

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021



MAFUBE LOCAL MUNICIPALITY

(Registration number FS205)

**Audited Annual Financial Statements
for the year ended 30 June 2021**

* See Note

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

General Information

Mayoral committee

Executive Mayor

Speaker

Chief Whip

Councillors

Cllr. JE Sigasa

Cllr. MM Mofokeng

Cllr. FP Motloung

Cllr. WC Motloung

Cllr. JJ Hlongwane

Cllr. TJ Kotsi

Cllr. CU Jaffa

Cllr. LS Kubeka

Cllr. RP Mokuene

Cllr. MC Du Plessis

Cllr. PM Monaune

Cllr. AS Mosia

Cllr. J Oost

Cllr. TL Moloji

Cllr. PS Sikhosana

Cllr. M Mokoena

Cllr. NE Rakoloti

Accounting Officer

Mr LJ Ralebenya

Chief Finance Officer (CFO)

Mr A Makoae

Registered office

64 JJ Hadebe Street
Frankfort
Free State
9830

Postal address

PO Box 2
Frankfort
Free State
9830

Bankers

ABSA Bank Limited
FNB Bank Limited

Auditors

Auditor General - South Africa
Registered Auditors

Attorneys

Peyper Attorneys

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Index

The reports and statements set out below comprise the audited 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 - 18
Accounting Policies	19 - 41
Notes to the Audited Annual Financial Statements	42

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Responsibilities and Approval

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the municipality for continued funding of operations. The audited annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's audited annual financial statements. The audited annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The audited annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 12 April 2022 and were signed on its behalf by:

Mr LJ Ralebenya
Accounting officer

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Report

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

1. Review of activities

Main business and operations

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

Net deficit of the municipality was 67 337 157 (2020: deficit 100 081 576).

2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of 406 647 839 and that the municipality's total assets exceed its liabilities by 406 647 839.

The audited 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.

3. Subsequent events

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

4. Accounting Officer's interest in contracts

The Accounting Officer does not have an interest in contracts.

5. Accounting policies

The audited annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

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

Name

Mr LJ Ralebenya

7. Bankers

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

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

8. Auditors

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

9. Public Private Partnership

The Municipality entered into a Public Private Partnership with Rural Free State prior to the 2018/2019 financial year.

10. Non-compliance with applicable legislation

In terms of section 65 (2)(e) of the Municipal Finance 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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Report

In terms of section 126 (1)(a) of the Municipal Finance Act (No. 56 of 2003), the accounting officer of a municipality must prepare the annual financial statements within 2 months after the end of the financial year.

In terms of section 71 (1) of the Municipal Finance Act (No. 56 of 2003), the accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month. During the financial year, the municipality did not comply with the required legislation as reports were submitted late.

The audited annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 12 April 2022 and were signed on its behalf by:

Mr LJ Ralebenya
Accounting officer

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	8	828 555	1 113 361
Other financial assets	6	257 903	238 090
Receivables from exchange transactions	9&12	76 734 197	19 548 099
Receivables from non-exchange transactions	10&12	3 797 368	2 832 937
VAT receivable	11	84 575 710	81 530 239
Cash and cash equivalents	13	8 360 465	5 622 936
		174 554 198	110 885 662
Non-Current Assets			
Investment property	3	64 667 181	76 761 560
Property, plant and equipment	4	1 056 808 102	1 054 094 351
Heritage assets	5	35 758	35 758
Other financial assets	6	259 048	261 170
		1 121 770 089	1 131 152 839
Total Assets		1 296 324 287	1 242 038 501
Liabilities			
Current Liabilities			
Payables from exchange transactions	16	836 078 587	728 029 489
Consumer deposits	17	1 648 462	1 576 337
Employee benefit obligation	7	1 711 747	1 739 521
Unspent conditional grants and receipts	14	10 919 157	523 653
Provisions	15	1 386 045	1 057 760
		851 743 998	732 926 760
Non-Current Liabilities			
Employee benefit obligation	7	13 459 442	12 034 737
Provisions	15	24 473 008	23 092 009
		37 932 450	35 126 746
Total Liabilities		889 676 448	768 053 506
Net Assets		406 647 839	473 984 995
Accumulated surplus		406 647 839	473 984 995
Total Net Assets		406 647 839	473 984 995

* See Note 45

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	75 721 842	63 679 500
Rental of facilities and equipment	20	712 266	1 376 185
Other income	23	3 991 341	3 078 274
Interest received	24	31 744 839	39 292 181
Fair value adjustments		4 036 391	1 283 839
Total revenue from exchange transactions		116 206 679	108 709 979
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	36 900 846	20 640 556
Interest received - non exchange	22	3 977 350	4 090 420
Transfer revenue			
Government grants & subsidies	26	166 442 497	167 234 929
Public contributions and donations	27	21 368 949	1 501 351
Fines		155 350	64 700
Total revenue from non-exchange transactions		228 844 992	193 531 956
Total revenue	18	345 051 671	302 241 935
Expenditure			
Employee related costs	28	(102 177 937)	(99 972 451)
Remuneration of councillors	29	(6 344 007)	(6 084 634)
Depreciation and amortisation	30	(35 399 733)	(34 909 590)
Impairments	31	(31 453 377)	(22 206 296)
Finance costs	32	(52 926 970)	(51 878 649)
Lease rentals on operating lease	21	-	(1 234 596)
Debt Impairment	33	(75 932 681)	(107 254 949)
Bulk purchases	34	(30 753 013)	(31 926 097)
Loss on disposal of assets and liabilities		(1 682 565)	(103 111)
Actuarial losses		(1 486 969)	(637 531)
General Expenses	35	(74 231 576)	(46 115 607)
Total expenditure		(412 388 828)	(402 323 511)
Deficit for the year		(67 337 157)	(100 081 576)

* See Note 45

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2019	574 066 571	574 066 571
Changes in net assets		
Deficit for the year	(100 081 576)	(100 081 576)
Total changes	(100 081 576)	(100 081 576)
Restated* Balance at 01 July 2020	473 984 996	473 984 996
Changes in net assets		
Deficit for the year	(67 337 157)	(67 337 157)
Total changes	(67 337 157)	(67 337 157)
Balance at 30 June 2021	406 647 839	406 647 839
Note(s)		

* See Note 45

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Taxation		12 444 058	15 352 186
Sale of goods and services		5 926 586	3 483 376
Grants		176 838 000	167 485 023
Interest income		749 980	30 087
		195 958 624	186 350 672
Payments			
Employee costs		(108 611 983)	(105 242 603)
Suppliers		(47 164 917)	(26 731 214)
Finance costs		-	-
		(155 776 900)	(131 973 817)
Net cash flows from operating activities	39	40 181 724	54 376 855
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(37 426 502)	(53 149 000)
Proceeds from sale of financial assets		(17 691)	(13 422)
Net cash flows from investing activities		(37 444 193)	(53 162 422)
Net increase/(decrease) in cash and cash equivalents		2 737 531	1 214 433
Cash and cash equivalents at the beginning of the year		5 622 936	4 408 500
Cash and cash equivalents at the end of the year	13	8 360 467	5 622 933

* See Note 45

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	81 160 963	-	81 160 963	75 721 842	(5 439 121)	See comments below
Rental of facilities and equipment	167 223	-	167 223	712 266	545 043	See comments below
Other income	805 910	-	805 910	3 991 341	3 185 431	See comments below
Interest earned - external investments	226 078	-	226 078	749 980	523 902	See comments below
Interest earned - outstanding debtors	16 765 934	-	16 765 934	30 994 859	14 228 925	See comments below
Dividends received	3 174 249	-	3 174 249	-	(3 174 249)	See comments below
Total revenue from exchange transactions	102 300 357	-	102 300 357	112 170 288	9 869 931	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	33 522 178	-	33 522 178	36 900 846	3 378 668	See comments below
Interest, Dividends and Rent on Land	-	-	-	3 977 350	3 977 350	See comments below
Transfer revenue						
Government grants & subsidies	170 456 999	-	170 456 999	166 442 497	(4 014 502)	See comments below
Public contributions and donations	-	-	-	21 368 949	21 368 949	See comments below
Fines, Penalties and Forfeits	220 078	-	220 078	155 350	(64 728)	See comments below
Total revenue from non-exchange transactions	204 199 255	-	204 199 255	228 844 992	24 645 737	
Total revenue	306 499 612	-	306 499 612	341 015 280	34 515 668	
Expenditure						
Personnel	(104 793 565)	-	(104 793 565)	(102 177 937)	2 615 628	See comments below
Remuneration of councillors	(6 733 332)	-	(6 733 332)	(6 344 007)	389 325	See comments below
Depreciation and amortisation	57 703 449	(67 703 449)	(10 000 000)	(35 399 733)	(25 399 733)	See comments below
Impairment loss/ Reversal of impairments	-	-	-	(31 453 377)	(31 453 377)	See comments below
Finance costs	43 145 455	(53 145 455)	(10 000 000)	(52 926 970)	(42 926 970)	See comments below
Debt Impairment	(87 101 273)	73 700 243	(13 401 030)	(75 932 681)	(62 531 651)	See comments below

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Bulk purchases	42 073 315	(52 073 315)	(10 000 000)	(30 753 013)	(20 753 013)	See comments below
General Expenses	(77 165 020)	(8 130 000)	(85 295 020)	(74 231 576)	11 063 444	See comments below
Total expenditure	(132 870 971)	(107 351 976)	(240 222 947)	(409 219 294)	(168 996 347)	
Operating deficit	173 628 641	(107 351 976)	66 276 665	(68 204 014)	(134 480 679)	
Loss on disposal of assets and liabilities	-	-	-	(1 682 565)	(1 682 565)	See comments below
Fair value adjustments	-	-	-	4 036 391	4 036 391	See comments below
Actuarial gains/losses	-	-	-	(1 486 969)	(1 486 969)	See comments below
	-	-	-	866 857	866 857	
Deficit before taxation	173 628 641	(107 351 976)	66 276 665	(67 337 157)	(133 613 822)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	173 628 641	(107 351 976)	66 276 665	(67 337 157)	(133 613 822)	

Reconciliation

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	477 164	-	477 164	828 555	351 391	See comments below
Other financial assets	-	-	-	257 903	257 903	See comments below
Receivables from exchange transactions	5 283 210	-	5 283 210	76 734 197	71 450 987	See comments below
Receivables from non-exchange transactions	(195 521 281)	-	(195 521 281)	3 797 368	199 318 649	See comments below
VAT receivable	-	-	-	84 575 710	84 575 710	See comments below
Call investment deposits	4 280 914	-	4 280 914	7 745 291	3 464 377	See comments below
Cash and cash equivalents	1 931 810	-	1 931 810	615 174	(1 316 636)	See comments below
	(183 548 183)	-	(183 548 183)	174 554 198	358 102 381	
Non-Current Assets						
Investment property	76 875 883	-	76 875 883	64 667 181	(12 208 702)	See comments below
Property, plant and equipment	747 933 073	-	747 933 073	1 056 808 102	308 875 029	See comments below
Intangible assets	363 633	-	363 633	-	(363 633)	See comments below
Heritage assets	-	-	-	35 758	35 758	See comments below
Other financial assets	357 753	-	357 753	259 048	(98 705)	See comments below
	825 530 342	-	825 530 342	1 121 770 089	296 239 747	
Total Assets	641 982 159	-	641 982 159	1 296 324 287	654 342 128	
Liabilities						
Current Liabilities						
Payables from exchange transactions	539 440 714	-	539 440 714	836 078 590	296 637 876	See comments below
Consumer deposits	565 972	-	565 972	1 648 462	1 082 490	See comments below
Employee benefit obligation	-	-	-	1 711 747	1 711 747	See comments below
Unspent conditional grants and receipts	-	-	-	10 919 157	10 919 157	See comments below
Provisions	902 836	(902 836)	-	1 386 045	1 386 045	See comments below
	540 909 522	(902 836)	540 006 686	851 744 001	311 737 315	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	13 459 442	13 459 442	See comments below

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Provisions	24 615 911	-	24 615 911	24 473 008	(142 903)	See comments below
	24 615 911	-	24 615 911	37 932 450	13 316 539	
Total Liabilities	565 525 433	(902 836)	564 622 597	889 676 451	325 053 854	
Net Assets	76 456 726	902 836	77 359 562	406 647 836	329 288 274	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	76 456 726	902 836	77 359 562	406 647 836	329 288 274	See comments below

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Category	Reason					
Revenue						
Service Charges	An anticipation of new township establishments may have given rise to the projection as it would be assumed that the more township extensions we have, the more households we have, the more service charge revenue is generated.					
Rental of Facilities	Rental of halls is the main contributing item to this, the difference is due to an increase in the number of ceremonies held during that financial period as compared to initial budgeted figure as it was budgeted conservatively due to Covid pandemic Rental of halls is based on as and when basis, hence the municipality do not have much control on the number of people that hire the halls in the various towns.					
Other Income	This relates to revenue received from sources which are not within the control of the municipality. The increase was due to increase in connection fees, tender deposits and cemetery fees. All this revenue is not within the control of the municipality, thus it is normally advisable to keep the budget at a minimal. Additionally, municipality incorrectly budgeted for royalty income as dividends received, thus material difference identified.					
Interest earned- external investment	This amount relates to interest earned on short term investments. The amount was under budgeted as more interest was earned due to more grants received.					
Interest earned - outstanding debtors	Under-estimate of projections for interest on overdue debtors as it forms part of interest projections. The basis used for budgeting of interest earned on debtors was incorrect and this will be corrected in the following financial year. This was due to weak budgeting processes which will be rectified in the next financial year.					
Dividends received	Municipality incorrectly budgeted for royalties under Dividends received. Municipality does not have any dividends, thus the difference noted. This was due to weak budgeting processes which will be rectified in the next financial year.					
Property rates	Differences are attributed to the fact that more property rates have been billed as to a increase in properties billed in 2021 as compared to amount initially budgeted. The reason is a new valuation roll being implemented on 01 July 2020, thus inclusion of new properties and new property valuations.					
Interest, Dividends and rent on land	The budget department did not budget for this line item. The budget department incorrectly set up the budget, thus the line item was not budgeted for. This was due to weak budgeting processes which will be rectified in the next financial year.					
Government grants & Subsidies	Due to Covid 19, various adjustments were done to government grants that municipality was supposed to receive. Management did not accurately adjust the government grants in their adjustment budget to reflect all the changes, thus differences noted. There was also an unspent portion of the grand withheld the previous year which impacted the decrease in funds received					
Public contributions and donations	The line item was not budgeted for as no public contributions or donations were anticipated by the municipality. The amount disclosed were identified through the process of AFS preparation, thus the material difference identified. There was PPE infrastructure capitalised as funded by government and included as part of public contributions and donations.					

