

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022



MAFUBE LOCAL MUNICIPALITY **Audited Annual financial statements** **for the year ended 30 June 2022**

* See Note

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

General Information

Mayoral committee

Executive Mayor	Cllr. JE Sigasa
Executive Mayor	Cllr. TI Motsoeneng
Speaker	Cllr. MM Mofokeng
Chief Whip	Cllr. FP Motloung
Chief Whip	Cllr. TJ Kotsi
Councillors	Cllr. MC Du Plessis
	Cllr. WC Motloung
	Cllr. JJ Hlongwane
	Cllr. UC Jafta
	Cllr. LS Kubeka
	Cllr. PM Monaune
	Cllr. AS Mosia
	Cllr. TL Moloji
	Cllr. NE Rakoloti
	Cllr. PS Skosana
	Cllr. MP Mokoena
	Cllr. SB Ntuli
	Cllr. A Tsotetsi
	Cllr. MR Tsotetsi
	Cllr. TP Mashiloane
	Cllr. MA Tsubane
	Cllr. AN Molefe
	Cllr. SM Steyn
	Cllr. FA Tsotetsi
	Cllr. WBM Gumede
	Cllr. EM Maboya
	Cllr. JJ Kumbi
	Cllr. J Oost
	Cllr. JB Marais
	Cllr. TBRJ Van Rensburg

Accounting Officer

Mr LJ Ralebenya

The municipality was placed under administration in June 2022 in terms of section 139(5) (a) & (c) of the Constitution (ACT 108 OF 1996) read together with Section 139 of the Local Government: Municipal Finance Management Act No. 56 of 2003.

The Provincial Executive Council resolved the appointment of the following officials in terms of section 139 of the Constitution to assist in the implementation of the intervention:

Mr. LT Mkhaza - appointed as the lead administrator

Mr. L. Ntoyi - appointed to assist on technical services

Ms Xulunga - appointed to assist on financial matters

Ms Lepesa - appointed to assist on financial matters

Chief Finance Officer (CFO)

Mr GA Mgcina (Acting)

Registered office

64 JJ Hadebe Street
Frankfort
Free State
9830

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

General Information

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

Audited Annual Financial Statements for the year ended 30 June 2022

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

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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

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the 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 2023 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the 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 6.

The audited annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the accounting officer on 11 October 2022 and were signed on its behalf by:

Mr LJ Ralebenya
Accounting officer

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Officer's Report

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

1. Review of activities

Main business and operations

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

Net deficit of the municipality was 175,133,511 (2021: deficit 59,428,526).

2. Going concern

We draw attention to the fact that at 30 June 2022, the municipality had an accumulated surplus (deficit) of 257,037,842 and that the municipality's total assets exceed its liabilities by 257,037,842.

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.

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.

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Officer's Report

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 6, which have been prepared on the going concern basis, were approved by the accounting officer on 11 October 2022 and were signed on its behalf by:

Mr LJ Ralebenya
Accounting officer

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories	8	1,267,968	828,555
Other financial assets	6	276,039	257,903
Receivables from exchange transactions	9&12	18,703,710	76,733,753
Receivables from non-exchange transactions	10&12	7,404,521	4,005,275
VAT receivable	11	81,979,532	50,774,771
Cash and cash equivalents	13	2,429,203	8,360,309
		112,060,973	140,960,566
Non-Current Assets			
Investment property	3	55,890,341	65,223,181
Property, plant and equipment	4	1,155,215,479	1,150,412,375
Heritage assets	5	35,758	35,758
Other financial assets	6	260,149	259,048
		1,211,401,727	1,215,930,362
Total Assets		1,323,462,700	1,356,890,928
Liabilities			
Current Liabilities			
Payables from exchange transactions	16	976,660,051	844,892,319
Consumer deposits	17	1,696,794	1,648,462
Employee benefit obligation	7	1,758,451	1,711,747
Unspent conditional grants and receipts	14	19,458,649	10,919,157
Provisions	15	2,158,028	2,791,940
		1,001,731,973	861,963,625
Non-Current Liabilities			
Employee benefit obligation	7	12,078,627	13,459,442
Provisions	15	52,614,258	49,296,504
		64,692,885	62,755,946
Total Liabilities		1,066,424,858	924,719,571
Net Assets		257,037,842	432,171,357
Accumulated surplus		257,037,842	432,171,357
Total Net Assets		257,037,842	432,171,357

* See Note 44

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	70,128,115	75,720,805
Rental of facilities and equipment	20	1,965,648	712,266
Other income	22	4,864,201	3,991,341
Interest received	23	35,346,130	31,744,405
Total revenue from exchange transactions		112,304,094	112,168,817
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	20,579,023	35,735,217
Interest received - non exchange	21	4,826,178	3,977,350
Transfer revenue			
Government grants & subsidies	25	144,082,508	166,442,497
Public contributions and donations	26	617,441	21,368,949
Fines		61,300	155,350
Total revenue from non-exchange transactions		170,166,450	227,679,363
Total revenue	18	282,470,544	339,848,180
Expenditure			
Employee related costs	27	(110,784,982)	(107,124,427)
Remuneration of councillors	28	(6,247,271)	(6,344,006)
Depreciation and amortisation	29	(40,074,059)	(38,206,697)
Finance costs	31	(57,994,190)	(56,773,362)
Debt Impairment	32	(130,100,834)	(72,581,932)
Bulk purchases	33	(37,301,646)	(35,345,653)
General Expenses	34	(79,678,617)	(74,805,954)
Total expenditure		(462,181,599)	(391,182,031)
Operating deficit	37	(179,711,055)	(51,333,851)
Loss on disposal of assets and liabilities		(193,358)	(655,571)
Fair value adjustments	35	2,228,094	3,354,026
Actuarial gains/losses	7	1,672,397	(1,486,969)
Reversal of impairments (Impairment loss)	30	487,581	(9,306,161)
Inventories losses/write-downs		382,830	-
		4,577,544	(8,094,675)
Deficit for the year		(175,133,511)	(59,428,526)

* See Note 44

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	493,260,119	493,260,119
Adjustments		
Prior year adjustments	(1,660,236)	(1,660,236)
Balance at 01 July 2020 as restated*	491,599,883	491,599,883
Changes in net assets		
Deficit for the year	(59,428,526)	(59,428,526)
Total changes	(59,428,526)	(59,428,526)
Opening balance as previously reported	436,874,580	436,874,580
Adjustments		
Prior year adjustments	(4,703,227)	(4,703,227)
Restated* Balance at 01 July 2021 as restated*	432,171,353	432,171,353
Changes in net assets		
Deficit for the year	(175,133,511)	(175,133,511)
Total changes	(175,133,511)	(175,133,511)
Balance at 30 June 2022	257,037,842	257,037,842

Note(s)

* See Note 44

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Taxation		13,866,614	21,680,911
Sale of goods and services		15,149,946	15,345,354
Grants		152,622,000	176,838,000
Interest income		540,448	749,980
		182,179,008	214,614,245
Payments			
Employee costs		(116,693,966)	(113,558,474)
Suppliers		(38,374,898)	(42,854,025)
Finance costs		-	-
		(155,068,864)	(156,412,499)
Net cash flows from operating activities	38	27,110,144	58,201,746
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(32,496,195)	(54,795,451)
Proceeds from sale of financial assets		(19,237)	(17,691)
Net cash flows from investing activities		(32,515,432)	(54,813,142)
Net increase/(decrease) in cash and cash equivalents		(5,405,288)	3,388,604
Cash and cash equivalents at the beginning of the year		8,360,309	5,622,780
Cash and cash equivalents at the end of the year	13	2,955,021	9,011,384

* See Note 44

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	72,988,692	3,477,275	76,465,967	70,128,115	(6,337,852)	See comments below
Rental of facilities and equipment	173,745	2,954,395	3,128,140	1,965,648	(1,162,492)	See comments below
Other income	5,220,512	(3,302,890)	1,917,622	4,864,201	2,946,579	See comments below
Interest earned - external investments	1,006,234	-	1,006,234	540,448	(465,786)	See comments below
Interest earned - outstanding debtors	25,000,000	13,413,272	38,413,272	34,805,682	(3,607,590)	See comments below
Dividends received	3,298,045	-	3,298,045	-	(3,298,045)	See comments below
Total revenue from exchange transactions	107,687,228	16,542,052	124,229,280	112,304,094	(11,925,186)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	21,777,441	(1,012,799)	20,764,642	20,579,023	(185,619)	See comments below
Interest, Dividends and Rent on Land	-	-	-	4,826,178	4,826,178	See comments below
Transfer revenue						
Government grants & subsidies	163,541,000	-	163,541,000	144,082,508	(19,458,492)	See comments below
Public contributions and donations	-	-	-	617,441	617,441	See comments below
Fines, Penalties and Forfeits	-	-	-	61,300	61,300	See comments below
Total revenue from non-exchange transactions	185,318,441	(1,012,799)	184,305,642	170,166,450	(14,139,192)	
Total revenue	293,005,669	15,529,253	308,534,922	282,470,544	(26,064,378)	
Expenditure						
Personnel	(104,686,027)	(7,969,525)	(112,655,552)	(110,784,982)	1,870,570	See comments below
Remuneration of councillors	(6,995,933)	(1,158,300)	(8,154,233)	(6,247,271)	1,906,962	See comments below
Depreciation and amortisation	(400,000)	-	(400,000)	(40,074,059)	(39,674,059)	See comments below
Impairment loss/ Reversal of impairments	-	-	-	487,581	487,581	See comments below
Finance costs	(10,000,000)	5,000,000	(5,000,000)	(57,994,190)	(52,994,190)	See comments below
Debt Impairment	(10,000,000)	2,008,562	(7,991,438)	(130,100,834)	(122,109,396)	See comments below

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Bulk purchases	(5,000,000)	-	(5,000,000)	(37,301,646)	(32,301,646)	See comments below
General Expenses	(68,499,334)	(12,715,519)	(81,214,853)	(79,678,617)	1,536,236	See comments below
Total expenditure	(205,581,294)	(14,834,782)	(220,416,076)	(461,694,018)	(241,277,942)	
Operating deficit	87,424,375	694,471	88,118,846	(179,223,474)	(267,342,320)	
Loss on disposal of assets and liabilities	-	-	-	(193,358)	(193,358)	See comments below
Fair value adjustments	-	-	-	2,228,094	2,228,094	See comments below
Actuarial gains/losses	-	-	-	1,672,397	1,672,397	See comments below
Inventories losses/write-downs	-	-	-	382,830	382,830	See comments below
	-	-	-	4,089,963	4,089,963	
Deficit before taxation	87,424,375	694,471	88,118,846	(175,133,511)	(263,252,357)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	87,424,375	694,471	88,118,846	(175,133,511)	(263,252,357)	

