to the control of the Control Prosecutor at the Magistrate's Court in Phumelela.

Government grants related transactions arise in terms of the applicable annual Division of Revenue Act Bill as well as the relevant Provincial Gazette.

VAT transactions arise from the Value Added Tax Act 89 of 1991. VAT is an indirect tax on the consumption of goods and services in the economy. VAT is levied on all goods and services subject to certain exemptions, exceptions, deductions and adjustments provided for in the Value Added Tax Act 89 of 1991.

Determination of transaction amount

Property rates transaction amounts are determined in line with the Annual Tariff List of the municipality approved by Council as part of the Budget Process in terms of the Municipal Finance Management Act, 56 of 2003.

Traffic fines transaction amounts are determined in line with the Traffic Offence Code Book as approved by Senior Magistrate and implemented in the district of Phumelela.

Government grants related transaction amounts allocated to the municipality are stipulated in the applicable annual Division of Revenue Act as well as the relevant Provincial Gazette.

Interest or other charges levied/charged

Interest or other charges levied on Property rates balances are in line with the Annual Tariff List of the municipality approved by Council as part of the Budget Process in terms of the Municipal Finance Management Act, 56 of 2003. "Interest" means a charge levied, on all arear accounts calculated at an interest rate which is one percent higher than the prime interest rate.

Traffic fines: Additional charges includes contempt of court fees/ warrant of arrest fee determined in terms of the Criminal Procedure Act.

Interest or other charges levied on Government grants, if applicable, is based on the average investment rate for the applicable year.

The rates and interest charges are determined by the Value Added Tax Act 89 of 1991.

Basis used to assess and test whether a statutory receivable is impaired

The basis used to assess Property Rates receivables is to look at the extent to which debtors on an individual basis defaulted on payments already due and an assessment of their ability to make payments based on their historical collection trend.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
Statutory receivables (continued)		
The basis used to assess Traffic fine receivables is to look at the extent to which debtors per group of fines (Municipal fines, Provincial fines) defaulted on payments already due and an assessment of their ability to make payments based on their historical trend.		
Statutory receivables impaired		
As of June 30, 2022, Statutory receivables of R51,347,887 (2021: R45,711,088) were impaired and provided for.		
Factors the entity considered in assessing statutory receivables (other than exchange or non-exchange) impaired		
A payment % report was drawn in order to establish the payment percentage per type of debtor. This payment percentage was used to impair these statutory receivables		
12. VAT receivable		
VAT	44,317,283	45,657,374
13. Consumer debtors disclosure		
Gross balances		
Consumer debtors - Rates	55,297,112	48,643,903
Consumer debtors - Electricity	4,456,480	4,254,917
Consumer debtors - Water	76,720,453	71,079,942
Consumer debtors - Sewerage	84,450,306	76,026,457
Consumer debtors - Refuse	86,497,536	77,854,640
Consumer debtors - Interest	117,998,204	99,624,148
Consumer debtors - Rental	4,071,390	3,549,801
Consumer debtors - Sundry	2,136,413	2,237,191
	431,627,894	383,270,999
Less: Allowance for impairment		
Consumer debtors - Rates	(51,347,887)	(45,711,088)
Consumer debtors - Electricity	(3,677,209)	(3,787,009)
Consumer debtors - Water	(74,551,409)	(68,924,284)
Consumer debtors - Sewerage	(81,413,200)	(73,295,563)
Consumer debtors - Refuse	(83,085,807)	(74,903,134)
Consumer debtors - Interest	(115,178,929)	(97,230,428)
Consumer debtors - Rental	(3,872,041)	(3,548,026)
Consumer debtors - Sundry	(1,582,109)	(1,853,560)
	(414,708,591)	(369,253,092)
Net balance		
Consumer debtors - Rates	3,949,225	2,932,815
Consumer debtors - Electricity	779,271	467,908
Consumer debtors - Water	2,169,044	2,155,658
Consumer debtors - Sewerage	3,037,106	2,730,894
Consumer debtors - Refuse	3,411,729	2,951,506
Consumer debtors - Interest	2,819,275	2,393,720
Consumer debtors - Rental	199,349	1,775
Consumer debtors - Sundry	554,304	383,631
	16,919,303	14,017,907

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
13. Consumer debtors disclosure (continued)		
Included in above is receivables from exchange transactions		
Electricity	779,271	467,908
Water	2,169,044	2,155,658
Sewerage	3,037,106	2,730,894
Refuse	3,411,729	2,951,506
Interest	2,819,275	2,044,230
Sundry debtors	554,304	858,792
Housing rental	199,349	311,920
	12,970,078	11,520,908
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	3,949,225	2,932,815
Net balance	16,919,303	14,453,723
Rates		
Current (0 -30 days)	(861,029)	633,028
31 - 60 days	847,213	678,564
61 - 90 days	759,720	617,859
91 - 120 days	732,255	603,795
121 - 365+ days	53,818,953	46,110,657
Provision	(51,347,887)	(45,711,088)
	3,949,225	2,932,815
Electricity		
Current (0 -30 days)	(397,354)	(405,112)
31 - 60 days	13,971	135,240
61 - 90 days	11,985	11,003
91 - 120 days	110,678	69,376
121 - 365+ days	4,717,200	4,444,411
Provision	(3,677,209)	(3,787,010)
	779,271	467,908
Water		
Current (0 -30 days)	607,450	551,051
31 - 60 days	911,004	1,178,314
61 - 90 days	789,052	975,507
91 - 120 days	875,568	760,194
121 - 365+ days	73,548,189	67,614,876
Provision	(74,562,219)	(68,924,284)
	2,169,044	2,155,658
Sewerage		
Current (0 -30 days)	964,915	1,052,085
31 - 60 days	1,186,398	1,103,358
61 - 90 days	1,084,759	1,066,728
91 - 120 days	1,106,977	1,086,515
121 - 365+ days	80,109,653	71,717,771
Provision	(81,415,596)	(73,295,563)
	3,037,106	2,730,894

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
13. Consumer debtors disclosure (continued)		
Refuse		
Current (0 -30 days)	906,943	1,067,405
31 - 60 days	1,101,631	1,087,334
61 - 90 days	1,027,196	1,053,329
91 - 120 days	1,053,142	1,073,546
121 - 365+ days	82,410,747	73,573,026
Provision	(83,087,930)	(74,903,134)
	3,411,729	2,951,506
Interest		
Current (0 -30 days)	508,149	1,517,276
31 - 60 days	1,959,690	1,615,711
61 - 90 days	1,933,306	1,599,287
91 - 120 days	1,964,964	1,625,044
121 - 365+ days	111,632,096	93,266,830
Provision	(115,178,930)	(97,230,428)
	2,819,275	2,393,720
Housing rental		
Current (0 -30 days)	143,597	(114,771)
31 - 60 days	87,707	29,833
61 - 90 days	85,050	26,987
91 - 120 days	72,376	25,654
121 - 365+ days	3,781,621	3,582,099
Provision	(3,971,002)	(3,548,027)
	199,349	1,775
Sundry		
Current (0 -30 days)	(55,248)	11,575
31 - 60 days	15,206	9,047
61 - 90 days	12,877	5,374
91 - 120 days	13,396	4,620
121 - 365+ days	2,150,220	2,206,575
Provision	(1,582,147)	(1,853,560)
	554,304	383,631
Reconciliation of allowance for impairment		
Balance at beginning of the year	(369,253,092)	(320,118,768)
Contributions to allowance	(42,536,012)	(45,513,807)
Provision to contribution VAT receivable	(2,919,487)	(3,620,517)
	(414,708,591)	(369,253,092)