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Fines, Penalties and Forfeits						The projection made on this is mainly based on traffic fines, whose function has since been transferred to the Provincial Department. The estimate was made on the assumption that there is fund to be transferred from the magistrate court and are due for transfer to the municipality for the year under review. The amount budgeted was an estimate as the actual figure could not be determined.
Expenditure						
Personnel						"The following reasons attributed mainly to the decrease in personnel costs The salary for the Acting MM was paid by CoGTA, thus the budget included the salary of the Acting MM. Resignations, retirement of employees, end of contracts of employees The projections on the budget had accounted for vacant positions which were not filled during the financial year"
Remuneration of Councillors						The budget was based on a inflation increase in the remuneration of councillors, however, no increase was received, thus a saving in the actual remuneration of councillors.
Depreciation and amortization						The line item was under budgeted. Furthermore, depreciation is calculated at the end of the year and various corrections were made on PPE the past two financial years thus the under budget for the depreciation.
Finance costs						This is mainly due to the increasing Eskom debt, Rural Free State debt and Department of Water Affairs accounts and pension fund outstanding balances for example. The municipality is financially constraint and placed under administration and are not able to pay their creditors which impact interest on outstanding balances to be charged.
Debt impairment						The line item was under budgeted. The increase was mainly due to the debt written off which was accounted for during the preparation of AFS.
Impairment losses / Reversal of impairments						No provision was made in the budget for this line item as this occurred due to the chance in accounting policy on how investment property are valued and also significant impairments on PPE.
Bulk Purchases						The budget for bulk purchases was not in line with the actual spent. The budget was not correctly accounted for as it was under budgeted. This was due to weak budgeting processes which will be rectified in the next financial year.
General Expenses						The underspending is as a result of a portion of equitable which was withheld as the municipality used conditional grants to defray operating expenses, thus the municipality had less money to spend. Furthermore, the municipality implemented cost cutting measures during the year as the cash flow position of the municipality is still in a dire situation which resulted in an underspending for the year.
Operating Deficit						
Loss on disposal of assets and liabilities						No provision was made in the budget for this line item. This was due to weak budgeting processes which will be rectified in the next financial year.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts**Budget on Cash Basis**

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Fair value adjustments						No provision was made in the budget for this line item. This was due to weak budgeting processes which will be rectified in the next financial year.
Acturial gains/losses						No provision was made in the budget for this line item. This was due to weak budgeting processes which will be rectified in the next financial year.
Statement of Financial Position						
Current Assets						
Inventory						There were more stock on hand in comparison with the budgeted figure as less stock items used and water stock were appropriately accounted for
Other financial assets						The line item was not budgeted for. This was due to weak budgeting processes which will be rectified in the next financial year.
Call Investment Deposits						The main reason is the underspending of conditional Grants to ensure there is still funds to support the unspent portion as much as possible
Receivables from exchange transactions						The budget was not accurately set. Incorrect base for the budget was used, thus the material difference identified. This was due to weak budgeting processes which will be rectified in the next financial year.
Receivables from non exchange transactions						The budget was not accurately set. Incorrect base for the budget was used, thus the material difference identified. This was due to weak budgeting processes which will be rectified in the next financial year.
Vat Receivables						The budget was not accurately set. Incorrect base for the budget was used, thus the material difference identified. This was due to weak budgeting processes which will be rectified in the next financial year.
Cash and Cash Equivalents						The budget was not accurately set. Incorrect base for the budget was used, thus the material difference identified. This was due to weak budgeting processes which will be rectified in the next financial year.
Non-Current Assets						
Investment Property						The differences are attributed to restatements performed and the accounting policy of Investment property has been changed from cost model to fair value measurement, which was not taken into account in the adjustment budget, thus the difference noted.
Property, plant and equipment						The differences are attributed to various restatements performed on the asset registers as to the corrections made on PPE. A big contributing factor is the accounting treatment for the electricity network that was not included in the budget figure when the initial budget was performed, thus the material difference
Intangible assets						Intangible assets were incorrectly budgeted for. The budget department incorrectly budgeted for Intangible assets.
Other financial assets						The budget was not accurately set. Incorrect base for the budget was used, thus the material difference identified. This was also due to weak budget processes which will be rectified in the next following year.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Heritage Assets						No provision was made in the Annual budget for heritage. The line item was not budgeted for. This was an error from the budget department. This was due to weak budgeting processes which will be rectified in the next financial year.
Current Liabilities						
Payables from Exchange transactions						The budget was not accurately set. Incorrect base for the budget was used, the municipality is currently experiencing serious financial constraints and are not able to pay creditors impacting creditors to materially increase and significant amounts of interest charged. Furthermore, the municipality has been struggling with debt collection, thus were not able to settle their creditors.
Consumer deposits						Under-estimate in calculation for this line item in preparing the budget, this shall be investigated and rectified. This was due to weak budgeting processes which will be rectified in the next financial year.
Unspent conditional grants and receipts						The determination of unspent conditional grants is only performed at year end. The budget was based on the assumption that all funds will be spent by year end, thus no amount was budgeted for.
Employee Benefit obligation						Under-estimate in calculation for this line item in preparing the budget. As the valuation of the provision are only performed at year end, the budget movement was unknown during the budget process, thus no figure was budgeted for. Going forward, management will determine a base utilising the prior amounts.
Provisions						The budget was not accurately set. Incorrect base for the budget was used, thus the material difference identified. This was also due to weak budget processes which will be rectified in the next following year.
Non-Current Liabilities						
Employee benefit obligation						Under-estimate in calculation for this line item in preparing the budget. As the valuation of the provision are only performed at year end, the budget movement was unknown during the budget process, thus no figure was budgeted for. Going forward, management will determine a base utilising the prior amounts.
Provisions						The budget was not accurately set. Incorrect base for the budget was used, thus the material difference identified. This was due to weak budgeting processes which will be rectified in the next financial year.
Accumulated surplus						Accumulated surplus is only performed at year end, thus the movement was unknown during the budget process. Furthermore, the material difference is as a result of material incorrect budgeted figures contained in the budget of the municipality.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

Figures in Rand	Note(s)	2021	2020
-----------------	---------	------	------

1. Presentation of Audited Annual Financial Statements

The audited 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 audited 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.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Significant judgements and sources of estimation uncertainty

In preparing the audited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the audited 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 audited annual financial statements. Significant judgements include:

Trade receivables

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

The impairment for trade receivables is calculated on a payment rate basis per consumer. The payment rate is calculated on the total payments received per consumer in the current year, and then divided by the total revenue billed per consumer for the current year. The percentage is then converted to a non payment ratio. The non payment ratio is then multiplied with the consumers total outstanding balance. The movement between a consumers yearly impairment balance are accounted through profit and loss in the statement of financial performance.

Allowance for slow moving, damaged and obsolete stock

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

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

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 (such as trading and available-for-sale securities) 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.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of Property, Plant and Equipment and Investment Properties

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and Investment properties. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives. In the event that a depreciating asset is nearing the end of its useful life, the availability of budget to replace the asset is considered. If the asset is not budgeted to be replaced, the useful life is extended by one year. Depreciation is adjusted going forward.

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.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Effective interest rate

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

Allowance for doubtful debts

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

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.5 Investment property (continued)

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

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

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

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

Fair value

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

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

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

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

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

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.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

- Property intended for sale in the ordinary course of operations or in the process of construction or development from such sale;
- Property being constructed or developed on behalf of third parties;
- Owner occupied property, including among other things property held for future use as owner occupied property, property held for future developments and subsequent use as owner occupied property, property occupied by employees such as housing personnel (whether or not the employees pay rent at market rates) and owner occupied property awaiting disposal;
- Property that is being constructed for future use as investment property;
- Property that is leased to another entity as investment property;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.5 Investment property (continued)

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the audited annual financial statements (see note 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the audited annual financial statements (see note 4).

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies**1.6 Property, plant and equipment (continued)**

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

Item	Depreciation method	Average useful life
Buildings	Straight-line	15 to 50 years
Community Assets - Buildings and other assets	Straight-line	15 to 50 years
Plant and machinery	Straight-line	5 to 10 years
Furniture and fixtures	Straight-line	5 to 10 years
Motor vehicles	Straight-line	5 to 10 years
Office equipment	Straight-line	5 to 10 years
IT equipment	Straight-line	5 to 10 years
Landfill sites	Straight-line	20 to 35 years
Roads network	Straight-line	20 to 50 years
Wastewater network	Straight-line	15 to 50 years
Water network	Straight-line	15 to 80 years
Electricity Network	Straight-line	15 to 50 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.

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 4).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 4).

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

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 a 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 audited 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.

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.8 Heritage assets (continued)

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.

Receivables are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

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.

Residual interests that do not have a quoted market price in an active market, and the fair value of which cannot be reliably 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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Financial instruments (continued)

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 shortterm 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.

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 amortised cost

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 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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.10 Leases (continued)

Finance leases - lessee

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

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

1.11 Inventories

Inventory consist of raw materials, work in progress, consumables and finished goods, 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.

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

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.11 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.

1.12 Impairment of 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 amount of the individual asset.

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

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its 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 estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable 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.

An impairment of assets carried at revalued amount reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

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 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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.12 Impairment of 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.

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 commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

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 project 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.

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

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

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.

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

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

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.

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.14 Employee benefits (continued)

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 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.

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.

Post retirement Health Care Benefits

The Municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the Municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the Municipality is liable for a certain portion of the medical aid membership fee.

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 present value of 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 annually by independent qualified actuaries.

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.

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

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.

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.17 Revenue (continued)

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.

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.17 Revenue (continued)

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 older than three (3) years are recognised as revenue.

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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

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

Recognition

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

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

Measurement

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

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

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

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

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Transfers and subsidies

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.

Fines

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.

Services in-kind

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.

1.19 Turnover

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

1.20 Investment income

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

1.21 Borrowing costs

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

1.22 Accounting by principals and agents

Identification

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.22 Accounting by principals and agents (continued)

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Assessing which entity benefits from the transactions with third parties

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

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

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

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

Recognition

The municipality, as 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.

1.23 Comparative figures

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

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.24 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.

1.25 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.

1.26 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.

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 programme/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.

1.27 Budget information

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

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

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

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

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.27 Budget information (continued)

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

The audited 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 audited annual financial statements as the recommended disclosure when the audited annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

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.

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

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

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

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:
<ul style="list-style-type: none"> GRAP 110 (as amended 2016): Living and Non-living Resources 	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none"> Directive 7 (revised): The Application of Deemed Cost 	01 April 2020	Unlikely there will be a material impact

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> GRAP 104 (amended): Financial Instruments 	01 April 2025	Unlikely there will be a material impact
<ul style="list-style-type: none"> GRAP 2020: Improvements to the standards of GRAP 2020 	01 April 2023	Unlikely there will be a material impact
<ul style="list-style-type: none"> GRAP 1 (amended): Presentation of Financial Statements 	01 April 2023	Unlikely there will be a material impact

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

3. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	304 853 000	(240 185 819)	64 667 181	301 757 131	(224 995 571)	76 761 560

Reconciliation of investment property - 2021

	Opening balance	Disposals	Impairments	Fair value adjustments	Total
Investment property	76 761 560	(356 274)	(15 190 248)	3 452 143	64 667 181

Reconciliation of investment property - 2020

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	75 580 832	(103 111)	1 283 839	76 761 560

Pledged as security

None of the Investment properties has been pledged as security.

