



Mpofana Local Municipality
Annual Financial Statements
for the year ended 30 June 2021

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

General Information

| | |
|--|--|
| Legal form of entity | Local Municipality |
| Nature of business and principal activities | Providing Municipal Services |
| Members of Council | |
| Mayor | Mr XM Duma |
| Councillors | Z Ismail B Khumalo LQ Mkhize BF Madlala L Shabalala N Ndlovu M Magubane ME Majola (Resigned 28/10/2020) JJ Dlomo (Started 01/12/2020) |
| Grading of local authority | 2 |
| Accounting Officer | Mr EH Dladla |
| Chief Finance Officer (CFO) | Mr P Molefe (Appointed 01 December 2020) |
| Registered office | 10 Claughton Terrace Mooi River 3300 |
| Municipal Contact Details | 033 263 1221/7700 |
| Postal Address | P O Box 47 Mooi River 3300 |
| Bankers | First National Bank (FNB) |
| Auditors | Auditor General South Africa (AGSA) |

Mpofana Local Municipality

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

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| | |
|-------|--|
| GRAP | Generally Recognised Accounting Practice |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |
| AGSA | Auditor General of South Africa |
| COGTA | Department of Cooperative Governance and Traditional Affairs |
| FMG | Finance management Grant |

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Accounting Officer's Responsibilities and Approval

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

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

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent 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 annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

In January 2018, the municipality was placed under Administration, in terms of Section 139(1)(b) of the Constitution which requires the Provincial government to assume responsibility because the municipality could not fulfil an obligation.

The following Administrators were appointed:

1. Mr M Sithole was appointed in January 2018 to March 2019
2. Mr K. Perumal was appointed in April 2019 to August 2019.
3. Mr M.E. Ngonyama was appointed in September 2020 and is the current Administrator.

Attention is drawn to the fact that as at 30 June 2021 :

- a) The municipality has deficit of R47.09 million and that the municipality total current liabilities exceeded its current assets by R157.6 million.
- b) The liquidity ratio of the municipality is below 1 which means that the municipality is not able to pay its creditors as they fall due. The cash coverage ratio is less than 1 month.
- c) The unspent conditional grant funding has for several years not been cash backed.

The above implies that the municipality is not in a position to meet its short term obligations if they fall due at a specific point in time .

Refer to Note 44 of the AFS where the going concern principle is further explained.

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

The accounting officer certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officers Bearers Act and the Minister of Provincial and Local Governments's determination in accordance with this Act.

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

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Responsibilities and Approval

The annual financial statements set out on pages 6 to 77, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed on behalf of the municipality by:

Accounting Officer
Mr EH Dladla

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2021.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet four(4) times per annum as per its approved terms of reference. During the current year four(4) meetings were held.

| Name of member | Number of meetings attended |
|-------------------------------------|------------------------------------|
| Mr Z Zulu (Chairperson) | 4 |
| Prof B Stobie | 4 |
| Mr A Singh (Appointed 1 July 2020) | 4 |
| Ms S Keshav (Appointed 1 July 2020) | 4 |

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the accounting officer;
- reviewed the municipality's compliance with legal and regulation;

These financial statements are prepared in accordance with the South African standards of Generally Recognised Accounting Practice (GRAP) and in the manner required by the Municipal Finance Management Act and Division of Revenue.

Systems of Internal Control

The systems of internal control is designed to provide reasonable assurance that the assets are safeguarded, the liabilities, working capital are effectively and efficiently managed. All of the above remains the Accounting Officer's responsibility in line with legislative provision.

Whilst the internal audit of the municipality was not fully functional, the audit committee had some difficulties in so far as the internal controls is concerned. Hence remarkable improvements were noted in the later part of the financial year.

The Performance/Audit committee can conclude that the systems of internal control especially relating to Supply chain management processes are working. However there is still room for improvement we note the limited resources that affect Mpofana Municipality and attempts to restructure the Supply Chain Management unit to comply with 2019/2020 Audit report, however management should give this special attention to ensure that there is adequate segregation of duties to minimise risks of fraud and corruption.

Chairperson of the Audit Committee

Date: _____

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

| Figures in Rand | Note(s) | 2021 | 2020 Restated* |
|--|---------|--------------------|--------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | 3 | 35 692 797 | 35 635 957 |
| Receivables from non-exchange transactions | 4 | 22 588 935 | 35 017 936 |
| VAT receivable | 5 | 21 598 935 | 20 054 859 |
| Receivables from exchange transaction | 6 | 40 981 592 | 37 048 039 |
| Loan receivables | 7 | 399 638 | 399 638 |
| Cash and cash equivalents | 8 | 3 634 523 | 2 442 246 |
| | | 124 896 420 | 130 598 675 |
| Non-Current Assets | | | |
| Investment property | 9 | 2 100 001 | 2 100 001 |
| Property, plant and equipment | 10 | 210 582 445 | 218 220 391 |
| Intangible assets | 11 | 314 413 | 419 217 |
| Heritage assets | 12 | 168 750 | 150 100 |
| Other receivables | 13 | 3 635 700 | - |
| | | 216 801 309 | 220 889 709 |
| Total Assets | | 341 697 729 | 351 488 384 |
| Liabilities | | | |
| Current Liabilities | | | |
| Finance lease obligation | 14 | 4 011 718 | 5 029 339 |
| Operating lease liability | 15 | 34 525 | - |
| Payables from exchange transactions | 16 | 262 475 764 | 221 588 795 |
| Consumer deposits | 17 | 349 049 | 340 084 |
| Employee benefit obligation | 18 | 663 461 | 801 717 |
| Unspent conditional grants and receipts | 19 | 15 132 913 | 15 406 303 |
| Provisions | 20 | 1 246 630 | 829 453 |
| | | 283 914 060 | 243 995 691 |
| Non-Current Liabilities | | | |
| Finance lease obligation | 14 | - | 4 011 718 |
| Employee benefit obligation | 18 | 15 753 048 | 12 571 201 |
| Provisions | 20 | 11 294 921 | 9 545 197 |
| | | 27 047 969 | 26 128 116 |
| Total Liabilities | | 310 962 029 | 270 123 807 |
| Net Assets | | 30 735 700 | 81 364 577 |
| Accumulated surplus | | 30 735 700 | 81 364 577 |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

| Figures in Rand | Note(s) | 2021 | 2020 Restated* |
|--|---------|----------------------|----------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 21 | 51 400 414 | 58 232 319 |
| Rental of facilities and equipment | 22 | 164 961 | 33 045 |
| Licences and permits | 23 | 3 820 423 | 2 318 868 |
| Other income | 24 | 4 178 837 | 3 776 012 |
| Interest received | 25 | 111 732 | 260 328 |
| Gain on disposal of assets and liabilities | | 1 796 883 | - |
| Actuarial gains | | - | 3 760 853 |
| Total revenue from exchange transactions | | 61 473 250 | 68 381 425 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 26 | 14 721 583 | 21 740 815 |
| Transfer revenue | | | |
| Government grants & subsidies | 28 | 62 831 390 | 58 013 156 |
| Public contributions and donations | 27 | - | 6 700 000 |
| Fines, Penalties and Forfeits | | 6 337 550 | 5 603 200 |
| Total revenue from non-exchange transactions | | 83 890 523 | 92 057 171 |
| Total revenue | | 145 363 773 | 160 438 596 |
| Expenditure | | | |
| Employee related costs | 29 | (52 055 061) | (46 485 936) |
| Remuneration of councillors | 30 | (2 735 286) | (2 721 233) |
| Depreciation and amortisation | 31 | (18 395 287) | (19 487 886) |
| Finance costs | 32 | (7 135 928) | (19 323 130) |
| Debt Impairment | 33 | (8 122 739) | 616 129 |
| Bulk purchases | 34 | (63 124 990) | (64 329 315) |
| Contracted services | 35 | (2 980 585) | (2 352 579) |
| Actuarial losses | | (1 383 943) | - |
| General Expenses | 36 | (40 077 482) | (27 162 275) |
| Total expenditure | | (196 011 301) | (181 246 225) |
| Deficit for the year from continuing operations | | (50 647 528) | (20 807 629) |
| Fair value adjustment | | 18 650 | 22 500 |
| Deficit for the year | | (50 628 878) | (20 785 129) |

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Annual Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---------------------|--------------------|
| Opening balance as previously reported | 80 077 042 | 80 077 042 |
| Adjustments | | |
| Prior year adjustments | 22 072 664 | 22 072 664 |
| Balance at 01 July 2019 as restated* | 102 149 706 | 102 149 706 |
| Changes in net assets | | |
| Deficit for the year | (20 785 129) | (20 785 129) |
| Total changes | (20 785 129) | (20 785 129) |
| Opening balance as previously reported | 61 032 957 | 61 032 957 |
| Adjustments | | |
| Prior year adjustments | 20 331 621 | 20 331 621 |
| Restated* Balance at 01 July 2020 as restated* | 81 364 578 | 81 364 578 |
| Changes in net assets | | |
| Deficit for the year | (50 628 878) | (50 628 878) |
| Total changes | (50 628 878) | (50 628 878) |
| Balance at 30 June 2021 | 30 735 700 | 30 735 700 |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement

