



Mpošana Local Municipality
(Registration number KZ223)
Annual Financial Statements
for the year ended June 30, 2023

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

General Information

| | |
|--|---|
| Nature of business and principal activities | Providing Municipal Services |
| Members of Council | |
| Mayor | Cllr TM Magubane |
| Councillors | Speaker - Cllr ZA Dladla Member of EXCO -Cllr Z Mchunu Member of EXCO - Cllr ES Buthelezi Cllr ME Majola Cllr LW Wayne Cllr PB Gunundu Cllr SM Mchunu Cllr JJ Dlomo Cllr XB Zikhali |
| Grading of local authority | 2 |
| Accounting Officer | Dr. EH Dladla |
| Chief Financial Officer (CFO) | Mr P Molefe |
| 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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Abbreviations used:

| | |
|--------|---|
| GRAP | Generally Recognised Accounting Practice |
| IAS | International Accounting Standards |
| IPSAS | International Public Sector Accounting Standards |
| MFMA | Municipal Finance Management Act |
| mSCOA | Municipal Standard Chart of Accounts |
| SARS | South African Revenue Services |
| PAYE | Pay As You Earn |
| SDL | Skills Development Levy |
| UIF | Unemployment Insurance Fund |
| iGRAP | Interpretation of the Standards of Generally Recognised Accounting Practice |
| VAT | Value Added Tax |
| LGSETA | Local Government Sector Education and Training Authority |
| SANRAL | South African National Road Agency Limited |
| N3TC | N3 Toll Concession |
| INEP | Intergrated National Electrification Programme |

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Officer's Responsibilities and Approval

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

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

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent 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 December 2017, 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 to October 2021
4. Ms N Khanyile was appointed in November 2021 and is current Administrator.

- a) The municipality has deficit of R108,5 million and that the municipality total liabilities exceeded its assets by R184,5 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.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2024 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The 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 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 June 30, 2023

Accounting Officer's Responsibilities and Approval

The annual financial statements set out on page 7, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2023 and were signed on its behalf by:

Accounting Officer
Dr. EH Diadla

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Audit Committee Report

We are pleased to present our report for the financial year ended June 30, 2023.

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) number of meetings were held.

| Number of members | Number of meetings |
|-------------------|--------------------|
| Mr. Z. Zulu | 4 |
| Miss S. Keshav | 4 |
| Prof. B. Stobie | 4 |
| Mr. A. Singh | 4 |
| Mr. S. Mabaso | 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 system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

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

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the accounting officer of the municipality during the year under review.

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; on the 29 August 2023
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

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.

The audit committee concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Systems of Internal Control

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Audit Committee Report

Chairperson of the Audit Committee

Date: _____

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Statement of Financial Position as at June 30, 2023

| Figures in Rand | Note(s) | 2023 | 2022 Restated* |
|--|---------|----------------------|---------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | 3 | 33 413 014 | 33 476 648 |
| Other financial assets | 4 | 4 023 811 | 3 857 478 |
| Receivables from non-exchange transactions | 5 | 23 083 112 | 18 096 311 |
| VAT receivable | 6 | 40 902 934 | 31 226 630 |
| Receivables from exchange transactions | 7 | 32 576 517 | 27 632 940 |
| Loan receivables | 8 | 399 638 | 399 638 |
| Cash and cash equivalents | 9 | 1 407 394 | 3 518 780 |
| | | 135 806 420 | 118 208 425 |
| Non-Current Assets | | | |
| Investment property | 10 | - | 2 200 000 |
| Property, plant and equipment | 11 | 213 411 781 | 214 811 019 |
| Intangible assets | 12 | 104 805 | 209 609 |
| Heritage assets | 13 | 192 000 | 185 000 |
| | | 213 708 586 | 217 405 628 |
| Total Assets | | 349 515 006 | 335 614 053 |
| Liabilities | | | |
| Current Liabilities | | | |
| Operating lease liability | 14 | 3 422 | 38 707 |
| Payables from exchange transactions | 15 | 481 424 178 | 363 259 144 |
| Consumer deposits | 16 | 369 759 | 358 847 |
| Employee benefit obligation | 17 | 1 120 603 | 674 998 |
| Unspent conditional grants and receipts | 18 | 17 867 457 | 15 132 913 |
| Provisions | 19 | 2 041 346 | 2 204 004 |
| | | 502 826 765 | 381 668 613 |
| Non-Current Liabilities | | | |
| Employee benefit obligation | 17 | 16 361 486 | 16 715 407 |
| Provisions | 19 | 14 870 079 | 13 226 935 |
| | | 31 231 565 | 29 942 342 |
| Total Liabilities | | 534 058 330 | 411 610 955 |
| Net Assets | | (184 543 324) | (75 996 902) |
| Accumulated surplus /(deficits) | | (184 543 324) | (75 996 902) |
| Total Net Assets | | (184 543 324) | (75 996 902) |

* See Note 42

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Statement of Financial Performance

| Figures in Rand | Note(s) | 2023 | 2022 Restated* |
|--|---------|----------------------|----------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 20 | 54 343 972 | 69 273 186 |
| Rental of facilities and equipment | 21 | 218 516 | 243 465 |
| Licences and permits | 22 | 4 768 032 | 4 561 486 |
| Construction contractor revenue (INEP) | | 10 701 500 | - |
| Other income | 23 | 7 272 254 | 6 011 361 |
| Interest received | 24 | 14 117 118 | 4 389 945 |
| Gain on disposal of assets and liabilities | | 89 482 | 335 970 |
| Actuarial gains | | 2 334 933 | 1 007 071 |
| Total revenue from exchange transactions | | 93 845 807 | 85 822 484 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 25 | 16 186 301 | 18 655 940 |
| Transfer revenue | | | |
| Government grants & subsidies | 26 | 63 842 394 | 63 018 000 |
| Fines, Penalties and Forfeits | 27 | 7 278 947 | 5 796 762 |
| Total revenue from non-exchange transactions | | 87 307 642 | 87 470 702 |
| Total revenue | | 181 153 449 | 173 293 186 |
| Expenditure | | | |
| Employee related costs | 28 | (58 757 252) | (54 901 316) |
| Remuneration of councillors | 29 | (3 158 783) | (3 019 771) |
| Construction contract expenditure (INEP) | | (10 701 500) | (2 763 021) |
| Depreciation and amortisation | 30 | (18 104 162) | (17 975 805) |
| Reversal of impairments | 31 | - | (646 447) |
| Finance costs | 32 | (35 854 766) | (17 347 533) |
| Debt Impairment | 33 | (14 104 817) | (14 854 938) |
| Bulk purchases | 34 | (73 717 692) | (86 494 282) |
| Contracted services | 35 | (7 037 865) | (3 848 359) |
| General Expenses | 36 | (68 270 034) | (50 297 566) |
| Total expenditure | | (289 706 871) | (252 149 038) |
| Deficit for the year from continuing operations | | (108 553 422) | (78 855 852) |
| Fair value adjustment | | 7 000 | 116 249 |
| Deficit for the year | | (108 546 422) | (78 739 603) |

* See Note 42

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus / (deficit) | Total net assets |
|---|---------------------------------|----------------------|
| Opening balance as previously reported | 37 563 936 | 37 563 936 |
| Adjustments | | |
| Correction of errors 42 | (34 821 235) | (34 821 235) |
| Balance at July 1, 2021 as restated* | 2 742 701 | 2 742 701 |
| Changes in net assets | | |
| Deficit for the year | (78 739 603) | (78 739 603) |
| Total changes | (78 739 603) | (78 739 603) |
| Opening balance as previously reported | (39 866 016) | (39 866 016) |
| Adjustments | | |
| Correction of errors 42 | (36 130 886) | (36 130 886) |
| Restated* Balance at July 1, 2022 as restated* | (75 996 902) | (75 996 902) |
| Changes in net assets | | |
| Deficit for the year | (108 546 422) | (108 546 422) |
| Total changes | (108 546 422) | (108 546 422) |
| Balance at June 30, 2023 | (184 543 324) | (184 543 324) |

* See Note 42

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Cash Flow Statement

| Figures in Rand | Note(s) | 2023 | 2022 Restated* |
|---|---------|--------------------------|--------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Taxation | | 18 478 448 | 33 596 535 |
| Service charges | | 35 306 489 | 38 111 840 |
| Grants and subsidies received | | 66 576 938 | 63 018 000 |
| Interest income | | 14 117 118 | 4 389 945 |
| Other receipts | | 13 284 001 | (925 182) |
| | | <u>147 762 994</u> | <u>138 191 138</u> |
| Payments | | | |
| Employee costs | | (58 162 128) | (54 883 966) |
| Suppliers | | (41 380 516) | (42 503 452) |
| Finance charges | | (35 854 766) | (17 347 533) |
| | | <u>(135 397 410)</u> | <u>(114 734 951)</u> |
| Net cash flows from operating activities | 38 | <u>12 365 584</u> | <u>23 456 187</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 11 | (14 400 119) | (19 674 211) |
| Proceeds from sale of property, plant and equipment | 11 | 89 482 | 335 970 |
| Proceeds from sale of financial assets | | (166 333) | (221 778) |
| | | <u>(14 476 970)</u> | <u>(19 560 019)</u> |
| Cash flows from financing activities | | | |
| Finance lease payments | | - | (4 011 718) |
| | | <u>-</u> | <u>(4 011 718)</u> |
| Net increase/(decrease) in cash and cash equivalents | | (2 111 386) | (115 550) |
| Cash and cash equivalents at the beginning of the year | | 3 518 780 | 3 634 330 |
| Cash and cash equivalents at the end of the year | 9 | <u>1 407 394</u> | <u>3 518 780</u> |

* See Note 42

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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 | 78 145 272 | 353 082 | 78 498 354 | 54 343 972 | (24 154 382) | (a) |
| Rental of facilities and equipment | 222 201 | 29 258 | 251 459 | 218 516 | (32 943) | (b) |
| Licences and permits | 4 928 713 | - | 4 928 713 | 4 768 032 | (160 681) | (c) |
| Construction contractor revenue (INEP) | - | - | - | 10 701 500 | 10 701 500 | |
| Other income | 6 057 631 | 6 840 000 | 12 897 631 | 7 272 254 | (5 625 377) | (d) |
| Interest received | 3 968 333 | 21 935 155 | 25 903 488 | 14 117 118 | (11 786 370) | (e) |
| Total revenue from exchange transactions | 93 322 150 | 29 157 495 | 122 479 645 | 91 421 392 | (31 058 253) | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Property rates | 17 560 215 | 102 621 | 17 662 836 | 16 186 301 | (1 476 535) | (f) |
| Transfer revenue | | | | | | |
| Government grants & subsidies | 56 285 700 | (5 341 608) | 50 944 092 | 63 842 394 | 12 898 302 | |
| Fines, Penalties and Forfeits | 5 812 275 | 1 827 057 | 7 639 332 | 7 278 947 | (360 385) | |
| Total revenue from non-exchange transactions | 79 658 190 | (3 411 930) | 76 246 260 | 87 307 642 | 11 061 382 | |
| Total revenue | 172 980 340 | 25 745 565 | 198 725 905 | 178 729 034 | (19 996 871) | |
| Expenditure | | | | | | |
| Personnel | (54 337 252) | (541 011) | (54 878 263) | (58 757 252) | (3 878 989) | (g) |
| Remuneration of councillors | (3 109 810) | (39 622) | (3 149 432) | (3 158 783) | (9 351) | |
| Construction contractor expenditure (INEP) | - | - | - | (10 701 500) | (10 701 500) | |
| Depreciation and amortisation | (18 945 947) | 951 697 | (17 994 250) | (18 104 162) | (109 912) | |
| Finance costs | - | (17 628 120) | (17 628 120) | (35 854 766) | (18 226 646) | (h) |
| Debt Impairment | (7 431 768) | (1 814 043) | (9 245 811) | (14 104 817) | (4 859 006) | (i) |
| Bulk purchases | (71 789 780) | (4) | (71 789 784) | (73 717 692) | (1 927 908) | |
| Contracted Services | (10 441 596) | (5 498 860) | (15 940 456) | (7 037 865) | 8 902 591 | (k) |
| General Expenses | (22 786 000) | (11 969 577) | (34 755 577) | (68 270 034) | (33 514 457) | (l) |
| Total expenditure | (188 842 153) | (36 539 540) | (225 381 693) | (289 706 871) | (64 325 178) | |
| Operating deficit | (15 861 813) | (10 793 975) | (26 655 788) | (110 977 837) | (84 322 049) | |
| Gain on disposal of assets and liabilities | - | 89 000 | 89 000 | 89 482 | 482 | |
| Actuarial gains/losses | - | - | - | 2 334 933 | 2 334 933 | |
| | - | 89 000 | 89 000 | 2 424 415 | 2 335 415 | |
| Deficit before taxation | (15 861 813) | (10 704 975) | (26 566 788) | (108 553 422) | (81 986 634) | |
| Deficit for the year from continuing operations | (15 861 813) | (10 704 975) | (26 566 788) | (108 553 422) | (81 986 634) | |
| Fair value adjustments | - | - | - | 7 000 | 7 000 | |