Reconciliation

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	477,164	1,307,053	1,784,217	1,267,968	(516,249)	See comments below
Other financial assets	-	-	-	276,039	276,039	See comments below
Receivables from exchange transactions	70,693,433	113,061,204	183,754,637	18,703,710	(165,050,927)	See comments below
Receivables from non-exchange transactions	-	157,027,019	157,027,019	7,404,521	(149,622,498)	See comments below
VAT receivable	-	-	-	81,979,532	81,979,532	See comments below
Call investment deposits	63,613,385	(84,803,434)	(21,190,049)	-	21,190,049	See comments below
Cash and cash equivalents	6,301,332	(1,385,837)	4,915,495	2,429,203	(2,486,292)	See comments below
	141,085,314	185,206,005	326,291,319	112,060,973	(214,230,346)	
Non-Current Assets						
Investment property	76,875,883	(57,835,392)	19,040,491	55,890,341	36,849,850	See comments below
Property, plant and equipment	1,029,347,550	(45,167,236)	984,180,314	1,155,215,479	171,035,165	See comments below
Intangible assets	3,363,633	(363,633)	3,000,000	-	(3,000,000)	See comments below
Heritage assets	-	-	-	35,758	35,758	See comments below
Other financial assets	35,757	-	35,757	260,149	224,392	See comments below
Long term receivables	444,500	(444,500)	-	-	-	
	1,110,067,323	(103,810,761)	1,006,256,562	1,211,401,727	205,145,165	
Total Assets	1,251,152,637	81,395,244	1,332,547,881	1,323,462,700	(9,085,181)	
Liabilities						
Current Liabilities						
Payables from exchange transactions	70,706,165	707,146,483	777,852,648	976,660,055	198,807,407	See comments below
Consumer deposits	565,972	1,130,431	1,696,403	1,696,794	391	See comments below
Employee benefit obligation	-	-	-	1,758,451	1,758,451	See comments below
Unspent conditional grants and receipts	-	-	-	19,458,649	19,458,649	See comments below
Provisions	16,091,493	(5,702,584)	10,388,909	2,158,028	(8,230,881)	See comments below
	87,363,630	702,574,330	789,937,960	1,001,731,977	211,794,017	

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Non-Current Liabilities						
Employee benefit obligation	-	-	-	12,078,627	12,078,627	See comments below
Provisions	16,735,103	16,207,462	32,942,565	52,614,258	19,671,693	See comments below
	16,735,103	16,207,462	32,942,565	64,692,885	31,750,320	
Total Liabilities	104,098,733	718,781,792	822,880,525	1,066,424,862	243,544,337	
Net Assets	1,147,053,904	(637,386,548)	509,667,356	257,037,838	(252,629,518)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,147,053,904	(637,386,548)	509,667,356	257,037,838	(252,629,518)	See comments below

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Category	Reason					
Revenue						
Service Charges	An anticipation of new township establishments gave rise to the projection as it would be assumed that the more township extensions we have, the more households we have, increase in services rendered, billing would also increase as a result.					
Rental of Facilities	The projection was made on the basis that, for the preceding financial period, the municipality had witnessed an increase in the number of occasions held which meant that revenue would have to be increased. The municipality, encountered a decline in terms of hall rentals for the 2022 financial period, thus decrease in the income from rental of facilities.					
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	The municipality had, in the past financial periods witnessed an increase in interest as a result of grants that were received and transferred to short-term deposit accounts, thus the municipality budgeted more. In the 2022 financial year, less grants were received, thus decrease in the interest on external investments.					
Interest earned - outstanding debtors	Over-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 owing to the changes effected on the valuation roll resulting from increase in the number and or value (s) of properties.					
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	The decrease was due to unspent conditional grants/amount withheld which was off-set against the Equitable share. Management did not accurately adjust the government grants in their adjustment budget to reflect all the changes, thus differences noted.					
Public contributions and donations	The line item was not budgeted for as no public contributions or donations were anticipated by the municipality. 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

Audited Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Fines, Penalties and Forfeits						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.
Expenditure						
Personnel						The following reasons attributed mainly to the decrease in personnel costs: - the projections on the budget had accounted for vacant positions which were not filled during the financial year - the calculation was also based on possible determination of Section 56 remuneration which did not materialise. - Resignations, retirement of employees, end of contracts of employees
Remuneration of Councillors						The budget was based on an inflation increase in the remuneration of councillors, however, no increase was received by means of determination of upper limits, 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						The variance is mainly due to the increasing Eskom debt, Rural Free State debt and Department of Water Affairs accounts and pension fund outstanding balances, amongst others. 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 incorrectly budgeted, thus the increase. The municipality anticipated that more debt would be written off due to increase in non-payments by the consumers. The municipality introduced incentive schemes to encourage consumers to pay their accounts, thus less debt was written as the municipality opted for the incentive scheme to encourage consumers to settle their accounts.
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.
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.
Actuarial 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.
Impairment loss						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

Audited Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Inventories losses / write-downs						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 line was incorrectly budget for. The budget figure is a negative balance, thus the material difference noted with the actual balance as per AFS. This was due to weak budgeting processes which will be rectified in the next financial year.
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 municipal debtors book is dominated mainly by exchange transactions, thus, this could have been as a result of misjudgement in projecting.
Vat Receivables						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.
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 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
Property, plant and equipment						The increase can be attributed to the following factors: '- when the budget was set, the municipality did not project accurately the changes to the PPE which include additions to PPE. - the changes to the PPE were identified by the AFS consultants, thus the changes identified by the consultants were not factored in during the budget process.
Intangible assets						The municipality anticipated to acquire software upgrades to the financial system of the municipality. Due to the financial constraints, the municipality was unable to fulfil the planned acquisition.
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.
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						

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
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					The difference is attributed to the new deposits for new connections in the current year. The movement is within the budget is it is not far off.	
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. The movement in the unspent was due to delays in appointment of service providers for various projects which impact the spending of the conditional grants.	
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 also due to weak budget processes which will be rectified in the next following year.	
Accumulated surplus					Accumulated surplus is only performed at year end, thus the movement was unknown during the budget process.	

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

Figures in Rand	Note(s)	2022	2021
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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

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (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

Audited Annual Financial Statements for the year ended 30 June 2022

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

Audited Annual Financial Statements for the year ended 30 June 2022

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

Audited Annual Financial Statements for the year ended 30 June 2022

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).

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.

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.7 Site restoration and dismantling cost (continued)

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.

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.

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.8 Heritage assets (continued)

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.

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.

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.9 Financial instruments (continued)

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.

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.

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Accounting Policies

1.10 Leases (continued)

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.

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.

Mafube Local Municipality

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

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.

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.

Mafube Local Municipality

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Accounting Policies

1.12 Impairment of 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 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.

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.

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

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

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

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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 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.

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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 Payables from Exchange Transactions

Payables from exchange transactions are originally carried at fair value and subsequently are measured at amortised cost using the effective interest method.

1.15 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

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Accounting Policies

1.15 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.

1.16 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

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Accounting Policies

1.16 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.

1.17 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.

1.18 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

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Accounting Policies

1.18 Share-based payments (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

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.18 Share-based payments (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.

1.19 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.19 Payables from Exchange Transactions (continued)

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.

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.

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.19 Payables from Exchange Transactions (continued)

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.

1.20 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.

1.21 Investment income

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

1.22 Borrowing costs

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

1.23 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.23 Accounting by principals and agents (continued)

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.

1.24 Comparative figures

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

1.25 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.

1.26 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.

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.27 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.

1.28 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 01/07/2021 to 30/06/2022.

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.

1.29 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.

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.29 Related parties (continued)

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.

1.30 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.

1.31 Value added tax

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

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

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

1.32 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

Audited Annual Financial Statements for the year ended 30 June 2022

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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:
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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 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2025	Unlikely there will be a material impact
• GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	Unlikely there will be a material impact

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

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3. Investment property

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	304,334,226	(248,443,885)	55,890,341	302,299,491	(237,076,310)	65,223,181
Total	304,334,226	(248,443,885)	55,890,341	302,299,491	(237,076,310)	65,223,181

Reconciliation of investment property - 2022

	Opening balance	Disposals	Impairments	Fair value adjustments	Total
Investment property	65,223,181	(193,358)	(11,367,576)	2,228,094	55,890,341
	65,223,181	(193,358)	(11,367,576)	2,228,094	55,890,341

Reconciliation of investment property - 2021

	Opening balance	Disposals	Impairments	Reversal of impairments	Fair value adjustments	Total
Investment property	74,581,176	(356,274)	(12,614,248)	258,500	3,354,027	65,223,181
	74,581,176	(356,274)	(12,614,248)	258,500	3,354,027	65,223,181

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

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

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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 statistions. 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

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

Mafube Local Municipality

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3. Investment property (continued)

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.

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

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

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3. Investment property (continued)

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

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

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4. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	139,868,136	-	139,868,136	139,868,136	-	139,868,136
Buildings	115,565,519	(40,228,052)	75,337,467	115,425,991	(38,838,862)	76,587,129
Plant and machinery	2,940,793	(1,856,122)	1,084,671	2,425,270	(1,694,661)	730,609
Motor vehicles	27,623,873	(18,212,136)	9,411,737	24,740,174	(16,986,211)	7,753,963
Office equipment	1,734,926	(1,311,427)	423,499	1,684,741	(1,234,889)	449,852
IT equipment	1,721,717	(1,343,852)	377,865	1,653,321	(1,277,889)	375,432
Infrastructure - Road network	195,673,316	(91,152,808)	104,520,508	191,868,010	(83,397,863)	108,470,147
Community	73,796,558	(35,907,078)	37,889,480	73,796,558	(34,562,572)	39,233,986
Infrastructure - Electricity network	191,432,552	(77,727,023)	113,705,529	191,432,552	(72,450,547)	118,982,005
Landfill site asset	43,890,917	(16,405,070)	27,485,847	43,365,103	(13,433,869)	29,931,234
Wastewater network	583,371,229	(136,610,923)	446,760,306	583,098,229	(133,127,604)	449,970,625
Water network	225,250,856	(50,109,634)	175,141,222	197,694,555	(45,640,254)	152,054,301
Work in Progress	23,209,212	-	23,209,212	26,004,956	-	26,004,956
Total	1,626,079,604	(470,864,125)	1,155,215,479	1,593,057,596	(442,645,221)	1,150,412,375

