



Lekwa Local Municipality
Annual Financial Statements
for the year ended 30 June 2023

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

General Information

Nature of business and principal activities

Providing municipal services and maintaining the best interests of the local community

Executive Mayor	Cllr. DL Thabethe
Speaker	Cllr. O Phiri
Chief Whip	Cllr. DJ Msibi
Member of Mayoral Committee: Technical Services	Cllr. SA Majosi
Member of Mayoral Committee: Corporate Services and Planning and Development	Cllr PC Mahlaba
Member of Mayoral Committee: Community services and Safety	Cllr. SM Modise
Member of Mayoral Committee: Planning and Economic Development	Cllr. JT Sebiloane
Councillors	Cllr CAO Franco Cllr DJ Msibi Cllr DJ Venter Cllr DI Thabethe Cllr DR Manana Cllr GJ Xulu Cllr JC Stoltz Cllr JD Nkuta Cllr JT Sebiloane Cllr LM Marago Cllr M Mthimkhulu Cllr MI Molaba Cllr MS Mngomezulu Cllr NC Nhlapho Cllr NS Tihakudi Cllr O Phiri Cllr PC Mahlaba Cllr PM Radebe Cllr RS Tsotetsi Cllr SA Maboea Cllr SA Majosi Cllr SA Silosini Cllr SA Tshabalala Cllr SB Ngqulunga Cllr SM Modise Cllr SP Ngwenya Cllr SS MR Motloun Cllr SS SW Masondo Cllr TC Motaung Cllr W Venter

Accounting Officer

Mr MJ Lamola

Chief Finance Officer (CFO)

Mr K Duba

Registered office

C/O Mbonani Mayisela and Dr Beyers Naude Street
Standerton
2430

Lekwa Local Municipality

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General Information

Business address

PO Box 66 Standerton 2430

Bankers

Nedbank (Primary bank account)
First National Bank

Auditors

Auditor General South Africa

Lekwa 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:

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IPSAS	International Public Sector Accounting Standards
IAS	International Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts

Lekwa Local Municipality

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Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 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 municipality is wholly dependent on the municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The annual financial statements set out on page 7 to 105, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2023:

Accounting Officer
Mr MJ Lamola

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2023.

1. Review of activities

Main business and operations

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

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

Net deficit of the municipality was R (362 282 536) (2022: deficit R 357 753 869).

2. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated deficit of R (663 043 222) 2022 R (622 133 694) and that the municipality's total liabilities exceed its assets by R (663 043 222) 2022 R (622 133 694).

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 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.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

3. Subsequent events

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

4. Accounting Officers' interest in contracts

The Accounting Officer does not have any interest in contracts, either direct or indirect.

5. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Corporate Governance

General

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

Audit Committee

The audit committee members for the year ended 30 June 2023 were as follows:

Mr. L.A.T Gafane Chairperson - Active to date
Mr. F Makhabela Member - Term ended on 30 March 2023
Mr. G Mello Member - Term ended on 30 March 2023
Mr. S Dube Member - Term ended on 30 March 2023 - reappointed 17 April 2023 active to date
Mr. P Rambuda Member - Appointed 17 April 2023 active to date
Mr. I Motala Member - Appointed 17 April 2023 active to date

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Officer's Report

. Corporate Governance (continued)

Internal audit

The municipality has a fully functional internal audit unit. This is in compliance with the Municipal Finance Management Act, 2003.

7. Bankers

First National Bank and Nedbank are being used for daily operations as well as investing of grant funding.

8. Auditors

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

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Position as at 30 June 2023

Figures in Rand	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Inventories	4	5 320 741	3 358 876
Value added tax	5	91 713 428	55 084 123
Other receivables from exchange transactions	11	-	111 673
Receivables from non-exchange transactions	6	70 143 455	57 583 475
Receivables from exchange transactions	7	91 520 051	112 579 786
Cash and cash equivalents	3	9 857 650	15 146 068
		268 555 325	243 864 001
Non-Current Assets			
Investment property	8	269 669 303	264 641 122
Property, plant and equipment	9	1 372 443 241	1 314 912 195
Heritage assets	10	106 187	106 187
Other financial assets	12	32 042 581	30 675 233
		1 674 261 312	1 610 334 737
Total Assets		1 942 816 637	1 854 198 738
Liabilities			
Current Liabilities			
Finance lease obligation	52	797 181	-
Payables from exchange transactions	13	2 461 753 667	2 304 651 479
Consumer deposits	14	3 439 141	3 268 931
Employee benefit obligation	16	5 855 000	4 165 000
Unspent conditional grants and receipts	15	6 625 000	35 373 864
		2 478 469 989	2 347 459 274
Non-Current Liabilities			
Finance lease obligation	52	2 403 029	-
Employee benefit obligation	16	75 282 000	82 193 000
Provisions	17	49 704 828	46 680 158
		127 389 857	128 873 158
Total Liabilities		2 605 859 846	2 476 332 432
Net Assets		(663 043 209)	(622 133 694)
Accumulated surplus		(663 043 222)	(622 133 691)
Total Net Assets		(663 043 222)	(622 133 691)