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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 | | | | | | |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | (15 861 813) | (10 704 975) | (26 566 788) | (108 546 422) | (81 979 634) | |

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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 | 35 692 797 | (2 216 149) | 33 476 648 | 33 413 014 | (63 634) | |
| Other financial assets | - | - | - | 4 023 811 | 4 023 811 | |
| Receivables from non-exchange transactions | 23 065 316 | 40 581 478 | 63 646 794 | 23 083 112 | (40 563 682) | |
| VAT receivable | - | - | - | 40 902 934 | 40 902 934 | (m) |
| Receivables from exchange transactions | 150 348 479 | (45 187 005) | 105 161 474 | 32 576 517 | (72 584 957) | (n) |
| Loan receivables | 5 109 342 | (4 709 704) | 399 638 | 399 638 | - | |
| Cash and cash equivalents | 10 870 571 | (5 655 657) | 5 214 914 | 1 407 394 | (3 807 520) | (o) |
| | 225 086 505 | (17 187 037) | 207 899 468 | 135 806 420 | (72 093 048) | |
| Non-Current Assets | | | | | | |
| Investment property | 2 100 001 | 99 999 | 2 200 000 | - | (2 200 000) | |
| Property, plant and equipment | 135 034 306 | 84 674 581 | 219 708 887 | 213 411 781 | (6 297 106) | (p) |
| Intangible assets | 314 413 | (104 804) | 209 609 | 104 805 | (104 804) | |
| Heritage assets | 168 750 | 16 250 | 185 000 | 192 000 | 7 000 | |
| | 137 617 470 | 84 686 026 | 222 303 496 | 213 708 586 | (8 594 910) | |
| Total Assets | 362 703 975 | 67 498 989 | 430 202 964 | 349 515 006 | (80 687 958) | |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| Operating lease liability | 4 298 455 | (4 259 748) | 38 707 | 3 422 | (35 285) | |
| Payables from exchange transactions | 260 825 506 | 107 510 616 | 368 336 122 | 481 424 178 | 113 088 056 | (p) |
| Consumer deposits | 349 049 | 9 798 | 358 847 | 369 759 | 10 912 | |
| Employee benefit obligation | - | - | - | 1 120 603 | 1 120 603 | |
| Unspent conditional grants and receipts | - | - | - | 17 867 457 | 17 867 457 | (q) |
| Provisions | 1 245 630 | 1 633 372 | 2 879 002 | 2 041 346 | (837 656) | |
| | 266 718 640 | 104 894 038 | 371 612 678 | 502 826 765 | 131 214 087 | |
| Non-Current Liabilities | | | | | | |
| Operating lease liability | - | 2 373 000 | 2 373 000 | - | (2 373 000) | |
| Employee benefit obligation | - | - | - | 16 361 486 | 16 361 486 | (r) |
| Provisions | 11 294 921 | 18 647 421 | 29 942 342 | 14 870 079 | (15 072 263) | (s) |
| | 11 294 921 | 21 020 421 | 32 315 342 | 31 231 565 | (1 083 777) | |
| Total Liabilities | 278 013 561 | 125 914 459 | 403 928 020 | 534 058 330 | 130 130 310 | |
| Net Assets | 84 690 414 | (58 415 470) | 26 274 944 | (184 543 324) | (210 818 268) | |
| Net Assets | | | | | | |
| Net Assets Attributable to Owners of Controlling Entity | | | | | | |
| Reserves | | | | | | |
| Accumulated surplus /(deficits) | 84 690 414 | (58 415 470) | 26 274 944 | (184 543 324) | (210 818 268) | |

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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

- (a) Actual service charges are reduced as result of loadshadding and main industrial customer that consume about 60% of electricy has shutdown during financial period.
- (b) The rental received from WozaWoza has been reduced as from 01 August 2022 due to investment property becoming an owner occupied as some of the offices has been occupied by municipal official and parking has been used for municipal vehicles.
- (c) There has been an increase in the rate of commission that is receivables from KZN DOT from 8,55% to 8,62%.
- (d) The agreement with SANRAL and N3 TC has been revised and some of the costs that were recoverable from SANRAL and N3 TC has been absorbed by the municipality. Hence the billing for SANRAL and N3 TC has been reduced.
- (e) Interest received has decreased as the municipality has been trying to meets its obligations as they fall due to avoid interest charge hence the decrease in the fruitless and wasteful expenditure as result of non-payment of invoices on time.
- (f) The amount of property rates that has been budgeted was based on the valuation roll suppliment for the 2021/22 fianncial period of which has been revised in the 2022/23 fianncial period.
- (g) There has been promotions of the staff member to new positions that were vacant positions during the period and the Chief Financial Officer and Director Technical were appointed during the period.
- (h) The amount of finance costs that has been budgeted do not include the interest from ESKOM, SARS and other penalties. The increase to the amount of finance costs is in line with increase in ESKOM debt.
- (i) The municipality's debtors balances have actually reduced from the prior to the current period. However when the budget was prepared based on the recent audited figures and it was anticipated that debtors balance would increase. However the debtors balances decreased, hence the contribution to provision for doubtful debts decreased.
- (k) The payments for the finance leases of motor vehicles and photocopy machines has been capitalised to finance leases. Decrease in the amount of contracted services.
- (l) The general expenses were under budgeted and the amount of expenditure has increased significantly due to aging electricy infrastructure that needs substantial amount of repairs and maintenance, raod infrastructure maintenance.

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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 | 10 536 129 | 7 126 707 | 17 662 836 | 18 478 448 | 815 612 | |
| Service charges | 76 210 770 | (1 515 326) | 74 695 444 | 35 306 489 | (39 388 955) | |
| Government - operating | 56 285 700 | 7 248 993 | 63 534 693 | 53 117 544 | (10 417 149) | |
| Interest income | 124 333 | 233 951 | 358 284 | 14 117 119 | 13 758 835 | |
| Government - capital | 25 048 000 | (9 495 992) | 15 552 008 | 13 459 394 | (2 092 614) | |
| Other Revenue | 14 405 296 | 5 964 307 | 20 369 603 | 13 284 001 | (7 085 602) | |
| | 182 610 228 | 9 562 640 | 192 172 868 | 147 762 995 | (44 409 873) | |
| Payments | | | | | | |
| Suppliers and Employees | (144 875 660) | (27 168 061) | (172 043 721) | (99 542 646) | 72 501 075 | |
| Finance charges | - | - | - | (35 854 766) | (35 854 766) | |
| Transfers and grants | - | (597 000) | (597 000) | - | 597 000 | |
| | (144 875 660) | (27 765 061) | (172 640 721) | (135 397 412) | 37 243 309 | |
| Net cash flows from operating activities | 37 734 568 | (18 202 421) | 19 532 147 | 12 365 583 | (7 166 564) | |
| Cash flows from investing activities | | | | | | |
| Proceeds on disposal of PPE | - | 89 000 | 89 000 | 89 482 | 482 | |
| Decrease (increase) in non-current receivables | - | - | - | (166 333) | (166 333) | |
| Capital assets | (25 048 000) | 9 495 992 | (15 552 008) | (14 400 119) | 1 151 889 | |
| Net cash flows from investing activities | (25 048 000) | 9 584 992 | (15 463 008) | (14 476 970) | 986 038 | |
| Cash flows from financing activities | | | | | | |
| Repayment of borrowing | (2 973 000) | 600 000 | (2 373 000) | - | 2 373 000 | |
| Net increase/(decrease) in cash and cash equivalents | 9 713 568 | (8 017 429) | 1 696 139 | (2 111 387) | (3 807 526) | |
| Cash and cash equivalents at the beginning of the year | 1 157 000 | 2 361 780 | 3 518 780 | 3 518 780 | - | |
| Cash and cash equivalents at the end of the year | 10 870 568 | (5 655 649) | 5 214 919 | 1 407 393 | (3 807 526) | |
| Reconciliation | | | | | | |

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

| Figures in Rand | Note(s) | 2023 | 2022 |
|-----------------|---------|------|------|
|-----------------|---------|------|------|

1. Significant accounting policies

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

1.1 Basis of preparations

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

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

1.2 Presentation currency

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

1.3 Going concern assumption

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

1.4 Significant judgements and sources of estimation uncertainty

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

Trade receivables, loans and receivables

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

Allowance for slow moving, damaged and obsolete stock

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

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The 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.

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, together with economic factors such as exchange rates inflation interest.

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 19 - 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 17.

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

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

Allowance for doubtful debts

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

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

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.

Subsequent measurement

Subsequent to initial measurement investment property is measured 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.

1.6 Property, plant and equipment

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

Mpofana Local Municipality

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Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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.

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

| 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, the useful life and depreciation method of each asset are reviewed at the reporting date. If the expectations differ from the previous estimate the change is accounted for as the change of estimates.

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.

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 11).

The municipality discloses relevant information relating to assets under construction or development in the notes to the financial statements (see note 11).

1.7 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.8 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.

Mpofana Local Municipality

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Accounting Policies

1.8 Intangible assets (continued)

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.

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 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.

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.8 Intangible assets (continued)

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

1.9 Heritage assets

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

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

Class of heritage assets means a grouping of heritage assets of a similar nature or function in a 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.

Recognition

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

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 include 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 costs is measured at the carrying amount of the asset given up.

Subsequent measurement

After recognition as an asset, a class of heritage assets whose fair value can be measured reliably, is carried at a revalued amount being its fair value at the date of the revaluation less any subsequent impairment losses.

Derecognition

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

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

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.10 Financial instruments

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

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

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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

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

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.10 Financial instruments (continued)

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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

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.

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:

| Class | Category |
|-------------------------------------|--|
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Unspent grants and subsidies | Financial liability measured at amortised cost |
| Provisions | Financial liability measured at amortised cost |
| Consumer deposits | Financial liability measured at amortised 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.