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Transfers received	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	139,868,136	-	-	-	-	-	-	139,868,136
Buildings	76,587,129	139,528	-	-	(2,496,513)	-	1,107,323	75,337,467
Plant and machinery	730,609	515,524	-	-	(114,423)	(84,227)	37,188	1,084,671
Motor vehicles	7,753,963	2,883,699	-	-	(1,746,678)	(41,733)	562,486	9,411,737
Office equipment	449,852	50,185	-	-	(83,687)	-	7,149	423,499
IT equipment	375,432	68,396	-	-	(87,477)	(2,535)	24,049	377,865
Infrastructure - Road network	108,470,147	-	3,805,306	-	(6,876,394)	(1,328,829)	450,278	104,520,508
Community	39,233,986	-	-	-	(2,087,652)	-	743,146	37,889,480
Infrastructure - Electricity network	118,982,005	-	-	-	(6,621,384)	-	1,344,908	113,705,529
Landfill site asset	29,931,234	-	-	525,814	(2,971,201)	-	-	27,485,847
Wastewater network	449,970,625	273,000	-	-	(12,321,480)	(700,566)	9,538,727	446,760,306
Water network	152,054,301	225,081	27,331,220	-	(4,667,170)	(551,141)	748,931	175,141,222
Work in progress	26,004,956	28,340,782	(31,136,526)	-	-	-	-	23,209,212
	1,150,412,375	32,496,195	-	525,814	(40,074,059)	(2,709,031)	14,564,185	1,155,215,479

Mafube Local Municipality

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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	139,868,136	-	-	-	-	-	-	-	139,868,136
Buildings	69,789,564	7,221,478	-	1,131,957	-	(2,337,688)	(93,267)	875,085	76,587,129
Plant and machinery	649,186	267,933	-	-	-	(93,320)	(118,843)	25,653	730,609
Motor vehicles	3,464,075	6,939,471	-	-	-	(1,113,360)	(1,785,673)	249,450	7,753,963
Office equipment	485,074	51,079	-	-	-	(78,194)	(11,895)	3,788	449,852
IT equipment	138,204	319,929	-	-	-	(49,332)	(44,488)	11,119	375,432
Infrastructure - Roads network	114,061,580	1,304,564	(299,296)	-	-	(6,800,506)	(254,172)	457,977	108,470,147
Community	41,660,042	-	-	-	-	(2,075,390)	(1,135,666)	785,000	39,233,986
Infrastructure - Electricity network	115,237,857	6,313,657	-	3,582,314	-	(6,414,527)	(537,303)	800,007	118,982,005
Landfill site asset	32,206,942	-	-	-	651,106	(2,926,814)	-	-	29,931,234
Wastewater network	449,797,811	3,757,095	-	1,288,859	-	(12,281,729)	(455,976)	7,864,565	449,970,625
Water network	122,910,030	2,166,223	-	34,599,694	-	(4,035,837)	(4,010,607)	424,798	152,054,301
Work in progress	40,153,758	26,454,022	-	(40,602,824)	-	-	-	-	26,004,956
	1,130,422,259	54,795,451	(299,296)	-	651,106	(38,206,697)	(8,447,890)	11,497,442	1,150,412,375

Pledged as security

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

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

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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 immoveable 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

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4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Total
Opening balance	26,004,956	26,004,956
Additions/capital expenditure	28,340,781	28,340,781
Transferred to completed items	(31,136,526)	(31,136,526)
	23,209,211	23,209,211

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Total
Opening balance	40,153,758	40,153,758
Additions/capital expenditure	26,454,022	26,454,022
Transferred to completed items	(40,602,824)	(40,602,824)
	26,004,956	26,004,956

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	1,171,689	2,261,121
Infrastructure - Water network	782,814	8,555,822
General Repairs and maintenance	126,850	119,832
Infrastructure - Electricity network	-	422,082
Buildings	3,000	-
Motor vehicles	909,736	467,461
	2,994,089	11,851,018

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

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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 01/02/2012 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

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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)	118,982,006	115,237,857
Additions	-	9,895,971
Depreciation	(6,621,384)	(6,414,527)
Impairment of assets	1,344,908	262,705
Total Carrying Amounts of Service Concession Assets	113,705,530	118,982,006

Mafube Local Municipality

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5. Heritage assets

	2022			2021		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Other - Jewels	35,758	-	35,758	35,758	-	35,758
Total	35,758	-	35,758	35,758	-	35,758

Reconciliation of heritage assets 2022

	Opening balance	Total
Other - Jewels	35,758	35,758
	35,758	35,758

Reconciliation of heritage assets 2021

	Opening balance	Total
Other - Jewels	35,758	35,758
	35,758	35,758

Mafube Local Municipality

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Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
6. Other financial assets		
At amortised cost		
VKB Agriculture Limited - Member Funds The member funds arises from awards earned by members based on purchases. Awards do not earn interest or dividends and have a 15 year maturity life and are then transferred to the security member loan.	260,149	259,048
VKB Agriculture Limited - Membership The membership deposit was paid to open a trading account and become a member. The receivable do not earn interest nor dividends and is repayable when membership is cancelled.	84,335	84,335
VKB Agriculture Limited - Security member loan When the member fund awards mature after 15 years it is transferred to the member loan account. The loan serves as security against the trading account. The loan is payable on demand after settling any outstanding balance on the trading account.	69,122	64,128
VKB Agriculture Limited - Short term member loan The member loan bears interest and is available on demand.	122,582	109,440
	536,188	516,951
Total other financial assets	536,188	516,951
Non-current assets		
At amortised cost	260,149	259,048
	260,149	259,048
Current assets		
At amortised cost	276,039	257,903
	276,039	257,903

Mafube Local Municipality

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7. Employee benefit obligations

Defined benefit plan

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

The last actuarial valuation was dated 30 June 2022.

Post retirement medical aid plan

NET DISCOUNT RATE

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

Assumption	30 June 2022	30 June 2021
Discount Rate (D)	11.73 %	8.20 %
Consumer price inflation (CPI)	6.96 %	6.96 %
Health care cost inflation (H = 1.50% + CPI)	8.46 %	6.06 %
Net discount rate $((1+D)/(1+H)-1)$	3.01 %	2.01 %

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

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

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2021 the duration of liabilities was 5.80 years. At this duration, the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2022 is 11.50% per annum, and the yield on the inflation-linked bonds of a similar term was about 2.82% per annum, implying an underlying expectation of inflation of 6.71% per annum $([1 + 11.50\% - 0.5\%] / [1 + 3.86\%] - 1)$.

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

DEMOGRAPHIC AND DECREMENT ASSUMPTIONS

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

Assumption	Continuation Pensioners 30 June 2022	Continuation Pensioners 30 June 2021
Age difference between spouses	Exact ages	Exact ages
Proportion married	Actual marital status	Actual marital status
Mortality	PA (90) - 2	PA (90) - 2

Mafube Local Municipality

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7. Employee benefit obligations (continued)

POST EMPLOYMENT MEDICAL SUBSIDY:

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

Mafube is committed to pay subsidies broadly as follows:

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

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

Long service award liability

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

Table below describes the benefits awarded.

Completed Service (in years)	Long Service Bonuses (% of Annual Salary)	Description
5	4.00 %	$(5 / 250 + 2\%) \times$ annual earnings
10	7.00 %	$(10 / 250 + 3\%) \times$ annual earnings
15	10.00 %	$(15 / 250 + 4\%) \times$ annual earnings
20	11.00 %	$(15 / 250 + 5\%) \times$ annual earnings
25, 30, 35, 40, 45	12.00 %	$(15 / 250 + 6\%) \times$ annual earnings

Notes to above Table:

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

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

VALUATION ASSUMPTIONS:

NET DISCOUNT RATE

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

Assumption	30/06/2022	30/06/2021
Discount Rate	10.22 %	9.20 %
CPI	6.71 %	4.32 %
Salary increase rate	7.71 %	5.32 %
Net discount rate	2.33 %	3.69 %

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

The methodology of setting financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2021 the duration of liabilities was 5.44 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2022 is 10.02% per annum, and the yield on inflation-linked bonds of a similar term was about 2.60% per annum. This implies an underlying expectation of inflation of 6.56% per annum ($[1 + 9.83\% - 0.5\%] / [1 + 2.60\%] - 1$).

Mafube Local Municipality

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7. Employee benefit obligations (continued)

We have assumed that salary inflation would exceed general inflation by 1.00% per annum, i.e. 7.65% per annum.

However, it is the relative levels of the discount rate and salary inflation to one another that is important, rather than the nominal values. We have thus assumed a net discount factor of 2.20% per annum ($[1 + 10.02\%] / [1 + 7.65\%] - 1$).

PROMOTIONAL SALARY INCREASE RATES

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

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

DEMOGRAPHIC AND DECUREMENT ASSUMPTION

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

Assumption	30/06/2021	30/06/2020
Normal retirement age (years)	65	65
Average retirement age (years)	62	62
Mortality	SA85-90	SA85-90

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

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

Age	Withdrawal rates (Male)	Withdrawal rates (Female)
20	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	(5,954,172)	(7,998,709)
Present value of the defined benefit obligation - Long service awards	(7,882,906)	(7,172,480)
	(13,837,078)	(15,171,189)
Non-current liabilities	(12,078,627)	(13,459,442)
Current liabilities	(1,758,451)	(1,711,747)
	(13,837,078)	(15,171,189)

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

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7. Employee benefit obligations (continued)		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	(15,171,189)	(13,774,258)
Actuarial gains	1,672,396	(1,475,804)
Net expense recognised in the statement of financial performance	(338,286)	78,873
	(13,837,079)	(15,171,189)
Net expense recognised in the statement of financial performance		
Current service cost	(637,170)	(570,103)
Interest cost	(1,269,698)	(1,252,968)
Benefits paid	1,568,582	1,901,944
	(338,286)	78,873
Calculation of actuarial gains and losses		
Actuarial (gains) losses – Long service awards	(321,541)	(1,127,776)
Actuarial (gains) losses – Post employment benefit plan	1,993,937	(348,028)
	1,672,396	(1,475,804)

Mafube Local Municipality

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7. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	11.73	8.20 %
Health care cost inflation rate	8.46 %	6.06 %

Sensitivity Analysis for Post Employment benefit plan:

	1% decrease R's	30/06/2022 Valuation basis R's	1% increase R's
Medical inflation rate			
Employer's accrued liability	(5,522,148.00)	(5,954,172.00)	(6,436,727.00)
Employer's service cost	-	-	-
Employer's interest cost	(614,718.00)	(665,241.00)	(721,692.00)
Discount Rate			
Employer's accrued liability	-	-	-
Employer's service cost (year following)	-	-	-
Employer's interest cost (year following)	-	-	-

Mafube Local Municipality

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7. Employee benefit obligations (continued)

As per the table above, a 1% increase in the medical inflation rate results in a 9.60% increase in the accrued liability whilst a 1% decrease in the medical inflation rate will result in a 8.38% decrease in the accrued liability.