* See Note 41

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	494 599 652	507 936 365
Rental income		1 643 457	1 728 552
Other operational income	22	1 629 783	1 727 452
Interest received on trade and other receivables	23	72 041 982	48 927 895
Interest received bank and other financial assets	23	2 484 376	1 795 374
Total revenue from exchange transactions		572 399 250	562 115 638
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	152 872 339	167 992 751
Interest received on receivables from non-exchange transactions		33 494 534	16 503 479
Transfer revenue			
Government grants & subsidies	25	228 015 864	164 886 330
Public contributions and donations	26	1 740 500	1 151 190
Fines, Penalties and Forfeits	21	2 593 669	2 982 889
Total revenue from non-exchange transactions		418 716 906	353 516 639
Total revenue	18	991 116 156	915 632 277
Expenditure			
Employee related costs	27	271 674 965	249 494 757
Remuneration of councillors	28	13 787 559	8 341 710
Depreciation and amortisation	29	50 009 302	79 751 802
Finance costs	31	162 577 526	104 200 184
Debt Impairment	33	255 426 284	206 686 719
Bad debts written off		99 982	235 602
Bulk purchases	35	475 583 610	484 962 143
Contracted services	36	86 658 324	106 088 940
Inventory consumed		20 860 421	13 547 438
Operational costs	34	69 959 859	54 825 010
Total expenditure		1 406 637 832	1 308 134 305
Operating deficit		(415 521 676)	(392 502 028)
Loss on disposal of assets and liabilities		(25 293)	-
Fair value adjustments		5 028 181	8 198 234
Actuarial gains/losses	16	13 928 000	3 889 000
Reversal of impairments	30	34 308 252	22 660 925
		53 239 140	34 748 159
Deficit for the year		(362 282 536)	(357 753 869)

* See Note 41

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	(575 882 487)	(575 882 487)
Adjustments		
Prior year adjustments 41	311 502 250	311 502 250
Balance at 01 July 2021 as restated*	(264 380 237)	(264 380 237)
Changes in net assets		
Surplus/(Deficit) for the year	(357 753 869)	(357 753 869)
Total changes	(357 753 869)	(357 753 869)
Opening balance as previously reported	(622 133 690)	(622 133 690)
Adjustments		
Prior year adjustments 41	321 373 002	321 373 002
Restated* Balance at 01 July 2022 as restated*	(300 760 686)	(300 760 686)
Changes in net assets		
Surplus/(Deficit) for the year	(362 282 536)	(362 282 536)
Total changes	(362 282 536)	(362 282 536)
Balance at 30 June 2023	(663 043 222)	(663 043 222)

Note(s)

* See Note 41

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Cash Flow Statement

Figures in Rand	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Property Rates		116 917 290	118 563 899
Service charges		389 357 755	390 573 908
Rental of facilities		1 643 457	1 728 552
Other operational revenue		3 481 956	4 874 699
Interest received bank and other financials assets		2 484 376	1 795 374
Grants and subsidies received - Operational		160 128 000	139 953 194
Grants and subsidies received - Capital		67 887 864	24 933 136
Fines		786 045	1 585 482
		742 686 743	684 008 244
Payments			
Employee costs		(250 300 303)	(279 884 346)
Suppliers		(582 244 163)	(562 775 196)
Finance costs		(162 577 492)	(104 200 184)
		(995 121 958)	(946 859 726)
Net cash flows from operating activities	37	(252 435 215)	(262 851 482)
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(74 226 205)	(47 726 839)
Cash flows from other movements			
Correction of errors prior to 2021 through accumulated surplus	42	321 373 002	298 730 328
Net increase/(decrease) in cash and cash equivalents		(5 288 418)	(11 847 993)
Cash and cash equivalents at the beginning of the year		15 146 068	26 994 061
Cash and cash equivalents at the end of the year	3	9 857 650	15 146 068

The accounting policies on pages 13 to 43 and the notes on pages 44 to 105 form an integral part of the annual financial statements.