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	7,066	7,066
Bank balances	151,087	543,869
Short-term deposits	490,746	3,726,100
	648,899	4,277,035

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating		
Baa3	641,833	4,269,970

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2022	June 30, 2021	June 30, 2020
ABSA Bank - Current Account - 2260940190	143,241	377,268	20,764	143,241	377,268	20,764
ABSA - Grants Call Account - 9211177843	51,323	1,171,632	51,966	51,323	1,171,632	51,966
ABSA Bank - Call Account - 9211176952	428,596	78,933	1,009	428,596	78,933	1,009
First National Bank - 7 Day - 74347566926	4,481	4,481	4,481	4,481	4,481	4,481
First National Bank - Interest Plus - 62322122574	7,847	166,600	4	7,847	166,600	4
ABSA Bank - Call Account - 2077706148	4,007	320,716	1,038	4,007	320,716	1,038
ABSA Bank - Fixed Deposit - 2079725700	2,340	2,150,340	-	2,340	2,150,340	-
Total	641,835	4,269,970	79,262	641,835	4,269,970	79,262

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Regional Bulk Infrastructure Grant	391,250	3,726,100
Water Services Infrastructure Grant	10,476,188	-
	10,867,438	3,726,100

Movement during the year

Balance at the beginning of the year	3,726,100	18,660
Additions during the year	54,849,000	73,485,000
Income recognition during the year	(47,707,662)	(69,777,560)
	10,867,438	3,726,100

See note 29 for reconciliation of grants from National/Provincial Government.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

16. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Change in provision	Finance Cost	Total
Environmental rehabilitation	73,377,170	740,715	3,040,023	77,157,908

Reconciliation of provisions - 2021

	Opening Balance	Change in provision	Finance Cost	Total
Environmental rehabilitation	68,526,939	917,215	3,933,016	73,377,170

Rehabilitation provision

Phumelela Local Municipality consists of three (3) towns (Vrede, Memel and Warden). Vrede, Memel and Warden are located in an area of agricultural significance and Vrede is the central business district of Phumelela Municipality.

Landfill operations continue until all the available permitted airspace has been filled. Once this happens, the site close and capped with a layer of impermeable clay and a layer of the top soil. Grass and other suitable vegetation types are planted to stabilize the soil and improve the appearance. Environmental monitoring continues for a period of up to 30 years after the closure of the site. No appointment for the closure of the sites has been made, and therefore only rough estimates have been compiled without site visits with no detailed inspections or investigations. Basic information on the size and classification of each site was supplied.

Key assumptions used:

Accounting Standard GRAP19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term/life of the landfill site.

Future value of landfill sites are adjusted based on present estimates and value.

Estimates have been based on current cost The discount rate was deduced from the average of the Zero-Coupon Yield Curve (Nominal Bond) over the entire durations applicable in the future. The annualised long term discount rate at 30 June 2022 was 11.64% p.a.. The consumer price inflation of 7.40% p.a. was obtained from the differential between the averages of the Nominal Bond Yield Curve and the Real Bond Yield Curve (Zero Yield Curves).

The Zero-Coupon Yield Curves were obtained from the Bond Exchange of South Africa after the market closed on 30 June 2022.

Site Life calculation:

Memel Landfill Site:

The landfill site is situated approximately 1.6 km from Memel town, a small agricultural town in the Free State, which is situated 46 km from Newcastle, which is in the KZN. The Memel landfill site is responsible for accommodating the solid waste of Memel town and Zamani which is the township of Memel. The total population of the mentioned towns accumulates to 8 377 in 2022. (Census 2011 adjusted to 2022 at 1.46% annually).

The site is accessed by a gravel road and its coordinates are 27.670625°S 29.564994°E. The estimated total footprint of the item is approximately 67 000 m² and the fully utilized area is approximately 3 800 m². A total of 32 900 m² is partially utilized leaving room for further utilization. The total cubes of fill within the partially utilized area is 19 457 m³.

The remaining life is calculated at 25 years, up to 2047 based on the annual population growth and available air space.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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16. Provisions (continued)

Warden Landfill site:

The landfill site is situated approximately 4.2 km from Ezenzeleni which is a township in Warden. Warden is town in the Free State province, and it situated approximately 303 km from Bloemfontein which is the capital city of Free State. Warden landfill site is responsible for accommodating the solid waste of Warden and Ezenzeleni. The total population of the mentioned towns accumulates to 12 874 in 2022. (Census 2011 adjusted to 2022 at 1.46 annually).

The remaining life is calculated at 8 years, up to 2030 based on the annual population growth and available air space.

Vrede Old Landfill site:

The landfill site is situated approximately 632 meters from Vrede town. Vrede is a town in the Free State and it situated approximately 400km from Bloemfontein which is the capital city of Free State. The new Vrede landfill site is responsible for accommodating the solid waste of Vrede town and Thembalihle which is the township of Vrede. The total population of the mentioned towns accumulates to 20 747 in 2022. (Census 2011 adjusted to 2022 at 1.46% annually).

The site is accessed by a gravel road linked to an asphalt main road and its coordinates are 27.443153°S 29.156439°E. The estimated total footprint of the item is approximately 143 940 m² and the fully utilized area is approximately 143 940 m². This means that this landfill site has reached its maximum life and it is no longer in use. The total cubes of fill within the partially utilized area is 4 968.17 m³.

The remaining life is calculated at 0 years. The site has reached its maximum remaining life.

Vrede New Landfill site:

The landfill site is situated approximately 1.09 km from Vrede town. Vrede is a town in the Free State and it situated approximately 400km from Bloemfontein which is the capital city of Free State. The new Vrede landfill site is responsible for accommodating the solid waste of Vrede town and Thembalihle which is the township of Vrede. The total population of the mentioned towns accumulates to 20 747 in 2022. (Census 2011 adjusted to 2022 at 1.46% annually).

The site is accessed by a gravel road linked to an asphalt main road and its coordinates are 27.460261°S 29.133261°E. The estimated total footprint the item is approximately 49 000 m² and the fully utilized area is approximately 6 100 m². A total of 42 700 m² is partially utilized leaving room for further utilization. The total cubes of fill within the partially utilized area is 41 198.25 m³.

The remaining life is calculated at 4 years, up to 2026 based on the annual population growth and available air space.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
17. Payables from exchange transactions		
13th cheque accrual	2,260,119	2,232,173
Accrued leave pay	6,137,831	5,678,339
Accrued salary expense	6,516,900	3,101,175
Debtors in credit	7,156,146	3,484,463
Payments received in advance - sale of stands	2,050,758	1,676,097
Payments received in advanced - prepaid electricity	73,187	88,472
Retentions	6,574,613	6,499,372
Trade payables	330,747,220	310,645,444
Unallocated receipts and deposits	33,409,771	27,910,094
	394,926,545	361,315,629
Fair value of trade and other payables		
Trade payables	394,926,545	361,315,629
18. Consumer deposits		
Electricity	236,881	225,323

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
19. Revenue		
Fines, Penalties and Forfeits	24,174	54,715
Government grants & subsidies	133,071,662	182,295,660
Interest received	16,945,808	16,199,141
Other income related to municipal services	3,479,662	1,474,690
Property rates	16,327,656	12,883,815
Public contributions and donations	5,942,545	32,014
Rental of facilities and equipment	755,975	480,614
Service charges	42,755,214	46,846,422
	219,302,696	260,267,071