| Figures in Rand | Note(s) | 2021 | 2020 Restated* |
|--|---------|----------------------------|----------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Taxation Revenue | | 33 488 134 | 7 993 103 |
| Services Charges | | 39 353 088 | 58 504 753 |
| Grants | | 66 558 000 | 63 156 000 |
| Interest income | | 111 732 | 260 328 |
| Other receipts | | 6 620 145 | 3 447 050 |
| | | <u>146 131 099</u> | <u>133 361 234</u> |
| Payments | | | |
| Employee costs | | (52 926 030) | (48 446 158) |
| Suppliers | | (67 356 174) | (46 816 351) |
| Finance costs | | (7 135 928) | (19 323 130) |
| | | <u>(127 418 132)</u> | <u>(114 585 639)</u> |
| Net cash flows from operating activities | 38 | <u>18 712 967</u> | <u>18 775 595</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 10 | (11 153 906) | (16 164 910) |
| Movement on Landfil site | 10 | (1 337 445) | (641 780) |
| | | <u>(12 491 351)</u> | <u>(16 806 690)</u> |
| Net cash flows from investing activities | | <u>(12 491 351)</u> | <u>(16 806 690)</u> |
| Cash flows from financing activities | | | |
| Finance lease payments | | (5 029 339) | (4 990 656) |
| | | <u>(5 029 339)</u> | <u>(4 990 656)</u> |
| Net increase/ (decrease) in cash and cash equivalents | | <u>1 192 277</u> | <u>(3 021 751)</u> |
| Cash and cash equivalents at the beginning of the year | | 2 442 246 | 5 463 997 |
| Cash and cash equivalents at the end of the year | 8 | <u>3 634 523</u> | <u>2 442 246</u> |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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 | 89 462 099 | (34 680 878) | 54 781 221 | 51 400 414 | (3 380 807) | |
| Rental of facilities and equipment | 30 432 | 44 804 | 75 236 | 164 961 | 89 725 | Appendix E(1) |
| Licences and permits | 3 409 449 | - | 3 409 449 | 3 820 423 | 410 974 | Appendix E(1) |
| Other income | 8 465 789 | - | 8 465 789 | 4 178 837 | (4 286 952) | Appendix E(1) |
| Interest Received -Debtors | 3 483 958 | (3 483 958) | - | - | - | |
| Interest received - investment | 269 829 | - | 269 829 | 111 732 | (158 097) | Appendix E(1) |
| Total revenue from exchange transactions | 105 121 556 | (38 120 032) | 67 001 524 | 59 676 367 | (7 325 157) | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Property rates | 14 860 411 | - | 14 860 411 | 14 721 583 | (138 828) | Appendix E(1) |
| Transfer revenue | | | | | | |
| Government grants & subsidies | 70 093 000 | (7 682 000) | 62 411 000 | 62 831 390 | 420 390 | (e) |
| Fines, Penalties and Forfeits | 4 365 383 | - | 4 365 383 | 6 337 550 | 1 972 167 | Appendix E(1) |
| Total revenue from non-exchange transactions | 89 318 794 | (7 682 000) | 81 636 794 | 83 890 523 | 2 253 729 | |
| Total revenue | 194 440 350 | (45 802 032) | 148 638 318 | 143 566 890 | (5 071 428) | |
| Expenditure | | | | | | |
| Personnel | (46 112 501) | (3 655 963) | (49 768 464) | (52 055 061) | (2 286 597) | |
| Remuneration of councillors | (2 543 723) | - | (2 543 723) | (2 735 286) | (191 563) | Appendix E(1) |
| Depreciation and amortisation | (17 847 254) | (370 224) | (18 217 478) | (18 395 287) | (177 809) | Appendix E(1) |
| Finance costs | - | (1 247 900) | (1 247 900) | (7 135 928) | (5 888 028) | Appendix E(1) |
| Debt Impairment | (11 464 998) | 11 464 996 | (2) | (8 122 739) | (8 122 737) | Appendix E(1) |
| Bulk purchases | (68 768 037) | 12 251 849 | (56 516 188) | (63 124 990) | (6 608 802) | Appendix E(1) |
| Contracted Services | (9 511 573) | (2 052 452) | (11 564 025) | (2 980 585) | 8 583 440 | Appendix E(1) |
| General Expenses | (17 995 943) | 5 330 051 | (12 665 892) | (40 077 482) | (27 411 590) | Appendix E(1) |
| Total expenditure | (174 244 029) | 21 720 357 | (152 523 672) | (194 627 358) | (42 103 686) | |
| Operating deficit | 20 196 321 | (24 081 675) | (3 885 354) | (51 060 468) | (47 175 114) | |
| Gain on disposal of assets and liabilities | - | - | - | 1 796 883 | 1 796 883 | |
| Actuarial gains/losses | - | - | - | (1 383 943) | (1 383 943) | Appendix E(1) |
| | - | - | - | 412 940 | 412 940 | |
| Deficit before taxation | 20 196 321 | (24 081 675) | (3 885 354) | (50 647 528) | (46 762 174) | |
| Deficit for the year from continuing operations | 20 196 321 | (24 081 675) | (3 885 354) | (50 647 528) | (46 762 174) | |
| Fair value adjustment | - | - | - | 18 650 | 18 650 | Appendix E(1) |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | 20 196 321 | (24 081 675) | (3 885 354) | (50 628 878) | (46 743 524) | |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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 | 267 413 | 35 368 957 | 35 636 370 | 35 692 797 | 56 427 | |
| Receivables from non-exchange transactions | 58 009 703 | (37 956 000) | 20 053 703 | 22 588 935 | 2 535 232 | |
| VAT receivable | 4 252 991 | (78 000) | 4 174 991 | 3 720 133 | (454 858) | |
| Consumer debtors | 89 350 244 | 51 310 012 | 140 660 256 | 40 981 592 | (99 678 664) | |
| Loan Receivable | 399 638 | - | 399 638 | 399 638 | - | |
| Cash and cash equivalents | - | - | - | 3 634 523 | 3 634 523 | |
| | 152 279 989 | 48 644 969 | 200 924 958 | 107 017 618 | (93 907 340) | |
| Non-Current Assets | | | | | | |
| Investment property | 22 945 000 | (20 845 000) | 2 100 000 | 2 100 001 | 1 | |
| Property, plant and equipment | 162 652 000 | 38 708 482 | 201 360 482 | 210 582 445 | 9 221 963 | |
| Intangible assets | 640 000 | (240 000) | 400 000 | 314 413 | (85 587) | |
| Heritage assets | 128 000 | 22 000 | 150 000 | 168 750 | 18 750 | |
| Other receivables | - | - | - | 3 635 700 | 3 635 700 | |
| | 186 365 000 | 17 645 482 | 204 010 482 | 216 801 309 | 12 790 827 | |
| Total Assets | 338 644 989 | 66 290 451 | 404 935 440 | 323 818 927 | (81 116 513) | |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| Operating lease liability | - | - | - | 34 525 | 34 525 | |
| Payables from exchange transactions | 198 930 144 | 15 011 454 | 213 941 598 | 262 475 764 | 48 534 166 | |
| Consumer deposits | 338 224 | - | 338 224 | 349 049 | 10 825 | |
| Unspent conditional grants and receipts | - | - | - | 15 132 913 | 15 132 913 | |
| Provisions | 3 593 469 | - | 3 593 469 | 1 246 630 | (2 346 839) | |
| | 202 861 837 | 15 011 454 | 217 873 291 | 279 238 881 | 61 365 590 | |
| Non-Current Liabilities | | | | | | |
| Finance lease obligation | - | 4 562 785 | 4 562 785 | - | (4 562 785) | |
| Employee benefit obligation | - | - | - | 16 416 509 | 16 416 509 | |
| Provisions | 28 417 432 | (4 937 865) | 23 479 567 | 11 294 921 | (12 184 646) | |
| | 28 417 432 | (375 080) | 28 042 352 | 27 711 430 | (330 922) | |
| Total Liabilities | 231 279 269 | 14 636 374 | 245 915 643 | 306 950 311 | 61 034 668 | |
| Net Assets | 107 365 720 | 51 654 077 | 159 019 797 | 16 868 616 | (142 151 181) | |
| Net Assets | | | | | | |
| Net Assets Attributable to Owners of Controlling Entity | | | | | | |
| Reserves | | | | | | |
| Accumulated surplus | 61 880 575 | 13 593 373 | 75 473 948 | 30 735 700 | (44 738 248) | |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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 | | | | | | |
| Cash Flow Statement | | | | | | |
| Cash flows from operating activities | | | | | | |
| Receipts | | | | | | |
| Property Rates | 12 631 349 | 3 323 987 | 15 955 336 | 14 041 673 | (1 913 663) | |
| Service charges | 74 263 032 | (16 673 731) | 57 589 301 | 62 448 525 | 4 859 224 | |
| Grants | 70 093 000 | (3 681 945) | 66 411 055 | 66 558 000 | 146 945 | |
| Interest income | 4 113 787 | (1 922 000) | 2 191 787 | 111 732 | (2 080 055) | |
| Other Revenue | 13 651 823 | 6 026 512 | 19 678 335 | 4 277 068 | (15 401 267) | |
| | 174 752 991 | (12 927 177) | 161 825 814 | 147 436 998 | (14 388 816) | |
| Payments | | | | | | |
| Suppliers and Employees | (150 932 276) | 10 972 771 | (139 959 505) | (121 857 928) | 18 101 577 | |
| Finance costs | - | (1 247 900) | (1 247 900) | (6 780 298) | (5 532 398) | |
| | (150 932 276) | 9 724 871 | (141 207 405) | (128 638 226) | 12 569 179 | |
| Net cash flows from operating activities | 23 820 715 | (3 202 306) | 20 618 409 | 18 798 772 | (1 819 637) | |
| Cash flows from investing activities | | | | | | |
| Payments of Capital Assets | (14 182 051) | 2 647 000 | (11 535 051) | (12 491 351) | (956 300) | |
| Cash flows from financing activities | | | | | | |
| Payment of Borrowings | (8 581 390) | 1 231 422 | (7 349 968) | (5 029 339) | 2 320 629 | |
| Net increase/(decrease) in cash and cash equivalents | 1 057 274 | 676 116 | 1 733 390 | 1 278 082 | (455 308) | |
| Cash and cash equivalents at the beginning of the year | 2 441 427 | 626 | 2 442 053 | 2 442 052 | (1) | |
| Cash and cash equivalents at the end of the year | 3 498 701 | 676 742 | 4 175 443 | 3 720 134 | (455 309) | |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the 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 and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

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

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 fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

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.

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1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

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

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 20 - Provisions.

Useful lives of Property plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

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 18.

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.

1.4 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.

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

Subsequent measurement

Investment Property is measured at fair value model and shall measure all of its property at fair value.

The fair value of investment property is the price at which property could be exchanged between knowledgeable willing parties in an arms length transaction. fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale

An entity determines fair value without any deductions for transaction costs it may incur on sale or other disposal

Derecognition

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.

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

1.5 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.

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1.5 Property, plant and equipment (continued)

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.

Major spare parts and standby equipments which are expected to be used for more than one period are included in the property, plant and equipment. In addition spare parts and standby equipments which can only be used in connection with an item of property, plant and equipment are accounted for as property plant and equipment.

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

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

Property, plant and equipment 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.

| Item | Depreciation method | Average useful life |
|-------------------------------------|---------------------|---------------------|
| Land | Not Applicable | Not Applicable |
| Buildings | Straight line | 5-25 years |
| Leased assets | Straight line | 3-5 years |
| Infrastructure | Straight line | 3-60 years |
| Other property, plant and equipment | Straight line | 3-10 years |

The residual value and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates the change is accounted for as a change in accounting estimates

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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 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 assesses the probability of expected future economic benefit or service potential using reasonable and supportable assumptions that represents managements best estimates of the set of economic conditions that will exist over the useful life of the asset.

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1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

The municipality has a landfill site which is obligated to rehabilitate at the end of its useful life

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

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

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

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

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

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

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Accounting Policies

1.7 Intangible assets (continued)

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

When an intangible asset is acquired through a non exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date

An Intangible asset is regarded as as having an indefinite useful life when based on all relevant factors , there is no foreseeable limit to the amortisation method for intangible assets are viewed at each reporting date

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred .

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Depreciation method | Average useful life |
|---|---------------------|---------------------|
| Computer software, internally generated | Straight line | 2-5 years |
| Computer software, other | Straight line | 2-5 years |

Intangible assets are initially recognised at cost, and are carried at cost less any accumulated amortisation and any impairments losses

An intangible asset is recognised when it is probable that the expected future economic benefit or service potential that attributable the asset to the municipality and cost can be measured reliable .

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds , if any , and the carrying amount and is recognised in surplus or deficit when the asset is derecognised.

1.8 Heritage assets

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

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

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

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

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

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

Heritage assets are considered to be indefinite assets and are therefore not depreciated

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Accounting Policies

1.8 Heritage assets (continued)

Recognition

The cost of an item of heritage asset is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the fair value of the item can be measured reliably. Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition for it to be capable of operating in the manner intended by the municipality.

Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary cost of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. non-exchange transaction) the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of heritage assets acquired in exchange for a non-monetary asset or monetary asset or a combination of monetary and non-monetary assets, is measured at the fair value of the assets given up, unless the fair value of the asset received is more clearly evident.

If the required item could not be measured at its fair value its cost is measured at the carrying amount of the asset given up.

Subsequent measurement

Subsequent expenditure relating to heritage assets is capitalised if it is probable that future economic benefit or potential service delivery associated with the subsequent expenditure will flow to the municipality and the fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future benefits associated with the asset. When the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all heritage assets are measured at fair value.

Derecognition

The carrying amount of an item of heritage assets is derecognised on disposal or when no future economic or service potential is 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. Gains are not classified as revenue. Gains or losses are calculated as the difference between the carrying value of assets and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of heritage assets.

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.

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

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

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

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Accounting Policies

1.9 Financial instruments (continued)

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.9 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|--|
| Cash and Bank | Financial asset measured at Fair value |
| Receivables from exchange and non exchange transactions | Financial asset measured at amortised cost |
| VAT Receivables | Financial asset measured at amortised cost |
| Bank investments | Financial asset measured at Fair value |
| Loan receivables | Financial asset measured at amortised cost |

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| | |
|-------------------------------------|--|
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Unspent grant and subsidies | Financial liability measured at amortised cost |
| Provisions | Financial liability measured at amortised cost |
| Finance lease | Financial liability measured at amortised cost |
| Consumer deposit | Financial liability measured at cost |

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

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Accounting Policies

1.9 Financial instruments (continued)

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.10 Statutory receivables

Identification

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

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

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

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

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

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1.10 Statutory receivables (continued)

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

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

1.11 Leases

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

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

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.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in statement of financial performance.

1.12 Inventories

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

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

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

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

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

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

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Accounting Policies

1.12 Inventories (continued)

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-oriented entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

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

Criteria developed by the municipality to distinguish cash-generating assets from non cash generating assets are as follows:

Identification

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

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

Value in use

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

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

Mpofana Local Municipality

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Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Reversal of impairment loss

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

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

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

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

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

Redesignation

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

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit orientated entity. It generates a commercial return

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Mpofana Local Municipality

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Accounting Policies

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

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

Useful life is either:

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

Identification

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Reversal of an impairment loss

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

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

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

Redesignation

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

1.15 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Employee benefits (continued)

Retirement Funds

The municipality provides retirements benefits for its employees and councillors. The contribution to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable.

The municipality contributes to defined contribution and defined benefit funds. These funds are multi employer funds..

Post-employment benefits

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

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

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

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Employee benefits (continued)

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Employee benefits (continued)

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised.

Long service allowance

The municipality has the obligation to provide long service benefit to all its employees according to the policy of the long service allowance scheme, which the municipality instituted and operates, an employee (who is in the current conditions of service), is entitled to cash allowance calculated in terms of rules of the scheme after 10 years of continued service and every 5 years subsequently.

The municipality liability is based on the actuarial valuations. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long term incentives are accounted for in surplus or deficit for the year.

Mpofana Local Municipality

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Accounting Policies

1.17 Commitments

Commitment is referred to as the intention to commit to an outflow from the municipality's resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract similar documentation. Such a contract commitment would be accompanied by but not limited to actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g quote and condition to be satisfied to establish an obligation e.g delivery schedule.

Disclosures are required in respect of unrecognised contractual commitments.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. A municipality may enter on or before the reporting date for expenditure over subsequent accounting periods e.g a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

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

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

1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

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

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.18 Revenue from exchange transactions (continued)

Interest received

Revenue arising from the use by others of entity assets yielding interest, is recognised when:

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

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.19 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value 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 receivables qualifies for recognition as an assets and there is no liability to repay the amount.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria condition or obligation have not been met a liability is recognised.

1.20 Investment income

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

1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

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

1.22 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.

Mpofana Local Municipality

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Accounting Policies

1.22 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.

1.23 Comparative figures

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

1.24 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.25 Fruitless and wasteful expenditure

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

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

Mpofana Local Municipality

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Accounting Policies

1.26 Irregular expenditure

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

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

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

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

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

1.27 Investments

When the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to 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 an accrual basis and presented by functional classification linked to performance outcome objectives.