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

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

3. Investment property (continued)**Details of valuation**

The accounting method for the disclosure of investment properties within the Municipalities annual financial statements has changed from the Cost method to the Fair Value model, thus a restatement is applied.

As this method was applied at year end 2021, it was reperformed retrospectively from 2019 for purpose of financial statement reporting.

However, the method of accounting changed, the date of impairment which were disclosed in the previous financial years did not change apart from the costing method.

When valuing real estate, the Valuer must concern himself with placing a value on the rights attaching to the property and the benefits of occupation and/or ownership thereof. In the valuation process, cognisance must be taken of the purpose for which the property is capable of being used and the future income or amenities, which it is likely to produce. At the same time, however, the property must be compared with available substitutes and/or alternative investment opportunities. The object of the valuation process, therefore, is to arrive at a figure which will reflect the point of equilibrium between supply and effective demand at the time of valuing the property.

Investment properties comprise residential and commercial properties that are rented out, as well as vacant land held for a currently undetermined use.

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal. The municipality applies the Fair Value model to value and measure investment properties.

The fair value of investment property was calculated as follows:

2021

"As recommend by GRAP 16.45 An entity is encouraged, but not required, to determine the fair value of investment property based on a valuation by a valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued."

The approved valuation roll was used as the municipality appointed a professional valuator to conduct the general valuation roll updated in 2021.

All SG parcels were considered, and after ownership was tested and applied, the rate was assigned to determine the 2021 fair value for each property.

2020

As the house price indices is available and published, the municipality opted to rely on the FNB Economic report on house prices.

This report is performed by an Economist with qualified statistitions. The information can therefore be deemed reliable as the necessary qualifications and experience is presented to achieve a fair value (market) growth rate.

The fair value for each investment property was adjusted according to the factor as per the FNB barometer in the link below:

PropertyBarometerOctober.pdf (fnb.co.za)

The HPI (house price indices) for 2020 had a growth of 1.7%.

2019

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

3. Investment property (continued)

As the house price indices is available and published, the municipality opted to rely on the FNB Economic report on house prices.

This report is performed by an Economist with qualified statisticians. The information can therefore be deemed reliable as the necessary qualifications and experience is presented to achieve a fair value (market) growth rate.

The fair value for each investment property was adjusted according to the factor as per the FNB barometer in the link below:

[PropertyBarometerOctober.pdf \(fnb.co.za\)](#)

The HPI (house price indices) for 2019 had a growth of 3.5%.

2018 - 2008

As the house price indices is available and published, the municipality opted to rely on the FNB Economic report on house prices.

This report is performed by an Economist with qualified statisticians. The information can therefore be deemed reliable as the necessary qualifications and experience is presented to achieve a fair value (market) growth rate.

The fair value for each investment property was adjusted according to the factor as per the FNB barometer in the link below:

[PropertyBarometerOctober.pdf \(fnb.co.za\)](#)

Where required the following percentages were applied per year to determine adjustments over the said period if required

2008 (-2.9)

2009 (-1.8)

2010 (5.5)

2011 (2.8)

2012 (4.7)

2013 (3.6)

2014 (8.3)

2015 (6.4)

2016 (5.8)

2017 (4.1)

2018 (3.8)

Impairment

In 2018 properties where control was deemed to be lost in terms of IGRAP 18 was impaired.

The municipality inspected each property to determine if the property is vacant as per the initial assumption of the valuator or is now occupied. In 2018 total R 225 056 482.36 properties was impaired as control could not be confirmed. The fact that control is lost does not constitute in a disposal of the property, as the correct legal process was not followed.

Until the legal process has been formalised, these properties will be accounted for but impaired.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

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

3. Investment property (continued)

A reversal of impairment to the value of R 60 911.21 was applied for impairment in 2018 for property formally sold as per the sales contract.

No Fair value adjustment was applied to impaired properties

An additional R 15 190 248.00 impairment was applied in 2021 after an inspection was conducted and properties were found to be illegally occupied

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	138 326 282	-	138 326 282	138 326 282	-	138 326 282
Buildings	115 425 991	(46 816 953)	68 609 038	107 072 556	(42 634 787)	64 437 769
Plant and machinery	2 382 351	(1 778 072)	604 279	2 159 936	(1 619 852)	540 084
Motor vehicles	25 131 074	(16 976 309)	8 154 765	18 191 603	(16 672 507)	1 519 096
Office equipment	1 647 115	(1 365 776)	281 339	1 618 528	(1 277 868)	340 660
IT equipment	1 651 715	(1 191 562)	460 153	1 340 276	(1 110 914)	229 362
Infrastructure - Road network	189 194 232	(84 035 738)	105 158 494	188 555 212	(78 290 859)	110 264 353
Community	73 796 558	(38 364 050)	35 432 508	73 796 558	(36 080 147)	37 716 411
Infrastructure - Electricity network	191 432 552	(79 324 409)	112 108 143	181 536 581	(71 347 449)	110 189 132
Landfill site asset	20 356 591	(5 354 415)	15 002 176	20 033 353	(4 192 354)	15 840 999
Wastewater network	583 098 228	(185 075 629)	398 022 599	578 052 275	(164 067 626)	413 984 649
Water network	197 714 823	(49 071 453)	148 643 370	160 948 906	(40 397 110)	120 551 796
Work in Progress	26 004 956	-	26 004 956	40 153 758	-	40 153 758
Total	1 566 162 468	(509 354 366)	1 056 808 102	1 511 785 824	(457 691 473)	1 054 094 351

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)**Reconciliation of property, plant and equipment - 2021**

	Opening balance	Additions	Disposals	Transfers received	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	138 326 282	-	-	-	-	-	-	-	138 326 282
Buildings	64 437 769	7 221 478	-	1 131 956	-	(2 345 573)	(2 124 957)	288 365	68 609 038
Plant and machinery	540 084	298 915	(76 500)	-	-	(113 909)	(66 463)	22 152	604 279
Motor vehicles	1 519 096	6 939 471	-	-	-	(551 543)	(130 312)	378 053	8 154 765
Office equipment	340 660	28 587	-	-	-	(94 928)	(5 215)	12 235	281 339
IT equipment	229 362	311 439	-	-	-	(73 652)	(23 533)	16 537	460 153
Infrastructure - Road network	110 264 353	1 304 564	(665 544)	-	-	(6 321 858)	(155 026)	732 005	105 158 494
Community	37 716 411	-	-	-	-	(1 965 709)	(1 463 968)	1 145 774	35 432 508
Infrastructure - Electricity network	110 189 132	6 313 657	-	3 582 314	-	(6 437 400)	(1 735 004)	195 444	112 108 143
Landfill site asset	15 840 999	-	-	-	323 237	(1 162 060)	-	-	15 002 176
Wastewater network	413 984 649	3 757 095	-	1 288 858	-	(12 304 547)	(10 531 217)	1 827 761	398 022 599
Water network	120 551 796	2 166 192	-	34 599 694	-	(4 028 554)	(4 921 558)	275 800	148 643 370
Work in progress	40 153 758	26 454 020	-	(40 602 822)	-	-	-	-	26 004 956
	1 054 094 351	54 795 418	(742 044)	-	323 237	(35 399 733)	(21 157 253)	4 894 126	1 056 808 102

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)**Reconciliation of property, plant and equipment - 2020**

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	138 326 282	-	-	-	-	-	-	138 326 282
Buildings	67 854 859	-	-	-	(2 245 849)	(2 124 627)	953 386	64 437 769
Plant and machinery	312 351	373 900	-	-	(83 413)	(66 076)	3 322	540 084
Motor vehicles	1 948 306	288 195	-	-	(491 048)	(252 658)	26 301	1 519 096
Office equipment	426 480	14 780	-	-	(105 259)	(860)	5 519	340 660
IT equipment	237 088	59 116	-	-	(71 883)	(4 610)	9 651	229 362
Infrastructure - Roads network	113 131 384	3 839 097	-	-	(6 840 785)	(78 770)	213 427	110 264 353
Community	40 852 251	-	-	-	(2 183 979)	(1 040 797)	88 936	37 716 411
Infrastructure - Electricity network	112 881 557	978 560	4 286 583	-	(6 109 616)	(1 965 027)	117 075	110 189 132
Landfill site asset	16 535 539	-	-	441 941	(1 136 481)	-	-	15 840 999
Wastewater network	443 779 777	89 830	-	-	(12 237 961)	(17 647 419)	422	413 984 649
Water network	124 378 303	20 300	-	-	(3 403 316)	(814 453)	370 962	120 551 796
Work in progress	10 440 460	34 706 908	(4 993 610)	-	-	-	-	40 153 758
	1 071 104 637	40 370 686	(707 027)	441 941	(34 909 590)	(23 995 297)	1 789 001	1 054 094 351

Pledged as security

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

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

4. Property, plant and equipment (continued)**Details of valuation**

The accounting method for PPE land is at Cost of each land portion.

All SG parcels were considered, and after ownership was tested and applied.

All municipal owned land occupied by municipal buildings accounted for on the building register and other immovable infrastructure accounted for in the respective infrastructure registers is considered as land.

The approved valuation roll was used as the municipality appointed a professional valuator to conduct the general valuation roll updated in 2021 to determine the cost of vacant land.

A calculated cost per square meter for vacant land per major code area in the municipal borders was obtained and applied to the area of each SG parcel identified as PPE Land.

Land is however restated due to additional land portions identified which was not previously accounted for, as well as a more accurate cost estimation method applied to derive the 2008 DRC for accounting of land as per below:

The calculated value for each land portion in 2021 was adjusted according to the factor as per the FNB barometer in the link below:

[PropertyBarometerOctober.pdf \(fnb.co.za\)](#)

Where required the following percentages were applied per year to determine adjustments over the said period if required

2008 (-2.9)

2009 (-1.8)

2010 (5.5)

2011 (2.8)

2012 (4.7)

2013 (3.6)

2014 (8.3)

2015 (6.4)

2016 (5.8)

2017 (4.1)

2018 (3.8)

2019 (3.5)

2020 (1.7).

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

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

4. Property, plant and equipment (continued)**Reconciliation of Work-in-Progress 2021**

	Included within Infrastructure	Total
Opening balance	40 153 758	40 153 758
Additions/capital expenditure	26 537 468	26 537 468
Transferred to completed items	(40 602 822)	(40 602 822)
	26 088 404	26 088 404

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Total
Opening balance	10 440 460	10 440 460
Additions/capital expenditure	34 706 908	34 706 908
Transferred to completed items	(4 993 610)	(4 993 610)
	40 153 758	40 153 758

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**

Infrastructure - Roads network	24 700	-
Infrastructure - Wastewater network	2 261 121	476 899
Infrastructure - Water network	8 555 822	332 931
General Repairs and maintenance	119 832	496 083
Infrastructure - Electricity network	422 082	1 422 089
Buildings	-	254 349
Motor vehicles	467 461	-
	11 851 018	2 982 351

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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

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

4. Property, plant and equipment (continued)**Service concession arrangements****Service concession arrangement and asset****The overall objective and purpose of the service concession arrangement**

On 2012/02/01 the entity entered into a service concession agreement with Rural Maintenance (PTY) Ltd. The overall objective and purpose of the service concession arrangement is the management and operations of the municipal electricity network for a period of 25 years. During this period Rural Maintenance (PTY) Ltd will be responsible for management, operations, administration, maintenance and expansion of the network. Inclusive of Revenue management process as well as the implementation of a regional electrification programme, and to regulate matters pertaining to the project.

The nature and extent of the service concession arrangement are as follows:

All equipment, and expansion of network assets will remain the property of Rural Maintenance (PTY) Ltd for the duration of the agreement.

Rural Maintenance (PTY) Ltd shall be entitled to collect, directly from the consumers all monies due in respect of:

- Services rendered
- Late payments
- Payments in arrears
- Disconnection and reconnection fees
- Penalties and fines
- any other pertinent amounts

Rural Maintenance (PTY) Ltd shall submit a tariff application for a rates review to NERSA on an annual basis for its consideration and approval. Once approved tariff increases shall be implemented

The Royalties will be calculated are 3 cent per kilowatt / hours of all electricity provided by the bulk supplier or generated through Rural's generation plant and metered at the grid connection point and sold through the network to the consumers in respect of the month in question.

The Royalties will be calculated on the total kilowatt / hours consumed, less 12.5% as stated on the monthly bulk supply accounts.

Royalties revenue received by the municipality is disclosed in note 18.