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

Interest received	16,945,808	16,199,141
Other income	3,479,662	1,474,690
Rental of facilities and equipment	755,975	480,614
Service charges	42,755,214	46,846,422
	63,936,659	65,000,867

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	16,327,656	12,883,815
Transfer revenue		
Government grants & subsidies	133,071,662	182,295,660
Public contributions and donations	5,942,545	32,014
Fines	24,174	54,715
	155,366,037	195,266,204

Basis on which fair value of inflowing resources was measured

Transfers

Fines

Fines issued in terms of the Criminal Procedures Act are usually issued by way of notice to offenders, and can (a) indicate the value of the fine to be paid, and that certain reductions could be made to the value of the fine payable and how, or the circumstances under which, such reductions can be applied, or (b) indicate that the offender must appear in Court on a specified date (in these instances, the value of the fine may or may not be indicated but this is often only determined after a separate legal process). In 2012, the ASB revised IGRAP 1 Applying the Probability Test on the Initial Recognition of Revenue to include revenue from non-exchange transactions. This amendment is applicable to municipalities from 1 July 2013. IGRAP 1 indicates that entities should not consider the probability of non-payment on the initial recognition of revenue. This should be considered as a subsequent event when assessing impairment.

20. Service charges

Sale of electricity	12,881,720	15,319,974
Sale of water	8,890,711	10,261,319
Sewerage and sanitation charges	10,928,284	10,665,514
Refuse removal	10,054,499	10,599,615
	42,755,214	46,846,422

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
21. Rental of facilities and equipment		
Premises		
Own Premises	755,975	480,614
22. Traffic fines		
Traffic Fines	24,174	54,715
23. Interest from non-exchange receivables		
Interest charged on non exchange transactions	3,564,391	3,130,558
24. Other revenue		
Other income	3,479,662	1,474,690
25. Other income		
Building Fees	82,837	37,118
Cemetery Fees	234,103	234,917
Clearance certificate	388,681	30,614
Collecting Fees	94,068	162,897
Connection Fees	6,599	36,544
Sale of stands	1,973,174	808,696
Gains on lapsed payables	638,548	-
Tender deposits	61,652	163,904
	3,479,662	1,474,690
26. Interest received		
Interest revenue		
Bank	336,505	1,065,792
Interest charged on consumer accounts	16,609,303	15,133,349
	16,945,808	16,199,141
27. Property rates		
Rates received		
Property rates	16,327,656	12,883,815
Valuations		
Residential	1,288,819,000	1,228,974,354
Commercial	204,750,000	149,513,820
State	150,040,000	73,100,494
Municipal	35,970,000	5,633,000
Small holdings and farms	5,928,091,500	6,194,281,806
Institutional and Other	89,535,000	115,529,000
	7,697,205,500	7,767,032,474

The newly compiled valuation roll came in to effect from 01 July 2021. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
28. Grants and subsidies paid		
Other subsidies		
Project Transfer To Eskom	-	4,487,995
29. Government grants and subsidies		
Operating grants		
Equitable share	83,614,000	93,458,000
Local Government Financial Management Grant (FMG)	3,100,000	3,000,000
Expanded Public Works Programme Integrated Grant (EPWP)	1,180,000	-
Provincial Treasury - Split meter grant	1,750,000	1,540,100
Municipal Disaster relief grant	-	1,500,000
	89,644,000	99,498,100
Capital grants		
Municipal Infrastructure Grant	20,309,000	20,676,000
Regional Bulk Infrastructure Grant (Direct)	8,334,850	24,982,900
Dept of Water & Sanitation (WSIG)	11,783,812	21,118,660
Integrated National Electrification Programme (5B)	3,000,000	16,020,000
	43,427,662	82,797,560
	133,071,662	182,295,660
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	43,427,662	82,797,560
Unconditional grants received	89,644,000	99,498,100
	133,071,662	182,295,660
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and the day to day running of the municipality.		
Municipal Infrastructure Grant		
Current-year receipts	20,309,000	20,676,000
Conditions met - transferred to revenue	(20,309,000)	(20,676,000)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
Financial Management Grant		
Current-year receipts	3,100,000	3,000,000
Conditions met - transferred to revenue	(3,100,000)	(3,000,000)
	-	-

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
29. Government grants and subsidies (continued)		
Regional Bulk Infrastructure Grant (Direct)		
Balance unspent at the beginning of the year	3,726,100	-
Current-year receipts	5,000,000	28,709,000
Conditions met - transferred to revenue	(8,334,850)	(24,982,900)
	391,250	3,726,100
Dept of Water & Sanitation (WSIG)		
Balance unspent at the beginning of the year	-	18,660
Current-year receipts	22,260,000	21,100,000
Conditions met - transferred to revenue	(11,783,812)	(21,118,660)
	10,476,188	-
Integrated National Electrification Programme (5B)		
Current-year receipts	3,000,000	16,020,000
Conditions met - transferred to revenue	(3,000,000)	(16,020,000)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
30. Public contributions and donations		
N.T. 1% Audit fees expenditure	5,942,545	32,014

Donations and funding are recognized as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. National Treasury donated 1% of the audit fees outstanding as per the agreement.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
31. Employee related costs		
13th Cheques	3,603,822	3,603,871
Acting allowances	1,283,547	1,526,356
Basic	49,564,498	47,006,394
Car allowance	2,014,672	1,860,738
Defined contribution plans	7,619,552	7,178,860
Employee benefit obligation	172,738	(70,700)
Leave pay provision charge	1,753,664	1,664,002
Long-service awards	311,556	349,500
Long-term benefits - incentive scheme	-	161,435
Medical aid - company contributions	3,070,293	2,872,347
Occupational allowance	21,257	21,257
Other payroll levies	35,072	34,422
Overtime payments	6,004,495	6,037,589
SDL	637,225	473,159
Standby Allowance	282,914	410,473
UIF	536,523	460,975
	76,911,828	73,590,678

Remuneration of Municipal Manager - NF Malatjie

Annual Remuneration	673,233	673,493
Car Allowance	443,473	443,473
Contributions to UIF, Medical and Pension Funds	160,137	158,249
Other - Reimbursive	80,231	-
	1,357,074	1,275,215

Remuneration of Chief Financial Officer - NF Ralebenya

Annual Remuneration	777,997	778,314
Car Allowance	260,082	260,082
Contributions to UIF, Medical and Pension Funds	12,110	10,152
Other - Reimbursive	31,344	-
	1,081,533	1,048,548

Remuneration of acting Director Technical Services MS Mahlangu

Annual Remuneration	495,931	-
Car Allowance	129,662	-
Bonus	41,428	-
Contributions to UIF, Medical and Pension Funds	153,032	-
Other - Housing allowance	11,574	-
Other - Acting Allowance	259,030	-
Backpay	4,203	-
Other - Reimbursive	29,718	-
	1,124,578	-

Remuneration of Director Corporate Services - NS Kobeli

Annual Remuneration	-	518,895
Car Allowance	-	173,388
Leave payout	-	99,689
Contributions to UIF, Medical and Pension Funds	-	7,473
	-	799,445