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.10 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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1.10 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.

1.11 Statutory receivables

Identification

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

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

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

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

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

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the 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.

Derecognition

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

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1.11 Statutory receivables (continued)

- 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.

1.12 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.

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.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.13 Inventories

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

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

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

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

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

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

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

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

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

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1.13 Inventories (continued)

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

When municipality hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when an municipality has determined to distribute such inventories through a non-exchange transaction. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made.

1.14 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

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

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

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

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

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

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

Useful life is either:

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

Judgements made by management in applying the criteria to designate assets as cash-generating assets or 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.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use of impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period that intangible asset was tested for impairment before the end of the current reporting period.

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1.14 Impairment of cash-generating assets (continued)

Value in use

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

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

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 or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years unless a longer period can be justified; and

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.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

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

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.

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1.14 Impairment of cash-generating assets (continued)

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 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

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

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

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.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

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.

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Accounting Policies

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

Reversal of an impairment loss

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

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.

1.16 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

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.

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1.16 Employee benefits (continued)

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 recognises 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 and 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 recognises 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.

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.

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1.16 Employee benefits (continued)

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-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

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.

1.17 Provisions and contingencies

Provisions are recognised when:

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

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

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1.17 Provisions and contingencies (continued)

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

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

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

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

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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

Provisions are not recognised for future operating (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. Contingencies are disclosed in note 40.

1.18 Long service awards

The municipality has the obligation to provide long service benefit to all its employees according 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 entitle to cash allowance calculated in terms of rules of the scheme after 5 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.

1.19 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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.

1.20 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.

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1.20 Revenue from exchange transactions (continued)

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.

Interest received

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

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

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

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Accounting Policies

1.21 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

Measurement

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

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

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

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

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

Transfers

Apart from services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.22 Investment income

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

1.23 Borrowing costs

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

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

1.24 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.24 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

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

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

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

1.25 Comparative figures

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

1.26 Unauthorised expenditure

Unauthorised expenditure means:

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

Unauthorised expenditure is accounted for in line with all relating requirements including, but not limited to ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.27 Fruitless and/or wasteful expenditure

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

1.28 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

Irregular expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.29 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.

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.30 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 22/07/01 to 23/06/30.

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

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

1.31 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party or vice versa or an entity that is subject to common control or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control over those policies.

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

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

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.32 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.32 Events after reporting date (continued)

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.33 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.

1.34 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

1.35 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.

1.36 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 June 30, 2023

Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|-----------------|------|------|
|-----------------|------|------|

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

| | | |
|--|-------------------|--|
| • Guideline: Guideline on Accounting for Landfill Sites | July 1, 2023 | Unlikely there will be a material impact |
| • GRAP 103 (as revised): Heritage Assets | No effective date | Unlikely there will be a material impact |
| • GRAP 25 (as revised): Employee Benefits | July 1, 2023 | Unlikely there will be a material impact |
| • iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction | July 1, 2023 | Unlikely there will be a material impact |
| • Guideline: Guideline on the Application of Materiality to Financial Statements | No effective date | Unlikely there will be a material impact |
| • GRAP 104 (as revised): Financial Instruments | July 1, 2025 | Unlikely there will be a material impact |
| • iGRAP 21: The Effect of Past Decisions on Materiality | July 1, 2023 | Unlikely there will be a material impact |
| • GRAP 2020: Improvements to the standards of GRAP 2020 | July 1, 2023 | Unlikely there will be a material impact |
| • GRAP 1 (amended): Presentation of Financial Statements | July 1, 2023 | Unlikely there will be a material impact |

3. Inventories

| | | |
|--------------------------------------|-------------------|-------------------|
| Maintenance materials | 48 014 | 111 648 |
| RDP properties held for distribution | 33 365 000 | 33 365 000 |
| | 33 413 014 | 33 476 648 |

RDP houses that are in the name of the Municipality and were not officially transferred to beneficiaries that were identified during the 2021/22 and 2022/23 financial years respectively. These RDP housing stock are included in inventory as per GRAP 12.

None of the inventory items are pledged as security.

4. Other financial assets

At amortised cost

| | | |
|-------------------|-----------|-----------|
| Other Receivables | 4 023 811 | 3 857 478 |
|-------------------|-----------|-----------|

The Municipality entered into an agreement with Umsunduzi Municipality to loan 13 motor vehicles. The vehicles would be returned to Mpofana Local Municipality as at the end of March 2023, brand new of the same make and specifications. The amount of vehicles loaned to Msunduzi was determined by using the fair value of the brand new vehicles of the same make and specifications as at 30 June 2023. 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%.

Current assets

| | | |
|-------------------|-----------|-----------|
| At amortised cost | 4 023 811 | 3 857 478 |
|-------------------|-----------|-----------|

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|--|-------------------|-------------------|
| 5. Receivables from non-exchange transactions | | |
| Property Rates | 112 542 374 | 104 060 365 |
| Fines | 72 057 324 | 65 890 295 |
| Sundry debtors | 352 841 | 352 841 |
| Provision for bad debt - sundry debtors | (352 841) | (352 841) |
| Provision for bad debts - Rates | (100 466 098) | (93 815 478) |
| Provision for bad debts - Fines | (61 050 488) | (58 038 871) |
| | 23 083 112 | 18 096 311 |

Statutory receivables general information

Transaction(s) arising from statute

Determination of transaction amount

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

| Figures in Rand | 2023 | 2022 |
|--|--------------------|-------------------|
| 5. Receivables from non-exchange transactions (continued) | | |
| Property Rates | | |
| Current(0-30 days) | 1 008 468 | 3 861 325 |
| 31-60 days | 1 777 348 | 1 235 356 |
| 61-90 days | 808 729 | 1 138 938 |
| 91-120 days | 940 296 | 1 019 819 |
| 120+ days | 104 737 172 | 92 331 743 |
| | 109 272 013 | 99 587 181 |
| Agriculture | | |
| Current(0-30 days) | 275 310 | 247 156 |
| 31-60 days | 214 137 | 199 360 |
| 61-90 days | 143 864 | 181 770 |
| 91-120 days | 152 709 | 118 637 |
| 120+ days | 7 064 797 | 5 524 680 |
| | 7 850 817 | 6 271 603 |
| Business and Commercial | | |
| Current(0-30 days) | 217 671 | 1 100 845 |
| 31-60 days | 624 929 | 666 967 |
| 61-90 days | 370 691 | 618 542 |
| 91-120 days | 469 692 | 576 951 |
| 120+ days | 26 254 596 | 23 968 803 |
| | 27 937 579 | 26 932 108 |
| Industrial | | |
| Current(0-30 days) | 12 310 | 54 830 |
| 31-60 days | 7 895 | 9 851 |
| 61-90 days | 6 326 | 8 318 |
| 91-120 days | 6 326 | 5 996 |
| 120+ days | 934 204 | 876 510 |
| | 967 061 | 955 505 |
| Public Benefit Organisation | | |
| Current(0-30 days) | 45 718 | 19 491 |
| 31-60 days | 1 381 | 17 430 |
| 61-90 days | 718 | 16 580 |
| 91-120 days | 718 | 14 696 |
| 120+ days | 507 888 | 457 285 |
| | 556 423 | 525 482 |
| Public Service Purpose | | |
| Current(0-30 days) | 35 754 | 34 213 |
| 31-60 days | 38 405 | 32 241 |
| 61-90 days | 33 789 | 32 241 |
| 91-120 days | 33 789 | 32 241 |
| 120+ days | 1 537 903 | 1 233 637 |
| | 1 679 640 | 1 364 573 |
| Vacant Land | | |
| Current(0-30 days) | - | 62 370 |
| 31-60 days | 6 886 | 1 131 |
| 61-90 days | 12 651 | 3 598 |
| 91-120 days | 12 726 | 3 298 |

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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|--|-------------------|-------------------|
| 5. Receivables from non-exchange transactions (continued) | | |
| 120+ days | 3 329 029 | 2 917 960 |
| | 3 361 292 | 2 988 357 |
| Residential | | |
| Current(0-30 days) | 439 342 | 2 208 981 |
| 31-60 days | 754 222 | 287 936 |
| 61-90 days | 220 873 | 259 773 |
| 91-120 days | 244 134 | 245 454 |
| 120+ days | 56 870 387 | 49 835 626 |
| | 58 528 958 | 52 837 770 |
| State Owned | | |
| Current(0-30 days) | 10 608 | 104 096 |
| 31-60 days | 67 166 | 5 677 |
| 61-90 days | 5 664 | 5 677 |
| 91-120 days | 6 048 | 5 993 |
| 120+ days | 6 265 945 | 5 750 489 |
| | 6 355 431 | 5 871 932 |
| Public Service Infrastructure | | |
| Current(0-30 days) | 6 342 | 18 062 |
| 31-60 days | 9 765 | 8 989 |
| 61-90 days | 6 244 | 8 988 |
| 91-120 days | 6 244 | 8 988 |
| 120+ days | 661 683 | 570 371 |
| | 690 278 | 615 398 |
| Protected Area | | |
| Current(0-30 days) | 4 428 | 5 246 |
| 31-60 days | 4 636 | 4 294 |
| 61-90 days | 4 428 | 4 294 |
| 91-120 days | 4 428 | 4 294 |
| 120+ days | 191 898 | 137 059 |
| | 209 818 | 155 187 |
| Place of worship | | |
| Current(0-30 days) | 490 | 2 090 |
| 31-60 days | 2 153 | 444 |
| 61-90 days | 359 | 444 |
| 91-120 days | 359 | 444 |
| 120+ days | 490 338 | 469 600 |
| | 493 699 | 473 022 |
| Fines | | |
| | 11 006 836 | 7 851 424 |
| 6. VAT receivable | | |
| VAT | 40 902 934 | 31 226 630 |

VAT is payable on the payment basis. Once cash has been received from customers/receivables, VAT is payable to SARS.

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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|--|---------------------|---------------------|
| 7. Receivables from exchange transactions | | |
| Gross balances | | |
| Electricity | 7 770 854 | 7 593 190 |
| Refuse | 67 027 396 | 56 862 240 |
| Housing rental | 130 498 | 146 392 |
| Sundry debtors | 1 163 956 | 1 986 531 |
| | 76 092 704 | 66 588 353 |
| Less: Allowance for impairment | | |
| Electricity | (6 432 687) | (5 784 811) |
| Refuse | (36 775 162) | (32 871 034) |
| Housing rental | (308 338) | (299 568) |
| | (43 516 187) | (38 955 413) |
| Net balance | | |
| Electricity | 1 338 167 | 1 808 379 |
| Refuse | 30 252 234 | 23 991 206 |
| Housing rental | (177 840) | (153 176) |
| Sundries | 1 163 956 | 1 986 531 |
| | 32 576 517 | 27 632 940 |
| Electricity | | |
| Current(0-30 days) | 2 071 510 | 2 344 774 |
| 31-60 days | 456 246 | 483 127 |
| 61-90 days | 1 169 777 | 560 544 |
| 91-120 days | 250 259 | 163 528 |
| 120+ days | 3 823 062 | 4 041 217 |
| | 7 770 854 | 7 593 190 |
| Refuse | | |
| Current(0-30 days) | 1 222 674 | 2 135 861 |
| 31-60 days | 1 202 465 | 406 226 |
| 61-90 days | 444 646 | 401 621 |
| 91-120 days | 438 149 | 612 130 |
| 120+ days | 63 719 462 | 53 306 402 |
| | 67 027 396 | 56 862 240 |
| Rentals | | |
| Current (0 -30 days) | 14 120 | 16 780 |
| 31 - 60 days | 9 598 | 9 905 |
| 61 - 90 days | 8 011 | 9 905 |
| 91 - 120 days | 8 011 | 15 405 |
| 121 - 365 days | 90 758 | 94 397 |
| | 130 498 | 146 392 |
| 8. Loan receivables | | |
| Loan receivables | 399 638 | 399 638 |

This loan pertains to Umgungundlovu District Municipality that owes Mpofana Local Municipality for the DBSA Loan that Mpofana Local Municipality paid for water and sanitation works in prior years. The water function was subsequently transferred to Umgungundlovu District Municipality thus Mpofana Local 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.