Changes in the service concession arrangement that occurred during the reporting period

No changes to the arrangement were made during the current or previous financial periods, but minor administrative matters are constantly being addressed.

Contract breach by either party during the reporting period and the impact thereof for the entity as grantor

During the reporting period, there were no contract breaches by either party.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

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

4. Property, plant and equipment (continued)**Service Concession Assets**

Included in the total for Property, Plant and Equipment are assets that are separately attributable to the service concession arrangement between the municipality and Rural Maintenance (PTY) Ltd which has assumed the responsibility for the electricity distribution on behalf of the municipality.

The carrying values of these assets are disclosed below:

Reconciliation of Carrying Amounts of Service Concession Assets

Opening Balance (Carrying Value)	126 708 356	130 166 878
Additions	6 313 657	5 265 143
Depreciation	(7 201 403)	(6 875 711)
Impairment of assets	(1 539 561)	(1 847 954)
Total Carrying Amounts of Service Concession Assets	124 281 049	126 708 356

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

5. Heritage assets

	2021			2020		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Other - Jewels	35 758	-	35 758	35 758	-	35 758

Reconciliation of heritage assets 2021

	Opening balance	Total
Other - Jewels	35 758	35 758

Reconciliation of heritage assets 2020

	Opening balance	Total
Other - Jewels	35 758	35 758

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
6. Other financial assets		
At amortised cost		
VKB Agriculture Limited - Member Funds Terms and conditions	259 048	261 170
VKB Agriculture Limited - Membership Terms and conditions	84 335	84 335
VKB Agriculture Limited - Security member loan Terms and conditions	64 128	51 340
VKB Agriculture Limited - Short term member loan Terms and conditions	109 440	102 415
	516 951	499 260
Non-current assets		
At amortised cost	259 048	261 170
Current assets		
At amortised cost	257 903	238 090

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

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 2021.

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 2021	30 June 2020
Discount Rate (D)	8.20 %	9.40 %
Consumer price inflation (CPI)	4.60 %	4.30 %
Health care cost inflation (H = 1.50% + CPI)	6.10 %	5.80 %
Maximum Subsidy Cap Increase (MSC = (1.00% + CPI)*75%)	6.10 %	5.80 %

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 for setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2019 the duration of liabilities was 7.99 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2020 is 9.40% per annum, and the yield on the inflation-linked bonds of a similar term was about 4.46% per annum, implying an underlying expectation of inflation of 4.25% per annum $([1 + 9.40\% - 0.5\%] / [1 + 4.46\%] - 1)$.

A health care cost inflation rate of 5.75% was assumed. This is 1.50% in excess of the expected inflation over the expected term of the liability, consistent with the previous actuary.

However, it is the relative levels of the discount rate and health care inflation to one another that is important, rather than the nominal values. We have thus assumed a net discount factor of 3.45% per annum $([1 + 9.40\%] / [1 + 5.75\%] - 1)$. This year's valuation basis is, therefore, stronger than previous year's basis from a discount rate perspective.

DEMOGRAPHIC AND DECREMENT ASSUMPTIONS

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

Assumption	Active employees	Pensioners
Normal retirement age	65	
Age difference between spouses	4 years	4 years
Mortality	SA85-90 (Normal)	PA (90)-2

POST EMPLOYMENT MEDICAL SUBSIDY:

The employer's post-employment health care liability consists of a commitment to pay a portion of the pensioners' postemployment 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.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

7. Employee benefit obligations (continued)

Mafube is committed to paying subsidies broadly as follows:

- For staff employed and aged at least 55 years and at least 50 years, as at 1 July 2003, 60% and 50%, respectively, in postemployment for currently employed staff.
- Widow(er)s and orphans of current continuation pensioners are entitled to continue subsidy, at the same rate applicable to the principal pensioner, upon the death of the principal pensioner.

It is important to note that the subsidy percentages were supplied to us by Mafube and are not verifiable. Should the subsidy percentages be confirmed and differ to the above our results may need to be adjusted.

Long service award liability

Mafube offers bonuses for every 5 years of completed service from 5 years to 45 years. Below we outline the benefits awarded to qualifying employees.

Completed Service (in years)	Long Service Bonus Awards	Determination of cash bonus
5	5 days accumulative leave + 2% of annual salary	$(5 / 250 + 2\%) \times \text{annual earnings}$
10	10 days accumulative leave + 3% of annual salary	$(10 / 250 + 3\%) \times \text{annual earnings}$
15	15 days accumulative leave + 4% of annual salary	$(15 / 250 + 4\%) \times \text{annual earnings}$
20	15 days accumulative leave + 5% of annual salary	$(15 / 250 + 5\%) \times \text{annual earnings}$
25, 30, 35, 40, 45	15 days accumulative leave + 6% of annual salary	$(15 / 250 + 6\%) \times \text{annual earnings}$

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. Mafube advised that in most cases, employees choose to exercise the option to wholly convert their accumulative leave bonus days into cash.

-The portion of the bonus that is a percentage of annual salary is awarded within the month following the employee attaining the qualifying completed years of service.

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 2021	30 June 2020
Discount Rate	9.20 %	8.20 %
CPI	4.30 %	3.20 %
Salary increase rate	5.30 %	4.16 %
Net discount rate	3.68 %	3.88 %

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 for setting the financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2019 the duration of liabilities was 6.27 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2020 is 8.20% per annum, and the yield on inflation-linked bonds of a similar term was about 4.40% per annum. This implies an underlying expectation of inflation of 3.16% per annum $([1 + 8.20\% - 0.5\%] / [1 + 4.40\%] - 1)$.

We have assumed that salary inflation would exceed general inflation by 1.0% per annum, i.e. 4.16% per annum.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

7. Employee benefit obligations (continued)

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 3.88% per annum $([1 + 8.20\%] / [1 + 4.16\%] - 1)$.

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
Assumed retirement age (years)*	65	65
Mortality	SA85-90	SA85-90

WITHDRAWAL TABLE

The following withdrawal assumptions were applicable over the valuation periods:

Assumption	Withdrawal rates (Male)	Withdrawal rates (Female)
20	13.30 %	13.30 %
25	13.30 %	13.30 %
30	10.90 %	10.90 %
35	8.20 %	8.20 %
40	5.80 %	5.80 %
45	4.10 %	4.10 %
50	2.90 %	2.90 %
55+	- %	- %

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	(7 998 709)	(7 740 719)
Present value of the defined benefit obligation - Long service awards	(7 172 480)	(6 033 539)
	(15 171 189)	(13 774 258)
Non-current liabilities	(13 459 442)	(12 034 737)
Current liabilities	(1 711 747)	(1 739 521)
	(15 171 189)	(13 774 258)

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

Opening balance	(13 774 258)	(12 635 042)
Actuarial gains	(1 475 804)	(637 531)
Net expense recognised in the statement of financial performance	78 873	(501 685)
	(15 171 189)	(13 774 258)

Net expense recognised in the statement of financial performance

Current service cost	(570 103)	(527 204)
Interest cost	(1 252 968)	(1 025 100)
Benefits paid	1 901 944	1 050 619
	78 873	(501 685)

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand 2021 2020

7. Employee benefit obligations (continued)

Calculation of actuarial gains and losses

Actuarial (gains) losses – Long service awards	(1 127 776)	50 721
Actuarial (gains) losses – Post employment benefit plan	(348 028)	(688 252)
	(1 475 804)	(637 531)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used (PEMA)	9.20 %	9.40 %
Discount rates used (LSA)	9.20 %	8.20 %
Salary increase rate (LSA)	5.30 %	4.16 %
Health care cost inflation rate (PEMA)	6.10 %	5.80 %
Net Discount Rate (LSA)	3.68 %	3.88 %
Net Discount Rate (PEMA)	2.00 %	3.50 %

PEMA Liability Reconciliation:

Opening Accrued Liability	(7 740 719)	(7 146 336)
-Current-service Cost	-	-
-Interest Cost	733 853	595 159
-Contributions (benefits paid)	(823 891)	(689 028)
Total Annual Expense	90 038	93 869
-Actuarial Loss / (Gain)	348 028	688 252
Closing Accrued Liability	(7 998 709)	(7 740 719)

LSA Liability Reconciliation:

Opening Accrued Liability	(6 033 539)	(5 488 706)
-Current-service Cost	570 103	527 204
-Interest Cost	519 115	429 941
-Contributions (benefits paid)	(1 078 053)	(361 591)
Total Annual Expense	(11 165)	(595 554)
-Actuarial Loss / (Gain)	1 127 776	(50 721)
Closing Accrued Liability	(7 172 480)	(6 033 539)

8. Inventories

Consumable stores	759 009	1 055 253
Water for distribution	69 546	58 108
	828 555	1 113 361

Water for distribution

Opening balance	58 108	39 391
System input volume	11 438	18 717
Closing balance	69 546	58 108

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
9. Receivables from exchange transactions		
Other receivables - Overpayment of Salaries	4 320 330	4 320 330
Other receivable - Rural Maintenance	4 631 689	4 631 689
Other debtors #1	27 708	15 106
Consumer debtors - Electricity	392 160	170 238
Consumer debtors - Water	34 432 864	6 890 256
Consumer debtors - Sewerage	19 297 696	1 963 474
Consumer debtors - Refuse	11 340 454	1 166 644
Consumer debtors - Other	2 291 296	390 362
	76 734 197	19 548 099

Fair value of trade and other receivables

Trade and other receivables	76 734 197	19 548 099
-----------------------------	------------	------------

Trade and other receivables impaired

As of 30 June 2021, trade and other receivables of (27 869 444) (2020: (111 172 991)) were impaired and provided for.

The amount of the provision was (590 362 227) as of 30 June 2021 (2020: (618 231 672)).

The impairment allowance was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

The allowance for impairment on trade and other receivables exists predominantly due to the possibility that these debts will not be recovered.

The average credit period for receivables from exchange transactions is 30 days. No interest is charged on receivables for the first 30 days from the date of the invoice. Thereafter interest is charged at prime plus 1 % per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of receivables from exchange transactions.

No receivables from exchange transactions were pledged as security.

10. Receivables from non-exchange transactions

Consumer debtors - Rates	3 797 368	2 832 937
--------------------------	-----------	-----------

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	3 797 368	2 832 937
--	-----------	-----------

Receivables from non-exchange transactions impaired

As of 30 June 2021, other receivables from non-exchange transactions of (27 469 708) (2020: (13 282 345)) were impaired and provided for.

The amount of the provision was (84 623 665) as of 30 June 2021 (2020: (57 153 957)).

The impairment allowance was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

The allowance for impairment on receivables from non-exchange transactions exists predominantly due to the possibility that these debts will not be recovered.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
10. Receivables from non-exchange transactions (continued)		
<p>The average credit period for receivables from non-exchange transactions is 30 days. No interest is charged on receivables for the first 30 days from the date of the invoice. Thereafter interest is charged at prime plus 1 % per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of receivables from non-exchange transactions.</p> <p>No receivables from non-exchange transactions were pledged as security.</p>		
11. VAT receivable		
VAT	84 575 710	81 530 239

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
12. Consumer debtors disclosure		
Gross balances		
Consumer debtors - Rates	88 421 034	59 986 894
Consumer debtors - Electricity	6 083 136	5 963 437
Consumer debtors - Water	309 303 653	277 823 189
Consumer debtors - Sewerage	202 778 137	186 035 336
Consumer debtors - Refuse	124 472 358	145 519 288
Consumer debtors - Other	15 479 414	13 471 396
	746 537 732	688 799 540
Less: Allowance for impairment		
Consumer debtors - Rates	(84 623 666)	(57 153 957)
Consumer debtors - Electricity	(5 690 976)	(5 793 199)
Consumer debtors - Water	(274 870 789)	(270 932 933)
Consumer debtors - Sewerage	(183 480 441)	(184 071 862)
Consumer debtors - Refuse	(113 131 904)	(144 352 644)
Consumer debtors - Other	(13 188 118)	(13 081 034)
	(674 985 894)	(675 385 629)
Net balance		
Consumer debtors - Rates	3 797 368	2 832 937
Consumer debtors - Electricity	392 160	170 238
Consumer debtors - Water	34 432 864	6 890 256
Consumer debtors - Sewerage	19 297 696	1 963 474
Consumer debtors - Refuse	11 340 454	1 166 644
Consumer debtors - Other	2 291 296	390 362
	71 551 838	13 413 911
Included in above is receivables from exchange transactions		
Electricity	392 160	170 238
Water	34 432 864	6 890 256
Sewerage	19 297 696	1 963 474
Refuse	11 340 454	1 166 644
Other	2 291 296	390 362
	67 754 470	10 580 974
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	3 797 368	2 832 937
	71 551 838	13 413 911
Rates		
Current (0 -30 days)	3 254 185	1 923 272
31 - 60 days	2 984 517	1 563 720
61 - 90 days	2 829 856	1 528 171
91 - 120 days	2 931 449	1 671 721
121+ days	76 421 026	53 300 010
Impairment for bad debts	(84 623 665)	(57 153 957)
	3 797 368	2 832 937