Remuneration of Director of Technical Services - ML Mokoena

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
31. Employee related costs (continued)		
Annual Remuneration	673,964	674,281
Car Allowance	364,114	364,114
Contributions to UIF, Medical and Pension Funds	12,310	10,180
Other - Acting Allowance	18,139	-
Other - Reimbursive	22,533	-
	1,091,060	1,048,575
32. Remuneration of councillors		
Mayor	892,903	913,928
Speaker	724,881	735,397
Councillors	4,411,177	4,252,373
Ward Committees	226,745	473,403
	6,255,706	6,375,101
33. Depreciation and amortisation		
Property, plant and equipment	34,609,320	33,240,480
Investment property	364,261	346,112
	34,973,581	33,586,592
34. Impairment of assets		
Impairments		
Property, plant and equipment	6,439,050	4,742,824
<p>An 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.</p> <p>Infrastructure assets - GRAP 26.(23) states: In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:</p> <p>(g):Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.</p> <p>Due to significant budget constraints, the municipality could not maintain the maintenance plan as required for the infrastructure assets. This lead to the value in use being lower than the economic value of the assets. Assets were therefore impaired to a condition grade lower based on physical assessment of these assets.</p> <p>Land - IGRAP 18 indicates that land is recognised based on control. Control of land is evidenced by the following criteria:</p> <p>(a) legal ownership; and/or</p> <p>(b) the right to direct access to land, and to restrict or deny the access of others to land. During the prior year it was identified that control over land has been lost. The most significant part of this was rural development for housing. As the land was not yet transferred to the legal new owners name, the land was impaired.</p>		
Reversal of impairments		
Property, plant and equipment	(5,602,060)	(4,919,766)
Repairs and additions to the network assets resulted in previous conditions of assets to improve, thus a reversal of impairments.		
Investment property	(410,166)	(121,624)
Repairs and additions to the network assets resulted in previous conditions of assets to improve, thus a reversal of impairments.		
	(6,012,226)	(5,041,390)
Total impairment	426,824	(298,566)

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
35. Finance costs		
Creditors	11,299,168	11,610,600
Interest Cost - Landfill site provision	3,040,022	3,933,016
	14,339,190	15,543,616
36. Debt impairment		
Traffic fines impairment	-	33,287
Contributions to debt impairment provision	46,197,427	45,513,807
	46,197,427	45,547,094
37. Bulk purchases		
Electricity - Eskom	30,384,751	22,831,686
Water	5,681,132	8,563,739
	36,065,883	31,395,425
38. General expenses		
Accounting fees	5,300,533	8,780,527
Advertising	121,269	287,119
Auditors remuneration	5,268,957	5,226,125
Bank charges	293,328	397,755
Bursaries	615,373	2,225,641
Chemicals	4,068,731	1,186,694
Commission paid	1,656,927	756,911
Conferences and seminars	182,386	102,062
Consulting and professional fees	260,649	434,783
Consumables	736,868	1,210,524
Entertainment	207,441	37,250
Fines and penalties	-	271,519
Fuel and oil	2,185,043	1,762,641
Insurance	776,417	606,513
Legal fees	178,647	1,536,700
Medical expenses	2,504	36,906
Postage and courier	293,656	658,792
Printing and stationery	819,348	495,399
Protective clothing	599,516	204,600
Rental of equipment	4,671,385	5,318,607
Repairs and maintenance	8,536,846	9,178,630
Software license fees	3,317,877	3,554,345
Subscriptions and membership fees	884,387	927,385
Telephone and fax	1,779,335	2,775,382
Training	75,140	273,649
Travel and accommodation	1,234,227	1,094,180
Valuation roll	317,365	1,119,006
Vehicle licensing	114,239	128,020
	44,498,394	50,587,665

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
39. Operating deficit		
Operating deficit for the year is stated after accounting for the following:		
Impairment on property, plant and equipment	6,439,050	4,742,824
Reversal of impairment on property, plant and equipment	5,602,060	4,919,766
Reversal of impairment on investment property	410,166	121,624
Depreciation on property, plant and equipment	34,609,320	33,240,480
Depreciation on investment property	364,261	346,112
Employee costs	87,821,781	84,280,210
40. Cash generated from operations		
(Deficit)/Surplus	(41,762,186)	(1,879,801)
Adjustments for:		
Depreciation and amortisation	34,973,581	33,586,592
Impairment loss (reversal)	426,824	(298,566)
Debt impairment	46,197,427	45,547,094
Movements in retirement benefit assets and liabilities	478,931	(488,575)
Movements in provisions	3,780,738	4,850,231
Changes in working capital:		
Inventories	1,130,026	(1,361,056)
Receivables from exchange transactions	(1,822,009)	(84,148)
Consumer debtors	(46,197,427)	(45,547,094)
Other receivables from non-exchange transactions	(1,416,410)	(894,865)
Payables from exchange transactions	19,227,890	19,270,002
VAT	1,340,091	(9,266,804)
Unspent conditional grants and receipts	7,141,338	3,707,440
Consumer deposits	11,558	2,939
	23,510,372	47,143,389

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

41. Financial instruments disclosure

Categories of financial instruments

2022

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	392,300	-	392,300
Trade and other receivables from exchange transactions	-	13,578,167	13,578,167
Other receivables from non-exchange transactions	-	4,349,225	4,349,225
Cash and cash equivalents	-	648,899	648,899
	392,300	18,576,291	18,968,591

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	394,926,545	394,926,545
Consumer deposits	236,881	236,881
	395,163,426	395,163,426

2021

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	405,035	-	405,035
Trade and other receivables from exchange transactions	-	11,756,158	11,756,158
Other receivables from non-exchange transactions	-	2,932,815	2,932,815
Cash and cash equivalents	-	4,277,035	4,277,035
	405,035	18,966,008	19,371,043

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	361,315,629	361,315,629
Consumer deposits	225,323	225,323
	361,540,952	361,540,952

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
42. Commitments		
Authorised capital expenditure		
Already contracted for		
• Property, plant and equipment	16,015,183	52,357,725
Total capital commitments Already contracted for	16,015,183	52,357,725
Total commitments		
Total commitments Authorised capital expenditure	16,015,183	52,357,725
<p>This committed expenditure relates to property, plant and equipment and will be financed by available conditional grants, retained surpluses, existing cash resources, funds internally generated, etc. This commitments are also presented inclusive of VAT.</p>		
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	2,098,083	2,415,176
- in second to fifth year inclusive	356,701	2,454,784
	2,454,784	4,869,960

Operating lease payments represent rentals payable by the municipality for certain of its office printers, internet and telephones. Leases are negotiated for an average term of three years.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

43. Contingencies

The following cases have been reported for 30 June 2022.

Matter	Phumelela Local Municipality Legal Representative	Nature Of Claim	Contingent Liability Amount	Estimated Costs
Khato project management // Phumelela Local Municipality - case no 164-8/2020 Freestate High Court	Internal	Contractual Liability	R 2 500 000.00	R 500 000.00
TOTAL			R 2 500 000.00	R 500 000.00

As at reporting date the municipality is uncertain of the amount and timing of the outflow of any resources regarding the above mentioned case.