* See Note 41

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 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	759 142 185	(2 162 948)	756 979 237	494 599 652	(262 379 585)	
Other income	62 817 080	363 534	63 180 614	75 315 222	12 134 608	
Interest received - investment	700 000	-	700 000	2 484 376	1 784 376	
Total revenue from exchange transactions	822 659 265	(1 799 414)	820 859 851	572 399 250	(248 460 601)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	191 632 756	(1 580 306)	190 052 450	152 872 339	(37 180 111)	
Interest - Taxation revenue	-	-	-	33 494 534	33 494 534	
Transfer revenue						
Government grants & subsidies	158 753 700	-	158 753 700	228 015 864	69 262 164	
Public contributions and donations	-	-	-	1 740 500	1 740 500	
Fines, Penalties and Forfeits	6 500 000	(2 000 000)	4 500 000	2 593 669	(1 906 331)	
Total revenue from non-exchange transactions	356 886 456	(3 580 306)	353 306 150	418 716 906	65 410 756	
Total revenue	1 179 545 721	(5 379 720)	1 174 166 001	991 116 156	(183 049 845)	
Expenditure						
Personnel	(305 228 599)	696 989	(304 531 610)	(271 674 965)	32 856 645	
Remuneration of councillors	(13 024 138)	524 464	(12 499 674)	(13 787 559)	(1 287 885)	
Depreciation and amortisation	(85 679 276)	-	(85 679 276)	(50 009 302)	35 669 974	
Finance costs	(44 305 900)	(13 354 800)	(57 660 700)	(162 577 526)	(104 916 826)	
Debt Impairment	(70 359 900)	-	(70 359 900)	(255 426 284)	(185 066 384)	
Bad debts written off	-	-	-	(99 982)	(99 982)	
Bulk purchases	(469 965 100)	-	(469 965 100)	(475 583 610)	(5 618 510)	
Contracted Services	(120 392 812)	(994 188)	(121 387 000)	(86 658 324)	34 728 676	
General Expenses	(163 212 269)	5 380 530	(157 831 739)	(90 820 280)	67 011 459	
Total expenditure	(1 272 167 994)	(7 747 005)	(1 279 914 999)	(1 406 637 832)	(126 722 833)	
Operating deficit	(92 622 273)	(13 126 725)	(105 748 998)	(415 521 676)	(309 772 678)	
Loss on disposal of an asset	-	-	-	(25 293)	(25 293)	
Fair value adjustment	-	-	-	5 028 181	5 028 181	
Actuarial gains/losses	-	-	-	13 928 000	13 928 000	
Reversal of impairment	-	-	-	34 308 252	34 308 252	
	-	-	-	53 239 140	53 239 140	
Deficit for the year	(92 622 273)	(13 126 725)	(105 748 998)	(362 282 536)	(256 533 538)	
Deficit for the year	(92 622 273)	(13 126 725)	(105 748 998)	(362 282 536)	(256 533 538)	
Capital expenditure	(101 094 053)	-	(101 094 053)	(74 226 205)	26 867 848	

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(193 716 326)	(13 126 725)	(206 843 051)	(436 508 741)	(229 665 690)	

Reasons for changes between the approved

Service Charges - Service charges were under performing and as a result management had to adjust revenue budget for service charges down.

Other Income - The municipality experienced improvement on business licences, rezoning and Clearance certificates as a result management had to adjust other revenue up.

Fines, Penalties and Forfeits - An assessment performed at mid-year showed that traffic fines were under performing this resulted in management having to adjust down the revenue from fines.

Personnel - The municipality did not fill some of the position that were included in the approved budget as a result management had to adjust employee related costs down.

Remuneration of Councillors - The municipality realised savings on remuneration of councillors during the first half of the year hence the need to adjust.

Finance Costs - There was increased interest charge on the amount owed by the municipality to Eskom.

Contracted Services - Due cash flow problems and poor performance by municipal revenue sources the municipality had to cut down on contracted services.

General Expenses - Due cash flow problems and poor performance by municipal revenue sources the municipality had to cut down on general expenses.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

Figures in Rand	Note(s)	2023	2022
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1. Significant accounting policies

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

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Significant judgements and sources of estimation uncertainty

In preparing the 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:

Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

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.

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 [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list 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 17 - Provisions.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network 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 16.

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.

Accounting by principals and agent

The municipality makes assessments on whether it is the principal or agent in principal-agent relationships. Significant judgements applied are as follow [State significant judgements made].

Additional information is disclosed in Note 54.

Impairment of statutory receivables

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures and impairment loss. The impairment loss is measured as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, are reduced, either directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

In estimating the future cash flows, the municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the municipality discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable are revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

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

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.5 Investment property (continued)

- 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.

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Accounting Policies

1.5 Investment property (continued)

Fair value

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

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

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

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

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

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

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

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

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

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

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.

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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.

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

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

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

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

Subsequent measurement - Cost Model

Subsequent to initial recognition, items of property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it meets the recognition criteria of Property, Plant and equipment.

Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives to their estimated residual values. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. Land is not depreciated as it is deemed to have an indefinite useful life.