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
12. Consumer debtors disclosure (continued)		
Electricity		
Current (0 -30 days)	21 100	36 639
31 - 60 days	17 949	22 410
61 - 90 days	24 617	22 410
91 - 120 days	15 646	27 153
121+ days	6 003 825	5 854 825
Impairment for bad debts	(5 690 977)	(5 793 199)
	392 160	170 238
Water		
Current (0 -30 days)	6 172 398	5 256 408
31 - 60 days	10 138 482	4 640 354
61 - 90 days	15 749 908	4 633 243
91 - 120 days	4 600 951	4 843 335
121+ days	272 641 914	258 449 849
Impairment for bad debts	(274 870 789)	(270 932 933)
	34 432 864	6 890 256
Sewerage		
Current (0 -30 days)	3 061 231	2 930 108
31 - 60 days	3 011 159	2 898 626
61 - 90 days	2 978 657	2 951 252
91 - 120 days	2 957 854	2 926 662
121+ days	190 769 235	174 328 688
Impairment for bad debts	(183 480 440)	(184 071 862)
	19 297 696	1 963 474
Refuse		
Current (0 -30 days)	2 121 402	2 177 079
31 - 60 days	2 087 787	2 158 909
61 - 90 days	2 080 134	2 198 010
91 - 120 days	2 051 707	2 177 999
121+ days	116 131 328	136 807 291
Impairment for bad debts	(113 131 904)	(144 352 644)
	11 340 454	1 166 644
Other		
Current (0 -30 days)	225 668	475 451
31 - 60 days	221 000	196 870
61 - 90 days	217 407	197 201
91 - 120 days	388 493	289 841
121+ days	14 426 846	12 312 033
Impairment for bad debts	(13 188 118)	(13 081 034)
	2 291 296	390 362
Reconciliation of allowance for impairment		
Balance at beginning of the year	(675 385 629)	(555 850 343)
Contributions to allowance	399 735	(119 535 286)
	(674 985 894)	(675 385 629)

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

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

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	615 174	514 756
Short-term deposits	7 745 291	5 108 180
	8 360 465	5 622 936

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	615 174	514 756
------	---------	---------

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
ABSA Bank - Call Account - 9090111270	251	251	3 279	251	251	3 279
ABSA - Call Account - 9229618782	35 511	434	2 074	35 511	434	2 074
ABSA Bank - Call Account - 9232387538	611	611	1 225 252	611	611	1 225 252
ABSA Bank - Cheque Account - 4052823517	416 633	384 157	263 178	416 633	384 157	263 178
First National Bank - Cheque Account - 62817361679	198 542	130 599	-	198 542	130 599	-
First National Bank - Call Account - 62817394901	5 632 972	5 106 727	-	5 632 972	5 106 727	-
First National Bank - Call Account - 62850214778	2 075 790	-	-	2 075 790	-	-
ABSA Bank - Fixed Deposit Account - 2066919592	157	157	157	157	157	157
Total	8 360 467	5 622 936	1 493 940	8 360 467	5 622 936	1 493 940

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
14. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Local Government Financial Management Grant (FMG)	16	-
Integrated National Electrification Programme (5B)	5 420 079	523 653
Water Services Infrastructure Grant (Direct)	5 499 062	-
	10 919 157	523 653
Movement during the year		
Balance at the beginning of the year	523 653	273 557
Additions during the year	56 276 000	47 771 000
Income recognition during the year	(45 880 496)	(47 520 904)
	10 919 157	523 653

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

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

See note 26 for reconciliation of grants from National/Provincial Government.

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

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

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

15. Provisions**Reconciliation of provisions - 2021**

	Opening Balance	Change in provision	Finance Cost	Total
Environmental rehabilitation	24 149 769	323 238	1 386 046	25 859 053

Reconciliation of provisions - 2020

	Opening Balance	Change in provision	Finance Cost	Total
Environmental rehabilitation	22 650 069	441 941	1 057 759	24 149 769
Non-current liabilities			24 473 008	23 092 009
Current liabilities			1 386 045	1 057 760
			25 859 053	24 149 769

Environmental rehabilitation provision

Mafube Local Municipality consists of four (4) towns (Frankfort/Namahadi, Villiers/Qalabotjha, Cornelia/Ntswanatsatsi, and Tweeling/Mafahlaneng). Villiers, Tweeling, and Cornelia are located in an area of agricultural significance and Frankfort is the central business district of Mafube 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.

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 2020 was 11.28% p.a.. The consumer price inflation of 6.61% 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 2020.

Discount rate (D) 11.28%
 Consumer price inflation (C) 6.61%
 Net discount rate 4.38%

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

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

15. Provisions (continued)**Site Life calculation****Frankfort Landfill Site:**

The landfill site has a total area of 45 000m².

Using the growth rate of 0.22% for Mafube Municipality, as given by STATS SA, the population for Frankfort in 2021 is estimated to be 26 900.

According to a recent study looking at the link between household income and waste generation-, low-, middle- and high-income households in South Africa generate an estimated 0.41, 0.74, and 1.29 kilograms per person per day respectively. (Fiehn & Ball, 2018) For the purposes of this report an average of 0.8kg per person per day will be used.

With a population of 26 900 and 0,8kg of waste being generated per person per day will equate to 645 tons per month or 7 740 tons per annum of waste. This assumes a waste density of 750 kg/m³.

The site is operational and receiving general waste; that is domestic and a small amount of industrial waste. The waste is brought in by Municipal operated waste collection trucks as well as private transportation by residents and the total tonnages deposited at the site are unknown because there is no record of incoming waste.

The footprint size of the landfill site, as measured from Google Earth, is approximately 45 000m².

Available volume of cover = 45 000m² x 1,8 = 81 000 m³

Using a cover to waste ratio of 1:4. Total available space = 81 000 – (81 000/5) = 64 800m³

Total remaining available airspace (85%) = 85% x 81 000 = 64 800 m³

The annual air space utilisation including cover material is calculated as follows:

The airspace used by the waste = 7 740 T/annum / 0.75 T/m³ = 10 320 m³/annum

Allowing for the airspace used by both waste and cover, using a cover to waste ratio of 1:4:

= 10 320 m³/annum x 5/4 = 12 900 m³/annum

The available airspace is then matched to the closest cumulative airspace used total, to give the approximate site life, as shown in the table below.

It is estimated that the site has a life expectancy in the order of 6 years.

Tweeling Landfill site:

The landfill site has a total area of 42 000m².

Using the growth rate of 0.22% for Mafube Municipality, as given by STATS SA, the population for Tweeling in 2021 is estimated to be 6 400.

According to a recent study looking at the link between household income and waste generation, low, middle and high income households in South Africa generate an estimated 0.41, 0.74, and 1.29 kilograms per person per day respectively. (Fiehn & Ball, 2018) For the purposes of this report an average of 0.8kg per person per day will be used.

With a population of 6 400 and 0,8kg of waste being generated per person per day will equate to 154 tons per month or 1 848 tons per annum of waste. This assumes a waste density of 750 kg/m³.

The site is operational and receiving general waste; that is domestic and a small amount of industrial waste. The waste is brought in by Municipal operated waste collection trucks as well as private transportation by residents and the total tonnages deposited at the site are unknown because there is no record of incoming waste.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

15. Provisions (continued)

The footprint size of the landfill site, as measured from Google Earth, is approximately 42 000m².

Available volume of cover = 42 000m² x 1,8 = 75 600 m³

Using a cover to waste ratio of 1:4. Total available space = 75 600 – (75 600/5) = 60 480 m³

Total remaining available airspace (75%) = 75% x 60 480 = 45 365 m³

The annual air space utilisation including cover material is calculated as follows:

The airspace used by the waste = 1 848 T/annum / 0.75 T/m³ = 2 464 m³/annum

Allowing for the airspace used by both waste and cover, using a cover to waste ratio of 1:4:

= 2 464 m³/annum x 5/4 = 3 080 m³/annum

The available airspace is then matched to the closest cumulative airspace used total, to give the approximate site life, as shown in the table below.

It is estimated that the site has a life expectancy in the order of 14 years.

Villiers Landfill site:

The landfill site has a total area of 60 000m².

Using the growth rate of 0.22% for Mafube Municipality, as given by STATS SA, the population for Parys in 2021 is estimated to be 17 300.

According to a recent study looking at the link between household income and waste generation-, low-, middle- and high-income households in South Africa generate an estimated 0.41, 0.74, and 1.29 kilograms per person per day respectively. (Fiehn & Ball, 2018) For the purposes of this report an average of 0.8kg per person per day will be used.

With a population of 17 300 and 0,8kg of waste being generated per person per day will equate to 415 tons per month or 4 980 tons per annum of waste. This assumes a waste density of 750 kg/m³.

The site is operational and receiving general waste; that is domestic and a small amount of industrial waste. The waste is brought in by Municipal operated waste collection trucks as well as private transportation by residents and the total tonnages deposited at the site are unknown because there is no record of incoming waste.

The footprint size of the landfill site, as measured from Google Earth, is approximately 60 000m².

Available volume of cover = 60 000m² x 1,8 = 108 000 m³

Using a cover to waste ratio of 1:4. Total available space = 108 000 – (108 000/5) = 86 400 m³

Total remaining available airspace (60%) = 60% x 86 400 = 51 840 m³

The annual air space utilisation including cover material is calculated as follows:

The airspace used by the waste = 4 980 T/annum / 0.75 T/m³ = 6 640 m³/annum

Allowing for the airspace used by both waste and cover, using a cover to waste ratio of 1:4:

= 6 640 m³/annum x 5/4 = 8 300 m³/annum

The available airspace is then matched to the closest cumulative airspace used total, to give the approximate site life, as shown in the table below.

It is estimated that the site has a life expectancy is in excess of 7 years.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

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

15. Provisions (continued)**Cornelia Landfill site:**

The landfill site has a total area of 85 000m².

Using the growth rate of 0.22% for Mafube Municipality, as given by STATS SA, the population for Cornelia in 2021 is estimated to be 5 800.

According to a recent study looking at the link between household income and waste generation-, low-, middle- and high-income households in South Africa generate an estimated 0.41, 0.74, and 1.29 kilograms per person per day respectively. (Fiehn & Ball, 2018) For the purposes of this report an average of 0.8kg per person per day will be used.

With a population of 5800 and 0,8kg of waste being generated per person per day will equate to 139 tons per month or 1 668 tons per annum of waste. This assumes a waste density of 750 kg/m³.

The site is operational and receiving general waste; that is domestic and a small amount of industrial waste. The waste is brought in by Municipal operated waste collection trucks as well as private transportation by residents and the total tonnages deposited at the site are unknown because there is no record of incoming waste.

The footprint size of the landfill site, as measured from Google Earth, is approximately 85 000m².

Available volume of cover = 80 000m² x 1,8 = 144 000m³

Using a cover to waste ratio of 1:4. Total available space = 144 000 – (144 000/5) = 115 200m³

Total remaining available airspace (80%) = 80% x 115 200 = 92 160 m³

The annual air space utilization including cover material is calculated as follows:

The airspace used by the waste = 1 668 T/annum / 0.75 T/m³ = 2 224 m³/annum

Allowing for the airspace used by both waste and cover, using a cover to waste ratio of 1:4:

= 2 224 m³/annum x 5/4 = 2 668 m³/annum

The available airspace is then matched to the closest cumulative airspace used total, to give the approximate site life, as shown in the table below.