Mpofana Local Municipality

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Notes to the Annual Financial Statements

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9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances 1 407 394 3 518 780

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | | Cash book balances | | |
|--|-------------------------|------------------|------------------|--------------------|------------------|------------------|
| | June 30, 2023 | June 30, 2022 | June 30, 2021 | June 30, 2023 | June 30, 2022 | June 30, 2021 |
| First National Bank- Current Account 53050399907 | 564 496 | 2 503 912 | 3 012 839 | 564 097 | 2 503 912 | 3 059 285 |
| First National Bank- Current Account 62101108034 | 59 508 | 126 753 | 78 150 | 59 508 | 126 753 | 78 150 |
| First National Bank - Call Account 62134172890 | 4 859 | 2 482 | 2 482 | 4 859 | 2 482 | 2 482 |
| First National Bank - Call Account 62172493935 | 3 853 | 39 001 | 38 198 | 3 853 | 39 001 | 38 198 |
| First National Bank - Call Account 62173946040 | 702 312 | 667 456 | 336 654 | 702 312 | 667 456 | 336 654 |
| First National Bank- Call Account 62187203957 | 2 223 | 21 597 | 21 145 | 2 223 | 21 597 | 21 145 |
| First National Bank - Call Account 62237621760 | 2 324 | 30 924 | 30 299 | 2 324 | 30 924 | 30 299 |
| First National Bank - 62854534990 | 8 789 | 5 042 | 5 011 | 8 789 | 5 042 | 5 011 |
| First National Bank - Call Account 62854535790 | 7 718 | 55 977 | 48 073 | 7 718 | 55 977 | 48 073 |
| First National Bank - Call Account 62854536607 | 20 304 | 5 042 | 5 011 | 20 304 | 5 042 | 5 011 |
| First National Bank - Call Account 62854537449 | 3 758 | 32 821 | 5 011 | 3 758 | 32 821 | 5 011 |
| First National Bank - Call Account 62854538786 | 18 732 | 18 086 | 5 011 | 18 732 | 18 086 | 5 011 |
| First National Bank - Call Account 62920117969 | 8 917 | 9 687 | - | 8 917 | 9 687 | - |
| Total | 1 407 793 | 3 518 780 | 3 587 884 | 1 407 394 | 3 518 780 | 3 634 330 |

10. Investment property

| | 2023 | | | 2022 | | |
|---------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | - | - | - | 2 200 000 | - | 2 200 000 |

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

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10. Investment property (continued)

Reconciliation of investment property - 2023

| | Opening balance | Transfers | Total |
|---------------------|-----------------|-------------|-------|
| Investment property | 2 200 000 | (2 200 000) | - |

The investment property has been transferred to land and buildings as a result of change of use on 1 August 2022. The municipality moved into the Woza-Woza to occupy the offices and the vehicles of the municipality has been moved to park at Woza-Woza Tourism Centre and the rent income has been revised.

Reconciliation of investment property - 2022

| | Opening balance | Fair value adjustments | Total |
|-------------------------------------|-----------------|------------------------|-----------|
| Investment property | 2 100 001 | 99 999 | 2 200 000 |
| Fair value of investment properties | | 2 200 000 | 2 200 000 |

Pledged as security

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

Details of property

Genix valuation group was appointed by the Municipality as experts for the valuation of investment property. 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 2023 and 30 June 2022.

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.

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.

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

Amounts recognised in surplus or deficit

| | | |
|---|--------|---------|
| Rental revenue from Investment property | 97 780 | 105 600 |
|---|--------|---------|

The investment property lease agreement with Gateway/Hartcourt Midlands expired in July 2019. A new three 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 June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment

| | 2023 | | | 2022 | | |
|-------------------------------------|---------------------|---|--------------------|---------------------|---|--------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 21 512 716 | (110 000) | 21 402 716 | 20 562 716 | (110 000) | 20 452 716 |
| Buildings | 59 269 084 | (15 230 145) | 44 038 939 | 57 169 084 | (12 745 684) | 44 423 400 |
| Infrastructure | 266 296 819 | (135 441 139) | 130 855 680 | 243 938 181 | (125 697 969) | 118 240 212 |
| Other property, plant and equipment | 17 216 523 | (13 412 921) | 3 803 602 | 15 679 889 | (11 556 910) | 4 122 979 |
| Work in progress | 8 696 667 | - | 8 696 667 | 19 144 129 | - | 19 144 129 |
| Leased assets | 23 551 510 | (21 268 233) | 2 283 277 | 21 691 633 | (17 709 375) | 3 982 258 |
| Landfil site | 13 827 800 | (11 496 900) | 2 330 900 | 13 723 999 | (9 278 674) | 4 445 325 |
| Total | 410 371 119 | (196 959 338) | 213 411 781 | 391 909 631 | (177 098 612) | 214 811 019 |

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11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

| | Opening balance | Additions | Transfers received | Transfers | Other changes, movements | Depreciation | Total |
|-------------------------------------|--------------------|-------------------|--------------------|---------------------|--------------------------|---------------------|--------------------|
| Land | 20 452 716 | - | 950 000 | - | - | - | 21 402 716 |
| Buildings | 44 423 400 | 850 000 | 1 250 000 | - | - | (2 484 461) | 44 038 939 |
| Infrastructure | 118 240 212 | - | 22 358 639 | - | - | (9 743 171) | 130 855 680 |
| Other property, plant and equipment | 4 122 979 | 1 535 141 | - | - | - | (1 854 518) | 3 803 602 |
| Work in progress | 19 144 129 | 11 911 177 | - | (22 358 639) | - | - | 8 696 667 |
| Leased assets | 3 982 258 | - | - | - | - | (1 698 981) | 2 283 277 |
| Landfill site | 4 445 325 | - | - | - | 103 801 | (2 218 226) | 2 330 900 |
| | 214 811 019 | 14 296 318 | 24 558 639 | (22 358 639) | 103 801 | (17 999 357) | 213 411 781 |

Reconciliation of property, plant and equipment - 2022

| | Opening balance | Additions | Transfers received | Transfers | Other changes, movements | Depreciation | Impairment loss | Total |
|-------------------------------------|--------------------|-------------------|--------------------|---------------------|--------------------------|---------------------|------------------|--------------------|
| Land | 20 452 716 | - | - | - | - | - | - | 20 452 716 |
| Buildings | 43 263 364 | - | 3 509 058 | - | - | (2 349 022) | - | 44 423 400 |
| Infrastructure | 119 016 177 | - | 8 537 250 | - | - | (9 179 639) | (133 576) | 118 240 212 |
| Other property, plant and equipment | 5 220 045 | 852 226 | - | - | - | (1 611 899) | (337 393) | 4 122 979 |
| Capital Work in Progress | 13 450 349 | 17 740 088 | - | (12 046 308) | - | - | - | 19 144 129 |
| Finance lease assets | 7 210 904 | - | - | - | - | (3 053 169) | (175 477) | 3 982 258 |
| Landfill site | 5 040 699 | - | - | - | 1 081 898 | (1 677 272) | - | 4 445 325 |
| | 213 654 254 | 18 592 314 | 12 046 308 | (12 046 308) | 1 081 898 | (17 871 001) | (646 446) | 214 811 019 |

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

No property, plant 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 assessed as at 30 June 2023. The impact of reassessment of the useful lives in the current period and subsequently.

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11. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

| | | |
|-------------------------|-----------|-----------|
| Lease of motor vehicles | 2 283 277 | 3 982 258 |
|-------------------------|-----------|-----------|

Reconciliation of Work-in-Progress 2023

| | Included within Infrastructure | Included within Community | Total |
|--------------------------------|-----------------------------------|------------------------------|------------------|
| Opening balance | 19 144 128 | - | 19 144 128 |
| Additions/capital expenditure | 9 171 382 | 2 739 795 | 11 911 177 |
| Transferred to completed items | (22 358 638) | - | (22 358 638) |
| | 5 956 872 | 2 739 795 | 8 696 667 |

Reconciliation of Work-in-Progress 2022

| | Included within Infrastructure | Included within Community | Total |
|--------------------------------|-----------------------------------|------------------------------|-------------------|
| Opening balance | 11 276 056 | 2 174 294 | 13 450 350 |
| Additions/capital expenditure | 16 405 322 | 1 334 764 | 17 740 086 |
| Transferred to completed items | (8 537 250) | (3 509 058) | (12 046 308) |
| | 19 144 128 | - | 19 144 128 |

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure included in Statement of Financial Performance

| | | |
|------------------|------------|------------|
| General expenses | 17 538 797 | 10 847 052 |
|------------------|------------|------------|

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.

12. Intangible assets

| | 2023 | | | 2022 | | |
|--------------------------|---------------------|---|----------------|---------------------|---|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 1 272 258 | (1 167 453) | 104 805 | 1 272 258 | (1 062 649) | 209 609 |

Reconciliation of intangible assets - 2023

| | Opening balance | Amortisation | Total |
|--------------------------|--------------------|--------------|---------|
| Computer software, other | 209 609 | (104 804) | 104 805 |
| | | | |

Reconciliation of intangible assets - 2022

| | Opening balance | Amortisation | Total |
|--------------------------|--------------------|--------------|---------|
| Computer software, other | 314 413 | (104 804) | 209 609 |
| | | | |

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

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13. Heritage assets

| | 2023 | | | 2022 | | |
|---------------|------------------|-------------------------------|----------------|------------------|-------------------------------|----------------|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Mayoral Chain | 192 000 | - | 192 000 | 185 000 | - | 185 000 |

Reconciliation of heritage assets 2023

| | Opening balance | Revaluation increase/(decrease) | Total |
|---------------|-----------------|---------------------------------|---------|
| Mayoral Chain | 185 000 | 7 000 | 192 000 |

Reconciliation of heritage assets 2022

| | Opening balance | Revaluation increase/(decrease) | Total |
|---------------|-----------------|---------------------------------|---------|
| Mayoral Chain | 168 750 | 16 250 | 185 000 |

The Mayoral chain has been revalued as at 30 June 2023 by Afrokwazi.

The effective date of the revaluation was 28 July 2023.

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 2023.

The Fair value as at 30 June 2023 was R192 000 (2022: R185 000).