Inversely, a 1% increase in the discount rate results in a 7.63% decrease in the accrued liability whilst a 1% decrease in the discount rate will result in a 8.91% increase in the accrued liability.

PEMA Liability Reconciliation:

Opening Accrued Liability	(7,998,709)	(7,740,719)
-Current-service Cost	-	-
-Interest Cost	(630,126)	(733,853)
-Contributions (benefits paid)	680,726	823,891
Total Annual Expense	50,600	90,038
-Actuarial Loss / (Gain)	1,993,937	(348,028)
Closing Accrued Liability	(5,954,172)	(7,998,709)

LSA Liability Reconciliation:

Opening Accrued Liability	(7,172,479)	(6,033,539)
-Current-service Cost	(637,170)	(570,103)
-Interest Cost	(639,572)	(519,115)
-Contributions (benefits paid)	887,856	1,078,053
Total Annual Expense	(388,886)	(11,165)
-Actuarial Loss / (Gain)	(321,541)	(1,127,776)
Closing Accrued Liability	(7,882,906)	(7,172,480)

Mafube Local Municipality

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7. Employee benefit obligations (continued)

Other disclosures

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

	2022	2021	2020
Defined benefit obligation	(13,837,078)	(15,171,189)	(5,532,000)
Plan assets	-	-	-
Surplus (deficit)	13,837,078	15,171,189	5,532,000

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

	2022	2021	2020
Accrued liability	(5,954,172)	(7,998,709)	(7,740,719)
Surplus / (deficit)	5,954,172	7,998,709	7,740,719

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

	2022	2021	2020
Liabilities: (Gain) / Loss	1,993,937	(348,028)	(688,252)

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

	2022	2021	2020
Accrued liability	(7,882,906)	(7,172,480)	(6,033,539)
Surplus / (deficit)	7,882,906	7,172,480	6,033,539

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

	2022	2021	2020
Liabilities: (Gain) / Loss	(321,541)	(1,127,776)	50,721

Mafube Local Municipality

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8. Inventories		
Consumable stores	1,025,712	759,009
Water for distribution	242,256	69,546
	1,267,968	828,555

Water for distribution

Opening balance	69,546	58,108
System input volume	172,710	11,438
Closing balance	242,256	69,546

9. Receivables from exchange transactions

Other receivables - Overpayment of Salaries	2,396,539	4,320,330
Other receivable - Rural Maintenance	4,631,689	4,631,689
Other debtors #1	6,967	27,708
Other debtors #2	8,800	-
Consumer debtors - Electricity	142,191	392,160
Consumer debtors - Water	8,211,153	34,432,628
Consumer debtors - Sewerage	1,863,066	19,297,579
Consumer debtors - Refuse	880,064	11,340,315
Consumer debtors - Other	563,241	2,291,344
	18,703,710	76,733,753

Fair value of trade and other receivables

Trade and other receivables	18,703,710	76,733,753
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Trade and other receivables impaired

As of 30 June 2022, trade and other receivables of (29,793,235) (2021: (111,172,991)) were impaired and provided for.

The amount of the provision was (592,286,018) as of 30 June 2022 (2021: (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.

Mafube Local Municipality

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Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
10. Receivables from non-exchange transactions		
Consumer debtors - Rates	7,404,521	4,005,275
	7,404,521	4,005,275

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	7,404,521	4,005,275
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Receivables from non-exchange transactions impaired

As of 30 June 2022, other receivables from non-exchange transactions of (27,469,708) (2021: (13,282,345)) were impaired and provided for.

The amount of the provision was (84,623,665) as of 30 June 2022 (2021: (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.

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.

No receivables from non-exchange transactions were pledged as security.

11. VAT receivable

VAT	81,979,532	50,774,771
	81,979,532	50,774,771

Impairment of receivables VAT of (2022) R 21 762 225.98 and (2021) R 16 868 803.74 already taken into account.

Mafube Local Municipality

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12. Consumer debtors disclosure		
Gross balances		
Consumer debtors - Rates	76,137,183	83,466,855
Consumer debtors - Electricity	3,359,683	6,083,136
Consumer debtors - Water	122,519,350	309,300,953
Consumer debtors - Sewerage	78,090,507	202,776,229
Consumer debtors - Refuse	50,608,263	124,471,158
Consumer debtors - Other	12,418,795	15,471,558
	343,133,781	741,569,889
Less: Allowance for impairment		
Consumer debtors - Rates	(68,732,662)	(79,461,580)
Consumer debtors - Electricity	(3,217,492)	(5,690,976)
Consumer debtors - Water	(114,308,197)	(274,868,325)
Consumer debtors - Sewerage	(76,227,441)	(183,478,650)
Consumer debtors - Refuse	(49,728,199)	(113,130,843)
Consumer debtors - Other	(11,855,554)	(13,180,214)
	(324,069,545)	(669,810,588)
Net balance		
Consumer debtors - Rates	7,404,521	4,005,275
Consumer debtors - Electricity	142,191	392,160
Consumer debtors - Water	8,211,153	34,432,628
Consumer debtors - Sewerage	1,863,066	19,297,579
Consumer debtors - Refuse	880,064	11,340,315
Consumer debtors - Other	563,241	2,291,344
	19,064,236	71,759,301
Included in above is receivables from exchange transactions		
Electricity	142,191	392,160
Water	8,208,690	34,432,864
Sewerage	1,861,275	19,297,696
Refuse	879,003	11,340,454
Other	555,337	2,291,296
	11,646,496	67,754,470
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	3,982,907	3,797,368
	15,629,403	71,551,838
Rates		
Current (0 -30 days)	2,159,453	3,132,488
31 - 60 days	1,983,306	2,863,440
61 - 90 days	1,915,863	2,709,399
91 - 120 days	1,941,293	2,811,764
121+ days	87,005,527	71,949,763
Impairment for bad debts	(68,732,662)	(79,461,579)
Write-Off	(18,868,259)	-
	7,404,521	4,005,275

Mafube Local Municipality

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Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
12. Consumer debtors disclosure (continued)		
Electricity		
Current (0 -30 days)	17,396	21,100
31 - 60 days	16,852	17,949
61 - 90 days	15,663	24,617
91 - 120 days	20,766	15,646
121+ days	6,048,749	6,003,825
Impairment for bad debts	(3,217,492)	(5,690,977)
Write-Off	(2,759,743)	-
	142,191	392,160
Water		
Current (0 -30 days)	5,129,784	6,172,298
31 - 60 days	6,302,833	10,138,382
61 - 90 days	4,957,170	15,749,809
91 - 120 days	5,405,626	4,600,852
121+ days	334,342,411	272,639,612
Impairment for bad debts	(114,308,197)	(274,868,325)
Write-Off	(233,618,474)	-
	8,211,153	34,432,628
Sewerage		
Current (0 -30 days)	3,348,172	3,061,225
31 - 60 days	3,059,239	3,011,153
61 - 90 days	3,006,505	2,978,651
91 - 120 days	3,016,689	2,957,848
121+ days	223,106,803	190,767,351
Impairment for bad debts	(76,227,441)	(183,478,649)
Write-Off	(157,446,901)	-
	1,863,066	19,297,579
Refuse		
Current (0 -30 days)	2,371,048	2,121,402
31 - 60 days	2,126,118	2,087,787
61 - 90 days	2,093,470	2,080,134
91 - 120 days	2,098,916	2,051,707
121+ days	139,398,697	116,130,128
Impairment for bad debts	(49,728,199)	(113,130,843)
Write-Off	(97,479,986)	-
	880,064	11,340,315
Other		
Current (0 -30 days)	239,969	225,620
31 - 60 days	232,300	220,952
61 - 90 days	536,101	217,359
91 - 120 days	226,376	388,445
121+ days	17,962,055	14,419,182
Impairment for bad debts	(11,855,554)	(13,180,214)
Write-Off	(6,778,006)	-
	563,241	2,291,344

Mafube Local Municipality

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Notes to the Audited Annual Financial Statements

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12. Consumer debtors disclosure (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	(669,810,588)	(675,385,629)
Contributions to allowance	(107,224,053)	5,575,041
Reversal of allowance	452,965,096	-
	(324,069,545)	(669,810,588)

Mafube Local Municipality

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13. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	572,573	615,174
Short-term deposits	1,856,630	7,745,135
	2,429,203	8,360,309

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	2,429,203	8,360,309
	2,429,203	8,360,309

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2022	30 June 2021	30 June 2020	30 June 2022	30 June 2021	30 June 2020
ABSA Bank - Call Account - 9090111270	972,770	251	251	972,770	251	251
ABSA - Call Account - 9229618782	11,210	35,511	434	11,210	35,511	434
ABSA Bank - Call Account - 9232387538	611	611	611	611	611	611
ABSA Bank - Cheque Account - 4052823517	25,797	416,633	384,157	572,795	416,633	384,157
First National Bank - Cheque Account - 62817361679	(222)	198,542	130,599	(222)	198,542	130,599
First National Bank - Call Account - 62817394901	871,667	5,632,972	5,106,727	871,667	5,632,972	5,106,727
First National Bank - Call Account - 62850214778	372	2,075,790	-	372	2,075,790	-
Total	1,882,205	8,360,310	5,622,779	2,429,203	8,360,310	5,622,779

Mafube Local Municipality

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Notes to the Audited Annual Financial Statements

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14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG)	11,100,479	-
Local Government Financial Management Grant (FMG)	-	16
Integrated National Electrification Programme (5B)	1,793,526	5,420,079
Water Services Infrastructure Grant (Direct)	6,564,644	5,499,062
	19,458,649	10,919,157

Movement during the year

Balance at the beginning of the year	10,919,157	523,653
Additions during the year	56,395,000	56,276,000
Income recognition during the year	(47,855,508)	(45,880,496)
	19,458,649	10,919,157

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 25 for reconciliation of grants from National/Provincial Government.

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

Municipality applied for the 2020/21 unspent conditional grants roll over for Water Services Infrastructure Grant (WSIG) and Integrated National Electrification (INEP) amounting to R10 919 000 and the roll-over was denied. The unspent conditional grants for both WSIG and INEP relating to 2020/21 were deducted (withheld) by National Treasury from the 2021/22 Equitable share grant received.

Mafube Local Municipality

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15. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Change in provision	Finance Cost	Total
Environmental rehabilitation	52,088,444	525,814	2,158,028	54,772,286
	52,088,444	525,814	2,158,028	54,772,286

Reconciliation of provisions - 2021

	Opening Balance	Change in provision	Finance Cost	Total
Environmental rehabilitation	48,645,398	651,106	2,791,940	52,088,444
	48,645,398	651,106	2,791,940	52,088,444
Non-current liabilities			52,614,258	49,296,504
Current liabilities			2,158,028	2,791,940
			54,772,286	52,088,444

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 2022 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 2022.