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

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

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

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

Comparative information is not required.

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.29 Related parties

Individuals, including Councillors as well as the close family members, and/or entities related parties if one party has the ability, directly or indirectly to control or jointly control the other party in making financial and/or operating decisions
Key management personnel as defined as the Municipal manager, Chief financial officer and all other managers reporting directly to the Municipal manager or designated by the Municipal manager.

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 Prior Period error accounting

Prior period errors are omission from, and misstatements in the municipality financial statements for one or more prior periods arising from failure to use, or misuse of available reliable information

Unless it is impracticable to determine the effects of the error, the municipality corrects material prior period retrospectively by restating the comparative amounts for the prior period

1.32 Use of estimates

The preparation of financial statements in conformity with standards of GRAP requires use of certain critical accounting estimates.

Sections of the financial statements. Although these estimates are based on managements best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates

1.33 Offsetting

Assets and liabilities, revenue and expenses should not be offset; these items should be reported separately. Offsetting is permitted only if it is required or permitted by other standards of GRAP (GRAP 25) , Legislation or where offsetting reflects the substance of the transaction or the event.

1.34 Loan receivable

Loan and receivables are non- derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables are subsequently measured at amortized cost using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset and financial liability.

When calculating the effective interest rate, the municipality estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the municipality uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|--|------|-------------------|
|--|------|-------------------|

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: |
|--|---|------------------------------------|
| • IGRAP 20: Accounting for Adjustments to Revenue | 01 April 2020 | The impact of the is not material. |
| • GRAP 1 (amended): Presentation of Financial Statements | 01 April 2020 | The impact of the is not material. |
| • GRAP 34: Separate Financial Statements | 01 April 2020 | The impact of the is not material. |
| • IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue | 01 April 2020 | The impact of the is not material. |

2.2 Standards and interpretations issued, but not yet effective

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

| | | |
|--|---------------|--|
| • GRAP 104 (amended): Financial Instruments | 01 April 2021 | Unlikely there will be a material impact |
| • Guideline: Guideline on Accounting for Landfill Sites | 01 April 2021 | Unlikely there will be a material impact |
| • Guideline: Guideline on the Application of Materiality to Financial Statements | 01 April 2021 | Unlikely there will be a material impact |

3. Inventories

| | | |
|--------------------------------------|-------------------|-------------------|
| Maintenance materials | 232 797 | 175 957 |
| RDP Properties Held for Distribution | 35 460 000 | 35 460 000 |
| | 35 692 797 | 35 635 957 |

RDP Houses that are in the name of the Municipality and were not officially transferred to beneficiaries were identified during the 2019/20 financial year. These RDP housing stock was included in inventory as per GRAP 12 and prior inventory amounts were restated.

There were no transfers of RDP Housing to the beneficiaries during the period of 2020-2021

None of the inventory items are pledged as security

4. Receivables from non-exchange transactions

| | | |
|---|-------------------|-------------------|
| Property Rates | 51 455 143 | 43 716 633 |
| Fines | 60 901 912 | 45 532 692 |
| Sundry debtors | 352 841 | 352 841 |
| Provision for bad debt - Sundry debtors | (352 841) | (352 841) |
| Provision for bad debts - Rates | (35 795 875) | (16 852 306) |
| Provision for bad debts - Fines | (53 972 245) | (37 379 083) |
| | 22 588 935 | 35 017 936 |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|---|---------------------|---------------------|
| 4. Receivables from non-exchange transactions (continued) | | |
| Statutory receivables included in receivables from non-exchange transactions above are as follows: | | |
| Property Rates | 51 455 336 | 43 716 826 |
| Fines | 60 901 912 | 45 532 692 |
| | 112 357 248 | 89 249 518 |
| Other non-financial asset receivables included in receivables from non-exchange transactions above are as follows: | | |
| Sundry receivables | 352 841 | 352 841 |
| Financial asset receivables included in receivables from non-exchange transactions above | (90 121 154) | (54 584 230) |
| Total receivables from non-exchange transactions | 22 588 935 | 35 018 129 |

Statutory receivables general information

Transaction(s) arising from statute

Property rates levied in terms of the Local Government: Municipal Property Rates Act No. 6 of 2004 (MPRA) with effect from 01 July 2007.

Traffic fines are issued in terms of the Administrative Adjudication of Road Traffic Offences (AARTO Act) by way of notices to offenders which specify the value of the fine that must be paid.

Determination of transaction amount

Adjustments to the valuation roll in terms of Section 78 of the MPRA (as amended) are effected on an on-going basis. The adjustments take into account consolidations and sub-divisions as well as property category changes. Thus interim valuations are processed on an annual basis.

Schedule 3 of the AARTO Regulations 2008 for charge codes and descriptions, penalties and their discounts, and demerit points.

Interest or other charges levied/charged

Statutory receivables impaired

As of 30 June 2021, Statutory receivables of R60 901 912 (2020: R45 532 692) were impaired and provided for.

The amount of the provision was R53 972 245 as of 30 June 2021 (2020: R37 379 083).

| | | |
|---------------|------------|------------|
| 3 to 6 months | 2 886 200 | 1 980 600 |
| Over 6 months | 51 086 045 | 35 398 483 |

Factors the entity considered in assessing statutory receivables impaired

The Municipality accounts for traffic fines impairment in accordance with iGRAP 1.

The Municipality assess the average collection rate of the traffic fines over the 5 years.

The municipality has assessed the recoverability of the property rates of for individual customer and determine as to recoverable on not and the provision for all the accounts that are doubtful.

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|--|---------------------|---------------------|
| 4. Receivables from non-exchange transactions (continued) | | |
| Receivables from non-exchange transactions past due but not impaired | | |
| Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R 39 700 157 (2020: R 30 436 223) were past due but not impaired. | | |
| The ageing of amounts past due but not impaired is as follows: | | |
| 1 month past due | 271 101 | 377 704 |
| 2 months past due | 216 130 | 1 123 161 |
| 3 months past due | 39 212 925 | 28 935 358 |
| Reconciliation of provision for impairment of receivables from non-exchange transactions | | |
| Opening balance | (69 388 519) | (63 962 587) |
| Provision for impairment | (20 732 443) | (5 425 932) |
| | (90 120 962) | (69 388 519) |
| Property Rates | | |
| Current (0-30 days) | 1 136 372 | 977 704 |
| 31 - 60 days | 1 134 729 | 1 223 160 |
| 61 - 90 days | 1 436 652 | 2 141 169 |
| 91 - 120 days | 3 568 901 | 2 990 637 |
| 120+ days | 8 382 807 | 19 531 850 |
| | 15 659 461 | 26 864 520 |
| Fines | | |
| Traffic fines | 6 929 667 | 8 153 609 |
| 5. VAT receivable | | |
| VAT | 21 598 935 | 20 054 859 |
| VAT is payable on the payment basis. Once cash has been received from customers/receivables, vat is payable to SARS | | |
| 6. Receivables from exchange transactions | | |
| Gross balances | | |
| Electricity | 17 000 289 | 35 464 152 |
| Refuse | 30 276 283 | 26 554 030 |
| Sundry debtors | 37 455 534 | 36 672 592 |
| | 84 732 106 | 98 690 774 |
| Less: Allowance for impairment | | |
| Rates | - | - |
| Electricity | 9 257 766 | (8 634 455) |
| Refuse | (18 053 860) | (18 053 860) |
| Other (specify) | (34 954 420) | (34 954 420) |
| | (43 750 514) | (61 642 735) |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|--|---------------------|---------------------|
| 6. Receivables from exchange transactions (continued) | | |
| Net balance | | |
| Electricity | 26 258 055 | 26 829 697 |
| Refuse | 12 222 423 | 8 500 170 |
| Sundries | 2 501 114 | 1 718 172 |
| | 40 981 592 | 37 048 039 |
| Electricity | | |
| Current (0 -30 days) | 515 735 | 3 232 504 |
| 31 - 60 days | 350 817 | 996 840 |
| 61 - 90 days | 1 701 462 | 1 308 719 |
| 91 - 120 days | 3 989 395 | 134 084 |
| 121 - 365 days | 19 700 646 | 21 157 550 |
| | 26 258 055 | 26 829 697 |
| Refuse | | |
| Current (0 -30 days) | 149 346 | 320 731 |
| 31 - 60 days | 378 886 | 199 022 |
| 61 - 90 days | 372 894 | 338 974 |
| 91 - 120 days | 834 116 | 317 163 |
| 121 - 365 days | 10 487 181 | 7 324 280 |
| | 12 222 423 | 8 500 170 |
| Other (specify) | | |
| 121 - 365 days | 2 501 114 | 1 718 172 |
| Reconciliation of allowance for impairment | | |
| Balance at beginning of the year | (56 360 219) | (62 126 586) |
| Reversal of allowance | 12 609 705 | 483 851 |
| | (43 750 514) | (61 642 735) |

Receivable from Exchange transactions pledged as security

No receivables from exchange transactions has been pledged as collateral of liabilities of the municipality.

7. Loan Receivables

| | | |
|-----------------|---------|---------|
| Loan Receivable | 399 638 | 399 638 |
|-----------------|---------|---------|

This loan pertains to Umgungundlovu District Municipality that owes Mpofana Municipality for the DBSA Loan that Mpofana Municipality paid for water and sanitation works in prior years. The water function was subsequently transferred to Umgungundlovu District Municipality thus Mpofana Municipality needed to be reimbursed from Umgungundlovu District Municipality with regards to the loan repayments. The loan is interest free and not secured by any liabilities.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---------------|-----------|-----------|
| Bank balances | 3 634 523 | 2 442 246 |
|---------------|-----------|-----------|

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

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2020
Restated*

8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | | Cash book balances | | |
|--|-------------------------|------------------|------------------|--------------------|------------------|------------------|
| | 30 June 2021 | 30 June 2020 | 30 June 2019 | 30 June 2021 | 30 June 2020 | 30 June 2019 |
| First National Bank - Current Account 53050399907 | 3 012 839 | 1 591 121 | 1 280 134 | 3 059 285 | 1 591 121 | 1 329 427 |
| First National Bank - Current Account 62101108034 | 78 150 | 195 206 | 108 166 | 78 150 | 195 206 | 108 166 |
| First National Bank - Call Account 62134172890 | 2 482 | 97 329 | 345 | 2 482 | 97 329 | 345 |
| First National Bank - Call Account 62172493935 | 38 198 | 178 578 | 22 158 | 39 198 | 178 578 | 22 158 |
| First National Bank - Call Account 62173946040 | 336 654 | 330 262 | 1 306 438 | 336 654 | 330 262 | 1 306 438 |
| First National Bank - Call Account 62187203957 | 21 145 | 32 026 | 2 658 242 | 21 145 | 32 026 | 2 658 242 |
| First National Bank - Call Account 62237621760 | 30 299 | 17 530 | 3 922 | 30 299 | 17 530 | 3 922 |
| First National Bank - Call Account 62854534990 | 5 011 | - | - | 5 011 | - | - |
| First National Bank - Call Account 62854535790 | 48 073 | - | - | 48 073 | - | - |
| First National Bank - Call Account 62854536607 | 5 011 | - | - | 5 011 | - | - |
| First National Bank - Call Account 62854537449 | 5 011 | - | - | 5 011 | - | - |
| First National Bank - Call Account 62854538786 | 5 011 | - | - | 5 011 | - | - |
| First National Bank - Call Account 62712488085 | - | - | 214 | - | - | 214 |
| First National Bank - Call Account 62141712001 | - | - | 376 | - | - | 376 |
| First National Bank - Call Account 62172498183 | - | - | 272 | - | - | 272 |
| First National Bank - Call Account 62036716746 | - | - | 215 | - | - | 215 |
| First National Bank - Call Account 62066847553 | - | - | 580 | - | - | 580 |
| First National Bank - Investment Account 74630870406 | - | - | 33 280 | - | - | 33 641 |
| Total | 3 587 884 | 2 442 052 | 5 414 342 | 3 635 330 | 2 442 052 | 5 463 996 |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|--|------|-------------------|
|--|------|-------------------|

9. Investment property

| | 2021 | | | 2020 | | |
|---------------------|---------------------|--|----------------|---------------------|--|----------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 2 100 001 | - | 2 100 001 | 2 100 001 | - | 2 100 001 |

Reconciliation of investment property - 2021

| | Opening balance | Total |
|---------------------|--------------------|-----------|
| Investment property | 2 100 001 | 2 100 001 |

Reconciliation of investment property - 2020

| | Opening balance | Total |
|---------------------|--------------------|-----------|
| Investment property | 2 100 001 | 2 100 001 |

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

For 2019/20 financial year the analysis of the investment properties was undertaken in order to comply with GRAP 16. As a result a number of properties that were previously disclosed as investment properties did not meet the GRAP 16 requirements. These assets were subsequently reclassified as assets under Property, Plant and Equipment (PPE) in terms of GRAP 17.

GENIX Valuation Group assisted the Municipality with this task.

The municipality has the Woza Woza Tourism centre as investment property
The municipality uses fair value model to measure its investment property as at 30 June 2021 and (30 June 2020). Fair value assessment was undertaken by Genix Valuation Group.

The valuation methodology applied was based on the current market value of similar properties within the municipal region
Fair value adjustment has been effected in the financial statements valuation.