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

14. Operating lease asset (liability)

| | | |
|---------------------|---------|----------|
| Current liabilities | (3 422) | (38 707) |
|---------------------|---------|----------|

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

Mpofana Local Municipality

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|--|----------------|-----------------|
| 14. Operating lease asset (liability) (continued) | | |
| Opening balance | (38 707) | (34 525) |
| Operating lease expenses recorded | 565 706 | 526 239 |
| Operating lease payments from smoothing | (530 421) | (530 421) |
| | (3 422) | (38 707) |

Lease arrangements

The Municipality as lessee

Operating leases relate to property, plant and equipment with lease terms not longer than 5 year 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 follow:

| | | |
|---|---------------|----------------|
| Within one year | 50 218 | 565 706 |
| In the second to third years, inclusive | - | 50 218 |
| | 50 218 | 615 924 |

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; and
- (iv) The Municipality is obliged to enter into a maintenance agreement with the lessor for the equipment rented.

15. Payables from exchange transactions

| | | |
|-----------------------------|--------------------|--------------------|
| Trade payables | 462 261 629 | 344 433 935 |
| Retentions | 4 068 129 | 3 794 786 |
| Accrued leave pay | 4 526 239 | 3 960 384 |
| Debtors received in advance | 4 969 650 | 6 548 900 |
| Unallocated receipts | 924 543 | 875 050 |
| Salary Suspense | 3 550 126 | 2 596 618 |
| 13th Cheque accrual | 1 123 862 | 1 049 471 |
| | 481 424 178 | 363 259 144 |

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|------------------------------|----------------|----------------|
| 16. Consumer deposits | | |
| Electricity | 363 319 | 353 989 |
| Other | 6 440 | 4 858 |
| | 369 759 | 358 847 |

17. Employee benefit obligations

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

Carrying value

| | | |
|---|---------------------|---------------------|
| Present value of the defined benefit obligation-wholly unfunded | (13 201 890) | (13 554 215) |
| Present value of the defined benefit obligation-partly or wholly funded | (4 280 199) | (3 836 190) |
| | (17 482 089) | (17 390 405) |
| Non-current liabilities | (16 361 486) | (16 715 407) |
| Current liabilities | (1 120 603) | (674 998) |
| | (17 482 089) | (17 390 405) |

The fair value of plan assets includes:

Defined benefit plan

Post retirement medical aid plan

| | | |
|--|-------------------|-------------------|
| Balance at the beginning of the period | 13 554 215 | 14 210 074 |
| Contribution to provision | 2 410 688 | 2 230 315 |
| Transfer of current liabilities | (438 072) | (632 416) |
| Actuarial gains | (2 324 941) | (2 253 758) |
| | 13 201 890 | 13 554 215 |

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 2023 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 benefit plan are made up as follows:

| | | |
|--------------------------------|------------|------------|
| In-service members (employees) | 100 | 91 |
| Continuation members | 12 | 9 |
| | 112 | 100 |

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

| | | |
|----------------------|-------------------|-------------------|
| In-service members | 7 306 536 | 9 228 451 |
| Continuation members | 5 895 354 | 4 325 764 |
| | 13 201 890 | 13 554 215 |

The current-service cost for the year ending 30 June 2023 is estimated to be R686 449, whereas the cost for the ensuing year is estimated to be R713 616 (30 June 2022: R576 945 and R686 449 respectively).

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17. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

| | | |
|-----------------------------------|---------|---------|
| Discount rates used | 14.47 % | 12.93 % |
| Consumer Price Inflation | 8.14 % | 7.95 % |
| Health care cost inflation rate | 9.64 % | 9.45 % |
| Net effective discount rate | 4.13 % | 3.18 % |
| Expected retirement age - females | 63 | 63 |
| Expected retirement age - males | 60 | 60 |

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

| | | |
|----------------------------------|--------------------------|--------------------------|
| Balance at beginning of the year | 13 554 215 | 14 210 074 |
| Current service costs | 686 449 | 576 945 |
| Interest cost | 1 724 239 | 1 653 370 |
| benefits paid | (438 072) | (632 416) |
| | <u>15 526 831</u> | <u>15 807 973</u> |
| Actuarial loss/(gain) | (2 324 941) | (2 253 758) |
| | <u>13 201 890</u> | <u>13 554 215</u> |

The amounts recognised in the Statement of Financial Performance are as follows:

| | | |
|--------------------------|----------------------|------------------------|
| Current service cost | 686 449 | 576 945 |
| Interest cost | 1 724 239 | 1 653 370 |
| Actuarial losses/(gains) | (2 324 941) | (2 253 758) |
| | <u>85 747</u> | <u>(23 443)</u> |

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

2023

| | One percentage point increase | One percentage point decrease |
|---|-------------------------------------|-------------------------------------|
| Effect on the aggregate of the current service cost | 182 215 | (140 077) |
| Effect on the aggregate of interest cost | 320 501 | (256 387) |
| Effect on defined benefit obligation | 2 263 181 | (1 810 719) |
| | <u>2 765 897</u> | <u>(2 207 183)</u> |

2022

| | One percentage point increase | One percentage point decrease |
|---|-------------------------------------|-------------------------------------|
| Effect on the aggregate of the current service cost | 2 464 748 | (1 949 228) |
| Effect on the aggregate of interest cost | 187 915 | (141 776) |
| Effect on defined benefit obligation | 318 562 | (251 906) |
| | <u>2 971 225</u> | <u>(2 342 910)</u> |

The municipality expects to make contribution of R2,452 million (2022: R2,411 million) to the defined benefit plans during the next financial year.

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17. Employee benefit obligations (continued)

Other assumptions

It is assumed that healthcare cost trends rates have a significant effect on the amounts recognised is surplus or deficit

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 2022 on the retirement and provident funds and in March 2018 on the Superannuation Fund. An interim valuation of the Superannuation fund was done in March 2022.

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

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

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|---|------------------|------------------|
| 17. Employee benefit obligations (continued) | | |
| Long service awards | | |
| Provision for long service awards | 4 280 199 | 3 836 190 |
| The movement in non-current provisions are reconciled as follows: | | |
| Long-term service | | |
| Balance at beginning of year | 3 836 190 | 2 206 435 |
| Contributions to provision | 778 398 | 1 660 800 |
| Transfer to current provisions | (334 389) | (31 045) |
| | 4 280 199 | 3 836 190 |

A long-service award is payable after 5 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 2023 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, 120 (2022: 130) employees were eligible for long-service awards.

The current service costs for the year ending 30 June 2022 is estimated to be R205 538, whereas the cost for the ensuing year is estimated to be R362 306 (30 June 2022: R352 301 and R205 538 respectively).

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

| | | |
|-----------------------------------|---------|---------|
| Discount rates | 11.47 % | 11.73 % |
| Consumer Price Inflation | 5.85 % | 6.96 % |
| Salary Increase Rate | 6.85 % | 7.96 % |
| Net effective discount rate | 4.32 % | 3.49 % |
| Expected retirement age - females | 63 | 63 |
| Expected retirement age - males | 60 | 60 |

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

| | | |
|----------------------------------|------------------|------------------|
| Balance at beginning of the year | 3 836 190 | 2 206 435 |
| Current service costs | 352 301 | 205 538 |
| Interest cost | 436 089 | 208 575 |
| Benefits paid | (334 389) | (31 045) |
| Actuarial losses/(gains) | (9 992) | 1 246 687 |
| | 4 280 199 | 3 836 190 |

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:

| | | |
|---|-------------------------------------|-------------------------------------|
| 2023 | One percentage point increase | One percentage point decrease |
| Effect on the aggregate of the current service cost | 30 676 | (27 253) |
| Effect on the aggregate of interest cost | 36 450 | (32 670) |

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| Figures in Rand | 2023 | 2022 |
|---|-------------------------------------|-------------------------------------|
| 17. Employee benefit obligations (continued) | | |
| Effect on defined benefit obligation | 317 786 | (284 831) |
| | 384 912 | (344 754) |
| 2022 | One percentage point increase | One percentage point decrease |
| Effect on the aggregate of the current service cost | 309 534 | (275 991) |
| Effect on the aggregate of interest cost | 32 338 | (28 515) |
| Effect on defined benefit obligation | 36 309 | (32 373) |
| | 378 181 | (336 879) |

The municipality expects to make a contribution of R788 390 (2022: R414 113) to the defined benefit plans during the next financial year.

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

| Unspent conditional grants and receipts | | |
|--|-------------------|-------------------|
| Municipal Infrastructure Grant | 2 561 952 | - |
| Craigburn Housing Project Grant | 5 840 388 | 5 840 388 |
| Municipal Assistant Grant - Small Town Grant | 718 239 | 625 585 |
| Townview Housing Project Grant | 8 168 481 | 8 168 481 |
| Local Government SETA | 78 738 | - |
| Title Deeds Grant | 499 659 | 498 459 |
| | 17 867 457 | 15 132 913 |

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

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

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19. Provisions

Reconciliation of provisions - 2023

Current liabilities

Provisions 2 041 346 2 204 004

Non-current liabilities

Provisions 14 870 079 13 226 935

| | Opening Balance | Utilised during the year | Reversed during the year | Reduction due to re-measurement or settlement without cost to entity | Total |
|--|-------------------|--------------------------|--------------------------|--|-------------------|
| Provision for restoration of landfill site | 14 870 079 | 1 643 144 | - | 103 801 | 16 617 024 |
| Provision for performance bonus | 560 860 | - | (266 459) | - | 294 401 |
| | 15 430 939 | 1 643 144 | (266 459) | 103 801 | 16 911 425 |

Reconciliation of provisions - 2022

| | Opening Balance | Additions | Utilised during the year | Change in discount factor | Total |
|--|-------------------|----------------|--------------------------|---------------------------|-------------------|
| Provision for restoration of landfill site | 12 541 551 | - | 1 246 630 | 1 081 898 | 14 870 079 |
| Provision for performance bonus | - | 560 860 | - | - | 560 860 |
| | 12 541 551 | 560 860 | 1 246 630 | 1 081 898 | 15 430 939 |

| | | |
|-------------------------|-------------------|-------------------|
| Non-current liabilities | 14 870 079 | 13 226 935 |
| Current liabilities | 2 041 346 | 2 204 004 |
| | 16 911 425 | 15 430 939 |

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 Municipality specific risk.

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

20. Service charges

| | | |
|-------------------------------|-------------------|-------------------|
| Sale of electricity - Metered | 37 513 033 | 50 559 876 |
| Refuse removal | 4 655 455 | 4 717 075 |
| Sale of electricity - Prepaid | 12 175 484 | 13 996 235 |
| | 54 343 972 | 69 273 186 |

21. Rental of facilities and equipment

Premises

Rental of facilities 218 516 243 465

22. Licences and permits (exchange)

Road and Transport 4 768 032 4 561 486

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22. Licences and permits (exchange) (continued)

The Municipality has entered into an arrangement with the KwaZulu-Natal Department of Transport for collecting licences and permit fees for all vehicles and customers with the Municipal arrear. The Municipality is an agent to the transaction and all licence and permit fees are determined and handed over to KwaZulu-Natal Department of Transport. The Municipality has the responsibility to appoint the employees to render the services. Therefore, the arrangement has been accounted for as an agent in terms of GRAP 109.