Discount rate (D) 11.64%
Consumer price inflation (C) 7.40%
Net discount rate 3.94%

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
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15. Provisions (continued)

Site Life calculation

Frankfort Landfill Site:

The town of Frankfort lies on the banks of the Wilge River, Southeast of the Vaal Dam and Vereeniging, surrounded by farmlands that yield and feed corn, cattle and wildlife.

The landfill site situated approximately 885 meters from Frankfort town, and it is accessed by a gravel road called JJ Hadebe Street south of the town. The coordinates of the landfill site are 27,29456110°S 28,49646490°E. The estimated total footprint of the item is approximately 45 000m² and there is no area of the landfill site which has been fully utilised yet. The total partially used airspace is 144 295.60 m³.

The remaining life is calculated at 6 years, up to 2028 based on the annual population growth and available air space.

Villiers Landfill site:

The landfill site is situated approximately 2.5km from Villiers town. The Villiers landfill site is responsible for accommodating the solid waste of Villiers and Qalabotjha which is a township in Villiers. The total population of Villiers and Qalabotjha accumulates to 20 308 in 2022. (Census 2011 adjusted to 2022 at 1.46% annually)

The site is accessed by a gravel road and its coordinates are 27,050851°S 28,618042°E. The estimated total footprint of the item is approximately 60 000m² and the fully utilised area is approximately 27 200m². The total partially used airspace is 11 886.88m³.

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

Tweeling Landfill Site:

The landfill site is situated next to the Mafahlaneng Township. Tweeling is a small town in the Free State province, and it is situated approximately 40km from Frankfort town. The total population of Tweeling accumulates to 7 582 in 2022. (Census 2011 adjusted to 2022 at 1.46% annually).

The landfill site has no designated access road however it is surrounded by a gravel road on the south and west boundaries from where access to the site can be obtained. The coordinates of the landfill site are 27.549758°S 28.505289°E. The total area of the landfill site is approximately 42 000m². The total fully utilized area is approximately 2000m². The partially utilized area is approximately 40 010m² (calculated from drone survey) leaving room for further utilization. The total cubes of fill within the partially utilized area of the site is 33 086.70 m³.

The remaining life is calculated at 12 years, up to 2034 based on the annual population growth and available air space.

Cornelia Landfill site:

The landfill site is situated approximately 1.5km east of Cornelia town. The landfill site lies approximately 40km south of Villiers. The total population of Cornelia town accumulates to 3 476 in 2022. (Census 2011 adjusted to 2022 at 1.46% annually).

The site is accessed via Lourens street which is a gravel road. The coordinates of the landfill site are 27.247399°S 28.8647020°E. The total footprint of the item is approximately 85 200m². The total fully utilised area is approximately 6 800m² and the total partially utilised area is approximately 8 300m². The total cubes of fill within partially utilised area are 1 820.29m³.

The remaining life is calculated at 49 years, up to 2071 based on the annual population growth and available air space.

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
16. Payables from exchange transactions		
13th cheque accrual	2,600,062	2,906,077
AGSA	10,828,583	7,473,036
Accrued leave pay	4,698,543	7,547,424
Bulk electricity	108,553,824	116,343,444
Bulk water	457,588,874	396,176,162
Insurance contributions not yet paid over	1,305,920	1,372,791
Medical aid contributions not yet paid over	3,391,080	3,503,165
PAYE contributions not yet paid over	26,647,559	30,598,661
Payments received in advanced - contract in process	4,455,053	6,611,279
Pensions contributions not yet paid over	172,999,325	145,031,070
Retentions	5,365,291	5,102,012
SDL contributions not yet paid over	1,913,947	2,188,481
Salaries accrued for(only paid after year end)	23,135,734	4,730,855
Suppliers owed by the municipality	146,586,573	109,419,672
UIF contributions not yet paid over	2,831,609	3,366,459
Unallocated receipts and deposits	424,445	424,445
Unions & maintenance contributions not yet paid over	3,333,629	2,097,286
	976,660,051	844,892,319
Fair value of trade and other payables		
Trade payables	976,660,051	844,892,319
	976,660,051	844,892,319
17. Consumer deposits		
Rates, water, refuse, electricity and rental	1,696,794	1,648,462
	1,696,794	1,648,462

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
18. Revenue		
Actuarial gains	70,128,115	75,720,805
Rental of facilities and equipment	1,965,648	712,266
Other income related to municipal services	4,864,201	3,991,341
Interest received	35,346,130	31,744,405
Property rates	20,579,023	35,735,217
Interest, Dividends and Rent on Land	4,826,178	3,977,350
Government grants & subsidies	144,082,508	166,442,497
Public contributions and donations	617,441	21,368,949
Fines, Penalties and Forfeits	61,300	155,350
	282,470,544	339,848,180
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	70,128,115	75,720,805
Rental of facilities and equipment	1,965,648	712,266
Other income	4,864,201	3,991,341
Interest received	35,346,130	31,744,405
	112,304,094	112,168,817
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	20,579,023	35,735,217
Interest, Dividends and Rent on Land	4,826,178	3,977,350
Transfer revenue		
Government grants & subsidies	144,082,508	166,442,497
Public contributions and donations	617,441	21,368,949
Fines	61,300	155,350
	170,166,450	227,679,363
19. Service charges		
Sale of water	31,108,765	36,173,588
Sewerage and sanitation charges	22,276,914	22,824,624
Refuse removal	16,742,436	16,722,593
	70,128,115	75,720,805
20. Rental of facilities and equipment		
Premises		
Own Premises	1,965,648	712,266
	1,965,648	712,266
21. Interest received - non exchange		
Interest - Receivables	4,826,178	3,977,350
	4,826,178	3,977,350

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
22. Other income		
Administrative Fees	25,806	9,148
Building Fees	83,855	69,011
Camping Fees	2,609	-
Cemetery Fees	455,871	366,764
Clearance certificate	71,183	60,664
Connection Fees	1,408,186	178,242
Meter Reading Fees	28	-
Photocopies	1,013	3,252
Recoveries	149	206,350
Royalties	2,550,900	2,670,691
Sale of Sand	46,647	14,008
Sub-divisioning	210	202
Tender deposits	217,744	413,009
	4,864,201	3,991,341
23. Investment revenue		
Interest revenue		
Bank	540,448	749,980
Interest charged on trade and other receivables	34,805,682	30,994,425
	35,346,130	31,744,405
24. Property rates		
Rates received		
Residential	7,199,147	14,397,691
Commercial	10,470,825	18,115,714
Agricultural	2,909,051	3,221,812
	20,579,023	35,735,217
Valuations		
Residential	1,571,661,000	1,571,661,000
Commercial	406,077,500	406,077,500
State	71,821,000	71,821,000
Municipal	54,046,900	54,046,900
Small holdings and farms	3,630,537,000	3,630,537,000
Institutional and Other	113,865,000	113,865,000
	5,848,008,400	5,848,008,400

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 2022 (30 June 2022) 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

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
25. Government grants and subsidies		
Operating grants		
Equitable share	107,146,141	119,062,000
Expanded Public Works Programme Integrated Grant (EPWP)	1,075,000	-
Provincial Government Grant	-	1,500,000
Local Government Financial Management Grant (FMG)	3,100,016	2,999,985
	111,321,157	123,561,985
Capital grants		
Municipal Infrastructure Grant (MIG)	12,414,521	28,044,000
Water Services Infrastructure Grant (Direct)	13,435,356	9,500,938
Integrated National Electrification Programme (5B)	6,911,474	5,335,574
	32,761,351	42,880,512
	144,082,508	166,442,497
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	32,761,351	42,880,512
Unconditional grants received	111,321,157	123,561,985
	144,082,508	166,442,497
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Municipality applied for the 2020/21 unspent conditional grants roll over for Water Services Infrastructure Grant (WSIG) and Integrated National Electrification (INEP) amounting to R10 919 000 and the roll-over was denied. The unspent conditional grants for both WSIG and INEP relating to 2020/21 were deducted (withheld) by National Treasury from the 2021/22 Equitable share grant received.		
Municipal Infrastructure Grant (MIG)		
Current-year receipts	23,515,000	28,044,000
Conditions met - transferred to revenue	(12,414,521)	(28,044,000)
	11,100,479	-
Conditions still to be met - remain liabilities (see note 14).		
Local Government Financial Management Grant (FMG)		
Balance unspent at beginning of year	16	-
Current-year receipts	3,100,000	3,000,000
Conditions met - transferred to revenue	(3,100,016)	(2,999,984)
	-	16
Conditions still to be met - remain liabilities (see note 14).		
Expanded Public Works Programme Integrated Grant (EPWP)		
Current-year receipts	1,075,000	-
Conditions met - transferred to revenue	(1,075,000)	-
	-	-

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
25. Government grants and subsidies (continued)		
Integrated National Electrification Programme (5B)		
Balance unspent at beginning of year	5,420,079	523,653
Current-year receipts	8,705,000	10,232,000
Conditions met - transferred to revenue	(6,911,474)	(5,335,574)
Unspent INEP portion deducted from Equitable share in 2022	(5,420,079)	-
	1,793,526	5,420,079

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

Water Services Infrastructure Grant (Direct)

Balance unspent at beginning of year	5,499,062	-
Current-year receipts	20,000,000	15,000,000
Conditions met - transferred to revenue	(13,435,356)	(9,500,938)
Unspent WSIG portion deducted from Equitable share in 2022	(5,499,062)	-
	6,564,644	5,499,062

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

26. Public contributions and donations

Asset donations	-	17,368,949
Other Public contribution	617,441	4,000,000
	617,441	21,368,949

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

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
27. Employee related costs		
Basic	62,287,114	62,288,889
Bonus	5,237,816	5,426,973
Medical aid - company contributions	3,753,365	3,490,423
UIF	659,578	599,261
SDL	840,999	668,640
Leave pay provision charge	(1,264,605)	946,786
Defined contribution plans	18,042,787	15,171,585
Overtime payments	4,761,188	3,776,573
Acting allowances	1,991,122	1,092,074
Car allowance	7,840,088	7,637,055
Housing benefits and allowances	625,313	620,118
Standby Allowance	1,271,481	829,759
Employee benefit obligation	(931,412)	(823,891)
Cellphone Allowance	126,303	104,400
Other payroll levies	77,225	78,150
	105,318,362	101,906,795
Remuneration of Municipal Manager - LJ Ralebenya		
Annual Remuneration	830,413	138,402
Allowances	445,785	74,297
Contributions to UIF, Medical and Pension Funds	14,047	2,313
	1,290,245	215,012
Remuneration of Chief Financial Officer - MA Makoae		
Annual Remuneration	369,265	633,025
Car Allowance	250,886	430,090
Contributions to UIF, Medical and Pension Funds	7,159	10,269
	627,310	1,073,384
Remuneration of Acting Chief Financial Officer - GA Mgcina		
Acting Allowance	438,945	167,207
	438,945	167,207
Remuneration of Director Community Service - ZE Mofokeng		
Annual Remuneration	608,172	935,587
Allowances	454,943	423,559
Contributions to UIF, Medical and Pension Funds	12,225	13,447
	1,075,340	1,372,593
Remuneration of Acting Director Corporate Service - I Ngozo		
Acting Allowance	511,224	237,174
	511,224	237,174