The following cases have been reported for 30 June 2021

Matter	Phumelela Local Municipality Legal Representative	Nature Of Claim	Contingent Liability Amount	Estimated Costs
Khato project management // Phumelela Local Municipality - case no 164-8/2020 Freestate High Court	Internal	Contractual Liability	R 2 500 000.00	R 500 000.00
TOTAL			R 2 500 000.00	R 500 000.00

As at reporting date the municipality is uncertain of the amount and timing of the outflow of any resources regarding the above mentioned case.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

44. Related parties

Relationships

Accounting Officer
Chief Financial Officer
Director Technical Services
Members of key management

NF Malatjie
F Ralebenya
ML Mokoena
Mayor - Cllr. MD Kobeni
Speaker - Cllr. TR Zwane
Cllr. V Thela
Cllr. DA Wessels
Cllr. KA Sibeko
Cllr. VP Mahlaba
Cllr. SO Magubane
Cllr. ZA Tshabalala
Cllr. TP Tsotetsi
Cllr. BA Motsoeneng
Cllr. LL Molefe
Cllr. NA Mazibuko
Cllr. TN Masiteng
Cllr. JN Klomp
Cllr. TJ Gwebu
Cllr. TI Radebe
Cllr. NJ Mokoena

Related party transactions

Purchases from related party

X Zwane T/A Fish and Chips
Tshimollo Ya Lerato

-	1,827
7,625	-

Phumelela Local Municipality (FS195)
Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

44. Related parties (continued)

Remuneration of management

Management class: Senior management

2022

Name	Basic salary	Allowances	Contributions to UIF, Medical and Pension Funds	Backpay	Acting allowance	Other benefits received	Total
Municipal Manager - NF Malatjie	673,233	443,473	160,137	-	-	80,232	1,357,075
Chief Financial Officer - NF Ralebenya	777,997	260,082	12,111	-	-	31,344	1,081,534
Director Corporate Services - ML Mokoena	673,964	364,114	12,310	18,139	-	22,533	1,091,060
Director Technical Services - MS Mahlangu	-	-	-	-	259,030	-	259,030
	2,125,194	1,067,669	184,558	18,139	259,030	134,109	3,788,699

Phumelela Local Municipality (FS195)
Annual Financial Statements for the year ended June 30, 2022
Notes to the Annual Financial Statements

Figures in Rand

44. Related parties (continued)

2021

Name	Basic salary	Allowances	Contributions to UIF, Medical and Pension Funds	Termination benefits	Total
Municipal Manager - NF Malajje	673,493	443,473	158,249	-	1,275,215
Chief Financial Officer - NF Ralebenya	778,314	260,082	10,152	-	1,048,548
Director Corporate Services - NS Kobeli	518,895	173,388	7,473	99,689	799,445
Director Technical Services - ML Mokoena	674,281	364,114	10,180	-	1,048,575
	2,644,983	1,241,057	186,054	99,689	4,171,783

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

44. Related parties (continued)

Management class: Councillors

2022

Name	Basic Salary	Medical and pension funds	Travel Allowance	Cellphone Allowance	Total
Executive Mayor - Clr. T.J Motaung	230,710	2,995	76,903	14,579	325,187
Speaker - Clr. TR Zwane	676,916	6,974	-	40,990	724,880
Clr. TI Radebe	205,276	2,805	68,425	40,990	317,496
Clr. BV Khumalo	73,011	998	24,337	14,579	112,925
Clr. KA Sibeko	240,667	3,377	92,625	40,990	377,659
Clr. MM Mashinini	73,011	998	24,337	14,579	112,925
Clr. NS Ntsele	73,011	998	24,337	14,579	112,925
Clr. NJ Mokoena	205,276	2,805	68,425	40,990	317,496
Clr. DA Wessels	269,036	3,613	89,679	40,990	403,318
Clr. SE Tshabalala	96,532	1,296	32,177	14,579	144,584
Clr. JM Mofokeng	73,011	998	24,337	14,579	112,925
Clr. OA Mokoena	73,011	998	24,337	14,579	112,925
Clr. TM Tshabalala	73,011	998	24,337	14,579	112,925
Clr. VP Kibido	205,276	2,805	68,425	40,990	317,496
Clr. ZA Tshabalala	95,714	1,043	1,635	14,579	112,971
Executive Mayor Clr. MD Kobeni	402,060	5,225	134,020	26,411	567,716
Clr. SO Magubane	136,624	1,816	39,729	26,411	204,580
Clr. TP Tsotetsi	136,624	1,816	39,729	26,411	204,580
Clr. BA Motsoeneng	147,975	1,839	28,378	26,411	204,603
Clr V Thela	177,477	2,327	52,528	26,411	258,743
Clr. LL Molefe	136,624	1,816	39,729	26,411	204,580
Clr. NA Mazibuko	136,624	1,816	39,729	26,411	204,580
Clr. TN Matsiteng	136,624	1,816	39,729	26,411	204,580
Clr. M Rautenbach	44,270	554	8,945	7,970	61,739
Clr. JN Klemm	92,490	1,288	30,830	18,469	143,077
Clr. TJ Gwebu	42,317	455	2,430	6,338	51,540
Ward Committees	224,500	2,245	-	-	226,745
	4,477,678	56,714	1,100,092	621,216	6,255,700

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

44. Related parties (continued)

2021

Name	Basic Salary	Medical and pension funds	Travel Allowance	Cellphone Allowance	Other benefits received	Total
Executive Mayor - Cllr. T.J Motaung	645,644	7,037	215,215	40,800	5,232	913,928
Speaker - Cllr. TR Zwane	688,688	5,909	-	40,800	-	735,397
Cllr. TI Radebe	204,323	2,327	68,107	40,800	-	315,557
Cllr. BV Khumalo	204,323	2,327	68,107	40,800	-	315,557
Cllr. KA Sibeko	204,323	2,476	68,107	40,800	14,936	330,644
Cllr. MB Mhlambi	27,652	-	9,217	5,522	-	42,391
Cllr. MM Mashinini	204,323	2,327	68,107	40,800	-	315,557
Cllr. NS Ntsele	204,323	2,358	68,107	40,800	3,117	318,705
Cllr. NJ Mokoena	204,323	2,327	68,107	40,800	-	315,557
Cllr. DA Wessels	270,145	3,022	90,048	40,800	-	404,015
Cllr. SE Tshabalala	270,145	3,022	90,048	40,800	-	404,015
Cllr. JM Mofokeng	204,323	2,327	68,107	40,800	-	315,557
Cllr. OA Mokoena	204,323	2,327	68,107	40,800	-	315,557
Cllr. TM Tshabalala	204,323	2,348	68,107	40,800	2,092	317,670
Cllr. VP Kibido	204,323	2,478	68,107	40,800	15,111	330,819
Cllr. ZA Tshabalala	181,620	1,952	-	27,200	-	210,772
Ward Committees	473,403	-	-	-	-	473,403
	4,600,527	44,564	1,085,598	603,922	40,490	6,375,101

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

45. 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	Restated
Payables from exchange transactions	17	(361,473,851)	158,222	(361,315,629)
Property, plant and equipment	4	748,387,375	9,449,587	757,836,962
Provisions	16	(39,817,590)	(33,559,580)	(73,377,170)
Investment Property	3	13,092,879	263,018	13,355,897
Vat receivable	12	45,719,253	(61,879)	45,657,374
Accumulated surplus		(418,492,005)	23,895,920	(394,596,085)
Receivables from exchange transactions	9	11,901,446	(145,288)	11,756,158
		(682,493)	-	(682,493)

Statement of financial performance

2021

	Note	As previously reported	Correction of error	Restated
Finance costs	35	(13,151,912)	(2,391,704)	(15,543,616)
Depreciation and amortisation	4	(31,880,228)	(1,706,364)	(33,586,592)
Impairment		872,999	(574,433)	298,566
Employee related costs	31	(77,762,463)	(142,646)	(77,905,109)
Disposal of land		(78,110)	78,110	-
Transfer and subsidies	28	-	(4,487,995)	(4,487,995)
Inventories losses/write-downs		-	(565,274)	(565,274)
General expenses	38	(50,690,629)	102,964	(50,587,665)
Surplus for the year		(172,690,343)	(9,687,342)	(182,377,685)