It is estimated that the site has a life expectancy in in excess of 31 years.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
16. Payables from exchange transactions		
13th cheque accrual	2 906 077	2 834 826
Accrued leave pay	7 547 424	7 393 989
Accrued salary expense	189 051 203	151 397 806
Unallocated receipts and deposits	424 445	-
Payments received in advanced - contract in process	6 611 279	6 247 494
Retentions	5 102 012	2 660 015
Trade payables	624 436 147	557 495 359
	836 078 587	728 029 489
Fair value of trade and other payables		
Trade payables	836 685 668	727 989 706
17. Consumer deposits		
Rates, water, refuse, electricity and rental	1 648 462	1 576 337

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
18. Revenue		
Actuarial gains	75 721 842	63 679 500
Rental of facilities and equipment	712 266	1 376 185
Other income related to municipal services	3 991 341	3 078 274
Interest received	31 744 839	39 292 181
Property rates	36 900 846	20 640 556
Interest, Dividends and Rent on Land	3 977 350	4 090 420
Government grants & subsidies	166 442 497	167 234 929
Public contributions and donations	21 368 949	1 501 351
Fines, Penalties and Forfeits	155 350	64 700
	341 015 280	300 958 096
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	75 721 842	63 679 500
Rental of facilities and equipment	712 266	1 376 185
Other income	3 991 341	3 078 274
Interest received	31 744 839	39 292 181
	112 170 288	107 426 140
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	36 900 846	20 640 556
Interest, Dividends and Rent on Land	3 977 350	4 090 420
Transfer revenue		
Government grants & subsidies	166 442 497	167 234 929
Public contributions and donations	21 368 949	1 501 351
Fines	155 350	64 700
	228 844 992	193 531 956
19. Service charges		
Sale of electricity	-	3 102
Sale of water	36 174 566	24 277 991
Sewerage and sanitation charges	22 824 683	24 599 103
Refuse removal	16 722 593	14 799 304
	75 721 842	63 679 500
20. Rental of facilities and equipment		
Premises		
Own Premises	712 266	1 376 185
21. Lease rentals on operating lease		
Motor vehicles		
Contractual amounts	-	1 234 596
22. Interest received - non exchange		
Interest - Receivables	3 977 350	4 090 420

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
23. Other income		
Connection Fees	178 242	27 188
Clearance certificate	60 664	26 914
Tender deposits	413 009	14 920
Sub-divisioning	202	386
Building Fees	69 011	63 797
Other income 21	206 350	-
Meter Reading Fees	-	9
Sale of Sand	14 008	4 341
Royalties	2 670 691	2 662 914
Camping Fees	-	1 739
Photocopies	3 252	2 203
Administrative Fees	9 148	84 082
Cemetery Fees	366 764	189 781
	3 991 341	3 078 274
24. Investment revenue		
Interest revenue		
Bank	749 980	30 087
Interest charged on trade and other receivables	30 994 859	39 262 094
	31 744 839	39 292 181
25. Property rates		
Rates received		
Residential	15 563 320	12 257 922
Commercial	18 115 714	6 006 989
Agricultural	3 221 812	2 375 645
	36 900 846	20 640 556
Valuations		
Residential	1 571 661 000	1 228 974 354
Commercial	406 077 500	149 513 820
State	71 821 000	73 100 494
Municipal	54 046 900	56 330 000
Small holdings and farms	3 630 537 000	6 194 281 806
Institutional and Other	113 865 000	115 529 000
	5 848 008 400	7 817 729 474

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2020. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The detailed schedule of applicable tariffs and rebates are advertised annually and is available from the municipality on request.

Property rates are levied on an annual basis with the final date for payment for annual rate payers to be 30 September 2020 (30 June 2021) for monthly rate payers. Interest at the maximum bank percentage charged per annum plus 1%, is levied on consumer's property rates outstanding amount, one month after the due date.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
26. Government grants and subsidies		
Operating grants		
Equitable share	119 062 000	95 847 000
Expanded Public Works Programme Integrated Grant (EPWP)	-	1 000 000
Provincial Government Grant	1 500 000	23 867 024
Local Government Financial Management Grant (FMG)	2 999 985	2 908 183
Municipal Disaster Relief Grant	-	447 000
	123 561 985	124 069 207
Capital grants		
Municipal Infrastructure Grant (MIG)	28 044 000	22 689 375
Water Services Infrastructure Grant (Direct)	9 500 938	14 000 000
Integrated National Electrification Programme (5B)	5 335 574	6 476 347
	42 880 512	43 165 722
	166 442 497	167 234 929
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	42 880 512	43 165 722
Unconditional grants received	123 561 985	124 069 207
	166 442 497	167 234 929
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	-	245 375
Current-year receipts	28 044 000	22 444 000
Conditions met - transferred to revenue	(28 044 000)	(22 689 375)
	-	-
Local Government Financial Management Grant (FMG)		
Balance unspent at beginning of year	-	28 183
Current-year receipts	3 000 000	2 880 000
Conditions met - transferred to revenue	(2 999 984)	(2 908 183)
	16	-
Conditions still to be met - remain liabilities (see note 14).		
Expanded Public Works Programme Integrated Grant (EPWP)		
Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	-	(1 000 000)
	-	-
Integrated National Electrification Programme (5B)		
Balance unspent at beginning of year	523 653	-

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
26. Government grants and subsidies (continued)		
Current-year receipts	10 232 000	7 000 000
Conditions met - transferred to revenue	(5 335 574)	(6 476 347)
	5 420 079	523 653

Conditions still to be met - remain liabilities (see note 14).

Water Services Infrastructure Grant (Direct)

Current-year receipts	15 000 000	14 000 000
Conditions met - transferred to revenue	(9 500 938)	(14 000 000)
	5 499 062	-

Conditions still to be met - remain liabilities (see note 14).

Municipal Disaster Relief Grant

Current-year receipts	-	447 000
Conditions met - transferred to revenue	-	(447 000)
	-	-

27. Public contributions and donations

Services in kind contribution	-	312 796
Other Public contribution	4 000 000	-
Other Public contributions and donations	17 368 949	1 188 555
	21 368 949	1 501 351

Conditions still to be met - remain liabilities (see note 14)

Provide explanations of conditions still to be met and other relevant information

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
28. Employee related costs		
Basic	62 288 889	69 714 324
Bonus	5 426 973	5 087 067
Medical aid - company contributions	3 490 423	1 791 108
UIF	599 261	609 610
SDL	668 640	915 280
Leave pay provision charge	946 786	1 187 012
Defined contribution plans	9 491 241	9 806 807
Overtime payments	3 776 573	-
Acting allowances	1 496 456	1 053 011
Car allowance	7 637 055	8 920 695
Housing benefits and allowances	620 118	635 299
Standby Allowance	829 759	925 132
Employee benefit obligation	(90 038)	501 685
Cellphone Allowance	104 400	-
Other payroll levies	78 150	83 177
	97 364 686	101 230 207
Remuneration of Municipal Manager - LJ Ralebenya		
Annual Remuneration	138 402	-
Allowances	74 297	-
Contributions to UIF, Medical and Pension Funds	2 313	-
	215 012	-
Remuneration of Municipal Manager - MJ Matlole		
Annual Remuneration	-	1 683 619
Car Allowance	-	493 685
Contributions to UIF, Medical and Pension Funds	-	20 877
	-	2 198 181
Remuneration of Municipal Manager - K Masekoane		
Annual Remuneration	-	312 796
	-	312 796
Remuneration of Chief Financial Officer - MA Makoae		
Annual Remuneration	633 025	596 500
Car Allowance	430 090	430 090
Contributions to UIF, Medical and Pension Funds	10 269	10 721
	1 073 384	1 037 311
Remuneration of Director Community Service - ZE Mofokeng		
Annual Remuneration	935 587	497 124
Allowances	423 559	401 142
Contributions to UIF, Medical and Pension Funds	13 447	9 583
	1 372 593	907 849

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
28. Employee related costs (continued)		
Remuneration of Director Corporate Services - PP Moloi		
Annual Remuneration	728 483	732 637
Allowances	334 632	334 632
Contributions to UIF, Medical and Pension Funds	13 942	11 285
	1 077 057	1 078 554
Remuneration of Director Planning & Infrastructure - DL Ramabitsa		
Annual Remuneration	678 076	639 765
Allowances	386 826	386 826
Contributions to UIF, Medical and Pension Funds	10 303	10 739
	1 075 205	1 037 330
29. Remuneration of councillors		
Councillors	6 344 007	6 084 634
30. Depreciation and amortisation		
Property, plant and equipment	35 399 733	34 909 590

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
31. Impairment of assets		
Impairments		
Property, plant and equipment	36 575 179	24 138 452
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.		
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:		
(g) - Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. 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.		
Land - IGRAP 18 indicates that land is recognised based on control. Control of land is evidenced by the following criteria:		
(a) legal ownership; and/or		
(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.		
Reversal of impairments		
Property, plant and equipment	(5 121 802)	(1 932 156)
Repairs and additions to the network assets including infrastructure resulted in previous conditions of assets to improve, thus a reversal of impairments.		
Total impairment losses (recognised) reversed	31 453 377	22 206 296

The main classes of assets affected by impairment losses are:

Property, plant and equipment : Buildings

Property, plant and equipment : Plant and Machinery

Property, plant and equipment : Transport

Property, plant and equipment : Office equipment

Property, plant and equipment : IT equipment

Property, plant and equipment : Infrastructure - Road network

Property, plant and equipment : Community assets

Property, plant and equipment : Infrastructure - Electrical network

Property, plant and equipment : Wastewater network

Property, plant and equipment : Water network

Investment property

The main classes of assets affected by reversals of impairment losses are:

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

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

31. Impairment of assets (continued)

Property, plant and equipment : Buildings

Property, plant and equipment : Plant and Machinery

Property, plant and equipment : Transport

Property, plant and equipment : Office equipment

Property, plant and equipment : IT equipment

Property, plant and equipment : Infrastructure - Road network

Property, plant and equipment : Community assets

Property, plant and equipment : Infrastructure - Electrical network

Property, plant and equipment : Wastewater network

Property, plant and equipment : Water network

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

Impairment losses were recognised during the current financial year due to the overall degrading of the condition of property, plant and equipment. Upon physical verification the condition of the assets were evaluated and assessed whether the condition of the assets had improved or deteriorated. The municipality could in certain cases not afford to properly maintain assets in a reasonable condition and thus these assets were impaired..

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

Impairment losses were reversed in the current period due to overall reconditioning of assessments performed. Upon physical verification the condition of the assets were evaluated and reassessed to determine whether an impairment reversal would be applicable or not.

32. Finance costs

Bulk Accounts	51 540 925	50 820 889
Interest Cost - Landfill site provision	1 386 045	1 057 760
	52 926 970	51 878 649

33. Debt impairment

Contributions to debt impairment provision	(399 736)	106 096 743
Bad debts written off	76 332 417	1 158 206
	75 932 681	107 254 949

34. Bulk purchases

Water	30 753 013	31 926 097
-------	------------	------------

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
35. General expenses		
Advertising	173 467	96 349
Auditors remuneration	4 554 396	6 118 060
Bank charges	334 310	490 982
Burial expenses	15 825	-
Bursaries	140 967	-
Community development and training	368 522	33 085
Consulting and professional fees	15 251 921	10 270 441
Consumables	9 160 428	4 141 601
Debt collection	-	99 000
Electricity	12 459 783	10 739 495
Fines and penalties	-	1 394 449
Fuel and oil	974 576	1 178 793
Hire	8 258 079	261 549
IT expenses	3 125 102	18 404
Insurance	1 869 231	1 817 539
Motor vehicle expenses	317 287	26 378
Printing and stationery	1 655 033	1 391 054
Repairs and maintenance	11 943 055	2 583 347
Security (Guarding of municipal property)	2 026	754 876
Staff welfare	20 106	32 577
Subscriptions and membership fees	28 095	33 716
Telephone and fax	2 358 654	2 233 692
Travel - local	499 330	1 217 938
Uniforms	721 383	1 182 282
	74 231 576	46 115 607
36. Fair value adjustments		
Investment property (Fair value model)	4 036 391	1 283 839
37. Auditors' remuneration		
Fees	4 554 396	6 118 060
38. Operating deficit		
Operating deficit for the year is stated after accounting for the following:		
Operating lease charges		
Motor vehicles		
• Contractual amounts	-	1 234 596
Loss on sale of property, plant and equipment	(742 043)	-
Loss on sale of investment property	(940 522)	(103 111)
Impairment on property, plant and equipment	36 575 179	24 138 452
Reversal of impairment on property, plant and equipment	5 121 802	1 932 156
Depreciation on property, plant and equipment	35 399 733	34 909 590
Employee costs	108 521 944	106 057 085

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
39. Cash generated from operations		
Deficit	(67 337 157)	(100 081 576)
Adjustments for:		
Depreciation and amortisation	35 399 733	34 909 590
Gain on sale of assets and liabilities	1 682 565	103 111
Fair value adjustments	(4 036 391)	(1 283 839)
Impairment deficit	31 453 377	22 206 296
Debt impairment	75 932 681	107 254 949
Movements in retirement benefit assets and liabilities	1 396 931	1 139 216
Movements in provisions	1 709 284	1 499 700
Other non-cash items	(17 692 157)	13 043 402
Changes in working capital:		
Inventories	284 806	124 722
Receivables from exchange transactions	(57 186 098)	7 581 899
Consumer debtors	(75 932 681)	(107 254 949)
Other receivables from non-exchange transactions	(964 431)	2 218 509
Payables from exchange transactions	108 049 104	91 715 781
VAT	(3 045 471)	(19 095 682)
Unspent conditional grants and receipts	10 395 504	250 095
Consumer deposits	72 125	45 631
	40 181 724	54 376 855

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

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

40. Financial instruments disclosure**Categories of financial instruments****2021****Financial assets**

	At amortised cost	Total
Trade and other receivables from exchange transactions	76 734 197	76 734 197
Other receivables from non-exchange transactions	3 797 368	3 797 368
Cash and cash equivalents	8 360 465	8 360 465
	88 892 030	88 892 030

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	836 078 587	836 078 587
Consumer deposits	1 648 462	1 648 462
	837 727 049	837 727 049

2020**Financial assets**

	At amortised cost	Total
Trade and other receivables from exchange transactions	19 548 099	19 548 099
Other receivables from non-exchange transactions	2 832 937	2 832 937
Cash and cash equivalents	5 622 936	5 622 936
	28 003 972	28 003 972

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	728 029 489	728 029 489
Consumer deposits	1 576 337	1 576 337
	729 605 826	729 605 826

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
41. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	14 972 475	6 935 569
Total capital commitments		
Already contracted for but not provided for	14 972 475	6 935 569
Total commitments		
Total commitments		
Authorised capital expenditure	14 972 475	6 935 569

This committed expenditure relates to property, plant and equipment and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

42. Contingencies

The following cases have been reported but not yet confirmed.