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
27. Employee related costs (continued)		
Remuneration of Director Corporate Services - PP Moloi		
Annual Remuneration	303,535	728,483
Allowances	139,430	334,632
Contributions to UIF, Medical and Pension Funds	5,185	13,942
	448,150	1,077,057
Remuneration of Director Planning & Infrastructure - DL Ramabitsa		
Annual Remuneration	676,289	678,076
Allowances	386,826	386,826
Contributions to UIF, Medical and Pension Funds	12,292	10,303
	1,075,407	1,075,205
28. Remuneration of councillors		
Executive Major	856,007	864,459
Mayoral Committee Members	641,992	768,385
Speaker	688,698	692,288
Councillors	4,060,574	4,018,874
	6,247,271	6,344,006
29. Depreciation and amortisation		
Property, plant and equipment	40,074,059	38,206,697
	40,074,059	38,206,697

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
30. Impairment of assets		
Impairments		
Property, plant and equipment	2,709,030	8,447,890
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.		
Investment property	11,367,576	12,614,248
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.		
	14,076,606	21,062,138
Reversal of impairments		
Property, plant and equipment	(14,564,187)	(11,497,477)
Repairs and additions to the network assets including infrastructure resulted in previous conditions of assets to improve, thus a reversal of impairments.		
Investment property	-	(258,500)
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.		
	(14,564,187)	(11,755,977)
Total impairment losses (recognised) reversed	(487,581)	9,306,161

The main classes of assets affected by impairment losses are:

Mafube Local Municipality

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Notes to the Audited Annual Financial Statements

Figures in Rand

2022

2021

30. 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

Investment property

The main classes of assets affected by reversals of 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

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.

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
31. Finance costs		
Employee benefit obligations interest paid	1,269,698	733,853
Interest Cost - Landfill site provision	2,158,028	2,791,940
Trade and other payables	54,566,464	53,247,569
	57,994,190	56,773,362
32. Debt impairment		
Contributions to debt impairment provision	(322,055,026)	1,424,820
Bad debts written off	452,155,860	71,157,112
	130,100,834	72,581,932
33. Bulk purchases		
Water	37,301,646	35,345,653
	37,301,646	35,345,653
Water losses		
Units purchased	56,707,634	86,639,521
Units sold	(5,346,512)	(3,773,696)
Total	51,361,122	82,865,825
Percentage Loss:		
Technical losses	91 %	96 %

Distribution losses - Water

Water losses for the financial year is 91%. The Rand value of the losses in the current year at R 0.89/kl is R 45 024 671.81 (and in 2021: R 44 382 566.77)

These losses are attributable to ageing infrastructure, meter reading losses and losses due to faulty meters never replaced.

Mafube Local Municipality

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Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
34. General expenses		
Advertising	405,554	173,467
Auditors remuneration	6,725,518	4,554,396
Bank charges	275,477	334,310
Burial expenses	53,594	15,825
Bursaries	167,076	140,967
Community development and training	183,016	368,522
Consulting and professional fees	16,251,065	15,453,980
Consumables	10,469,032	9,134,523
Electricity	14,540,462	12,459,783
Fuel and oil	2,473,808	962,631
Hire	12,988,101	8,284,119
IT expenses	2,588,770	3,126,012
Insurance	2,393,260	1,899,556
Motor vehicle expenses	37,329	317,287
Other expenses	136,003	-
Printing and stationery	2,197,086	1,655,033
Repairs and maintenance	2,994,090	11,943,055
Security (Guarding of municipal property)	-	2,026
Staff welfare	76,373	20,106
Subscriptions and membership fees	38,974	24,284
Telephone and fax	2,870,096	2,704,004
Travel - local	659,898	510,685
Uniforms	1,154,035	721,383
	79,678,617	74,805,954
35. Fair value adjustments		
Investment property (Fair value model)	2,228,094	3,354,026
	2,228,094	3,354,026
36. Auditors' remuneration		
Fees	6,725,518	4,554,396
	6,725,518	4,554,396
37. Operating deficit		
Operating deficit for the year is stated after accounting for the following:		
Loss on sale of property, plant and equipment	(193,358)	(655,571)
Impairment on property, plant and equipment	2,709,030	8,447,890
Reversal of impairment on property, plant and equipment	14,564,187	11,497,477
Impairment on investment property	11,367,576	12,614,248
Reversal of impairment on investment property	-	258,500
Depreciation on property, plant and equipment	40,074,059	38,206,697
Employee costs	117,032,253	113,468,433

Mafube Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2022

Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021
38. Cash generated from operations		
Deficit	(175,133,511)	(59,428,526)
Adjustments for:		
Depreciation and amortisation	40,074,059	38,206,697
Gain on sale of assets and liabilities	193,358	655,571
Fair value adjustments	(2,228,094)	(3,354,026)
Impairment	(487,581)	9,306,161
Debt impairment	130,100,834	72,581,932
Movements in retirement benefit assets and liabilities	(1,334,111)	1,396,931
Movements in provisions	2,683,842	3,443,046
Changes in working capital:		
Inventories	(439,413)	284,806
Receivables from exchange transactions	58,030,043	(57,197,849)
Consumer debtors	(130,100,834)	(72,581,932)
Other receivables from non-exchange transactions	(3,399,246)	(4,960,887)
Payables from exchange transactions	131,767,735	120,634,748
VAT	(31,204,761)	(1,252,555)
Unspent conditional grants and receipts	8,539,492	10,395,504
Consumer deposits	48,332	72,125
	27,110,144	58,201,746

Mafube Local Municipality

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Notes to the Audited Annual Financial Statements

Figures in Rand 2022 2021

39. Financial instruments disclosure

Categories of financial instruments

2022

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	18,703,710	18,703,710
Other receivables from non-exchange transactions	7,404,521	7,404,521
Cash and cash equivalents	2,429,203	2,429,203
	28,537,434	28,537,434

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	976,660,051	976,660,051
Consumer deposits	1,696,794	1,696,794
	978,356,845	978,356,845

2021

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	76,733,753	76,733,753
Other receivables from non-exchange transactions	4,005,275	4,005,275
Cash and cash equivalents	8,360,309	8,360,309
	89,099,337	89,099,337

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	844,892,319	844,892,319
Consumer deposits	1,648,462	1,648,462
	846,540,781	846,540,781

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Figures in Rand	2022	2021
40. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	54,320,012	14,972,081
	54,320,012	14,972,081
Total capital commitments		
Already contracted for but not provided for	54,320,012	14,972,081
	54,320,012	14,972,081
Total commitments		
Total commitments		
Authorised capital expenditure	54,320,012	14,972,081
	54,320,012	14,972,081

This committed expenditure relates to property, plant and equipment and will be financed by the municipal grants - INEP, MIG & WSIG from National Treasury and CoGTA.

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41. 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) 2022	Management's estimate of the financial exposure (including costs and disbursements) 2021	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.
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	250,000	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.
PP Moloi	The case is a constructive dismissal matter referred to the CCMA. The claim amount is calculated at 12 months remuneration.	1,000,000	-	Pending CCMA matter.

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41. Contingencies (continued)

Amos Makoae	The case is a constructive dismissal matter referred to the CCMA. The claim amount is calculated at 12 months remuneration.	1,000,000	-	Pending CCMA matter.
		5,624,464	3,624,464	

Mafube Local Municipality

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42. Related parties

Relationships

Accounting Officer

Members of key management

Mr LJ Ralebenya
Cllr. JE Sigasa
Cllr. TI Motsoeneng
Cllr. MC Du Plessis
Cllr. WC Motloug
Cllr. JJ Hlongwane
Cllr. UC Jafta
Cllr. LS Kubeka
Cllr. RP Mokuene
Cllr. PM Monaune
Cllr. AS Mosia
Cllr. TL Moloi
Cllr. NE Rakoloti
Cllr. PS Skosana
Cllr. MP Mokoena
Cllr. SB Ntuli
Cllr. A Tsotetsi
Cllr. MR Tsotetsi
Cllr. TP Mashiloane
Cllr. MA Tsubane
Cllr. AN Molefe
Cllr. SM Steyn
Cllr. FA Tsotetsi
Cllr. WBM Gumede
Cllr. EM Maboya
Cllr. JJ Kumbi
Cllr. J Oost
Cllr. JB Marais
Cllr. TBRJ Van Rensburg

Mafube Local Municipality

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42. Related parties (continued)

Remuneration of management

Management class: Board members

2022

Name	Basic salary	Contributions to Medical, Pension Funds and Other Allowances	Allowances	Total
Municipal Manager - LJ Ralebenya	830,413	14,047	445,785	1,290,245
Chief Financial Officer - MA Makoae	369,265	7,159	250,886	627,310
Director Planning & Infrastructure - DL Ramabitsa	676,289	12,292	386,826	1,075,407
Director Community Service - ZE Mofokeng	608,172	12,225	454,943	1,075,340
Director Corporate Service - PP Moloi	303,535	5,185	139,430	448,150
Acting Director Corporate Services - I Ngozo	-	-	511,224	511,224
Acting Chief Financial Officer - GA Mgcina	-	-	438,945	438,945
	2,787,674	50,908	2,628,039	5,466,621

Mafube Local Municipality

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42. Related parties (continued)

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
Acting Director Corporate Services - I Ngozo	-	-	237,174	237,174
Acting Chief Financial Officer - GA Mgcina	-	-	167,207	167,207
	3,113,573	50,274	2,053,785	5,217,632

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42. Related parties (continued)