No investment properties has been pledged as collateral for liabilities of the municipality.

Amounts recognised in surplus or deficit

| | | |
|---|--------|-------|
| Rental revenue from Investment property | 64 000 | 5 621 |
|---|--------|-------|

The investment property lease agreement with Gateway/Harcourt Midlands expired in July 2019. A new five year lease agreement was entered with Woza Woza as from June 2020.

For detailed analysis and segmental analysis of investment property please refer to Appendix B & C.

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

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10. Property, plant and equipment

| | 2021 | | | 2020 | | |
|-------------------------------------|---------------------|--|--------------------|---------------------|--|--------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 20 452 716 | - | 20 452 716 | 20 452 716 | - | 20 452 716 |
| Buildings | 52 258 315 | (10 530 958) | 41 727 357 | 49 669 392 | (8 465 171) | 41 204 221 |
| Infrastructure | 228 523 386 | (115 720 064) | 112 803 322 | 209 738 025 | (107 084 919) | 102 653 106 |
| Other property, plant and equipment | 14 841 720 | (9 621 674) | 5 220 046 | 17 715 764 | (8 748 997) | 8 966 767 |
| Work in progress | 22 034 568 | - | 22 034 568 | 32 305 595 | - | 32 305 595 |
| Leased assets | 24 393 802 | (21 090 070) | 3 303 732 | 24 393 802 | (16 690 533) | 7 703 269 |
| Landfil site | 12 642 101 | (7 601 397) | 5 040 704 | 11 304 653 | (6 369 936) | 4 934 717 |
| Total | 375 146 608 | (164 564 163) | 210 582 445 | 365 579 947 | (147 359 556) | 218 220 391 |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

| | Opening balance | Additions | Disposals | Transfers | Other changes, movements | Depreciation | Total |
|-------------------------------------|--------------------|-------------------|--------------------|--------------|--------------------------------|---------------------|--------------------|
| Land | 20 452 716 | - | - | - | - | - | 20 452 716 |
| Buildings | 41 204 221 | - | - | 2 588 923 | - | (2 065 787) | 41 727 357 |
| Infrastructure | 102 653 106 | - | - | 18 785 361 | - | (8 635 145) | 112 803 322 |
| Other property, plant and equipment | 8 966 767 | 50 649 | (1 838 816) | - | - | (1 958 554) | 5 220 046 |
| Work in progress | 32 305 595 | 11 103 257 | - | (21 374 284) | - | - | 22 034 568 |
| Leased assets | 7 703 269 | - | - | - | - | (4 399 537) | 3 303 732 |
| Landfil site | 4 934 717 | - | - | - | 1 337 448 | (1 231 461) | 5 040 704 |
| | 218 220 391 | 11 153 906 | (1 838 816) | - | 1 337 448 | (18 290 484) | 210 582 445 |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

| | Opening balance | Additions | Transfers | Other changes, movements | Depreciation | Total |
|-------------------------------------|--------------------|-------------------|------------------|--------------------------|---------------------|--------------------|
| Land | 20 452 716 | - | - | - | - | 20 452 716 |
| Buildings | 36 166 908 | 140 000 | 6 700 000 | - | (1 802 687) | 41 204 221 |
| Infrastructure | 105 238 031 | 195 620 | 6 227 336 | - | (9 007 881) | 102 653 106 |
| Other property, plant and equipment | 11 032 544 | 493 802 | - | - | (2 559 579) | 8 966 767 |
| Capital Work in Progress | 23 197 443 | 15 335 488 | (6 227 336) | - | - | 32 305 595 |
| Finance lease assets | 12 505 189 | - | - | - | (4 801 920) | 7 703 269 |
| Landfill site | 5 363 953 | - | - | 641 780 | (1 071 016) | 4 934 717 |
| | 213 956 784 | 16 164 910 | 6 700 000 | 641 780 | (19 243 083) | 218 220 391 |

For detailed analysis and segmental analysis of the property plant and equipment please refer to Appendix B & C.

No Property Plan and Equipment has been pledged as collateral of liabilities of the municipality.

The useful lives of the assets that are approaching the end of its useful lives has been revised as at 30 June 2021. The impact of reassessment of the useful lives in the current period and subsequently.

| | Current Year | 2-5 Years |
|-----------------|--------------|-------------|
| Depreciation | (1 817 258) | 1 817 258 |
| Carrying Amount | 1 817 258 | (1 817 258) |
| | - | - |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|--|------|-------------------|
|--|------|-------------------|

10. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2021

| | Included within Infrastructure | Included within Community | Total |
|--------------------------------|---|--|-------------------|
| Opening balance | 26 430 403 | 5 875 191 | 32 305 594 |
| Additions/capital expenditure | 10 508 558 | 594 701 | 11 103 259 |
| Transferred to completed items | (18 785 361) | (2 588 923) | (21 374 284) |
| | 18 153 600 | 3 880 969 | 22 034 569 |

Reconciliation of Work-in-Progress 2020

| | Included within Infrastructure | Included within Community | Total |
|--------------------------------|---|--|-------------------|
| Opening balance | 21 063 688 | 2 133 755 | 23 197 443 |
| Additions/capital expenditure | 11 594 052 | 3 741 436 | 15 335 488 |
| Transferred to completed items | (6 227 337) | - | (6 227 337) |
| | 26 430 403 | 5 875 191 | 32 305 594 |

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

| | | |
|------------------|-----------|---------|
| General expenses | 2 253 269 | 918 254 |
|------------------|-----------|---------|

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.

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

11. Intangible assets

| | 2021 | | | 2020 | | |
|--------------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 1 272 258 | (957 845) | 314 413 | 1 272 258 | (853 041) | 419 217 |

Reconciliation of intangible assets - 2021

| | Opening balance | Amortisation | Total |
|--------------------------|-----------------|--------------|---------|
| Computer software, other | 419 217 | (104 804) | 314 413 |

Reconciliation of intangible assets - 2020

| | Opening balance | Amortisation | Total |
|--------------------------|-----------------|--------------|---------|
| Computer software, other | 664 021 | (244 804) | 419 217 |

For detailed analysis and segmental analysis of intangible assets please refer to Appendix B & C.

12. Heritage assets

| | 2021 | | | 2020 | | |
|---------------|------------------|-------------------------------|----------------|------------------|-------------------------------|----------------|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Mayoral Chain | 168 750 | - | 168 750 | 150 100 | - | 150 100 |

Reconciliation of heritage assets 2021

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

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12. Heritage assets (continued)

| | Opening balance | Revaluation increase/(decrease) | Total |
|---------------|-----------------|---------------------------------|---------|
| Mayoral Chain | 150 100 | 18 650 | 168 750 |

Reconciliation of heritage assets 2020

| | Opening balance | Revaluation increase/(decrease) | Total |
|---------------|-----------------|---------------------------------|---------|
| Mayoral Chain | 127 600 | 22 500 | 150 100 |

The Mayoral chain has been revalued as at 30 June 2021 by Afrokwazi

The effective date of the revaluation was 04 August 2021

The nature of material and the respective weight was utilised to determine the fair value based on the prevailing market prices of silver as at 30 June 2021

The Fair value as at 30 June 2021 was R168 750 (2020: R150 100)

For detailed analysis and segmental analysis of the heritage assets please refer to Appendix B & C.

13. Other receivables

| | | |
|-----------------------------|-----------|---|
| Vehicles loaned to Msunduzi | 3 635 700 | - |
|-----------------------------|-----------|---|

The municipality entered into an agreement with Umsunduzi Municipality to loan 13 motor vehicles. The vehicles would be returned to Mpofana Municipality as the end of March 2023 brand new of the same make and specifications. .

The amount of vehicles loaned to Msunduzi was determined using the current fair value of the brand new vehicles of the same make and specifications as at 30 June 2021.

The future value of the vehicles loaned to Msunduzi was determined to be R 4,023,811 using the Vehicle Pricing Index of 6.1% for quarter two of 2021.

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|--|------------------|-------------------|
| 14. Finance lease obligation | | |
| Minimum lease payments due | | |
| - within one year | 4 185 000 | 5 719 810 |
| - in second to fifth year inclusive | - | 4 185 000 |
| | <u>4 185 000</u> | <u>9 904 810</u> |
| less: future finance charges | (173 277) | (863 754) |
| Present value of minimum lease payments | 4 011 723 | 9 041 056 |
| Present value of minimum lease payments due | | |
| - within one year | 4 011 723 | 5 029 338 |
| - in second to fifth year inclusive | - | 4 011 718 |
| | <u>4 011 723</u> | <u>9 041 056</u> |
| Finance lease obligation | - | 4 011 718 |
| Finance lease obligation | <u>4 011 718</u> | <u>5 029 339</u> |
| Non-current liabilities | - | 4 011 718 |
| Current liabilities | 4 011 718 | 5 029 339 |
| | 4 011 718 | 9 041 057 |

The municipality has entered into lease agreements with Scelo Business Consultants for use of vehicles and Nashua for use of photocopying machine and printers

The effective lease date for the leasing of vehicles was 1 April 2017 and lease period is 5 years

The lease period for printers and photocopying machines is also 5 years

The average lease term was 1 year and the average effective borrowing rate was 2% (2020: 2%).

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 10.

15. Operating lease asset (accrual)

| | | |
|---------------------|----------|---|
| Current liabilities | (34 525) | - |
|---------------------|----------|---|

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13.

| | | |
|---|-----------------|----------|
| Operating lease expenses recorded | 449 101 | - |
| Operating lease payments from smoothing | (483 626) | - |
| | <u>(34 525)</u> | <u>-</u> |

Leasing arrangements

The Municipality as Lessee

Operating leases relate to property, plant and equipment with lease terms not longer than 5 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

Amounts payable under operating lease

At the reporting date the municipality had outstanding commitments under non-cancellable operating leases for property, plant and equipment, which fall due as follows:

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|--|------------------|-------------------|
| 15. Operating lease asset (accrual) (continued) | | |
| Within one year | 526 239 | - |
| In the second to third years, inclusive | 615 924 | - |
| | 1 142 163 | - |

The following payments have been recognised as an expense in the Statement of Financial Performance:

Minimum lease payments

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Office Equipment

The following restrictions have been imposed on the municipality in terms of the lease agreements on office equipment:

- (i) The equipment shall remain the property of the lessor.
- (ii) The hirer shall not sell, sublet, cede, assign or delegate any of its rights or obligations on the equipment.
- (iii) The equipment shall be returned in good order and condition to the lessor upon termination of the agreement.
- (iv) The municipality is obliged to enter into a maintenance agreement with the lessor for the equipment rented.

16. Payables from exchange transactions

| | | |
|-------------------------------------|--------------------|--------------------|
| Trade payables | 243 466 848 | 203 058 520 |
| Retentions | 2 356 450 | 3 368 462 |
| Leave Accrual | 5 713 765 | 5 185 548 |
| Debtor payments received in advance | 5 760 086 | 5 116 610 |
| Unallocated receipts | 4 918 231 | 4 275 726 |
| Salary suspense | (811 668) | (456 016) |
| 13th Cheque Accrual | 1 072 052 | 1 039 945 |
| | 262 475 764 | 221 588 795 |

17. Consumer deposits

| | | |
|-------------|----------------|----------------|
| Electricity | 345 091 | 336 976 |
| Other | 3 958 | 3 108 |
| | 349 049 | 340 084 |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|---|-------------------|-------------------|
| 18. Employee benefit obligations | | |
| Defined contribution plan | | |
| Post retirement medical aid plan | | |
| Post retirement medical aid | | |
| Balance at the beginning of period | 10 929 350 | 12 858 665 |
| Contribution to provision | 2 011 096 | 2 006 173 |
| Balance at the end of period | 12 940 446 | 14 864 838 |
| Transfer of current liabilities | (534 058) | (530 131) |
| Actuarial Loss/(Gain) | 1 803 686 | (3 405 357) |
| | 14 210 074 | 10 929 350 |

The municipality has a 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 pensioner

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2021 by Mr DT Mureriwa, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The members of the post-employment health care are made up as follow:

| | | |
|--------------------------------|----|----|
| In-service members (Employees) | 89 | 86 |
| Continuation members | 9 | 9 |

The unfunded liability in respect of past service has been estimated as follows

| | | |
|----------------------|-------------------|-------------------|
| In service members | 7 987 242 | 6 205 217 |
| Continuation members | 6 222 832 | 4 724 133 |
| | 14 210 074 | 10 929 350 |

The current-service cost for the year ending 30 June 2021 is estimated to be R531 166, whereas the cost for the ensuing year is estimated to be R76 945 (30 June 2020 R627 174 and 531 166 respectively).