Name of entity/subsidiary	Management's description of matter (including current status, amount claimed and legal counsel's reference if known)	Management's estimate of the financial exposure (including costs and disbursements) 2021	Management's estimate of the financial exposure (including costs and disbursements) 2020	Legal counsel's remarks / Status
MJ Matlole	The case is a constructive dismissal matter referred to the CCMA. The claim amount is calculated at 12 months' remuneration.	1 300 000	1 300 000	Pending CCMA matter.
Ntiyiso Consulting	The matter relates to a claim instituted for alleged services rendered by Ntiyiso Consulting which is disputed by the Municipality as well as the manner in which they were appointed.	1 074 464	1 074 464	Pending High Court matter.
N&C Maintanance	Dispute of payments on work done to water pumps	3 000 000	400 000	Pending Litigation.
Fire Fighters	Fire Fighters appointed on the Mayor's programs and took the Municipality to court as they wanted to be appointed permanently	900 000	900 000	Pending Labour Court Application.
WDT Goosen	The matter is about an accident due to a pothole and therefore the claim for damages for medical and future damages.	250 000	150 000	Pending High Court Litigation.
Blackbird Trading	Blackbird issued applications for payments against the Municipality	2 831 562	2 831 562	Pending High Court Litigation.
Blackbird Trading	Blackbird issued applications for payments against the Municipality	8 140 485	8 140 485	Pending High Court Litigation.
Emily Dhladhla	Emily Dhladhla is an application in the Labour Court for a review which is still pending. However, the matter has not at this time being prosecuted and will all probability have lapsed and have been archived.	100 000	100 000	Pending Labour Court Application.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

42. Contingencies (continued)

Malanda Joint Venture	Summons issued for alleged services rendered.	12 500 000	-	Pending High Court Matter.
WSSA	The municipality had appointed WSSA to develop water maintenance plans as well as maintenance for sewer and water purification plants. Case Pending	1 410 498	1 410 498	Pending Litigation
		31 507 009	16 307 009	

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

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

43. Related parties**Relationships**

Accounting Officer

Mr J Matlole

Mr K Masekoane

Mr LJ Ralebenya

Executive Mayor - Cllr. JE Sigasa

Speaker - Cllr. MM Mofokeng

Chief Whip - Cllr. FP Motloung

Members of key management

Cllr. WC Motloung

Cllr. JJ Hlongwane

Cllr. TJ Kotsi

Cllr. CU Jafta

Cllr. LS Kubeka

Cllr. RP Mokuene

Cllr. MC Du Plessis

Cllr. PM Monaune

Cllr. SA Mazibuko(Mosia)

Cllr. J Oost

Cllr. TL Moloi

Cllr. NE Rakoloti

Cllr. PS Sikhosana

Cllr. M Mokoena

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

43. Related parties (continued)**Remuneration of management****Management class: Board members****2021**

Name	Basic salary	Contributions to Medical, Pension Funds and Other Allowances	Allowances	Total
Municipal manager - LJ Ralebenya	138 402	2 313	74 297	215 012
Chief Financial Officer - MA Makoae	633 025	10 269	430 090	1 073 384
Director Planning & Infrastructure - DL Ramabitsa	678 076	10 303	386 826	1 075 205
Director Community Service - ZE Mofokeng	935 587	13 447	423 559	1 372 593
Director Corporate Service - PP Moloi	728 483	13 942	334 632	1 077 057
	3 113 573	50 274	1 649 404	4 813 251

2020

Name	Basic salary	Contributions to Medical, Pension Funds and Other Allowances	Allowances	Total
Municipal Manager - MJ Matlole	1 683 619	20 877	493 685	2 198 181
Municipal Manager (Seconded) - K Masekoane	312 796	-	-	312 796
Chief Financial Officer - MA Makoae	596 500	10 721	430 090	1 037 311
Director Planning & Infrastructure - DL Ramabitsa	639 765	10 739	386 826	1 037 330
Director Community Service - ZE Mofokeng	497 124	9 583	401 142	907 849

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

43. Related parties (continued)

Director Corporate Service - PP Moloji	732 637	11 285	334 632	1 078 554
	4 462 441	63 205	2 046 375	6 572 021

Management class: Councillors

2021

Name	Basic salary	Contributions to Medical, Pension Funds and Other Allowances	Travel Allowance	Cellphone Allowance	Total
Mayor - Cllr. JE Sigasa	596 519	55 298	215 215	3 600	870 632
Speaker - Cllr. MM Mofokeng	461 251	60 227	172 172	3 600	697 250
Cllr. FP Motloung	270 145	3 222	90 048	44 400	407 815
Cllr. WC Motloung	228 012	36 453	87 405	3 600	355 470
Cllr. JJ Hlongwane	262 213	2 797	87 405	3 600	356 015
Cllr. TJ Kotsi	262 213	2 797	87 405	3 600	356 015
Cllr. UC Jafta	204 322	2 187	68 108	3 600	278 217
Cllr. LS Kubeka	204 322	2 187	68 108	3 600	278 217
Cllr. RP Mokuene	262 213	2 797	87 405	3 600	356 015
Cllr. MC Du Plessis	270 145	2 881	90 048	3 600	366 674
Cllr. PM Monaune	204 322	2 187	68 108	3 600	278 217
Cllr. AS Mosia	187 042	19 467	68 108	3 600	278 217
Cllr. J Oost	204 322	2 187	68 108	3 600	278 217
Cllr. TL Moloji	204 322	2 187	68 108	3 600	278 217
Cllr. NE Rakoloti	262 213	2 797	87 405	3 600	356 015
Cllr. PS Skosana	204 322	2 187	68 108	3 600	278 217
Cllr. MP Mokoena	204 322	2 157	68 108	-	274 587
	4 492 220	204 015	1 549 372	98 400	6 344 007

2020

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

43. Related parties (continued)

Name	Basic salary	Contributions to Medical, Pension Funds and Other Allowances	Travel Allowance	Cellphone Allowance	Total
Mayor - Cllr. JE Sigasa	543 435	87 355	208 317	3 600	842 707
Speaker - Cllr. MM Mofokeng	429 740	74 910	166 654	3 600	674 904
Cllr. FP Motloung	261 486	3 434	87 162	44 400	396 482
Cllr. WC Motloung	220 704	35 497	84 603	3 600	344 404
Cllr. JJ Hlongwane	253 809	2 971	84 603	3 600	344 983
Cllr. TJ Kotsi	253 809	2 971	84 603	3 600	344 983
Cllr. UC Jafta	197 774	2 322	65 925	3 600	269 621
Cllr. LS Kubeka	197 774	2 322	65 925	3 600	269 621
Cllr. RP Mokuene	253 809	2 971	84 603	3 600	344 983
Cllr. MC Du Plessis	261 486	3 060	87 162	3 600	355 308
Cllr. PM Monaune	197 774	2 322	65 925	3 600	269 621
Cllr. AS Mosia	180 494	19 602	65 925	3 600	269 621
Cllr. J Oost	197 774	2 322	65 925	3 600	269 621
Cllr. TL Moloji	197 774	2 322	65 925	3 600	269 621
Cllr. NE Rakoloti	207 422	2 384	69 140	3 600	282 546
Cllr. PS Skosana	197 774	2 322	65 925	3 600	269 621
Cllr. MP Mokoena	197 774	2 288	65 925	-	265 987
	4 250 612	251 375	1 484 247	98 400	6 084 634

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

44. Change in estimate**Investment Property**

During the Financial year the method of Investment properties changed from cost to fair value.

Cost before adjustment:	R19 040 491.00
Cost after adjustment:	R79 746 770.00
Effect of change in estimate:	R60 706 279.00

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

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**2020**

	Note	As previously reported	Correction of error	Change in accounting policy	Re-classification	Restated
Inventories		1 088 617	24 744	-	-	1 113 361
VAT receivable		78 811 767	2 718 472	-	-	81 530 239
Cash and cash equivalents		3 107 882	2 515 054	-	-	5 622 936
Investment property		19 040 491	-	57 721 069	-	76 761 560
Property, plant and equipment		845 132 232	208 962 119	-	-	1 054 094 351
Payables from exchange transactions		(704 707 420)	(23 322 069)	-	-	(728 029 489)
Other financial assets - Current		158 755	-	-	79 335	238 090
Other financial assets - Non-Current		340 505	-	-	(79 335)	261 170
Unspent conditional grants and receipts		(1 368 904)	845 251	-	-	(523 653)
Provisions - Current		(845 386)	(212 374)	-	-	(1 057 760)
Provisions - Non-Current		(18 455 651)	(4 636 358)	-	-	(23 092 009)
Other NDR		34 379 029	(34 379 029)	-	-	-
Accumulated surplus		194 990 058	278 994 937	-	-	473 984 995
		451 671 975	431 510 747	57 721 069	-	940 903 791

Statement of financial performance**2020**

	Note	As previously reported	Correction of error	Restated
Other income		3 477 711	(399 437)	3 078 274
Fair value adjustments		-	1 283 839	1 283 839
Public contributions and donations		312 796	1 188 555	1 501 351
Employee related costs		(99 809 816)	(162 635)	(99 972 451)
Fines, Penalties and Forfeits		-	64 700	64 700
Depreciation and amortisation		(32 771 930)	(2 137 660)	(34 909 590)
Impairment		(22 298 273)	91 977	(22 206 296)
Finance costs		(51 465 642)	(412 967)	(51 878 609)
Bulk purchases		(30 775 851)	(1 150 246)	(31 926 097)
General Expenses		(48 722 536)	2 606 929	(46 115 607)
Deficit for the year		(282 053 541)	973 055	(281 080 486)

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

45. Prior-year adjustments (continued)**Errors**

The following prior period errors were identified and corrected during the year:

1. Inventory:

Water inventory reconciliation were performed and error was identified in prior year calculation. Water Inventory were not recognized as inventory. Differences identified were accounted for correctly.

Inventories	R 24 743.97
General Expenses	-R 24 743.97

2. Cash and cash equivalents:

Bank Reconciliation reconciling items for the prior year was identified and corrected. Differences identified were accounted for correctly.

Cash and cash equivalents	R 2 450 354.34
Accumulated surplus	- R 2 450 354.34

3. Revenue - Fines, Penalties and Forfeits:

Traffic fines were not accounted for correctly. Differences identified were accounted for correctly.

Cash and cash equivalents	R 64 700.00
Fines	-R 64 700.00

4. Payables from exchange transactions:

Creditor reconciliations were performed and all differences identified were accounted for correctly.

Bulk purchases	R 1 150 245.81
Employee related costs	R 272 863.46
General Expenses	-R 13 160.90
Payables from exchange transactions	-R 24 371 164.17
Property, plant and equipment	R 20 268.12
VAT receivable	R 3 596 483.97
Finance costs	R 40.00
Accumulated surplus	R 19 344 423.71

5. Property, plant and equipment:

During verification/reconciliation of PPE certain assets were identified to be impaired, disposed and/or useful life calculation not correctly applied. | Additional assets that was identified during verification were correctly accounted for. Asset useful lives were reassessed during this period and where errors were identified corrections were made in line with the verification information obtained from the asset verification process that were done during the year.

Accumulated surplus	-R 175 834 039.39
Depreciation and amortisation	R 2 137 658.11
General Expenses	-R 2 592 799.44
Employee related costs	-R 86 452.61
Impairment	-R 92 007.37
Payables from exchange transactions	R 1 049 129.49
Property, plant and equipment	R 176 739 942.85
Public contributions and donations	-R 1 188 554.53
VAT receivable	-R 132 877.11

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

45. Prior-year adjustments (continued)**6. Revenue - Other Income:**

Other Income reconciliations were performed and VAT differences identified were accounted for correctly.

Accumulated surplus	R 345 699.32
Other income	R399 437.04
VAT receivable	-R 745 136.36

7. Provisions:

Landfill site provision were recalculated as errors was identified with prior year provision calculation, differences were correctly accounted for.

Accumulated surplus	R 3 339 237.00
Finance costs	R 412 967.00
Property, plant and equipment	R 1 096 528.23
Provisions	-R 4 848 732.23

8. Unspent conditional grants and receipts:

Unspent Grants reconciliations were performed and differences identified were accounted for correctly.