23. Other income

| | | |
|---------------------|------------------|------------------|
| Tender Documents | 28 456 | 16 087 |
| Income from N3 TC | 902 303 | 921 468 |
| Sundry Income | 300 | - |
| Cemetery fees | 61 600 | 73 166 |
| Town Hall Hire | 11 430 | - |
| Rates Clearance | 89 044 | 12 069 |
| Business Licences | 11 158 | 7 818 |
| Building Plans | 27 827 | 58 187 |
| Cemetery fee income | 1 217 | 2 435 |
| Commission received | 15 919 | 12 131 |
| Income from Sanral | 6 123 000 | 4 908 000 |
| | 7 272 254 | 6 011 361 |

24. Investment revenue

Interest revenue

| | | |
|-------------------------------|-------------------|------------------|
| Bank | 13 950 785 | 4 168 167 |
| Interest on other receivables | 166 333 | 221 778 |
| | 14 117 118 | 4 389 945 |

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|-------------------------------|-------------------|-------------------|
| 25. Property rates | | |
| Rates received | | |
| Residential | 9 722 505 | 9 615 438 |
| Commercial | 4 181 625 | 5 114 996 |
| State | 2 586 940 | 2 448 560 |
| Municipal (Agricultural) | 3 746 249 | 4 863 744 |
| Communal Property Land | 255 071 | 77 346 |
| Public Benefit Organisation | 244 715 | 190 873 |
| Public Service Infrastructure | 170 | 8 |
| Less: Income forgone | (4 550 974) | (3 655 025) |
| | 16 186 301 | 18 655 940 |

Valuations

| | | |
|-------------------------------|----------------------|----------------------|
| Agriculture | 2 975 715 000 | 2 958 865 000 |
| Commercial | 457 905 000 | 443 480 000 |
| Residential | 1 205 055 500 | 1 194 830 500 |
| Municipal | 97 733 000 | 96 533 000 |
| Industrial | 74 030 000 | 74 030 000 |
| Place of Worship | 26 170 000 | 26 170 000 |
| Public Benefit Organisation | 125 790 000 | 125 790 000 |
| Public Service Infrastructure | 15 710 000 | 15 710 000 |
| Other | 231 223 000 | 230 324 000 |
| | 5 209 331 500 | 5 165 732 500 |

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 Municipal Property Rates Act No. 6 of 2004 (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 | Rebates 2022/23 | Rebates 2021/22 | Tariff 2022/23 | Tariff 2021/22 |
|--|--------------------|--------------------|----------------|----------------|
| Agriculture | - % | - % | 0.001227 | 0.001489 |
| Business and Commercial | - % | - % | 0.007446 | 0.010153 |
| Industrial | - % | - % | 0.014188 | 0.013538 |
| Municipal | 100.00 % | 100.00 % | 0.000000 | 0.000000 |
| Place of worship | 100.00 % | 100.00 % | 0.000000 | 0.000000 |
| Protected area | 100.00 % | 100.00 % | 0.000000 | 0.000000 |
| Public benefit Organisation | - % | - % | 0.001560 | 0.001489 |
| Public service infrastructure | 100.00 % | 100.00 % | 0.001560 | 0.001489 |
| Public service purpose | - % | - % | 0.015607 | 0.014892 |
| Residential - Urban | 35.00 % | - % | 0.007803 | 0.007446 |
| Residential - Rural | 35.00 % | 35.00 % | 0.007803 | 0.007446 |
| Vacant land | - % | - % | 0.007803 | 0.007446 |
| Vacant land (Rural) | - % | - % | 0.000000 | 0.001489 |

For the calculation of rates, residential properties are subject to an exemption of R90 000 (2022: R90 000) of the valuation of the properties.

Pensioners rebate: Oldeer than 65 years at 35% for both urban and rural.

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25. Property rates (continued)

Rate are levied on an annual basis for government entities. Rates are levied on a monthly basis for all other customers.

Rates are payable monthly in twelve (12) equal installments with the first installment payable on the 1st July 2022 and the last instalment payable on the 30th June 2023.

26. Government grants & subsidies

Operating grants

| | | |
|--------------------------------------|-------------------|-------------------|
| Equitable share | 43 460 000 | 39 181 000 |
| Provincial Library Subsidy | 2 472 000 | 2 113 000 |
| Museum Subsidy | 235 000 | 225 000 |
| Finance Management Grant (FMG) | 3 000 000 | 2 900 000 |
| Expanded Public Works Program (EPWP) | 1 216 000 | 1 136 000 |
| | 50 383 000 | 45 555 000 |

Capital grants

| | | |
|--|-------------------|-------------------|
| Municipal Infrastructure Grant (MIG) | 10 552 048 | 17 463 000 |
| Municipal Assistant Grant - Small Town | 2 907 346 | - |
| | 13 459 394 | 17 463 000 |
| | 63 842 394 | 63 018 000 |

Conditional and Unconditional

Included in above are the following grants and subsidies received:

| | | |
|-------------------------------|-------------------|-------------------|
| Conditional grants received | 20 099 052 | 23 837 000 |
| Unconditional grants received | 43 460 000 | 39 181 000 |
| | 63 559 052 | 63 018 000 |

Equitable Share

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

| | | |
|------------------------------------|--------------|--------------|
| Current - year receipts | 43 460 000 | 39 181 000 |
| Current - year transfer to revenue | (43 460 000) | (39 181 000) |
| | - | - |

Municipal Infrastructure Grant

| | | |
|---|------------------|--------------|
| Current-year receipts | 13 114 000 | 17 463 000 |
| Conditions met - transferred to revenue | (10 268 706) | (17 463 000) |
| | 2 845 294 | - |

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 |
|--------------------------------------|-----------|-----------|

The grant is provided by Provincial Department of Human Settlement to deliver the service of housing infrastructure.

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|--|----------------|----------------|
| 26. Government grants & subsidies (continued) | | |
| Municipal Assistance Grant - Small Town Grant | | |
| Balance unspent at beginning of year | 625 585 | 625 585 |
| Current-year receipts | 3 000 000 | - |
| Conditions met - transferred to revenue | (2 907 346) | - |
| | 718 239 | 625 585 |
| <p>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.</p> | | |
| Townview Housing Project Grant | | |
| Balance unspent at beginning of year | 8 168 481 | 8 168 481 |
| <p>The grant is from Provincial Department of Human Settlements to provide service of housing infrastructure.</p> | | |
| Finance Management Grant | | |
| Current-year receipts | 3 000 000 | 2 900 000 |
| Conditions met - transferred to revenue | (3 000 000) | (2 900 000) |
| | - | - |
| <p>To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).</p> | | |
| Expanded Public Works Programme Grant | | |
| Current-year receipts | 1 216 000 | 1 136 000 |
| Conditions met - transferred to revenue | (1 216 000) | (1 136 000) |
| | - | - |
| <p>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.</p> | | |
| Library Grant | | |
| Current-year receipts | 2 472 000 | 2 113 000 |
| Conditions met - transferred to revenue | (2 472 000) | (2 113 000) |
| | - | - |
| <p>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.</p> | | |
| Leanership Awareness Programme Grant | | |
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 78 738 | - |
| | 78 738 | - |

The grant is provided by SETA for training and development of municipal employees.

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|-----------------|------|------|

26. Government grants & subsidies (continued)

Integrated National Electrification Programme

| | | |
|---|--------------|----------|
| Current-year receipts | 12 590 000 | - |
| Conditions met - transferred to revenue | (12 590 000) | - |
| | <u>-</u> | <u>-</u> |

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.

Title deed Grant

| | | |
|--------------------------------------|----------------|----------------|
| Balance unspent at beginning of year | 498 459 | 498 459 |
| Current-year receipts | 1 200 | - |
| | <u>499 659</u> | <u>498 459</u> |

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

Museum subsidy grant

| | | |
|---|-----------|-----------|
| Current-year receipts | 235 000 | 225 000 |
| Conditions met - transferred to revenue | (235 000) | (225 000) |
| | <u>-</u> | <u>-</u> |

The subsidy was granted to the municipality for operational upkeep of the museum.

27. Fines, Penalties and Forfeits

| | | |
|-------------------------|------------------|------------------|
| Municipal Traffic Fines | <u>7 278 947</u> | <u>5 796 762</u> |
|-------------------------|------------------|------------------|

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| 28. Employee related costs | | |
| Basic | 37 459 530 | 34 250 293 |
| Bonus | 2 571 509 | 3 071 348 |
| Medical aid - company contributions | 3 672 916 | 3 247 542 |
| UIF | 303 532 | 255 914 |
| SDL | 474 705 | 439 475 |
| Leave pay provision charge | 586 434 | (250 178) |
| Defined contribution plans | 7 647 686 | 6 772 849 |
| Travel, motor car, accommodation, subsistence and other allowances | 2 748 376 | 2 789 225 |
| Overtime payments | 1 753 878 | 1 918 624 |
| Long-service awards | 17 912 | 458 870 |
| Acting allowances | 186 840 | 497 917 |
| Housing benefits and allowances | 834 084 | 1 174 228 |
| Medical Aid - company contributions | 231 661 | 219 299 |
| Redemption of leave | 250 597 | 38 764 |
| Other payroll levies | 17 592 | 17 146 |
| | 58 757 252 | 54 901 316 |

Remuneration of Municipal Manager

Dr. E.H. Dladla

| | | |
|----------------------|------------------|------------------|
| Annual remuneration | 567 134 | 735 661 |
| Car allowance | 180 366 | 122 610 |
| Cellphone allowance | 8 000 | 24 000 |
| Housing allowance | 331 854 | 367 831 |
| Company contribution | 12 031 | 12 273 |
| | 1 099 385 | 1 262 375 |

Remuneration of Chief Finance Officer

Mr. P. Molefe

| | | |
|----------------------|----------------|----------------|
| Annual remuneration | 446 357 | 480 072 |
| Car allowance | 194 545 | 240 036 |
| Housing allowance | 251 812 | 240 036 |
| Company contribution | 10 996 | 11 125 |
| | 903 710 | 971 269 |

Remuneration of General Manager - Technical Services

Mrs. S.R. Zwane

| | | |
|----------------------|----------------|------------------|
| Annual remuneration | 129 619 | 480 072 |
| Car allowance | 19 840 | 420 036 |
| Cellphone allowance | 96 810 | 14 400 |
| Housing allowance | 64 809 | 240 036 |
| Company contribution | 3 899 | 12 709 |
| | 314 977 | 1 167 253 |

General Manager: Technical Services (Mrs SR Zwane) has resigned as of 07 October 2022.

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28. Employee related costs (continued)

Remuneration of General Manager Technical Services

Miss. M. Mbatha

| | | |
|----------------------|---------------|----------|
| Annual remuneration | 55 869 | - |
| Car allowance | 10 000 | - |
| Company contribution | 826 | - |
| | 66 695 | - |

Miss M Mbatha resumes the duties as General Manager: Technical Services as of 01 June 2023

General Manager Corporate and Community Services

Mr. M.E. Ngonyama

| | | |
|----------------------|----------------|----------------|
| Annual remuneration | 96 014 | 346 847 |
| Car allowance | 16 002 | 62 801 |
| Housing allowance | 48 007 | 188 402 |
| Company contribution | 1 944 | 7 202 |
| | 161 967 | 605 252 |

General Manager: Corporate and Community Services (Mr ME Ngonyama) has resigned as of 31 August 2022

29. Remuneration of councillors

| | | |
|-----------------------------------|------------------|------------------|
| Mayor | 683 514 | 728 608 |
| Speaker | 444 142 | 342 274 |
| Councillors | 1 353 457 | 1 276 439 |
| Councillors' pension contribution | - | 30 441 |
| Councillors' medical contribution | 13 776 | 11 847 |
| Councillors' allowances | 621 576 | 593 107 |
| UIF | 20 193 | 13 123 |
| SDL | 22 125 | 23 932 |
| | 3 158 783 | 3 019 771 |

In-kind benefits

The Mayor and the Speaker are full-time. The Mayor and the Speaker are provided with an office and secretarial support at the cost of the Council.