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

Carrying value

| | | |
|---|---------------------|---------------------|
| Present value of the defined benefit obligation-wholly unfunded | (14 210 074) | (10 929 350) |
| Present value of the defined benefit obligation-partly or wholly funded | (2 206 435) | (2 443 568) |
| | (16 416 509) | (13 372 918) |
| Employee benefit obligation | 15 753 048 | 12 571 201 |
| | 15 753 048 | 12 571 201 |
| Retirement benefit obligation | 663 461 | 801 717 |
| | 663 461 | 801 717 |
| Non-current liabilities | (15 753 048) | (12 571 201) |
| Current liabilities | (663 461) | (801 717) |
| | (16 416 509) | (13 372 918) |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|---|-------------------|-------------------|
| 18. Employee benefit obligations (continued) | | |
| Changes in the present value of the defined benefit obligation are as follows: | | |
| Opening balance | 10 929 350 | 12 858 665 |
| Current service costs | 531 166 | 627 174 |
| Interest cost | 1 479 930 | 1 378 999 |
| Benefits paid | (534 058) | (530 131) |
| Actuarial loss/(gain) | 1 803 686 | (3 405 357) |
| | 14 210 074 | 10 929 350 |

Key assumptions used

The principal assumptions used for the actuarial valuations was as follows

| | | |
|---|---------|---------|
| Discount rates used | 11.90 % | 13.88 % |
| Expected rate of return on assets | 6.74 % | 8.13 % |
| Expected rate of return on reimbursement rights | 8.24 % | 9.63 % |
| Actual return on reimbursement rights | 3.38 % | 3.88 % |
| Expected retirement age - Females | 63 | 63 |
| Expected retirement age - males | 63 | 63 |
| | - | - |

Other assumptions

The effect of a 1% movement in the assume rate of health care costs inflation is as follows:

| | One percentage point increase | One percentage point decrease |
|---|--|--|
| Effect on the aggregate of the current service cost | 119 116 | (158 243) |
| Effect on the aggregate of the interest cost | 220 924 | (276 616) |
| Effect on defined benefit obligation | 1 857 966 | (2 325 961) |

The municipality expects to make contribution of R2,230 million (2019: R2,011 million) to the defined plan during the next financial year:

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| 2021 | 2020 Restated* |
|------|-------------------|
|------|-------------------|

18. Employee benefit obligations (continued)

Defined contribution plan

Certain councillors and certain employees belong to the defined benefit plan of the Natal Joint Superannuation and retirements funds, and the Municipal Councillors Pension Fund. Employees of Mpofana make up less than 1% of the total members of the funds. Mpofana's liability in these funds could not be determined owing mainly to the assets not being allocated to each municipality and one set of financial being prepared for each fund and not per municipality. These funds are subject to triennial actuarial valuations. The last statutory valuations was performed in March 2015 on the retirement and provident funds and in March 2014 on the Superannuation Fund. An interim valuation of the Superannuation fund was done in March 2015

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

Superannuation Fund

The actuarial value of total assets was R10 113 227 million at the actuarial date

1. surplus of R0.00 in respect of pensioners (Funding level 100%)
2. surplus of R0.00 in respect of members (Funding level 100%)
3. the fund was thus 100% funded
4. the fund did not hold any an investment reserve.
5. the total contribution rate payable, including the surcharge by and on behalf of members, exceeded that required for future services by 1.41% of members pensionable emoluments.
6. An additional contribution by the way of surcharge amounting to 9.5% of salaries is currently in place to fund the deficit. The surcharge will build up the Solvency Reserve

Retirement Fund

The actuarial value of total assets was R3 650 776 million at the actuarial valuation date .

1. surplus of R0.00 in respect of pensioners (funding level 100%)
2. deficit of R148 694 million in respect of members (funding level 91.1%)
3. the fund was thus 96.1% funded
4. the fund did not hold an investment reserve
5. the total contribution rate payable will include a surcharge of 17.5% payable to reduce the deficit in the fund]

Provident Fund

The actuarial value of the total assets was R2 636 064 million at the actuarial valuation date

1. surplus/deficit of R0.00 and the funding levels is 107.4%
2. the fund was thus 107.4 funded
3. the fund did not hold an investment reserve.

Defined benefit plan

| | | |
|---------------------|-----------|-----------|
| Long service awards | 2 206 435 | 2 443 568 |
|---------------------|-----------|-----------|

The movement in non current provisions are reconciled a follows:

Long service awards

Long term service

| | | |
|-------------------------------|------------------|------------------|
| Balance at the beginning | 2 443 568 | 2 579 078 |
| Contribution to provision | 30 526 | 127 394 |
| Subtotal | 2 474 094 | 2 706 472 |
| Transfer to current provision | (267 659) | (262 904) |
| | 2 206 435 | 2 443 568 |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|--|------|-------------------|
|--|------|-------------------|

18. Employee benefit obligations (continued)

A long-service award is payable after 10 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2020 by Mr DT Mureriwa, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

At year-end, 125 (2020: 97) employees were eligible for long-service awards.

The current service costs for the year ending 30 June 2021 is estimated to be R229 227, whereas the cost for the ensuing year is estimated to be R205 538 (30 June 2020: R266 765 and R229 227 respectively).

The principal assumptions used for the purpose of the actuarial valuations were as follows:

| | | |
|-----------------------------------|----------------|----------------|
| Discount rates | 9.52 % | 9.57 % |
| Consumer Price Inflation | 5.54 % | 4.41 % |
| Salary Increase Rate | 6.54 % | 5.41 % |
| Net effective discount rate | 2.80 % | 3.95 % |
| | 24.40 % | 23.34 % |
| Expected retirement age - females | 63 | 63 |
| Expected retirement age - males | 63 | 63 |
| | 126 | 126 |

Movements in the present value of the defined benefit obligation were as follows:

| | | |
|----------------------------------|------------------|------------------|
| Balance at beginning of the year | 2 443 568 | 2 579 078 |
| Current service costs | 229 227 | 266 765 |
| Interest cost | 221 042 | 216 125 |
| Benefits paid | (267 659) | (262 904) |
| Actuarial losses/(gains) | (419 743) | (355 496) |
| | 2 206 435 | 2 443 568 |

In accordance with transitional provisions for the amendments to GRAP 25 employee benefits in December 2004, the disclosures above are determined prospectively from the 2006 reporting.

The effect of a 1% movement in the assumed rate of long-service cost inflation is as follows:

| 2021 | One percentage point increase | One percentage point decrease |
|---|-------------------------------------|--|
| Effect on the aggregate of the current service cost | 18 247 | (20 800) |
| Effect on the aggregate of interest cost | 17 242 | (19 493) |
| Effect on defined benefit obligation | 181 109 | (204 759) |
| | 216 598 | (245 052) |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|---|--|--|
| 18. Employee benefit obligations (continued) | | |
| 2020 | | |
| | One percentage point increase | One percentage point decrease |
| Effect on the aggregate of the current service cost | 23 613 | 27 510 |
| Effect on the aggregate of interest cost | (5 048) | (6 626) |
| Effect on defined benefit obligation | 198 145 | 228 468 |
| | 216 710 | 249 352 |

The municipality expects to make a contribution of R482 890 (2020: R450 269) to the defined benefit plans during the next financial year.

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

| | | |
|--|-------------------|-------------------|
| Craigburn Housing Project Grant | 5 840 388 | 5 840 388 |
| Municipal Assistance Grant- Small Town grant | 625 585 | 625 585 |
| Townview Housing Project Grant | 8 168 481 | 8 168 481 |
| Title Deeds Grant | 498 459 | 532 059 |
| Disaster Relief Grant | - | 239 790 |
| | 15 132 913 | 15 406 303 |

20. Provisions

Reconciliation of provisions - 2021

| | Opening Balance | Finance cost | Increase or (Decrease) in future cost | Total |
|-----------------------------|--------------------|----------------|---|-------------------|
| Provision for landfill site | 10 374 650 | 829 453 | 1 337 448 | 12 541 551 |
| Provision for leave pay | - | - | - | - |
| | 10 374 650 | 829 453 | 1 337 448 | 12 541 551 |

Reconciliation of provisions - 2020

| | Opening Balance | Finance cost | Increase or (Decrease) in future cost | Total |
|-----------------------------|--------------------|--------------|---|-------------------|
| Provision for landfill site | 9 428 335 | 304 535 | 641 780 | 10 374 650 |
| Non-current liabilities | | | 11 294 921 | 9 545 197 |
| Current liabilities | | | 1 246 630 | 829 453 |
| | | | 12 541 551 | 10 374 650 |

The landfill site provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life.

A discount factor was applied, based on prime interest and adjustment for municipal specific risk.

The leave provision is for the obligation for leave due to staff members at year end based on staff salaries and days leave due.

The timing or amounts of any resulting outflows of economic benefit cannot be estimated.

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|---|-------------------|-------------------|
| 21. Service charges | | |
| Sale of electricity | 47 397 929 | 54 414 512 |
| Refuse removal | 4 002 485 | 3 817 807 |
| | 51 400 414 | 58 232 319 |
| 22. Rental of facilities and equipment | | |
| Premises | | |
| Rental of facilities | 164 961 | 33 045 |
| 23. Licences and permits (exchange) | | |
| Road and Transport | 3 820 423 | 2 318 868 |
| 24. Other income | | |
| Tender Documents | 6 435 | 4 500 |
| Income from N3 TC | 886 821 | 840 877 |
| Sundry Income | 1 913 534 | 203 523 |
| Cemetery fees | 60 556 | 38 786 |
| Town Hall Hire | 2 000 | 3 770 |
| Valuation roll objection fee | 345 | 1 019 |
| Rates Clearance | 12 328 | 16 113 |
| Business Licences | 3 043 | 261 |
| Building Plans | 65 731 | 19 413 |
| Cemetery fee income | 1 044 | - |
| Income from Sanral | 1 227 000 | 2 647 750 |
| | 4 178 837 | 3 776 012 |
| 25. Investment revenue | | |
| Interest revenue | | |
| Bank | 111 732 | 260 328 |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|----------------------------------|-------------------|-------------------|
| 26. Property rates | | |
| Rates received | | |
| Residential | 8 630 437 | 14 392 407 |
| Commercial | 5 102 313 | 9 393 786 |
| State | 2 263 423 | 814 857 |
| Municipal | 5 508 018 | 10 572 354 |
| Communal Property Land | 226 073 | - |
| PSI: Public Benefit Organisation | 276 600 | 1 749 298 |
| Less: Income forgone | (7 285 281) | (15 181 887) |
| | 14 721 583 | 21 740 815 |

Valuations

| | | |
|-------------------------------|----------------------|----------------------|
| Agricultural | 2 777 745 000 | 2 894 855 000 |
| Commercial | 443 480 000 | 438 080 000 |
| Residential | 1 188 130 500 | 1 179 930 500 |
| Municipal | 96 533 000 | 82 640 000 |
| Industrial | 74 030 000 | 73 260 000 |
| Place of worship | 26 170 000 | 26 170 000 |
| Public benefit organisation | 127 840 000 | 126 540 000 |
| Public service infrastructure | 15 710 000 | 15 710 000 |
| Other | 231 174 000 | 228 299 000 |
| | 4 980 812 500 | 5 065 484 500 |

Property rates levied in terms of the Local Government: Municipal Property Rates Act No. 6 of 2004 (MPRA) with effect from 01 July 2007.

Valuations on Land and Buildings are performed every 5 years.

The last general valuation came into effect on 01 July 2020.

Adjustments to the valuation roll in terms of Section 78 of the MPRA (as amended) are effected on an on-going basis. The adjustments take into account consolidations and sub-divisions as well as property category changes. Thus interim valuations are processed on an annual basis.

| Assessment Rates: Cents per Rand on market valuations are as follow | Tariff 2020/21 | Tariff 2019/20 |
|--|----------------|----------------|
| Agriculture | 0.0018678 | 0.0033395 |
| Business and commercial | 0.0104594 | 1.0161301 |
| Industrial | 0.01382140 | 0.0211186 |
| Municipal | 0.00 | 0.00 |
| Place of worship | 0.0015075 | 0.0015075 |
| Protected area | 0.00 | 0.00 |
| Public benefit organisation | 0.0077135 | 0.0077135 |
| Public service infrastructure | 0.0039900 | 0.0039900 |
| Public service purpose | 0.0149420 | 1.61301 |
| Residential | 0.0074710 | 0.0133577 |
| Vacant land | 0.0074710 | 0.0133577 |

For the calculation of rates, residential properties are subject to an exemption of R90 000 (2020 : R90 000) of the valuation of the properties