Management class: Councillors

2022

Name	Basic salary	Contributions to Medical, Pension Funds and Other Allowances	Travel Allowance	Cellphone Allowance	Total
Mayor - Cllr. JE Sigasa	229,563	2,921	76,521	1,280	310,285
Mayor - Cllr. TI Motsoeneng	538,166	5,236	-	2,320	545,722
Speaker - Cllr. MM Mofokeng	497,458	22,164	165,476	3,600	688,698
Cllr. FP Motlounge	96,052	1,375	32,018	15,787	145,232
Cllr. MC Du Plessis	96,052	1,229	32,018	1,280	130,579
Cllr. WC Motlounge	81,831	12,376	31,077	1,280	126,564
Cllr. JJ Hlongwane	93,231	1,194	31,077	1,280	126,782
Cllr. TJ Kotsi	273,689	3,289	85,607	3,600	366,185
Cllr. UC Jafta	72,648	933	24,216	1,280	99,077
Cllr. LS Kubeka	72,648	933	24,216	1,280	99,077
Cllr. RP Mokuene	93,231	1,194	31,077	1,280	126,782
Cllr. PM Monaune	72,648	933	24,216	1,280	99,077
Cllr. AS Mosia	66,888	6,693	24,216	1,280	99,077
Cllr. J Oost	119,188	1,531	39,729	2,100	162,548
Cllr. TL Molo	72,648	933	24,216	1,280	99,077
Cllr. NE Rakoloti	93,231	1,194	31,077	1,280	126,782
Cllr. PS Skosana	72,648	933	24,216	1,280	99,077
Cllr. MP Mokoena	204,322	2,696	68,108	10,800	285,926
Cllr. SB Ntuli	220,592	2,229	-	2,320	225,141
Cllr. A Tsotetsi	175,566	1,779	-	2,320	179,665
Cllr. MR Tsotetsi	226,646	2,266	-	-	228,912
Cllr. TP Mashiloane	165,444	2,119	55,148	2,320	225,031
Cllr. MA Tsubane	220,592	2,229	-	2,320	225,141
Cllr. AN Molefe	220,592	2,229	-	2,320	225,141
Cllr. SM Steyn	175,566	1,779	-	2,320	179,665

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42. Related parties (continued)

Cllr FA Tsotetsi	154,097	6,078	17,027	-	177,202
Cllr. WBM Gumede	164,215	1,756	11,351	2,320	179,642
Cllr. EM Maboya	219,977	2,174	15,008	2,320	239,479
Cllr. JJ Kumbi	175,566	1,779	-	2,320	179,665
Cllr. JB Marais	48,243	1,151	16,081	900	66,375
Cllr. TBRJ Van Rensburg	175,566	1,779	-	2,320	179,665
	5,188,804	97,104	883,696	77,667	6,247,271

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Notes to the Audited Annual Financial Statements

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42. Related parties (continued)

2021

Name	Basic salary	Contributions to Medical, Pension Funds and Other Allowances	Travel Allowance	Cellphone Allowance	Total
Mayor - Cllr. JE Sigasa	596,518	55,298	215,215	3,600	870,631
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
	4,492,219	204,015	1,549,372	98,400	6,344,006

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43. Change in estimate

Property, plant and equipment

Management reassessed the remaining useful life and conditions of property, plant and equipment during the financial year which resulted in changes in depreciation and the carry value of Property, plant and equipment.

The effect of the change in accounting estimate has resulted in the following movements for the current period, except for the disclosure of the effect on future periods as it is impracticable to estimate that effect.

Movement in depreciation

FAR Category	Depreciation before adjustment	Depreciation after adjustment	Difference in Depreciation
Buildings	2,477,870.30	2,497,115.17	19,244.87
Community Assets	2,015,132.36	2,087,651.58	72,519.22
Electricity	6,655,613.28	6,700,157.49	44,544.20
Moveables - CE	81,017.13	87,477.29	6,460.17
Moveables - FO	81,352.44	83,687.07	2,334.64
Moveables - ME	109,141.76	114,422.94	5,281.18
Roads and Stormwater	6,811,569.66	6,876,394.46	64,824.80
Transport	1,475,881.25	1,383,612.40	-92,268.85
Water	5,290,364.95	4,667,169.88	-623,195.07
Waste water	12,226,270.30	12,321,479.67	95,209.37

Mafube Local Municipality

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44. Prior-year adjustments

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

Statement of financial position

2021

	Note	As previously reported	Correction of error	Restated
Receivables from exchange transactions		76,734,197	(444)	76,733,753
Receivables from non-exchange transactions		3,797,368	207,907	4,005,275
VAT receivable		84,575,710	(33,800,939)	50,774,771
Cash and cash equivalents		8,360,465	(156)	8,360,309
Investment property		64,667,181	556,000	65,223,181
Property, plant and equipment		1,056,808,102	93,604,273	1,150,412,375
Payables from exchange transactions		(836,078,587)	(8,813,732)	(844,892,319)
Provisions - Current		(1,386,045)	(1,405,895)	(2,791,940)
Provisions - Non-Current		(24,473,003)	(24,823,501)	(49,296,504)
Accumulated surplus		(406,647,844)	(25,523,513)	(432,171,357)
		26,357,544	-	26,357,544

Statement of financial performance

2021

	Note	As previously reported	Correction of error	Restated
Service charges		75,721,842	(1,037)	75,720,805
Interest received		31,744,839	(434)	31,744,405
Property rates		36,900,846	(1,165,629)	35,735,217
Fair value adjustments		4,036,391	(682,365)	3,354,026
Loss on disposal of assets and liabilities		(1,682,565)	1,026,994	(655,571)
Employee related costs		(102,177,937)	(4,946,490)	(107,124,427)
Debt impairment		(75,932,681)	3,350,749	(72,581,932)
Depreciation and amortisation		(35,399,733)	(2,806,964)	(38,206,697)
Impairment		(31,453,377)	22,147,216	(9,306,161)
Finance costs		(52,926,970)	(3,846,392)	(56,773,362)
Bulk purchases		(30,753,013)	(4,592,640)	(35,345,653)
General Expenses		(74,231,576)	(574,378)	(74,805,954)
Deficit for the year		(256,153,934)	7,908,630	(248,245,304)

Cash flow statement

Mafube Local Municipality

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Notes to the Audited Annual Financial Statements

Figures in Rand	2022	2021		
44. Prior-year adjustments (continued)				
2021				
	Note	As previously reported	Correction of error	Restated
Cash flow from operating activities				
Sale of goods and services		5,926,586	9,418,768	15,345,354
Taxation		12,444,058	9,236,853	21,680,911
Interest income		749,980	-	749,980
Employee costs		(108,611,983)	(4,946,491)	(113,558,474)
Suppliers		(47,164,917)	4,310,892	(42,854,025)
		(136,656,276)	18,020,022	(118,636,254)
Cash flow from investing activities				
Purchase of property, plant and equipment		(55,446,528)	(356,271)	(55,802,799)
Proceeds from sale of investment property		-	356,271	356,271
		(55,446,528)	-	(55,446,528)

Mafube Local Municipality

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44. Prior-year adjustments (continued)

Errors

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

1. Investment Property:

During the verification of Investment properties occupancy testing was performed and all properties identified where the municipality are no longer the custodian have been disposed accordingly. Detailed reconciliation was performed on the remaining properties, and it was identified that the impairments calculation for the prior year was incorrectly calculated. All impairment calculations were reperformed and corrected accordingly.

Investment property	Accumulated surplus	2,180,382.78
	Impairment	-2,834,500.00
	Investment property	555,999.05
	Fair value adjustments	682,365.54
	Loss on disposal of assets and liabilities	-584,247.37

2. Cash and cash equivalents:

During the reconciliation of Cash and cash equivalents, it was identified thru bank confirmations that the Short term fixed deposit account 2066919592 was closed on the 08 January 2016. Cash and cash equivalents was restated accordingly.

Cash and cash equivalents	Accumulated surplus	156.52
	Short-term deposits	-156.52

3. VAT receivable:

During the reconciliation of consumer debtors, it was identified that the provision included VAT, the provision of debt impairments was restated accordingly to exclude VAT, allow transaction affecting the debt impairment and VAT was restated.

VAT receivable	Accumulated surplus	32,008,022.24
	VAT receivable	-33,832,578.47
	Debt Impairment	1,824,556.23

4. Payables from exchange transactions:

During the reconciliation of Creditors differences was identified between statements and the creditors listing for Trade creditors, Trade creditors have been reconciled back to the statements and Trace creditors have been restated accordingly. Department of Water and Sanitation was reconciled, Transactions relating to the prior year that was invoiced in the current year was correctly allocated to the previous financial year.

Payables from exchange transactions	Accumulated surplus	-3,771,914.12
	Bulk purchases	4,592,639.90
	General Expenses	574,376.91
	VAT receivable	31,638.98
	Payables from exchange transactions	-9,701,816.77
	Employee related costs	6,568,430.36
	Finance costs	1,706,644.74

5. Property, plant and equipment:

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44. Prior-year adjustments (continued)

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.

Property, plant and equipment	Accumulated surplus	-75,114,457.77
	Depreciation and amortisation	2,806,966.63
	Impairment	-19,312,716.50
	Property, plant and equipment	92,062,954.64
	Loss on disposal of assets and liabilities	-442,747.00

6. Provisions:

Detailed analysis was performed on all landfill sites using 3D modelling imaging to accurately determine the actual waste per landfill site. The remaining useful life was then recalculated to accommodate the new calculations based on the 3D modelling performed. The provision was restated accordingly.

Provisions	Accumulated surplus	23,282,179.77
	Property, plant and equipment	1,541,316.32
	Provisions NCL	-24,823,496.09
	Provisions CL	-1,405,895.00
	Finance costs	1,405,895.00

7. Employee related costs:

Accounting for pension fund allowance incorrectly accounted for accrued salaries in 2021, Reallocation of Pension Interest Vote – 34107706120ZZZZZZW - PENSION: INTEREST COST

Employee related costs	Payables from exchange transactions	888,086.24
	Employee related costs	-888,086.24
	Employee related costs	-733,854.12
	Finance costs	733,854.12

8. Receivables:

During audit it was identified that municipal accounts were written of instead of being reversed in the correct respective financial year applicable.

Receivables	Accumulated surplus	3,800,744.24
	Debt Impairment	-5,175,305.31
	Receivables from exchange transactions	-445.33
	Receivables from non-exchange transac	207,907.15
	Service charges	1,036.88
	Property rates	1,165,628.93
	Interest received	433.44

45. Comparative figures

Certain comparative figures have been reclassified or restated.

The effects of the restatement are as follows:

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45. Comparative figures (continued)

Distribution losses have been restated from R37 200 047 to R44 382 567

Contingent liabilities have been restated from R31 507 009 to R3 624 464

Unauthorized expenditure have been restated from R401 843 178 to R253 308 375

Included in the restated unauthorized expenditure of R253 308 375 relates to the unspent conditional grants(WSIG & INEP) of 2020/21 amounting to R10 919 000 that was withheld and deducted from equitable share of 2021/22.

Fruitless and wasteful expenditure have been restated from R51 540 236 to R53 246 881

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46. 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 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	976,660,051	-	-	-

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	844,892,319	-	-	-

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	2022	2021
Receivables from non-exchange transactions	18,703,710	76,733,753
Receivables from exchange transactions	7,404,521	4,005,275
Bank balances	2,429,203	8,360,309

Mafube Local Municipality

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46. 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.