The Mayor and Speaker have use of a Council owned vehicles for official duties.

The Mayor and the Speaker have bodyguards.

Arrears owed by Councillors

There were no Councillors in arrears as at 30 June 2023.

30. Depreciation and amortisation

| | | |
|-------------------------------|-------------------|-------------------|
| Property, plant and equipment | 17 999 358 | 17 871 001 |
| Intangible assets | 104 804 | 104 804 |
| | 18 104 162 | 17 975 805 |

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|--|-------------------|-------------------|
| 31. Impairment loss | | |
| Impairments | | |
| Property, plant and equipment | - | 646 447 |
| There were two vehicles that were involved in the accidents during the 2021/22 financial period. The vehicles were written off by the insurance company. | | |
| One vehicle was stolen from the Municipality and was never recovered in the 2021/22 financial period. | | |
| There were assets that were identified during the verification in 2021/22 financial period that are no longer in the condition that can be used to generate economic benefits or for service delivery. The items that were identified to be impaired includes the movable assets, leased assets and road infrastructure. | | |
| The main classes of assets affected by impairment losses are: Vehicles involved in the car accidents | | |
| Vehicles that was stolen from the Municipality | | |
| Assets that were no longer in use as they are not functional and/or do not serve the intended purposes. | | |
| 32. Finance charges | | |
| Finance cost post retirement plan | 1 724 239 | 1 653 370 |
| Interest and penalties | 32 051 294 | 14 065 681 |
| Interest on finance leases | - | 173 277 |
| Provision of landfill site (unwinding) | 1 643 144 | 1 246 630 |
| Finance cost long service awards | 436 089 | 208 575 |
| | 35 854 766 | 17 347 533 |
| 33. Debt impairment | | |
| Contributions to debt impairment provision | 14 096 049 | 14 778 892 |
| Bad debts written off | 8 768 | 76 046 |
| | 14 104 817 | 14 854 938 |
| 34. Bulk purchases | | |
| Electricity - Eskom | 73 717 692 | 86 494 282 |
| 35. Contracted services | | |
| Outsourced Services | | |
| Administrative and Support Staff | 1 590 085 | - |
| Hygiene Services | 209 932 | 179 770 |
| Security Services | 4 499 293 | 2 988 771 |
| Contractors | | |
| Maintenance of Equipment | 738 555 | 679 818 |
| | 7 037 865 | 3 848 359 |

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| Figures in Rand | 2023 | 2022 |
|---|-------------------|-------------------|
| 36. General expenses | | |
| Advertising | 136 495 | 162 280 |
| Auditors remuneration | 1 534 882 | 2 035 480 |
| Bank charges | 271 578 | 264 008 |
| Consulting and professional fees | 4 810 179 | 5 264 722 |
| Consumables | 115 212 | 175 970 |
| Entertainment | 54 515 | 29 000 |
| Hire | 14 774 404 | 11 677 858 |
| Insurance | 652 052 | 498 838 |
| Conferences and seminars | - | 8 000 |
| IT expenses | 632 275 | 540 774 |
| Motor vehicle expenses | 490 796 | 60 791 |
| Fuel and oil | 4 647 241 | 2 542 247 |
| Arbitration Award | 597 242 | - |
| Postage and courier | 58 335 | 67 310 |
| Printing and stationery | 267 815 | 242 290 |
| Electricity Maintenance (Material & Supplies) | 12 914 335 | 9 293 318 |
| EPWP Casuals | 1 263 946 | 1 182 074 |
| Repairs and maintenance | 4 428 303 | 2 511 147 |
| Software expenses | 5 405 134 | 4 603 689 |
| Water Expenses | 1 298 235 | 730 544 |
| Subscriptions and membership fees | 41 000 | 10 500 |
| Telephone and fax | 903 702 | 952 856 |
| Training | - | 37 826 |
| Title deed search fees | 243 048 | - |
| Uniforms | 469 437 | 464 855 |
| Sundry cost | 434 487 | 463 203 |
| Ward committee support | 355 200 | 131 500 |
| Legal expenses | 11 099 494 | 5 401 598 |
| Write off | 5 050 | 12 255 |
| Debt collection | - | 488 070 |
| Accommodation | 18 671 | 19 834 |
| Other expenses | 302 290 | 377 981 |
| District shared services | 44 681 | 46 748 |
| | 68 270 034 | 50 297 566 |
| 37. Auditors' remuneration | | |
| Audit committee | 95 850 | 122 364 |
| Audit Fees | 1 439 032 | 1 913 116 |
| | 1 534 882 | 2 035 480 |

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|--|-------------------|-------------------|
| 38. Cash generated from operations | | |
| Deficit | (108 546 422) | (78 739 603) |
| Adjustments for: | | |
| Depreciation and amortisation | 18 104 162 | 17 975 805 |
| Loss on sale of assets and liabilities | (89 482) | (335 970) |
| Impairment deficit | - | 646 447 |
| Debt impairment | 14 104 817 | 14 854 938 |
| Movements in operating lease assets and accruals | (35 285) | 4 183 |
| Movements in retirement benefit assets and liabilities | 91 684 | 973 896 |
| Movements in provisions | 1 480 486 | 2 889 388 |
| Fair Value adjustment heritage asset | (7 000) | (116 249) |
| Changes in working capital: | | |
| Inventories | 63 634 | 121 149 |
| Receivables from exchange transaction | (19 048 394) | (31 171 144) |
| Other receivables from non-exchange transactions | (4 986 802) | 9 143 829 |
| Payables from exchange transactions | 118 165 034 | 98 941 215 |
| VAT | (9 676 304) | (11 741 495) |
| Unspent conditional grants and receipts | 2 734 544 | - |
| Consumer deposits | 10 912 | 9 798 |
| | 12 365 584 | 23 456 187 |
| 39. Commitments | | |
| Authorised capital expenditure | | |
| Already contracted for but not provided for | | |
| • Bruntville Sport field | 495 500 | - |
| • Bruntville Internal Road | 1 608 384 | - |
| • Phumlaas and Townview road | 625 958 | - |
| • Osuthu Access road | - | 3 771 531 |
| • Rehabilitation of phumlaas road | - | 408 354 |
| • Rondebosch community hall | - | 25 783 |
| • Mooi River Town Renewable | 159 | - |
| | 2 730 001 | 4 205 668 |
| Total capital commitments | | |
| Already contracted for but not provided for | 2 730 001 | 4 205 648 |
| Authorised operational expenditure | | |
| Already contracted for but not provided for | | |
| • Approved and contracted | 21 906 208 | 16 066 034 |
| Total operational commitments | | |
| Already contracted for but not provided for | 21 906 208 | 16 066 034 |
| Operating commitments is made up of internal audit services, operational costs for landfill site, cash management services, cellphone contracts and valuation roll services. | | |
| Total commitments | | |
| Total commitments | | |
| Authorised capital expenditure | 2 730 001 | 4 205 648 |
| Authorised operational expenditure | 21 906 208 | 16 066 034 |
| | 24 636 209 | 20 271 682 |

Mpofana Local Municipality

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40. Contingencies

Contingent Liabilities

| Name of Plaintiff | Nature of Case | 2023 | 2022 |
|---|---|------------------------|----------------------|
| Mpofana v L.Sthole & others ESKOM SOC | Mpofana v L.Sthole & others - Eviction of occupiers from the town hall ESKOM SOC v Mpofana Municipality- Claim against the municipality Electricity Account | - | - |
| Mill Fitchet (Pty) Ltd | Mill Fitchet (Pty) Ltd v Mpofana Municipality- Service Provider claiming monies due | 1 500 000 | 1 200 000 |
| Tanya Stephanie Sango | Tanya Stephanie Sango v Mpofana Municipality - Claim against damages of vehicle cused by potholes | - | 20 561 |
| Saquilla Trust Kenneth Murdoch | Saquilla Trust v Mpofana Municipality - damages caused by potholes Kenneth Murdoch v Mpofana Municipality - claim against medical expenses and damages arising from vehicle caused by potholes | - 5 000 000 | 142 107 3 200 000 |
| KSA Security Etilweni (Pty) Ltd | Payment Outstanding Outstanding Fees | 8 225 123 1 148 000 | - - |
| 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. | - | 1 310 190 |
| | | 15 873 123 | 5 872 859 |

Contingent assets

| Name of Defendant | Nature of Case | 2023 | 2022 |
|---|--|----------|------------------|
| Big 5 Hlabisa Local Municipality/ JM Bird | Proceeds from the sale of property | - | 250 000 |
| Illegal invaders of property R622/Greytown Main Road intersection Mooi River/Bruntville/link Road (Erf 13025, Erf 1049, Erf 1464) Adjacent to Erf 5/13025 | Interdict and Restrain the Respondents from invading, erecting structures and attempting to occupy the immovable property. | - | - |
| Mpofana Municipality v Kamawewe Development Consultant | Counterclaim of R7.0 million | - | 7 000 000 |
| | | - | 7 250 000 |

Mpofana Local Municipality

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41. Related parties

| | |
|--|--|
| Relationships | |
| Accounting Officer | Refer to accounting officers' report note 28 |
| Chief Financial Officer | Refer to note 28 |
| General Manager Technical Services | Refer to note 28 |
| General Manager Corporate and Community Services | Refer to note 28 |
| Councillors | Refer to note 29 |

Remuneration of key management personnel and Councillors is set out in Note 28 and 30 respectively.

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

42. Prior period errors

The correction of the error(s) results in adjustments as follows:

| Statement of Financial Position | Previously reported | Reclassification | Restatement | Restated balance |
|---|---------------------|------------------|---------------------|--------------------|
| Current assets | | | | |
| Receivable from exchange transactions | 14 852 279 | - | 12 780 662 | 27 632 941 |
| Receivable from non-exchange transactions | 68 682 921 | - | (50 586 610) | 18 096 311 |
| VAT receivables | 28 503 435 | - | 2 723 195 | 31 226 630 |
| | 112 038 635 | - | (35 082 753) | 76 955 882 |
| Non-current assets | | | | |
| Property, plant and equipment | 216 160 520 | - | (1 349 505) | 214 811 015 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Payables from exchange transactions | 363 560 513 | - | (301 371) | 363 259 142 |
| Subtotal | 363 560 513 | - | (301 371) | 363 259 142 |
| | 363 560 513 | - | (301 371) | 363 259 142 |

1. **Receivables from exchange transactions** - Receivables from exchange transactions has been adjusted with the revised billing after the data cleansing exercise. The billing and debtors balances for electricity and refuse for the prior period.

2. **Receivables from non-exchange transactions** -Receivables from non-exchange transactions has been adjusted with the revised billing after the data cleansing exercise. The billing and debtors balances for property rates for the prior period.

3. **VAT receivables** -The VAT effect of the adjustment that has been made to the receivables from exchange and non-exchange transactions as result of data cleansing and correction of the billing.

4. **Property, plant and equipment** - There were projects that were completed in the prior years however there were no completion certificates that were provided by the engineers as there was a dispute in terms of payments with regards to engineering consultants. Hence the correction of the prior projects transferred to infrastructure and were depreciated.