Accumulated surplus	-R 845 250.85
Unspent conditional grants and receipts	R 845 250.85

9. Other NDR:

Rural Free State Network Assets reconciliations were performed and was corrected accordingly, prior year recognition of Other NDR was reversed in 2021.

Other NDR	R 34 379 029.00
Property, plant and equipment	-R 34 379 029.00

10. Investment property:

During the valuation of Investment Property for 2021 financial year the following amendments were taken into consideration. Accounting policy of Investment property has been changed from cost model to fair value measurement, differences were correctly accounted for.

Accumulated surplus	-R 122 024 748.29
Fair value adjustments	-R 1 283 838.65
Property, plant and equipment	R 65 484 408.07
Loss on disposal of assets and liabilities	R 103 110.52
Investment property	R 57 721 068.35

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

45. Prior-year adjustments (continued)**Change in accounting policy**

The following change in accounting policies occurred:

1. Note 3: Investment property.

During the valuation of Investment Property for 2021 financial year the following amendments were taken into consideration:

Accounting policy of Investment property has been changed from cost model to fair value measurement, differences were correctly accounted for.

Accumulated surplus	-R 122 024 748.29
Fair value adjustments	-R 1 283 838.65
Property, plant and equipment	R 65 484 408.07
Loss on disposal of assets and liabilities	R 103 110.52
Investment property	R 57 721 068.35

Reclassifications

The following reclassifications adjustment occurred:

1. Other financial assets:

During the reconciliation of Other financial assets (VKB) it was identified that accounts were classified as current instead of non-current, differences were correctly accounted for.

Other financial assets - current	R79 335.00
Other financial assets - non-current	-R79 335.00

46. Comparative figures

Certain comparative figures have been reclassified or restated.

The effects of the reclassification are as follows:

Commitments have been restated from R64 348 921 to R6 935 569

Contingent Liabilities have been restated from R14 896 511 to R16 307 009

Fruitless and wasteful expenditure have been restated from R265 267 947 to R264 696 741

Unauthorized expenditure have been restated from R1 571 366 250 to R2 333 417 277

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

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

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 auditors on a continuous basis, and by external auditors 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, reports monthly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

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 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	836 078 587	-	-	-
At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	728 029 489	-	-	-

Credit risk

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

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

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

Financial instrument	2021	2020
Receivables from non-exchange transactions	76 734 197	19 548 099
Receivables from exchange transactions	3 797 368	2 832 937
Bank balances	8 360 465	5 622 936

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

47. Risk management (continued)**Market risk****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 market 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 market 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.

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the consolidated statement of financial position either as available-for-sale or at fair value through municipality or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality.

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

Deficit 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.

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

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

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

48. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of 406 647 839 and that the municipality's total assets exceed its liabilities by 406 647 839.

The audited 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 experience 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 53
4. Slow collection and low recoverability of outstanding consumer accounts; and
5. Unfavourable financial ratios.

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 or conditions, along with the continuing operating losses and financial difficulties, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

49. Events after the reporting date

The municipality have not identified any material category of non-adjusting events after the reporting date.

50. Unauthorised expenditure

Opening balance as previously reported	2 333 417 277	1 962 719 028
Opening balance as restated	2 333 417 277	1 962 719 028
Add: Expenditure identified - current	401 843 178	370 698 249
Less: Approved/condoned/authorised by council	(1 651 222 188)	-
Closing balance	1 084 038 267	2 333 417 277

51. Fruitless and wasteful expenditure

Opening balance as previously reported	264 696 741	211 012 080
Opening balance as restated	264 696 741	211 012 080
Add: Expenditure identified - current	51 540 236	53 684 661
Less: Amount written off - prior period	(158 675 983)	-
Closing balance	157 560 994	264 696 741

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

51. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

Summary of fruitless and wasteful

ABSA - interest on bank charges	1 141	2 191
AGSA - interest on overdue account	437 010	688 587
Department of Water & Sanitation - Interest on overdue accounts	22 429 200	21 158 640
Eskom - interest on overdue account	20 391	19 042
FNB - interest on bank charges	-	497
Municipal Council Pension Fund interest on overdue account	-	52 909
Rural Free State - interest on overdue account	10 985 098	11 745 465
SALA Pension fund - interest on overdue account	8 557 030	8 643 490
SAMWU Pension fund - interest on overdue account	6 626 783	7 625 312
SARS - interest & penalties	2 483 583	3 748 528
	51 540 236	53 684 661

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
52. Irregular expenditure		
Opening balance as previously reported	548 105 619	486 465 440
Opening balance as restated	548 105 619	486 465 440
Add: Irregular Expenditure - current	82 157 895	61 640 179
Less: Amount written off - prior period	(423 644 923)	-
Closing balance	206 618 591	548 105 619

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

52. Irregular expenditure (continued)

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

	Summary of irregular expenditure	
Bid adjudication committee not properly composed.	7 274 348	-
Bid specifications Committee not in place	1 708 166	8 225 249
Competitive bidding not invited	34 651 915	16 403 869
Contract awarded yet the winning bidder's account for municipal rates and taxes and municipal service charges were in arrears for more than 3 months at the time of awarding the contract	10 576 383	15 590 662
Declaration of interest not submitted	2 101 623	691 506
Deviation not approved by the delegated official	17 850	-
Expenditure not approved by a delegated official	779 149	-
No evidence of bids being advertised.	6 192 353	4 100 229
Preference point system not applied	5 112 589	12 173 913
Service Level Agreement not in place	679 597	-
Suppliers not on CSD	202 419	450 552
Three written quotations not invited	11 636 183	3 156 861
No supporting documents	22 238	61 117
Quotations not approved by a delegated official	1 130 843	-
Final award not properly motivated	72 240	-
Overpayment of MM salary	-	786 221
	82 157 896	61 640 179

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
53. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	2 637 891	3 067 962
Subscription / fee	1 160 323	1 149 420
Amount paid - current year	(300 000)	(910 000)
Amount paid - previous years	(1 579 491)	(669 491)
	1 918 723	2 637 891
Material losses		
Water Distribution loss	37 200 047	25 076 608
	37 200 047	25 076 608
Material bulk water losses during the year under review were as indicated above and are not recoverable.		
The main reason for incurring water losses related to burst water pipes, leaks and unmetered sites.		
Audit fees		
Opening balance	10 560 828	2 836 472
Current year subscription / fee	5 674 564	7 724 356
Amount paid - current year	(8 762 356)	-
	7 473 036	10 560 828
PAYE and UIF		
Opening balance	62 488 707	57 482 593
Current year subscription / fee	13 738 016	13 852 103
Amount paid	(3 596 809)	(12 581 877)
Interest and penalties	1 570 598	3 735 888
	74 200 512	62 488 707
Pension and Medical Aid Deductions		
Opening balance	94 611 578	89 131 015
Current year subscription / fee	20 591 159	22 931 422
Amount paid	(9 359 890)	(34 143 577)
Interest	24 439 907	16 692 718
	130 282 754	94 611 578
VAT		
VAT receivable	181 129 212	155 583 087
VAT payable	96 553 502	74 052 848
	277 682 714	229 635 935

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

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

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand 2021 2020

53. 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 30 June 2021:

30 June 2021	Outstanding less than 90 days	Outstanding more than 90 days	Total
J Oost	3 116	1 073	4 189
JT Kotsi	12 476	34 461	46 937
SA Mosia	690	-	690
UC Jafta	2 166	42 847	45 013
RP Mokuene	3 497	109 122	112 619
TL Moloji	14 721	56 322	71 043
WC Motloung	1 567	19 435	21 002
SP Monaune	951	16 981	17 932
M Mokoena	2 227	17 270	19 497
LS Kubeka	2 313	-	2 313
	43 724	297 511	341 235

30 June 2020	Outstanding less than 90 days	Outstanding more than 90 days	Total
J Oost	3 472	331	3 803
M Mokoena	1 642	22 508	24 150
JT Kotsi	2 419	37 983	40 402
M Moloji	2 372	16 308	18 680
SA Mosia	2 011	3 530	5 541
UC Jafta	3 327	39 166	42 493
JJ Hlongwane	987	2 983	3 970
RP Mokuene	3 991	101 357	105 348
TL Moloji	3 196	52 586	55 782
SP Monaune	1 009	16 094	17 103
WC Motloung	1 633	19 196	20 829
	26 059	312 042	338 101

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

30 June 2021	Highest outstanding amount	Aging (in days)
J Oost	297	150
JT Kotsi	31 629	270
UC Jafta	40 187	270
TL Moloji	52 423	270
RP Mokuene	104 825	270
WC Motloung	17 480	270
SP Monaune	15 816	270
M Mokoena	14 467	270
	277 124	2 040

30 June 2020	Highest outstanding amount	Aging (in days)

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand	2021	2020
53. Additional disclosure in terms of Municipal Finance Management Act (continued)		
J Oost	331	120
M Mokoena	20 629	270
JT Kotsi	35 164	270
M Mloi	13 507	270
SA Mosia	1 702	270
UC Jafta	36 126	270
JJ Hlongwane	1 899	270
RP Mokuene	95 938	270
TL Mloi	48 855	270
SP Monaune	14 855	270
WC Motlounq	17 159	270
	286 165	2 820

Supply chain management regulations

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

Refer to the deviation register for details each deviation incurred.

Incident

Exceptional case	6 385 772	-
Emergency	747 671	357 062
	7 133 443	357 062

Non-compliance with the Municipal Finance Management Act

In terms of section 126 (1)(a) of the Municipal Finance Act (No.56 of 2003), the accounting officer of a municipality must prepare the annual financial statements within two months after the end of the financial year. Due to the following reasons the financial statements were not finalized and submitted within the two months after year end.

1. Due to the 2020 Audit that only completed in December 2021 the opening balances for 2021 could be transferred.
2. Due to Financial systems limitations the debtors sub ledger did not balance.
3. Due to the National Pandemic (COVID-19) and the regulations & precautions thereof constrained the operational functions of the municipality.

In terms of section 32 (4) states the accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of –

- a. any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality;
- b. whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and
- c. the steps that have been taken—
 1. to recover or rectify such expenditure; and
 2. to prevent a recurrence of such expenditure.

Due to the following reasons the unauthorised, irregular and fruitless & wasteful expenditure was not reported.

1. Due to the 2020 Audit that only completed in December 2021 the opening balances for 2021 could be transferred.
2. Due to Financial systems limitations the debtors sub ledger did not balance.
3. Due to the National Pandemic (COVID-19) and the regulations & precautions thereof constrained the operational functions of the municipality.

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

2021

2020

54. 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 audited annual financial statements.

55. Segment information**General information****Identification of segments**

For management purposes, the municipality is organised and operates in four key functional segments (or business units). To this end, management monitors the operating results of these business units for the purpose of making decisions about resource allocations and assessment of performance. Revenues and expenditures relating to these business units are allocated at a transactional level.

The four key business units comprise of:

- (a) Community and public safety which includes community and social services, sport and recreation, public safety, health and housing services;
- (b) Economic and environmental services which includes planning and development, road transport and environmental protection services;
- (c) Trading services which includes energy sources, water management, waste water management and waste management services;
- (d) Municipal governance and administration which includes executive and council and finance and administration services.

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

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

Mafube Local Municipality

(Registration number FS205)

Audited Annual Financial Statements for the year ended 30 June 2021

Notes to the Audited Annual Financial Statements

Figures in Rand

55. Segment information (continued)**Segment surplus or deficit, assets and liabilities****Segment surplus or deficit**

2021

	Revenue from non- exchange transactions	Revenue from exchange transactions	Total Segment revenue	Salaries and wages	Depreciation and amortisation	Other expenses	Total Segment expenditure	Total segment (deficit) surplus
Revenue								
Community and public safety	-	-	-	614 373	1 965 709	10 560	2 590 642	(2 590 642)
Economic and environmental services	-	22 402 581	22 402 581	17 498 430	(1 774 581)	45 300 509	61 024 358	(38 621 777)
Trading Services	-	83 122 313	83 122 313	14 357 444	29 492 326	93 971 543	137 821 313	(54 699 000)
Municipal governance and administration	228 844 991	10 681 784	239 526 775	76 051 698	37 169 656	97 731 160	210 952 514	28 574 261
Total	228 844 991	116 206 678	345 051 669	108 521 945	66 853 110	237 013 772	412 388 827	(67 337 158)
Entity's revenue			345 051 669					
Entity's Surplus (deficit) for the period								(67 337 158)

Segment assets and liabilities

2021

	Total segment assets	Total segment liabilities
Economic and environmental services	290 808 780	24 473 008
Trading Services	662 879 930	233 152
Municipal governance and administration	342 271 794	864 606 506
Total segment assets	1 295 960 504	889 312 666
Total as per Statement of financial Position	1 295 960 504	889 312 666