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* | | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| 26. Property rates (continued) | | | | |
| Rebates % applicable are as follows: | | | | |
| | Rebates 2020/21 Urban | Rebates 2020/21 Rural | Rebates 2019/20 Rural | Rebates 2019/20 Urban |
| Agriculture | - | 40 % | 60 % | - |
| Business and commercial | - | 35 % | 50 % | 22 % |
| Industrial | - | 20 % | 50 % | 22 % |
| Municipal | 100 % | 100 % | 100 % | 100 % |
| Place of worship | 100 % | 100 % | 100 % | 100 % |
| Protected area | 100 % | 100 % | 100 % | 100 % |
| Public benefit organisation | - | - | 65 % | 65 % |
| Public service infrastructure | 100 % | 100 % | 100 % | 100 % |
| Public service purpose | - | 40 % | 50 % | - |
| Residential | - | 50 % | 65 % | 30 % |
| Vacant Land | - | 55 % | 70 % | 30 % |
| Pensioners rebate: Older than 65 years at 35% for both urban and rural. | | | | |
| Rates are levied on an annual basis for government entities. Rates are levied on a monthly basis for all other customers. | | | | |
| On a monthly basis, the final dates of payment being the last working day of the month from July 2020 to June 2021 | | | | |
| Additional rebate on residential properties to value of 90 000. | | | | |
| 27. Public contributions and donations | | | | |
| Public contributions and donations | | | - | 6 700 000 |
| The Municipality received a donation of an asset, being the Public Library at Bruntville from KZN Department of Arts and Culture as at 28 August 2019. This property's fair value was R6 700 000 on the receipt of this donation. | | | | |
| 28. Government grants and subsidies | | | | |
| Operating grants | | | | |
| Equitable Share | | | 44 318 000 | 35 624 000 |
| Provincial Library subsidy | | | 2 035 000 | 1 971 000 |
| Museum grant | | | 213 000 | 202 000 |
| Finance management grant (FMG) | | | 2 800 000 | 2 435 000 |
| Tittle Deed Grant | | | 33 600 | - |
| Disaster Relief Grant | | | 239 790 | 505 210 |
| Extended Public Works Program | | | 1 211 000 | 1 148 000 |
| | | | 50 850 390 | 41 885 210 |
| Capital grants | | | | |
| Municipal Infrastructure grant | | | 11 981 000 | 16 031 000 |
| Municipal assistance small town grant | | | - | 96 946 |
| | | | 11 981 000 | 16 127 946 |
| | | | 62 831 390 | 58 013 156 |
| Equitable Share | | | | |
| Conditional grants received | | | 44 318 000 | 35 624 000 |
| Unconditional grants received | | | (44 318 000) | (35 624 000) |
| | | | - | - |

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|---|--------------|-------------------|
| 28. Government grants and subsidies (continued) | | |
| Municipal Infrastructure Grant | | |
| Current-year receipts | 11 981 000 | 16 031 000 |
| Conditions met - transferred to revenue | (11 981 000) | (16 031 000) |
| | - | - |
| This grant was used to address backlogs in municipal infrastructure required for the provision of basic services. | | |
| Craigburn Housing Project Grant | | |
| Balance unspent at beginning of year | 5 840 388 | 5 840 388 |
| Conditions still to be met - remain liabilities (see note 19). | | |
| The grant is provided by Provincial Department of Human Settlement to deliver the service of housing infrastructure. | | |
| Municipal Assistance Grant - Small Town Grant | | |
| Balance unspent at beginning of year | 625 585 | 625 585 |
| Conditions still to be met - remain liabilities (see note 19). | | |
| This subsidy is provided by the Department of Cooperative Governance and Traditional Affairs to perform feasibility studies with a view to developing the town by improving its economic state and attracting investment. | | |
| Financial Management Grant | | |
| Current-year receipts | 2 800 000 | 2 435 000 |
| Conditions met - transferred to revenue | (2 800 000) | (2 435 000) |
| | - | - |
| To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA) | | |
| Townview Housing Project Grant | | |
| Balance unspent at beginning of year | 8 168 481 | 8 168 481 |
| Conditions still to be met - remain liabilities (see note 19). | | |
| The grant is from Provincial Department of Human Settlements to provide service of housing infrastructure. | | |
| Museum Grant | | |
| Current-year receipts | 213 000 | 202 000 |
| Conditions met - transferred to revenue | (213 000) | (202 000) |
| | - | - |
| This subsidy was granted to the municipality for operational upkeep of the museum.. | | |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|--|-------------|-------------------|
| 28. Government grants and subsidies (continued) | | |
| Expanded Public Works Programme Grant | | |
| Current-year receipts | 1 211 000 | 1 148 000 |
| Conditions met - transferred to revenue | (1 211 000) | (1 148 000) |
| | - | - |

This subsidy was provided by Department of Public Works to assist with the alleviation of poverty in the municipal area by providing temporary employment for the unemployed.

Library Grant

| | | |
|---|-------------|-------------|
| Current-year receipts | 2 035 000 | 1 971 000 |
| Conditions met - transferred to revenue | (2 035 000) | (1 971 000) |
| | - | - |

The library subsidy was provided by Department of Arts and Culture in order to assist municipalities to deliver on the unfunded mandate of the provision of library services in their respective areas

Integrated National Electrification Programme

| | | |
|---------------------------------|-------------|-------------|
| Current-year receipts | 4 000 000 | 5 000 000 |
| Conditions met - Funds Utilised | (4 000 000) | (5 000 000) |
| | - | - |

The municipality has entered into an arrangement with Eskom for construction of MV powerlines for the areas within area of the municipality. The municipality is an agent to the transaction as all the powerlines are handed over back to Eskom upon completion. Eskom would determine the specifications and approve the designs before construction. The project would be inspected by Eskom upon completion before it can be handed over. The Municipality responsibility to appoint the contractor and/or service provider that is registered with Eskom. The arrangement would improve the lives of the local communities. .

To implement the INEP to address capital backlog of all existing and planned residential dwelling and installation of bulk infrastructure.

This projects has been accounted for interms of GRAP 109.

Disaster Relief Grant

| | | |
|---|-----------|----------------|
| Balance unspent at beginning of year | 239 790 | - |
| Current-year receipts | - | 745 000 |
| Conditions met - transferred to revenue | (239 790) | (505 210) |
| | - | 239 790 |

The grant was provided by Provincial COGTA to prevent and combat the spread of the Covid 19 outbreak.

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|--|----------------|-------------------|
| 28. Government grants and subsidies (continued) | | |
| Title Deeds Grant | | |
| Balance unspent at beginning of year | 532 059 | 532 059 |
| Conditions met - transferred to revenue | (33 600) | - |
| | 498 459 | 532 059 |

Conditions still to be met - remain liabilities (see note 19).

The grant is provided by Department of Human Settlements to accelerate the transfer of ownership to qualifying occupants.

29. Employee related costs

| | | |
|--|-------------------|-------------------|
| Basic | 32 007 830 | 28 775 676 |
| Bonus | 2 163 747 | 2 000 248 |
| Medical aid - company contributions | 2 518 766 | 2 180 043 |
| UIF | 247 078 | 237 243 |
| SDL | 438 618 | 392 179 |
| Other allowances | 630 603 | 681 622 |
| Leave pay provision charge | 528 217 | 1 076 615 |
| Defined contribution plans | 6 485 805 | 5 910 157 |
| Travel, motor car, accommodation, subsistence and other allowances | 2 928 183 | 1 898 814 |
| Overtime payments | 2 110 350 | 1 895 541 |
| Long-service awards | - | 3 861 |
| 13th Cheques | 358 467 | 353 754 |
| Acting allowances | 465 703 | 415 755 |
| Housing benefits and allowances | 937 630 | 575 132 |
| Redemption of Leave | 217 428 | 73 669 |
| Other payroll levies | 16 636 | 15 627 |
| | 52 055 061 | 46 485 936 |

Remuneration of Municipal Manager

Mr JM Mkgatsi

| | | |
|---------------------|---|----------------|
| Annual Remuneration | - | 255 854 |
| Car Allowance | - | 77 035 |
| Cellphone Allowance | - | 6 000 |
| | - | 338 889 |

Mr EH Dladla was appointed in October 2019 as Director Social Services and Acting Municipal Manager

Mr JM Mkgatsi was seconded by Cogta in December 2019 as Acting CFO and was subsequently appointed as an Acting Municipal Manager from January 2019. He resigned from the municipality on 30 September 2019.

Mr EH Dladla

| | | |
|---------------------|------------------|----------------|
| Annual Remuneration | 735 661 | 537 904 |
| Car Allowance | 122 610 | 89 651 |
| Cellphone Allowance | 24 000 | 10 372 |
| Housing Allowance | 367 831 | 269 940 |
| | 1 250 102 | 907 867 |

Mr EH Dladla was appointed in October 2019 as Director Social Services and Acting Municipal Manager. He was then appointed as Municipal Manager in April 2020

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|--|----------------|-------------------|
| 29. Employee related costs (continued) | | |
| Remuneration of Chief Finance Officer | | |
| Miss NK Sibobi | | |
| Annual Remuneration | - | 175 142 |
| Car Allowance | - | 83 182 |
| Cellphone Allowance | - | 18 328 |
| Housing Allowance | - | 166 641 |
| | - | 443 293 |
| Mr P Molefe | | |
| Annual remuneration | 511 683 | - |
| Car Allowance | 140 021 | - |
| Housing Allowance | 140 021 | - |
| Acting Allowance | 46 328 | - |
| | 838 053 | - |
| <p>The Acting CFO was appointed on 05 June 2019 and left the Municipality on 31 December 2019. KZN Cogta appointed and paid for Acting CFO Ms P Bosman till June 2020.</p> | | |
| <p>Mr P Molefe was appointed as Acting CFO on 03 July 2020. He was the appointed CFO on 01 December 2020</p> | | |
| Remuneration of Director Corporate Services | | |
| Mr S Nyuswa | | |
| Annual Remuneration | 156 292 | 26 049 |
| Car Allowance | 97 683 | 16 280 |
| Housing Allowance | 136 755 | 22 792 |
| | 390 730 | 65 121 |
| <p>Mr S Nyuswa was appointed as Acting Director in June 2020. His contract ended on 31 December 2020. From July 2019 to May 2020 no appointment was made. .</p> | | |
| Remuneration of Director Technical Services | | |
| Mr NSF Zulu | | |
| Annual Remuneration | - | 328 391 |
| Car Allowance | - | 109 466 |
| Cellphone Allowance | - | 5 192 |
| | - | 443 049 |
| Mrs SR Zwane | | |
| Annual Remuneration | 280 042 | - |
| Car Allowance | 140 021 | - |
| Cellphone Allowance | 8 400 | - |
| Housing Allowance | 140 021 | - |
| | 568 484 | - |

Mr NSF Zulu left the municipality in December 2019.

KZN Cogta seconded and paid for Mr Khumalo to act in this position from 15 April 2020 to 30 September 2020.

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|---|-------------------|-------------------|
| 29. Employee related costs (continued) | | |
| Remuneration of Director Social Services | | |
| Mr SCM Mkhize | | |
| Annual Remuneration | 565 312 | 50 364 |
| Acting Allowance | 34 189 | 14 757 |
| | 599 501 | 65 121 |
| <p>From July 2019 to May 2020 no appointment/no secondment was made was made the position of Director Social Services. The Acting Municipal Manager also acted as the Director of Social Services. Mr SCM Mkhize started Acting in this position as from June 2020 to November 2020</p> | | |
| 30. Remuneration of councillors | | |
| Mayor | 805 903 | 804 133 |
| Councillors | 1 241 248 | 1 225 102 |
| Councillors pension contribution | 77 578 | 90 823 |
| Councillors' allowances | 610 557 | 601 175 |
| | 2 735 286 | 2 721 233 |
| In-kind benefits | | |
| <p>The Mayor, is full-time. The Mayor is provided with an office and secretarial support at the cost of the Council.</p> | | |
| <p>The Mayor has use of a Council owned vehicle for official duties.</p> | | |
| <p>The Mayor has three bodyguards. .</p> | | |
| Arrears owed by Councillors | | |
| <p>There were no councillors in arrears as at 30 June 2021</p> | | |
| 31. Depreciation and amortisation | | |
| Property, plant and equipment | 18 290 483 | 19 243 083 |
| Intangible assets | 104 804 | 244 803 |
| | 18 395 287 | 19 487 886 |
| 32. Finance costs | | |
| Finance cost post retirement plan | 1 479 930 | 1 378 999 |
| Interest and penalties | 3 915 032 | 16 217 982 |
| Interest on finance leases | 690 471 | 1 205 489 |
| Provision of landfill site (unwinding) | 829 453 | 304 535 |
| Finance cost long service awards | 221 042 | 216 125 |
| | 7 135 928 | 19 323 130 |
| 33. Debt impairment | | |
| Contributions to debt impairment provision | 8 122 739 | (616 129) |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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| 34. Bulk purchases | | |
| Electricity - Eskom | 63 124 990 | 64 329 315 |
| Bulk purchases are the cost of energy which the municipality distributes in the municipal area for resale to the customers. The electricity is purchased from Eskom. | | |
| 35. Contracted services | | |
| Outsourced Services | | |
| Hygiene Services | 128 563 | 214 628 |
| Security Services | 2 312 012 | 2 137 951 |
| Contractors | | |
| Maintenance of Equipment | 540 010 | - |
| | 2 980 585 | 2 352 579 |
| 36. General expenses | | |
| Advertising | 179 020 | 187 013 |
| Auditors remuneration | 2 495 000 | 2 189 224 |
| Bank charges | 227 785 | 181 738 |
| Cleaning | 37 850 | 22 500 |
| Consulting and professional fees | 7 601 588 | 2 896 219 |
| Consumables | 291 973 | 438 611 |
| Service connections | - | 136 681 |
| Hire | 6 683 393 | 3 424 533 |
| Insurance | 79 652 | 412 919 |
| Conferences and seminars | - | 2 816 |
| IT expenses | 110 824 | - |
| Motor vehicle expenses | 116 589 | 60 654 |
| Fuel and oil | 1 267 474 | 1 085 380 |
| Postage and courier | 52 693 | 101 882 |
| Printing and stationery | 216 927 | 213 784 |
| Electricity Maintenance (Materials and Supplies) | 5 499 151 | 2 291 288 |
| EPWP casuals | 1 259 316 | 1 037 476 |
| Repairs and maintenance | 2 253 270 | 918 254 |
| Software expenses | 1 285 989 | 1 178 811 |
| Water expenses | 1 197 926 | 1 405 490 |
| Telephone and fax | 561 604 | 686 788 |
| Training | 37 033 | 452 897 |
| Title Deed Search Fees | 336 907 | 250 553 |
| Assets expensed | 258 787 | 418 351 |
| Uniforms | 404 365 | 216 537 |
| Sundry costs | 172 849 | 8 340 |
| Ward committee support | 216 000 | 126 500 |
| Legal expenses | 4 042 693 | 4 080 149 |
| Debt collection | 2 636 276 | 2 171 526 |
| Other expenses | 260 223 | 85 000 |
| District shared service | 294 325 | 480 361 |
| | 40 077 482 | 27 162 275 |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|--|-------------------|-------------------|
| 37. Auditors' remuneration | | |
| Audit committee | 129 902 | 59 662 |
| Auditor General | 2 365 098 | 2 129 562 |
| | 2 495 000 | 2 189 224 |
| 38. Cash generated from operations | | |
| Deficit | (50 628 878) | (20 785 129) |
| Adjustments for: | | |
| Depreciation and amortisation | 18 395 287 | 19 487 886 |
| Loss on sale of assets and liabilities | (1 796 883) | - |
| Debt impairment | 8 122 739 | (616 129) |
| Movements in operating lease assets and accruals | 34 525 | - |
| Movements in retirement benefit assets and liabilities | 3 043 591 | (2 064 825) |
| Movements in provisions | 2 166 901 | 946 315 |
| Fair Value adjustment heritage asset | (18 650) | (22 500) |
| Donation from Arts culture | - | (6 700 000) |
| Changes in working capital: | | |
| Inventories | (56 840) | 101 656 |
| Receivables from exchange transactions | - | - |
| Consumer debtors | (12 056 292) | 264 240 |
| Other receivables from non-exchange transactions | 12 429 001 | (19 350 911) |
| Payables from exchange transactions | 40 886 967 | 50 044 828 |
| VAT | (1 544 076) | (2 680 875) |
| Unspent conditional grants and receipts | (273 390) | 142 844 |
| Consumer deposits | 8 965 | 8 195 |
| | 18 712 967 | 18 775 595 |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|--|------------------|-------------------|
| 39. Commitments | | |
| Authorised capital expenditure | | |
| Approved and contracted | | |
| • Rehabilitation of upper town | - | 18 424 891 |
| • Bhumaneni Creche | - | 456 313 |
| • Rehabilitation of phumlaas road | 408 354 | 1 341 581 |
| • Construction of High over access road | - | 327 439 |
| • Rondebosch community hall | 1 560 742 | 1 931 631 |
| • Rehabilitation of Bruntville access road | - | 873 814 |
| • Rehabilitation of Ngcobo access road | 253 404 | - |
| • Old Station Main Road | 832 525 | - |
| | 3 055 025 | 23 355 669 |
| Total capital commitments | | |
| Already contracted for but not provided for | 3 055 025 | 23 355 669 |
| Authorised operational expenditure | | |
| Already contracted for but not provided for | | |
| • Approved and contracted | 4 080 700 | 839 969 |
| Total operational commitments | | |
| Already contracted for but not provided for | 4 080 700 | 839 969 |