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

45. Prior-year adjustments (continued)

Cash flow statement

2021

	Note	As previously reported	Correction of error	Restated
Cash flow from operating activities				
Service charges		17,720,021	(3,121,606)	14,598,415
Property rates taxation		6,416,662	3,130,558	9,547,220
Finance Cost		(13,151,912)	13,151,912	-
Employee costs		(84,208,264)	(142,647)	(84,350,911)
Suppliers		(41,798,379)	(37,921,848)	(79,720,227)
		(115,021,872)	(24,903,631)	(139,925,503)
Cash flow from investing activities				
Additions to property plant and equipment		(67,867,635)	24,338,357	(43,529,278)
Disposal of property, plant and equipment		-	565,274	565,274
		(67,867,635)	24,903,631	(42,964,004)

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

45. Prior-year adjustments (continued)

Errors

Investment property	Accumulated Surplus(Deficit)	957,151.90
	Investment property	263,018.84
	Property, plant and equipment	-958,226.18
	Depreciation and amortisation	4,968.12
	Receivables from Exchange Transactions	-145,288.33
	Impairment	-121,624.35
Provisions	Accumulated Surplus(Deficit)	29,256,789.04
	Finance costs	1,949,997.29
	Provisions NCL	-35,542,598.94
	Provisions CL	1,983,018.70
	Property, plant and equipment	2,352,793.91
Property, plant and equipment	Accumulated Surplus(Deficit)	-15,427,636.57
	Property, plant and equipment	12,543,017.67
	Depreciation and amortisation	1,701,396.29
	Disposal of land sold	-78,110.34
	Inventories	565,274.19
	Impairment	696,058.76
Transfers and subsidies	Property, plant and equipment	-4,487,995.38
	Transfers and subsidies	4,487,995.38
Inventories losses/write-downs	Inventories losses/write-downs	565,274.19
	Inventories	-565,274.19
Employee related costs	Employee related costs	142,647.88
	General Expenses	-142,647.88
Payables from exchange transaction	Accumulated Surplus(Deficit)	-577,727.14
	Finance costs	441,706.63
	VAT receivable	-61,878.41
	General Expenses	39,683.63
	Payables from exchange transactions	158,215.29

1. Investment Property:

During testing and compilation of the PPE and FAR, a Buildings assets previously classified on the buildings register was reclassified as investment property at cost. Repair work was performed on the property to accommodate a tenant, resulting in the reversal of impairment.

2. General Expenses:

Reclassification of repairs and maintenance due to creditor reconciliations being performed and accruals being identified.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

45. Prior-year adjustments (continued)

3. Property, plant and equipment:

During the verification, and condition assessment process, areas were identified by means of inspection of aerial imaging and 360 photos, to not have waste water networks and road assets included on the register. These assets were accounted for at a fair value and at the most accurate date of in use available by management. Other new found assets such as pumps, motors, control panels, fences etc. which have not been accounted for previously have also been capitalized at a cost of an asset with a similar use, nature and description. Transport and movable assets which were identified during the site verification to still be in use which were previously disposed of, was corrected as concrete evidence of its use and existence was obtained in the reported financial year.

During the previous financial year a work in process project phase 1 has been completed and was subsequently transferred to Eskom.

4. Provisions:

Landfill site provision was restated due to new valuation methodology being adopted by engineers and whereby a more accurate landfill estimate could be determined using 3D modelling.

5. Finance costs:

Restatement of provisions of landfill sites and accruals being identified.

6. Depreciation, amortisation and impairments:

During the verification, and condition assessment process, areas were identified by means of inspection of aerial imaging and 360 photos, to not have waste water networks and road assets included on the register. These assets were accounted for at a fair value and at the most accurate date of in use available by management. Other new found assets such as pumps, motors, control panels, fences etc. which have not been accounted for previously have also been capitalized at a cost of an asset with a similar use, nature and description. Transport and movable assets which were identified during the site verification to still be in use which were previously disposed of, was corrected as concrete evidence of its use and existence was obtained in the reported financial year.

During testing and compilation of the PPE and FAR, a buildings assets previously classified on the buildings register was reclassified as investment property at cost. Repair work was performed on the property to accommodate a tenant, resulting in the reversal of impairment.

7. Employee cost:

Reclassification of salaries and wages expenditure of Section 56 employees.

8. Payables from exchange transactions:

Correction of creditors due to creditors reconciliations performed.

9. Gains or loss on disposal of assets and liabilities:

Property was disposed off.

10. Inventories losses/write-downs

Investment property held for sale classified as Inventory at NRV.

11. Receivables from exchange transactions:

Improvement done by consumer on rental property. The municipality subsequently credited the consumer's account with the amount equal to the costs incurred.

Irregular expenditure

Opening balance	837,900,134	-
Adjustments made	(69,140,652)	-

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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45. Prior-year adjustments (continued)

Adjustment made to opening balance of fruitless and wasteful expenditure is due to write off that has been taken in to account previously approved by council

Fruitless and wasteful expenditure

Opening balance	40,546,455	-
Adjustments made	(4,031,413)	-
Restated opening balance	36,515,042	-

Adjustment made to opening balance of fruitless and wasteful expenditure is due to write off that has been taken in to account previously approved by council and additional fruitless expenditure identified.

Unauthorised expenditure

Opening balance	212,914,497	-
Adjustments made	(20,134,363)	-
Restated opening balance	192,780,134	-

Adjustment made to opening balance of fruitless and wasteful expenditure is due to write off that has been taken in to account previously approved by council and additional fruitless expenditure identified.

46. Comparative figures

Certain comparative figures have been reclassified or restated.

The effects of the restatement are as follows:

Commitments have been restated from R 52 524 853 to R52 357 725 (Error in 2021, R167 128), the restatement was due to contract values being updated to agree to actual contract appointment letter. Errors were identified where the incorrect contract values were recorded in the Work in process register. All projects were reviewed to ensure all amounts agree to the relevant contracts and commitments register.

47. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk, but the exposure is limited to the the municipality's management thereof. Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditor on a continuous basis, and by external auditor annually. The municipality does not enter into or trade financial instruments for speculative purposes. Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, an independent body that monitors the effectiveness of the internal audit function.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

47. Risk management (continued)

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.

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality managing of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met. The tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

At June 30, 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	394,926,545	-	-	-
At June 30, 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	361,315,629	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents 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.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2022	2021
Receivables from non-exchange transactions	13,578,167	11,756,158
Receivables from exchange transactions	4,349,225	2,932,815
Bank balances	648,899	4,277,035
Other financial assets	392,300	405,035

Market risk

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

47. Risk management (continued)

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income received on interest on investments are dependent of changes in prime interest rates. Interest rate risk is deferred that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result in prime interest changes.

To decrease interest rate risk exposure, investments is mostly done on a on a term not longer than six months. The current interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions.

Cash flow interest rate risk 2022

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Cash in current banking institutions	- %	490,746	-	-	-	-
Call Investment deposits	3.00 %	151,089	-	-	-	-

Cash flow interest rate risk 2021

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Cash in current banking institutions	- %	543,869	-	-	-	-
Call investment deposits	3.00 %	3,726,100	-	-	-	-

Price risk

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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48. Going concern

The municipality incurred a net loss of R41 762 187 during the year ended 30 June 2022.