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47. Going concern

We draw attention to the fact that at 30 June 2022, the municipality had an accumulated surplus (deficit) of 257,037,842 and that the municipality's current liabilities exceed its current assets by 889,671,000.

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 33
4. Slow collection and low recoverability of outstanding consumer accounts; and
5. Unfavourable financial ratios.
6. Unspent conditional grants being withheld from the Equitable Share allocation; and
7. Several litigations due to non-payment of long outstanding creditors of which poses a threat of the municipality's assets becoming attached.
8. The balance owed by the municipality to Department of Water and Sanitation as of 30 June 2021 and 30 June 2022 was R396,176,162 and R457,588,874 respectively.
9. The balance owed by the municipality to Eskom as of 30 June 2021 and 30 June 2022 was R 52,620,799.37 and R 48,309,918.61 respectively.

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.

48. Events after the reporting date

SARS attached the ABSA bank account of the municipality after year end on 24 March 2023.

A total amount of R 8,861,695.40 was deducted from the municipality's ABSA bank account.

The amount deducted relates to part of the outstanding SARS balance at year end.

49. Unauthorised expenditure

Opening balance as previously reported	935,503,464	2,333,417,277
Opening balance as restated	935,503,464	2,333,417,277
Add: Expenditure identified - current	231,823,699	242,389,375
Less: Approved/condoned/authorised by council	-	(1,651,222,188)
Conditional grants non compliance with Dora section 16(1) 2021	-	10,919,000
Conditional grants non compliance with Dora section 16(1) 2022	17,029,446	-
Closing balance	1,184,356,609	935,503,464

Unauthorised expenditure: Budget overspending – per municipal department:

Office Of The Mayor	11,039,247	7,348,352
Corporate Services	165,472,158	129,953,032
Infrastructure Services	55,312,293	91,747,698
Service Delivery And Public Safety	-	13,340,293
	231,823,698	242,389,375

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50. Fruitless and wasteful expenditure		
Opening balance as previously reported	154,565,752	259,994,853
Opening balance as restated	154,565,752	259,994,853
Add: Expenditure identified - current	53,960,410	53,246,882
Less: Amount written off - prior period	-	(158,675,983)
Closing balance	208,526,162	154,565,752

Expenditure identified in the current year include those listed below:

Summary of fruitless and wasteful

ABSA - interest on bank charges	1,447	1,141
AGSA - interest on overdue account	-	437,010
Department of Water & Sanitation - Interest on overdue accounts	18,602,305	22,429,200
Eskom - interest on overdue account	21,334	20,391
FNB - interest on bank charges	2	-
Rural Free State - interest on overdue account	10,674,720	10,985,098
SALA Pension fund - interest on overdue account	10,868,222	8,557,030
SAMWU Pension fund - interest on overdue account	8,868,329	6,626,783
SARS - interest & penalties	4,876,826	4,190,229
West Rand Consulting	47,225	-
	53,960,410	53,246,882

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51. Irregular expenditure

Opening balance as previously reported	206,618,592	548,105,619
Opening balance as restated	206,618,592	548,105,619
Add: Irregular Expenditure - current	73,163,769	82,157,896
Less: Amount written off - prior period	-	(423,644,923)
Closing balance	279,782,361	206,618,592

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

	Summary of irregular expenditure	
Bid adjudication committee not properly composed.	1,545,663	7,274,348
Bid specifications Committee not in place	264,709	1,708,166
Competitive bidding not invited	9,154,852	34,651,915
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	5,663,030	10,576,383
Declaration of interest not submitted	292,884	2,101,623
Deviation not approved by the delegated official	-	17,850
Expenditure not approved by a delegated official	-	779,149
No evidence of bids being advertised.	441,211	6,192,353
Preference point system not applied	-	5,112,589
Service Level Agreement not in place	25,226,049	679,597
Suppliers not on CSD	5,282,989	202,419
Three written quotations not invited	23,791,754	11,636,183
No supporting documents	52,849	22,238
Quotations not approved by a delegated official	1,426,136	1,130,843
Final award not properly motivated	-	72,240
Awards were made to the supplier scoring the highest points	21,643	-
	73,163,769	82,157,896

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51. Irregular expenditure (continued)

The process followed is in terms of the guideline issued by National Treasury. Irregular expenditure are also presented exclusive of VAT.

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52. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	4,581,271	3,720,948
Subscription / fee	1,174,282	1,160,323
Amount paid - previous years	-	(300,000)
	5,755,553	4,581,271
Audit fees		
Opening balance	7,473,036	10,560,828
Current year subscription / fee	8,341,694	5,674,564
Amount paid - current year	(4,986,147)	(8,762,356)
	10,828,583	7,473,036
PAYE and UIF		
Opening balance	74,200,512	62,488,707
Current year subscription / fee	15,541,399	13,738,016
Amount paid	(25,707,201)	(3,596,809)
Interest and penalties	4,482,851	1,570,598
	68,517,561	74,200,512
Pension and Medical Aid Deductions		
Opening balance	130,282,754	94,611,578
Current year subscription / fee	21,655,102	20,591,159
Amount paid	(13,824,518)	(9,359,890)
Interest	19,736,551	24,439,907
	157,849,889	130,282,754
VAT		
VAT receivable	204,056,014	164,402,908
VAT payable	(122,076,482)	(113,628,137)
	81,979,532	50,774,771

VAT output payables and VAT input receivables are shown in note 11.

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

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

Councillors' arrear consumer accounts

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

30 June 2022	Outstanding less than 90 days	Outstanding more than 90 days	Total
J Oost	2,471	5,663	8,134
JT Kotsi	1,942	51,047	52,989
SA Mosia	935	-	935
UC Jafta	1,770	49,769	51,539
RP Mokuene	2,860	120,803	123,663
TL Moloji	6,421	78,223	84,644
WC Motloung	1,261	22,409	23,670
PM Monaune	783	20,189	20,972
M Mokoena	1,822	24,460	26,282
LS Kubeka	1,905	15,434	17,339
FP Motloung	1,514	874	2,388
MJ Tsubane	1,748	30,838	32,586
MR Tsotetsi	2,092	42,859	44,951
A Tsotetsi	2,798	26,535	29,333
TI Motsoeneng	1,729	10,502	12,231
SB Ntuli	1,430	11,913	13,343
	33,481	511,518	544,999

30 June 2021	Outstanding less than 90 days	Outstanding more than 90 days	Total
J Oost	3,116	1,073	4,189
M Mokoena	2,227	17,270	19,497
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
SP Monaune	951	16,981	17,932
WC Motloung	1,567	19,435	21,002
LS Kubeka	2,313	-	2,313
	43,724	297,511	341,235

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

30 June 2022	Highest outstanding amount	Aging (in days)
J Oost	1,624	240
JT Kotsi	47,265	270
UC Jafta	46,349	270
TL Moloji	72,395	270
RP Mokuene	115,346	270
WC Motloung	19,961	270
PM Monaune	18,675	270
M Mokoena	20,893	270
FP Motloung	390	120
LS Kubeka	934	270

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52. Additional disclosure in terms of Municipal Finance Management Act (continued)		
MJ Tsubane	28,705	270
MR Tsotetsi	40,087	270
A Tsotetsi	23,677	270
TI Motsoeneng	8,170	270
SB Ntuli	10,149	270
	454,620	3,870

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

Supply chain management regulations

In terms of section 36 of the municipal SCM regulations, any deviations from SCM policy needs to be approved by the accounting officer and noted by Council. The awards listed below have been approved by the Accounting Officer or his delegate and noted by Council.

Refer to the deviation register for details each deviation incurred.

Nature and value of deviations from SCM Regulations granted during the reporting period

Repairs and Maintenance	1,269,218	362,576
Hiring of equipment and vehicles	-	439,820
Upgrading of infrastructure	-	57,810
Appointment of consultants	-	5,915,696
Procurement of PPE	-	357,540
	1,269,218	7,133,442

All deviations considered by the Accounting Officer are processed in terms of the SCM regulations and the municipality's SCM policy. This process entails being assessed by the SCM Bid Adjudication Committee in terms of the stipulated criteria for emergency procurements and circumstances where it is impractical or not possible to follow the official procedure.

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

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.

53. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the audited annual financial statements.

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54. 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.

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54. Segment information (continued)

Segment surplus or deficit, assets and liabilities

Segment surplus or deficit

2022

	Revenue from non-exchange transactions	Revenue from exchange transactions	Other revenue	Total Segment revenue	Salaries and wages	Depreciation and amortisation	Other expenses	Total Segment expenditure	Total segment (deficit) surplus
Revenue									
Community and public safety	-	-	-	-	406,455	-	26,950	433,405	(433,405)
Economic and environmental services	1,075,000	23,437,383	-	24,512,383	18,924,780	6,917,097	433,216,220	459,058,097	(434,545,714)
Trading Services	-	81,151,020	-	81,151,020	22,729,130	23,610,034	53,539,048	99,878,212	(18,727,192)
Municipal governance and administration	169,091,451	9,943,784	2,055,227	181,090,462	74,971,888	9,546,928	(182,001,153)	(97,482,337)	278,572,799
Total	170,166,451	114,532,187	2,055,227	286,753,865	117,032,253	40,074,059	304,781,065	461,887,377	(175,133,512)
Entity's revenue				286,753,865					
Entity's Surplus (deficit) for the period									(175,133,512)

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	16,610,344	2,835,717	35,960,768	55,406,829	(33,004,248)
Trading Services	-	83,120,843	83,120,843	20,925,874	10,502,140	96,818,262	128,246,276	(45,125,433)
Municipal governance and administration	227,679,362	9,999,418	237,678,780	75,317,845	22,903,134	118,166,009	216,386,988	21,291,792
Total	227,679,362	115,522,842	343,202,204	113,468,436	38,206,700	250,955,599	402,630,735	(59,428,531)
Entity's revenue			343,202,204					

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54. Segment information (continued) Entity's Surplus (deficit) for the period

(59,428,531)

Segment assets and liabilities

2022

	Total segment assets	Total segment liabilities
Community and public safety	126,110	-
Economic and environmental services	252,910,789	52,614,258
Trading Services	715,075,604	296,341
Municipal governance and administration	355,350,200	1,013,514,261
Total segment assets	1,323,462,703	1,066,424,860
Total as per Statement of financial Position	1,323,462,703	1,066,424,860

2021

	Total segment assets	Total segment liabilities
Economic and environmental services	301,639,141	49,296,504
Trading Services	725,112,394	233,152
Municipal governance and administration	330,139,390	875,189,917
Total segment assets	1,356,890,925	924,719,573
Total as per Statement of financial Position	1,356,890,925	924,719,573