Operating commitments is made up of Internal Audit services, Cleaning Services, Cash Management Services, Cellphone contracts and valuation roll services.

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| 2021 | 2020 Restated* |
|------|-------------------|
|------|-------------------|

40. Contingencies

Contingent liabilities

- Mpofana v L Sithole & Others – Eviction of occupiers from the town hall. Matter was finalised in December 2017. Judgement was against Mpofana Municipality. Mpofana Municipality had to find alternative accommodation for the occupants. This has not been done and presently the Municipality is in contempt of the court order. There is uncertainty with regard to cost and the municipality is seeking assistance from other Public entities to comply with the judgement.
- Mills Fitchet (Pty) Ltd v Mpofana Municipality - Service provider claiming for the monies due. Matter is being defended in the High Court - awaiting for trial date. The amount claimed by the service provider is R1,2 million.
- Tanya Stephania Sango v Mpofana Municipality -claim against the municipality for damages to vehicle caused by pothole in the road in Rossetta. The amount claimed is R20 561.83
- Kamawewe Development Consultants (KDC) v Mpofana Municipality - the matter is to argue the point of law. The municipality maintained that no contract was entered into with KDC. a counter claim of over R7.60 million has been raised against KDC. The matter is still in court

Contingent Assets

- Mpofana Municipality v Tai Yuen Textile - Claim on outstanding Electricity Account R4 000 000. .
- Mpofana Municipality v Big 5 Municipality / JM Bird – Property transfer dispute. Property erroneously transferred to the Big 5 Municipality and subsequent intent to transfer to third party JM Bird. A High Court application is made to reverse the transfer of the property to Big 5 Municipality. The sale of the property to be made by Mpofana Municipality to the third party (JM Bird). The proceeds from the sale of the property is R250 000.

41. Related parties

| | |
|---|--------------------------------------|
| Accounting Officer | Refer to accounting officer's report |
| Chief Financial officer | Refer to note 29 |
| Director Technical Services | Refer to note 29 |
| Director Cooperate and Community Services | Refer to note 29 |
| Councillors | Refer to note 30 |

Remuneration of key management personnel and Councillors is set out in note 27 and 28 respectively

There were no awards to close family members of persons in the service of the municipality

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | | 2020 Restated* | |
|---|----------------------------------|------------------|--------------------|--------------------|
| 42. Prior period errors | | | | |
| The correction of the error(s) results in adjustments as follows: | | | | |
| Statement of Financial Position | Amount previously Reported | Reclassification | Restatement | Restated Amount |
| Assets | | | | |
| Current Assets | | | | |
| Receivables from exchange transactions | 36 311 121 | - | 736 918 | 37 048 039 |
| Receivables from non-exchange transactions | 29 832 839 | - | 5 185 290 | 35 018 129 |
| Non-Current Assets | | | | |
| Property Plant and Equipment | 201 360 482 | - | 16 859 908 | 218 220 390 |
| Intangible Assets | 400 000 | - | 19 217 | 419 217 |
| | 267 904 442 | - | 22 801 333 | 290 705 775 |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Finance lease | 3 823 855 | - | 1 205 484 | 5 029 339 |
| Payables from exchange transaction | 216 987 926 | 5 185 548 | (584 679) | 221 588 795 |
| Employee Benefit obligation | 267 659 | - | 534 058 | 801 717 |
| Unspent Condition grants | 15 166 513 | - | 239 790 | 15 406 303 |
| Provisions | 4 838 275 | (5 185 548) | 1 176 726 | 829 453 |
| | 241 084 228 | - | 2 571 379 | 243 655 607 |
| Non Current Liabilities | | | | |
| Finance Lease obligation | 4 562 785 | - | (551 067) | 4 011 718 |
| Employee benefit obligation | 13 105 259 | - | (534 058) | 12 571 201 |
| Provision | 10 374 650 | - | (829 453) | 9 545 197 |
| | 28 042 694 | - | (1 914 578) | 26 128 116 |
| Net Assets | | | | |
| Accumulated surplus | 59 220 044 | - | 21 448 286 | 80 668 330 |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| 2021 | 2020 Restated* |
|------|-------------------|
|------|-------------------|

42. Prior period errors (continued)

Receivables from exchange transactions has been adjusted with the receipts for Correction of Conlog receivables recorded in the incorrect period for Prepaid electricity.

Receivables from non-exchange transactions has been adjusted with the traffic fines that were not previously recorded in the prior years ..

The property plant and equipment usefulives for the fully depreciated assets and the assets that are almost fully depreciated but are still in use has been revised in terms of GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors. The assets that were previously disposed but not removed from the FAR in the prior years, has been removed from the FAR..

Intangible assets -Re-assessment of the useful lives of the software (intangible assets) that are still used by the municipality has been revised, and the balances restated. .

Payables from exchange transaction-The adjustment of Retention written-off as the projects were completed and retention forfeited, Accrual for Water Accounts not in the Age Analysis and Reclassification of leave pay from provisions to accruals .

Employee benefit obligation -The current portion of the employee benefits obligation was incorrectly classified as non-current liability. Adjustment was to correct the misstatement.

Unspent conditional grants -The unspent grant was adjusted to capitalise the amount of Disaster Management Grant spent that does not meet the conditions of the grant. The adjustment was the reversal of the grant to unspent..

Provisions- The leave pay provision has been revised, hence the adjustment. The leave pay provision was misstated as the number of leave days cannot be verified. The corrcetion of current portion of the land-fill site provision that was missallocated to Non-current liabilities.

Finance lease (Non Current) -The prepayment of the lease liability was incorrectly accounted as lease repayment in the prior year.

Employee benefit (Non current) - The current portion of the employee benefits obligation was incorrectly classified as non-current liability. Adjustment was to correct the misstatement.

Provisions -The current portion of the land-fill site provision has been reclassified to current liabilities.

Adjustment of Retention written-off as the projects were completed and retention forfeited

Adjustment of Retention written-off as the projects were completed and retention forfeited

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | | | 2021 | 2020 Restated* |
|--|----------------------------------|------------------|------------------|--------------------|
| 42. Prior period errors (continued) | | | | |
| Statement of Financial Performance | | | | |
| | Amount Previously Reported | Reclassification | Restatement | Restated amount |
| Revenue | | | | |
| Service Charges | 57 495 401 | - | 736 918 | 58 232 319 |
| Rental of facilities and Equipment | 32 795 | - | 250 | 33 045 |
| Other income | 3 647 869 | - | 128 144 | 3 776 013 |
| Government grants and subsidies | 58 252 946 | - | (239 790) | 58 013 156 |
| Fines, Penalties and Forfeits | 417 910 | - | 5 185 290 | 5 603 200 |
| | 119 846 921 | - | 5 810 812 | 125 657 733 |
| Expenditure | | | | |
| Employee related costs | 45 499 832 | - | 986 104 | 46 485 936 |
| Depreciation and amortisation | 18 217 224 | - | 1 270 663 | 19 487 887 |
| Finance costs | 19 038 789 | - | 284 341 | 19 323 130 |
| General expenses | 27 165 790 | - | (3 518) | 27 162 272 |
| | 109 921 635 | - | 2 537 590 | 112 459 225 |

Service charge - transactions has been adjusted with the receipts for Correction of Conlog receivables recorded in the incorrect period for Prepaid electricity

The rental of facilities - The rental of facilities for the market stall and Wozawoza Torism Centre has been taken into consideration together with escalation as per contract.

Other income -The income from SANRAL and N3TC was not complete. Only receipts from SANRAL and N3TC was recorded as income earned. The monthly invoices for the period of 2018/19 has been included with the corresponding receivable

Government Grants and subsidies - Adjustment made on Disaster grant. The adjustment was the reversal of the grant to unspent.

The fines and penalties income recognition was not reported.

Employee Related Cost -Correction of leave pay provision for 2019.20 period (Adjustment) .

Depreciation and ammortisation - Depreciation on assets reclassified from R&M and Depreciation on Restatement of Assets with Zero Carrying Amount

Finance Cost -Correction of Interest and Penalties from SARS.

General expenses -Restatements of Correction of VAT claimed from financial services, Correction of VAT incorrectly claimed, Accrual for Water Accounts not in the Age Analysis and Reclassification of Road Construction that was incorrectly expensed to Repairs and Maintenance and Building Improvements incorretly expensed to repairs and maintenance

Statement of Cash Flows

Cash Flow from Operating Activities

| | Amount previously reported | Reclassification | Restatement | Restated amount |
|------------------------|----------------------------------|------------------|-------------|--------------------|
| Receipts | | | | |
| Property Rates | 9 605 738 | - | (1 612 827) | 7 992 911 |
| Service Charges | 57 877 788 | - | 626 965 | 58 504 753 |
| Other receipt | 5 966 737 | - | (2 519 688) | 3 447 049 |
| Payments | | | | |
| Employee related costs | (46 092 638) | - | (2 353 520) | (48 446 158) |
| Suppliers | (69 216 385) | - | 22 400 033 | (46 816 352) |

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

| | 2021 | 2020 Restated* |
|--|---------------------|---------------------------|
| 42. Prior period errors (continued) | | |
| Finance costs | 3 105 148 | - 16 217 982 |
| | (38 753 612) | 19 323 130 |
| | - | (5 994 667) |
| Cash Flow from investing activities | | |
| Purchase of Property Plant and Equipment | (15 829 291) | - (977 399) |
| | - | Total (16 806 690) |
| Cash Flow from Financing Activities | | |
| Finance Lease payments | (5 645 073) | - 654 417 |
| | - | (4 990 656) |
| Statement of financial position | | |
| Unauthorised expenditure | | |
| Opening balance | | - 144 204 892 |
| Adjustments made | | - (9 067 029) |
| Restated opening balance | | - 135 137 863 |
| Adjustment made to opening balance of unauthorised expenditure is due to correction of misstatement on prior years balances. | | |
| Fruitless and wasteful expenditure | | |
| Opening balance | | - 15 791 103 |
| Adjustments made | | - 2 146 347 |
| Restated opening balance | | - 17 937 450 |
| Adjustment made to opening balance of fruitless and wasteful expenditure is due to correction of omitted interest and penalties from SARS. | | |
| Irregular expenditure | | |
| Opening balance | | - 91 513 590 |
| Adjustments made | | - 8 734 098 |
| Restated opening balance | | - 100 247 688 |
| Adjustment made to opening balance of irregular expenditure is due to an omission of irregular expenditure R 8 734 098 made to the 30 June 2021 annual financial statements, due to uncorrected mistatements that was raised in the 2017-18 audit. | | |
| Capital Commitments | | |
| Opening balance | | - 26 614 471 |
| Adjustments made | | - (3 258 802) |
| Restated opening balance | | - 23 355 669 |
| Operational Commitments | | |
| Opening balance | | - 888 160 |
| Adjustments made | | - (48 191) |
| Restated opening balance | | - 839 969 |

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43. Risk management

Financial risk management

Due to the largely non-trading nature of the activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities.