We draw attention to the fact that at June 30, 2022, the municipality had an accumulated surplus of R 352,833,897 and that the municipality's total assets exceed its liabilities by R 352,833,897.

The current liabilities exceeded its current assets by R 342,735,726 (2021: R 299,308,526).

In addition, the municipality owed Eskom R164,984,779 (2021: R147,497,312) and the water board R 139,822,992 (2021: R125,682,386) as at 30 June 2022 both of which amounts R160 529 130 (2021: R144 958 031) and R137 339 494 (2021: R124 540 030) respectively are considered to be overdue.

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

The municipality is experiencing some financial difficulties, indicators are as follows:

1. Suppliers are not paid within the legislative 30 days;
2. Employee benefit obligations are unfunded; refer note 7
3. High levels of distribution losses; refer note 51
4. Slow collection and low recoverability of outstanding consumer accounts; and
5. Unfavourable financial ratios.
6. Unspent conditional grants not cash backed for the financial period.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

49. Unauthorised expenditure

Opening balance as previously reported	768,759,482	742,288,445
Opening balance as restated	768,759,482	742,288,445
Add: Expenditure identified - current	81,637,225	95,611,689
Less: Approved/condoned/authorised by council	(203,982,838)	(69,140,652)
Conditional grants non compliance with Dora section 16(1)	10,867,432	-
Closing balance	657,281,301	768,759,482

The municipality has started the process to investigate unauthorised expenditure identified. The process followed is in terms of the guideline issued by National Treasury.

The Water Services Infrastructure Grant and Regional Bulk Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
50. Fruitless and wasteful expenditure		
Opening balance as previously reported	36,515,042	29,377,747
Opening balance as restated	36,515,042	29,377,747
Add: Expenditure identified - current	11,299,168	11,610,415
Less: Amounts recoverable - prior period	-	(1,081,783)
Less: Amount written off - prior period	(12,597,181)	(3,391,337)
Closing balance	35,217,029	36,515,042

Expenditure identified in the current year include those listed below:

Summary of fruitless and wasteful

Eskom - Interest	3,199,005	1,738,318
Free State Municipal Provident Fund - Interest	261	-
Auditor General - Interest	488,009	345,039
SARS - Interest & Penalties	6,132	270,749
DWS - Interest	7,531,238	8,814,602
Manna Holdings - Interest	21,661	-
Ben Hur - Interest	2,253	-
Hendre Conradie	50,609	441,707
	11,299,168	11,610,415

The municipality has started the process to investigate fruitless and wasteful expenditure identified.

The process followed is in terms of the guideline issued by National Treasury.

There is currently a dispute between Phumelela local municipality and Department of Water and Sanitation regarding the outstanding amount owed.

51. Irregular expenditure

Opening balance as previously reported	192,780,134	204,443,387
Opening balance as restated	192,780,134	204,443,387
Add: Irregular Expenditure - current	13,053,335	8,471,110
Add: Irregular Expenditure - prior period	1,231,202	-
Less: Amount written off - prior period	(21,490,556)	(20,134,363)
Closing balance	185,574,115	192,780,134

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

Summary of irregular expenditure

Competitive bidding not invited	8,122,385	8,391,471
Three written quotations not invited	277,684	79,639
Contract management non compliance	5,884,468	-
	14,284,537	8,471,110

Cases under investigation

The municipality has started the process to investigate irregular expenditure identified. The process followed is in terms of the guideline issued by National Treasury. Irregular expenditure are also presented exclusive of VAT.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
52. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance		
2020/2021 subscription / fee	864,767	816,683
2021/2022 subscription / fee	-	880,504
Amount paid - current year	878,881	-
	(864,767)	(832,420)
	878,881	864,767
Material losses		
Electricity Distribution loss	6,981,631	3,257,975
Water Distribution loss	4,667,944	6,730,725
	11,649,575	9,988,700
Electricity losses occur due to inter alia, the tampering of meters, faulty meters and illegal electricity connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.		
Water losses occur due to inter alia leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported.		
Audit fees		
Opening balance		
Current year audit / fee	7,897,166	2,354,943
Amount paid - current year	6,547,309	6,481,033
	(9,363,746)	(938,810)
	5,080,729	7,897,166
PAYE and UIF		
Opening balance	730,182	-
Current year deduction	9,939,127	9,686,387
Amount paid - current year	(9,908,768)	(8,956,205)
	760,541	730,182
Pension and Medical Aid Deductions		
Opening balance		
Current year deduction	1,219,711	-
Amount paid - current year	10,970,810	12,804,009
	(11,268,857)	(11,584,298)
	921,664	1,219,711
VAT		
VAT receivable	44,317,283	45,657,374

VAT output payables and VAT input receivables are shown in note 12.

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

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2022:

June 30, 2022	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
V.P Mahlaba	957	916	1,873
T.R Zwane	1,773	-	1,773
B.A Motsoeneng	1,872	39,678	41,550
T.N Masiteng	1,902	25,443	27,345
L.L Molefe	215	-	215
S.O. Magubane	1,032	24,225	25,257
D.A Wessels	149	7,810	7,959
	7,900	98,072	105,972

June 30, 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
T.J Motaung	2,695	4,762	7,457
V.P Mahlaba	377	-	377
T.R Zwane	1,292	105	1,397
M.M Mashinini	823	4,024	4,847
Z.A Tshabalala	2,430	37,251	39,681
	7,617	46,142	53,759

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

June 30, 2022	Highest outstanding amount	Aging (in days)
VP Kibido	916	180
N L MOTSOENENG	39,678	360
M.D MASITENG	25,443	360
S.O. MAGUBANE	24,225	360
J.A WESSELS	7,810	360
	98,072	1,620

June 30, 2021	Highest outstanding amount	Aging (in days)
TJ Motaung	4,762	360
ZA TSHABALALA	37,251	360
MM Mashinini	4,024	360
MJ Zwane	105	150
	46,142	1,230

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
52. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Supply chain management regulations		
In terms of section 36 of the Municipal Supply Chain Management Regulations the following deviations are listed below.		
Incident		
Ngongo Construction	-	19,230
Thabizdo Projects	29,240	30,032
Crossmoor Transport	-	1,656,000
Babcock africa services(pty)ltd	63,335	-
Eco-green	4,700	-
ASG GEO Installation of boreholes	-	1,689,139
Khasyle holdings&projects	36,800	-
Ma-aggies enterprise	12,000	-
Sedmo trading	30,170	-
Kantech services(pty)ltd	82,970	-
Payday	-	428,303
Km & Fm trading	-	150,233
Kyanye Transport	-	54,000
	259,215	4,026,937

53. 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.

54. Segment information

General information

Identification of segments

The municipality does not have any separate identifiable segments, as the whole of the municipality is operated and reported as one. The entity operates within Phumelela local municipality which consists of the following three towns: Vrede Memel and Warden. Please refer to the statement of financial performance mentioned above for revenue from exchange and non exchange transactions and total expenditure. Refer to the statement of financial position for non current assets.

Phumelela Local Municipality (FS195)

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

55. Budget differences

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. The changes are based in terms of Section 18 of the MFMA which states that the budget must be funded from realistically anticipated revenues to be collected, cash-backed accumulated funds from previous years' surplus not committed and borrowed funds but only for capital projects.

Final approved budgets were based on incorrect forecasts calculated using the prior year annual reports. The adjusted final budget was compiled using the actual performance indicators available as at 31 January 2022 that made use of actual income received and levied as well as actual expenditure incurred..