5. **Payables from exchange transactions** - The balance of debtors with credit balances that has been reclassified from receivables to accounts payables in the prior period has been revised as result of the cleansing exercise that has been performed on received hence the balance of debtors with credit balances been adjusted in the prior period.

| Statement of Financial Performance | Previously reported | Reclassification | Restatement | Restated balance |
|------------------------------------|---------------------|------------------|-------------|------------------|
| Revenue | | | | |
| Service charges | 69 220 550 | - | 52 636 | 69 273 186 |
| Property rates | 17 937 465 | - | 7 18 477 | 18 655 942 |
| Interest received | 347 437 | - | 4 042 508 | 4 389 945 |

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42. Prior period errors (continued)

| | 87 505 452 | - | 4 813 621 | 92 319 073 |
|--|-------------------|-------------|------------------|-------------------|
| Expenditure | | | | |
| Depreciation and amortisation | 17 461 649 | - | 514 156 | 17 975 805 |
| Construction contract expenditure (INEP) | - | 2 763 021 | - | 2 763 021 |
| Debt impairment | 9 245 809 | - | 5 609 129 | 14 854 938 |
| General expenses | 53 060 594 | (2 763 021) | - | 50 297 573 |
| | 79 768 052 | - | 6 123 285 | 85 891 337 |

1. **Service charges** - Corrections of billings for electricity and refuse from the exercise of data cleansing for the prior period.

2. **Property rates** - Corrections of billings for property rates from the exercise of data cleansing for the prior period.

3. **Interest received** - Interest received has not been charged on outstanding accounts in the prior years, the municipality has revised and corrected the accounts and has started to charge interest for current and prior period.

4. **Depreciation and amortisation** - There were projects that were completed in the prior years however there were no completion certificates that were provided by the engineers as there was a dispute in terms of payments with regards to engineering consultants. Hence the correction of the prior projects transferred to infrastructure and were depreciated.

5. **Debt impairment** - The provision for doubtful debts has been revised as result of the restatement of receivables from exchange and non-exchange. The balances were corrected and interest has been charged on those accountbalances for current and prior period.

6. **Construction contract expenditure** - The municipality has incurred expenditure on INEP projects in the prior period in order to complete the projects that were not completed during the 2020/21 period. The expenditure was funded from internal sources of revenue since there was no INEP funding for the 2021/22 financial period. As a result the expenditure was reclassified as result of INEP funding being accounted in accordance with provisions of GRAP 11.

7. **General expenses** - The expenditure for the construction of INEP projects has been reclassified from general expenses to construction contract expenditure as result of applying the provisions of GRAP 11.

Statement of Cash Flows

| | Previously reported | Reclassification | Restatement | Restated balance |
|--|----------------------|------------------|------------------|--------------------|
| Cash flow from operating activities | | | | |
| Receipts | | | | |
| Taxation revenue | - 15 858 632 | | - 17 737 903 | 33 596 535 |
| Service charges | - 58 185 401 | | - (20 073 561) | 38 111 840 |
| Other receipts | - 480 299 | | - (1 405 481) | (925 182) |
| Interest Income | - 347 437 | | - 4 042 508 | 4 389 945 |
| Payments | | | | |
| Employee costs | - 55 444 827 | | - (560 861) | 54 883 966 |
| Suppliers | - 41 641 223 | | - 862 228 | 42 503 451 |
| | - 171 957 819 | | - 602 736 | 172 560 555 |

Disclosure note

| | Previously reported | Reclassification | Restatement | Restated balance |
|------------------------------|----------------------|------------------|------------------------|-------------------|
| Material losses | | | | |
| Material losses | - 39 398 443 | | - 6 785 051 | 46 183 494 |
| Contigent Liabilities | | | | |
| ESKOM SOC | - 300 000 000 | | - (300 000 000) | - |
| | - 339 398 443 | | - (293 214 949) | 46 183 494 |

43. Risk management

Financial risk management

Mpofana Local Municipality

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|-----------------|------|------|

43. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

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 undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| | | |
|----------------------------|--------------------|--------------------|
| Trade and other payables | 482 511 652 | 363 560 513 |
| Unspent conditional grants | 18 150 800 | 15 132 913 |
| | 500 662 452 | 378 693 426 |

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.

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

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

| | | |
|--|------------|------------|
| Financial instrument | | |
| Cash and cash equivalent | 1 407 394 | 3 518 780 |
| Receivables from non-exchange transactions | 80 015 083 | 70 621 081 |
| Receivables from exchange transactions | 20 175 910 | 16 628 383 |

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.

Mpofana Local Municipality

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44. Going concern

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

The municipality has a deficit of R108 546 426 on in the current year. The current liabilities exceeded the current assets by R184 543 328 and the available cash resource did not cover the commitment for unspent conditional grants with an amount of R17.8 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.

The liquidity ratio of the municipality is 0.35:1 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 +R481.4 mil (2022: R363.2 mil).

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

1. The municipality is in a net liability position of R184,543 million.
2. The Municipality is to consider payments plans for some customers to improve collections.
3. Municipality has also taken legal action against some customers that have large unpaid accounts.
4. Debtor collectors are assisting the municipality with recovery of debts that are over 90 days.
5. 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)

45. Events after the reporting date

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

46. Unauthorised expenditure

| | | |
|---|--------------------|--------------------|
| Opening balance as previously reported | 271 652 126 | 209 277 463 |
| Add: Unauthorised expenditure - current | 76 038 564 | 62 374 663 |
| Closing balance | 347 690 690 | 271 652 126 |

Unauthorised expenditure: Budget overspending

| | | |
|--|-------------------|-------------------|
| Employee related cost | 3 878 989 | 3 521 230 |
| Remuneration of Councillors | 9 351 | 475 772 |
| Depreciation and amortisation | 109 912 | - |
| Construction contract expenditure (INEP) | 10 701 500 | - |
| Finance cost | 18 226 646 | 7 967 975 |
| General expenses | 33 514 457 | 41 068 754 |
| Bulk purchases | 1 927 908 | 6 483 274 |
| Capital expenditure | - | 2 211 211 |
| Impairment loss / reversal of impairment | - | 646 447 |
| Debt impairment | 4 859 006 | - |
| Grants spent for unintended purposes | 2 810 795 | - |
| | 76 038 564 | 62 374 663 |

Disciplinary steps taken/criminal proceedings

Investigations are being conducted by MPAC

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| Figures in Rand | 2023 | 2022 |
|---|-------------------|--------------------|
| 47. Irregular expenditure | | |
| Opening balance as previously reported | 122 743 993 | 84 586 999 |
| Add: Irregular expenditure - current | 26 555 555 | 21 178 998 |
| Add: Irregular expenditure - prior period | 8 452 972 | 16 977 996 |
| Less: Amount written off - current | (58 873 519) | - |
| Closing balance | 98 879 001 | 122 743 993 |

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47. Irregular expenditure (continued)

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

| | Disciplinary steps taken/criminal proceedings | | |
|---|--|-------------------|-------------------|
| SCM processes not followed - quotations were not obtained | The incident has been reported to Council and MPAC is dealing with the matter. | 2 173 153 | 7 233 490 |
| Service provider appointed during the time where the PPPFA Regulation was suspended | The incident has been reported to Council and MPAC is dealing with the matter. | 3 755 892 | - |
| Competitive bidding not followed | The incident has been reported to Council and MPAC is dealing with the matter. | 23 666 435 | 18 417 013 |
| Tender was not advertised for required time | The incident has been reported to Council and MPAC is dealing with the matter. | 2 808 892 | 9 503 795 |
| Contract expired | The incident has been reported to Council and MPAC is dealing with the matter. | 387 957 | 368 328 |
| CSD report reflecting a non-tax compliant status | The incident has been reported to Council and MPAC is dealing with the matter. | - | 2 634 368 |
| Deviations | Reason for deviations was not reasonable enough | 850 000 | - |
| Suppliers in the service of the state | Suppliers in a service of the state | 1 366 198 | - |
| | | 35 008 527 | 38 156 994 |

48. 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 | 1 011 879 | 766 691 |
| Sole provider | 72 622 | 63 841 |
| Exceptional case | 908 803 | 420 799 |
| | 1 993 304 | 1 251 331 |

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| Figures in Rand | 2023 | 2022 |
|--|----------------|----------------|
| 49. Fruitless and wasteful expenditure | | |
| Opening balance as previously reported | 871 355 | 4 682 376 |
| Add: Fruitless and wasteful expenditure identified - current | 32 648 537 | 14 511 953 |
| Less: Amount written off - current | (32 648 537) | (14 397 051) |
| Less: Amount written off - prior period | - | (3 925 923) |
| Closing balance | 871 355 | 871 355 |

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49. Fruitless and wasteful expenditure (continued)

Details of fruitless and wasteful expenditure

| | Disciplinary steps taken/criminal proceedings | | |
|---------------------|--|-------------------|-------------------|
| Interest | Investigations are being conducted by MPAC | 30 996 781 | 13 882 151 |
| Overpayments | Investigations are being conducted by MPAC | - | 81 000 |
| Penalties | Investigations are being conducted by MPAC | 1 054 514 | 514 177 |
| Arbitration award | Investigations are being conducted by MPAC | 597 242 | 92 |
| Duplicated payments | Investigations are being conducted by MPAC | - | 34 534 |
| | | 32 648 537 | 14 511 954 |

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

| | | |
|---------------------------------|------------------|------------------|
| Opening balance | 3 363 642 | 4 000 000 |
| Current year subscription / fee | 614 108 | 563 642 |
| Amount paid - previous years | - | (1 200 000) |
| | 3 977 750 | 3 363 642 |

The municipality is committed to settle the amount that has not been honoured in the previous years due to limited resources.

Audit fees

| | | |
|---------------------------------|----------------|-------------|
| Opening balance | - | 61 195 |
| Current year subscription / fee | 2 225 939 | 2 200 083 |
| Amount paid - current year | (1 940 245) | (2 200 083) |
| Amount paid - previous years | - | (61 195) |
| | 285 694 | - |

Mpofana Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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| Figures in Rand | 2023 | 2022 |
|---|-------------------|-------------------|
| 50. Additional disclosure in terms of Municipal Finance Management Act (continued) | | |
| PAYE and UIF | | |
| Opening balance | 1 329 970 | 607 560 |
| Current year subscription / fee | 9 045 034 | 8 080 260 |
| Amount paid - current year | (7 529 845) | (6 750 290) |
| Amount paid - previous years | (1 464 928) | (607 560) |
| | 1 380 231 | 1 329 970 |
| Pension and Medical Aid Deductions | | |
| Opening balance | 1 322 780 | 1 190 542 |
| Current year subscription / fee | 16 347 850 | 14 754 112 |
| Amount paid - current year | (15 042 124) | (13 431 331) |
| Amount paid - previous years | (1 257 250) | (1 190 543) |
| | 1 371 256 | 1 322 780 |
| VAT | | |
| VAT receivable | 71 589 266 | 58 433 214 |
| VAT payable | (30 686 332) | (27 206 584) |
| | 40 902 934 | 31 226 630 |

VAT output payables and VAT input receivables are shown in note 6.

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 2023:

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.

51. Material Losses

| | | |
|---------------------------------|------------|------------|
| Electricity distribution losses | 42 467 970 | 46 183 494 |
|---------------------------------|------------|------------|

Electricity energy losses of 21 873 296 kWh as at June 2023 (June 2022: 25 544 747 kWh) occurred during the year which resulted in revenue loss amounting to R42 467 970 (June 2022: R46 183 494). The National norm for electricity losses range from 6% to 12 % . The energy loss incurred by the municipality as at June 2023 is 40.28% (June 2022: 48.05%) and is mainly due to transmission / distribution losses and illegal connections.