The municipality's finance function monitors and manages the financial risks relating to the operations of the municipality. These risks include credit risk, liquidity risk, market risk relating to interest rate risk.

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.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undercounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| | | |
|---------------------------|--------------------|--------------------|
| Finance lease liability | 4 011 718 | 9 041 057 |
| Trade and other payables | 257 036 323 | 216 677 570 |
| Unspent conditional grant | 15 132 913 | 15 406 303 |
| | 276 180 954 | 241 124 930 |

Credit risk

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

Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking into account of the value of any collateral obtained.

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

| Financial instrument | 2021 | 2020 |
|---|------------|------------|
| Cash and cash equivalent | 3 634 330 | 2 442 053 |
| Receivable from non exchange transactions | 18 969 701 | 31 398 702 |
| Receivables from exchange transaction | 44 414 969 | 39 744 498 |

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

| | | |
|--------------------------|-----------|-----------|
| Cash and cash equivalent | 3 634 330 | 2 442 053 |
|--------------------------|-----------|-----------|

Mpofana Local Municipality

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44. Going concern

We draw attention to the fact that the municipality has unspent conditional grants liabilities that are not fully cash backed.

The municipality has a deficit of R50,628 million in the current year. The current liabilities exceeded the current assets by R165,457 million and the available cash resource did not cover the commitment for unspent conditional grants with an amount of R15,1 million being recovered

There has been major challenges with the debtors system over several years. This has affected the municipality's collections and revenue stream. In the prior year a decision was taken by Council to suspend the charging of interest on overdue debt accounts whilst management addresses the debtors system challenges. Whilst progress has been noted in some aspects of the debtors system, this process is still ongoing.

During 19/20, there was an outbreak of the COVID-19 pandemic which resulted in an alert level 5 national lockdown over several months including whole of 20/21. This impacted on the municipalities revenue as the demand for electricity decreased and the anticipated revenue was likewise affected.

The liquidity ratio of the municipality is 0.42:1 which means that the municipality is not able to pay its creditors as they fall due. This is evident in the increase on the trade payables that is disclosed at +R243 mil (2020: R203mil).

Despite the adverse liquidity position of the municipality, the following should be noted:

1. The municipality is in a net asset position of R30,039 million.
2. With the national lockdown move to alert level 1, commercial businesses / industries and schools have returned to work, thus increasing the demand for electricity. A review of the recent months billings reveals that revenue has increased for electricity.
3. The Municipality is to consider payments plans for some customers to improve collections.
4. Municipality has also taken legal action against some customers that have large unpaid accounts.
5. Debtor collectors are assisting the municipality with recovery of debts that are over 90 days.
6. With the municipality trying to resolve its debtor's system issues, interest will be charges on overdue accounts, thus increasing revenue
7. Other forms of income streams and prevention of electricity losses can be considered by the municipality with the assistance of Municipal Infrastructure Support Agent (MISA)

Based on the above, the municipality is deemed to be a going concern entity. The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that both Provincial and National Government have neither the intention nor need to liquidate or curtail materially the scale of funding of the municipality. The ability of the municipality to continue is dependent on the number of factors which includes the assets and liabilities of the municipality.

45. Events after the reporting date

At the time of completion of the financial statements there were no events after the reporting date affecting these financial statements

Mpofana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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| | 2021 | 2020 Restated* |
|--|--------------------|--------------------|
| 46. Unauthorised expenditure | | |
| Opening balance as previously reported | 157 333 937 | 144 204 892 |
| Correction of prior period error | - | (9 067 029) |
| Opening balance as restated | 157 333 937 | 135 137 863 |
| Add: Expenditure identified - current | 51 943 526 | 22 196 074 |
| Closing balance | 209 277 463 | 157 333 937 |

Incident

Budget Amount Exceeded

| | | |
|--------------------------------|-------------------|-------------------|
| Personel | 2 286 597 | 2 201 750 |
| Remuneration of Councillors | 191 563 | 30 233 |
| Depreciation and ammortisation | 177 809 | 1 139 224 |
| Debt impairment | 8 122 737 | - |
| Finance cost | 5 888 028 | - |
| General expenses | 27 411 590 | 14 229 177 |
| Bulk Purchases | 6 608 802 | - |
| Capital expenditure | 1 256 400 | 4 525 690 |
| | 51 943 526 | 22 126 074 |

Disciplinary steps/ criminal proceedings: Investigation are being conducted by MPAC.

47. Fruitless and wasteful expenditure

| | | |
|--|-------------------|-------------------|
| Opening balance as previously reported | 33 729 824 | 15 791 103 |
| Opening balance -Correction of prior period error | - | 1 720 322 |
| Opening balance as restated | 33 729 824 | 17 511 425 |
| Add: Expenditure identified - current | 635 760 | 15 792 374 |
| Add: Expenditure identified - Correction of prior period error | - | 426 025 |
| Less: Amount written off - prior period | (29 683 208) | - |
| Closing balance | 4 682 376 | 33 729 824 |

Analysis of fruitless and wasteful expenditure

| | | |
|-----------------------------------|----------------|-------------------|
| Interest Expense | - | 15 824 407 |
| Penalties | 623 747 | 393 575 |
| Payment for services not utilised | - | 417 |
| Overpayments | 12 013 | - |
| | 635 760 | 16 218 399 |

Interest charged on the Eskom account for the financial year is R3.5 million (2020: R15.3 million).

R29,6 million fruitless and wasteful expenditure for prior and current years was reported to Council during the 2020/21 financial year.

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48. Irregular expenditure

| | | |
|---|--------------------|--------------------|
| Opening balance as previously reported | 123 603 663 | 91 513 590 |
| Adjustments for prior year errors | - | 8 734 098 |
| Opening balance as restated | 123 603 663 | 100 247 688 |
| Add: Irregular Expenditure - current | 35 889 710 | 21 020 613 |
| Add: Irregular Expenditure - prior period | 14 892 247 | 2 335 362 |
| Less: Amount written off - current | - | - |
| Less: Amount written off - prior period | (89 798 621) | - |
| Closing balance | 84 586 999 | 123 603 663 |

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

| | Disciplinary steps taken/criminal proceedings | | |
|--|--|-------------------|-------------------|
| Reason for deviation not sufficient | The incidents has been reported to Council and MPAC is dealing with the matter | - | 412 058 |
| SCM processes were not followed- quotation were not obtained | The incidents has been reported to Council and MPAC is dealing with the matter | 2 519 785 | 3 206 681 |
| BAC not in accordance with SCM regulations29(2) | The incidents has been reported to Council and MPAC is dealing with the matter | 1 769 850 | 6 724 453 |
| Competitive bidding not followed | The incidents has been reported to Council and MPAC is dealing with the matter | 32 399 416 | - |
| BAC not constituted | The incidents has been reported to Council and MPAC is dealing with the matter | 1 000 000 | 2 590 485 |
| Tender was not advertised for required time | The incidents has been reported to Council and MPAC is dealing with the matter | 11 412 386 | 10 422 297 |
| Contract expired | The incidents has been reported to Council and MPAC is dealing with the matter | 1 680 521 | - |
| | | 50 781 958 | 23 355 974 |

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49. Deviation from supply chain management regulations

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by council, any deviations from the Supply Chain management Policy needs to be approved / condoned by the Municipal Manager and noted by Council. The municipality incurred deviations in terms of section 36(2) of the Municipal Supply Chain Regulations and noted by Council.

Total Section 36 Deviations for the financial year

| | | |
|--|------------------|----------------|
| Emergencies | 751 697 | 1 245 214 |
| Sole provider | 297 495 | - |
| Section 36 Deviations transferred to Irregular Expenditure | - | (931 610) |
| Exceptional case | 358 227 | - |
| | 1 407 419 | 313 604 |

50. Material Losses

| | | |
|---------------------------------|------------|------------|
| Electricity distribution losses | 29 396 059 | 28 060 899 |
|---------------------------------|------------|------------|

Electricity losses of 22 810 920 kWh as at June 2021 (June 2020: 19 189 695kWh) occurred during the year which resulted in revenue loss amounting to R29 396 059 (June 2020: R28 060 899).

The National norm for electricity losses range from 6% to 12 % . The energy loss incurred by the municipality as at June 2021 was 43.05% (June 2020 : 33.51%) and was mainly due to transmission / distribution losses and illegal connections.

51. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

| | | |
|---------------------------------|---------------|------------------|
| Opening balance | 3 028 024 | 2 382 459 |
| Current year subscription / fee | 2 365 098 | 2 129 562 |
| Amount paid - current year | (2 303 903) | - |
| Amount paid - previous years | (3 028 024) | (1 483 997) |
| | 61 195 | 3 028 024 |

PAYE and UIF

| | | |
|---------------------------------|----------------|----------------|
| Opening balance | 574 351 | 572 835 |
| Current year subscription / fee | 8 472 071 | 7 387 498 |
| Amount paid - current year | (7 864 511) | (6 813 147) |
| Amount paid - previous years | (574 351) | (572 835) |
| | 607 560 | 574 351 |

Pension and Medical Aid Deductions

| | | |
|---------------------------------|------------------|------------------|
| Opening balance | 6 584 142 | 8 306 406 |
| Current year subscription / fee | 15 043 462 | 12 464 922 |
| Amount paid - current year | (13 852 919) | (5 880 780) |
| Amount paid - previous years | (6 584 143) | (8 306 406) |
| | 1 190 542 | 6 584 142 |

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

VAT

| | | |
|----------------|-------------------|-------------------|
| VAT receivable | 50 944 949 | 35 695 993 |
| VAT payable | (29 346 014) | (15 641 134) |
| | 21 598 935 | 20 054 859 |

VAT output payables and VAT input receivables are shown in note 5.

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

Councillors' arrear consumer accounts

The municipal councillors do not hold any account either for electricity, refuse or rates with the municipality hence there are no account balances receivable from councillors as at 30 June 2021:

It has been noted that some councillor have prepaid meters and some councillors are living in residences where ownership is not in their names, some councillors are living in the rural areas where Eskom supplies electricity directly.

Non-payment of creditors within 30 days

Due to severe financial constraints, the municipality has not complied with the regulation of paying creditor within 30 days in terms of the MFMA and Treasury Regulation 8.2.3. A process plan to address this has been designed to ensure compliance which will be monitored quarterly by Council.

52. Impact of COVID 19

Towards the end of 2019 year, the outbreak of the Coronavirus Disease 2019 (Covid -19) has had a major impact on the economy globally. South Africa has been on a lockdown from March 2020. Consequentially the virus has taken a toll on human life and in- addition business and financial markets. The extent of which is currently indeterminate.

In compiling the 19/20 AFS, we have noted the impact of COVID-19 on the following:

- t
- **Conditional Grant :**
A grant of R745 000 was received from COGTA on the 08 May 2020 for the prevention and combat of the COVID 19 outbreak. The funds from this grant was utilised to purchase sanitisers, masks, disinfection walk throughs and other prevention goods / supplies such as regular sanitisation of municipal offices. As at 30 June 2021, the entire grant was utilised. Refer to note 26 of the AFS
 - **Revenue :**
Due to the level 5 lockdown enforced by National Government in March 2020, majority of the commercial businesses / industries and all schools had to be shut down for a number of weeks (even months) and this effected the municipality 20/21 electricity revenue. Refer to note 19 of the AFS. There is a possibility that the property values are likely to be reduced and this will indeed impact on the properties rates revenue. The impact of the above has not been assessed by the municipality.
 - **Accounts Receivable:**
Recoverability of trade receivables can be a major issue. There is an increased risk of default from customers such some companies are likely going to struggle to survive this period of uncertainty. Individuals who are residential customers also have increased risk of unemployment and these may affect the municipality cashflows collections. The impact of the above has been considered in the provision for the 20/21 Trade receivables impairment and Provision for doubtful debts. Refer to notes 4 and 6.
 - **Leave balances:**
As from March 2020 when the national lockdown was implemented, revised working times were implemented for all officials in government entities, including municipalities. Officials were rotated on a daily / weekly basis and consequentially no officials had taken annual leave from July 2020 to October 2020. This has impact on the leave provision for the 20/21 financial year end. Refer to note 20.

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52. Impact of COVID 19 (continued)

- National Government has given additional equitable share to all municipalities.