56. Accounting by principals and agents

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

Municipality as the principal

Distribution of electricity

The municipality entered into an agreement with Eskom to provide the hosting, vending, data management and supplementary support services to the municipality. Eskom distributes the prepaid electricity (by the way of vendors) to third parties and pays a portion of the revenue received over to the municipality. Eskom distributes the conventional electricity to third parties and pays a portion of the revenue received over to the municipality.

No assets of the municipality are under the custodianship of Eskom.

Fee paid

Commission paid	241,059	339,712
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Termination of the agreement

Early termination of the agreement by the municipality, will result in the municipality immediately refunding Eskom the outstanding balance of the capital for the installed meters and services rendered within the remaining agreement period. Should the parties fail to agree on the repayment arrangement by the municipality then the municipality should continue to refund eskom the outstanding balance of the capital for the installed meters rendered by monthly equal instalments until the installed meters are fully repaid or for the remaining agreed period, whichever is the earlier.

No assets of the municipality are being kept as security by Eskom.

In the event of early termination by either party.

The municipality will from the date of termination, source its own vendors or enter into separate agreements with the existing eskom vendors for the continued vending of electricity to the municipal customers.

The municipality will change the supply group code on the meters to ensure that the revenue would be directed to its own bank account.

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PHUMELELA
LOCAL MUNICIPALITY

Date: 30 November 2022

REPRESENTATION LETTER

1. This representation letter is provided for the purposes of your audit of the financial statements, the annual performance report and compliance with legislation of the Phumelela Local Municipality for the year ended 30 June 2022.
2. We confirm the following in respect of our responsibilities relevant to the audit as set out in the engagement letter agreed to on 8 September 2022.

Information provided

3. We have provided you with:
 - access to all information of which we are aware that is relevant to the audit, such as records, documentation, minutes of meetings [of executive management, the accounting authority, the council, audit committees and any other subcommittees of those charged with governance] held to date and other matters
 - additional information that you have requested from us for the purpose of the audit
 - unrestricted access to persons within the municipality from whom you determined it necessary to obtain evidence.

Audit of financial statements

4. We have fulfilled our responsibility for the preparation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (DoRA), in particular that the financial statements are fairly presented in accordance therewith, except for the matters described in annexure A.
5. Methods, significant assumptions and the data used in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework.
6. All known instances of non-compliance or suspected non-compliance with legislation, which we were aware of, and whose effects should be considered when preparing financial statements have been brought to the attention of the auditor, except for the matters described in annexure A.
7. Restatements made to correct material misstatements in the prior year figures are valid and are appropriately accounted for in the financial statements, except for the matters described in Annexure A.

8. The identity of all related parties, the related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of GRAP 20, Related Party Disclosures.
9. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GRAP 19, Provision, Contingent Liabilities and Contingent Assets.
10. All events subsequent to the date of the financial statements and for which the financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
11. Plans were developed to mitigate significant doubt about the Phumelela Local Municipality's ability to continue as a going concern, and these plans are considered feasible based on the following
 - provide reasons why the plans are believed to be feasible]].
12. All the audit evidence provided is valid and appropriate, including evidence that was made available electronically.

Audit of predetermined objectives

13. We have fulfilled our responsibility for the preparation of the annual performance report in accordance with the performance management and reporting framework.
14. All events subsequent to the date of the annual performance report that required the annual performance report to be amended or disclosed have been adjusted or disclosed.
15. All the audit evidence provided is valid and appropriate, including evidence that was made available electronically.

Audit of compliance with legislation

16. We have fulfilled our responsibility to ensure that we comply with legislation applicable to the Municipality.
17. All the audit evidence provided is valid and appropriate, including evidence that was made available electronically.

Internal control

18. We have fulfilled our responsibility as set out in the engagement letter dated 8 September 2022, for designing, implementing and maintaining internal control necessary to enable the preparation of financial statements and the annual performance report information that are free from material misstatement, whether due to fraud or error, as well as to enable compliance with legislation. We believe that the internal control that we have maintained is adequate for these purposes and have functioned effectively throughout the financial year.

Prevention and detection of fraud and error

19. We have fulfilled our responsibility to perform a risk assessment and develop a risk management strategy, which includes a fraud prevention plan.
20. We have provided you with the results of our assessment of the risks of material misstatement as a result of fraud or error.
21. We have disclosed to you all the information in relation to fraud, suspected fraud or allegations of fraud which we are aware of, or which has been communicated by employees, former employees, regulators and others, and which affects the entity and involves:

- management
- those charged with governance
- employees who have significant roles in internal control

Other information to be included in the annual report

22. The final version of these documents will be provided on 9 December 2022, before the annual report is issued.

These representations are made at your request and to supplement audit evidence obtained by you and to confirm information given to you orally during the audit.

Yours faithfully



Accounting officer

Annexure A

Information NOT provided [Include instances and provide reasons of cases where information or unrestricted access was not provided for audit purposes]		
Instance	Reason	
1. None.		
Uncorrected misstatements relating to the audit of the financial statements		
Financial statement item	Misstatement	
1. COA 57 of 2022 - Employee benefit obligations - Misstatements identified Employee Benefit Obligations General Expenses	R 114 000 R 114 000	
2. COA 113 of 2022 - Sale of stands - Classification deficiency Trade payables (Between Prepaid receipts – Sale of stands and Unallocated Receipts)	Prepaid receipts – Sale of stands - R 149 448 Unallocated receipts – (R 149 449)	
Uncorrected misstatements relating to the audit of predetermined objectives		
Subject matter	Indicator	Misstatement
1. None.		
Instances of non-compliance relating to the compliance audit		
Subject matter	Reference to legislation	Description of non-compliance
1. Annual financial statements	MFMA section 122(1).	The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current liabilities, non-current liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
2. Procurement and contract management	SCM Regulation 5	Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.
3. Procurement and contract management	SCM Regulation 17(1)(a) and (c)	Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM Regulation 17(1)(a) and (c).
4. Expenditure management	MFMA section 65(2)(e).	Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
5. Expenditure management	MFMA section 62(1)(d).	Reasonable steps were not taken to prevent irregular expenditure amounting to R14 006 853 as disclosed in note 51 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance to the SCM requirements.
6. Expenditure management	MFMA section	Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R11 299 168 as disclosed in note 50 to the

		62(1)(d).	annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by interest paid with regard to amounts due to suppliers.
7.	Expenditure management	MFMA section 62(1)(d).	Reasonable steps were not taken to prevent unauthorized expenditure amounting to R92 504 657 as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorized expenditure was caused by the municipality exceeding its budget and conditional grants not spent in accordance with the relevant grant frameworks.
8.	Utilisation of conditional grants	DoRa section 12(5).	Performance in respect of programmes funded by the municipal infrastructure grant, regional bulk infrastructure grant, water services infrastructure grant, financial management grant , and integrated national electrification programme grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Dora.
9.	Utilisation of conditional grants	DoRa section 16(1).	The Regional Bulk Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).
10	Utilisation of conditional grants	DoRa section 16(1).	The Water Services Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).
11	Consequence management	MFMA section 32(2)(b).	Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
12	Consequence management	MFMA section 32(2)(b).	Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
13	Consequence management	MFMA section 32(2)(b).	Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
14	Strategic planning and performance management	MSA section 43(2) and municipal planning and performance management regulation 10(a).	No KPI were set in respect of the provision of basic solid waste removal services, as required by section 43(2) of the MSA and municipal planning and performance management regulation 10(a).
15	Human resource management	MSA section 67(1)(d).	Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.