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

Item	Depreciation method	Average useful life
Land	Straight-line	Indefinite

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1.6 Property, plant and equipment (continued)

Buildings	Straight-line	15 - 50 years
Water network	Straight-line	15 - 50 years
Plant and machinery	Straight-line	5 - 15 years
Furniture and fixtures	Straight-line	5 - 15 years
Motor vehicles	Straight-line	3 - 15 years
Office equipment	Straight-line	5 - 15 years
IT equipment	Straight-line	5 - 15 years
Electricity Network	Straight-line	15 - 50 years
Wastewater network	Straight-line	15 - 50 years
Roads network	Straight-line	15 - 50 years
Community Assets - Buildings and other assets	Straight-line	15 - 50 years
Landfill sites	Straight-line	20 - 40 years

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

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

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

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

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

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

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

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

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

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

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

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Derecognition

Lekwa Local Municipality

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Accounting Policies

1.6 Property, plant and equipment (continued)

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.

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.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.8 Heritage assets

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

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

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

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

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

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

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Accounting Policies

1.8 Heritage assets (continued)

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

Derecognition

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

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

1.9 Financial instruments

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

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.

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Accounting Policies

1.9 Financial instruments (continued)

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.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

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.

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.

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Accounting Policies

1.9 Financial instruments (continued)

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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.

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Accounting Policies

1.9 Financial instruments (continued)

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non - exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value
Value Added Tax receivables	Financial asset measured at amortised cost
Other receivables	Financial asset measured at amortised cost
Other financial asset	Financial asset measured at fair value

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
Value Added Tax payables	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

The municipality 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 municipality recognises financial assets using trade date accounting.

Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at fair value
- Financial instruments at amortised cost
- Financial instruments at cost

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

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment of Financial Instruments

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.

Offsetting

Lekwa Local Municipality

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Accounting Policies

1.9 Financial instruments (continued)

A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an 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.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability.

Derecognition

The entity derecognises financial assets using trade date accounting.

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.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

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

1.10 Statutory receivables

Identification

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

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

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

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

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

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the 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

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1.10 Statutory receivables (continued)

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.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, a municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

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Accounting Policies

1.10 Statutory receivables (continued)

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

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

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

1.11 Leases

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

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

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognised as an asset.

Subsequent Measurement

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessee

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

1.12 Inventories

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.

Inventories comprise of current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process. Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired (including land held for sale).

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

Lekwa Local Municipality

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Accounting Policies

1.12 Inventories (continued)

- 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 weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

Redundant and slow-moving inventories are identified and written down in this way. 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.

Derecognition

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

1.13 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents comprise bank balances, cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which are available on demand.

Bank overdrafts which are repayable on demand forms an integral part of the entity's cash management activities, and as such are included as a component of cash and cash equivalents.

1.14 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.

Lekwa Local Municipality

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1.14 Employee benefits (continued)

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.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Bonus, incentive and performance related payments

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payment

Lekwa Local Municipality

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Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits

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

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

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

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions. In order to be classified as a defined contribution plan a post-employment benefit plan must require the entity to pay fixed contributions into a separate entity.

Recognition and measurement

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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Accounting Policies

1.14 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, 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.

Lekwa Local Municipality

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Accounting Policies

1.14 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 [OR is not] 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.

Lekwa Local Municipality

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Accounting Policies

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other long-term employee benefits

Other long-term employee benefits may include, for example:

- long-term compensated absences such as long service or sabbatical leave;
- other long service benefits;
- long-term disability benefits;
- bonus, incentive and performance related payments payable twelve months or more after the end of the reporting period in which the employees render the related service;
- deferred compensation paid twelve months or more after the end of the reporting period in which it is earned; and
- compensation payable by the entity until an individual enters new employment.

Recognition and measurement

The amount recognised as a liability for other long-term employee benefits shall be 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

Other post retirement obligations

The amount recognised as a liability for other long-term employee benefits 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.

The entity shall recognise the net total of the following amounts as expense or revenue, 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 right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Lekwa Local Municipality

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Accounting Policies

1.14 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.15 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.

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.

Lekwa Local Municipality

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Accounting Policies

1.15 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

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.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Lekwa Local Municipality

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Accounting Policies

1.15 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy and .
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.17 Revenue from exchange transactions

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

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

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

Lekwa Local Municipality

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Accounting Policies

1.17 Revenue from exchange transactions (continued)

Measurement

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

The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the accounting policy on Statutory Receivables).

Sale of goods

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

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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.

Interest, royalties and dividends

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.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.18 Revenue from non-exchange transactions

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

Lekwa Local Municipality

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Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Lekwa Local Municipality

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Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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.

Property rates

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

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

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.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

The municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.19 Comparative figures

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

When the presentation or classification of items in the financial statements is amended, comparative amounts are reclassified, unless the reclassification is impracticable. When comparative amounts are reclassified, the following is disclosed:

- the nature of the reclassification;
- the amount of each item or class of items that is reclassified; and
- the reason for the reclassification.

When it is impracticable to reclassify comparative amounts, the following is disclosed:

- the reason for not reclassifying the amounts; and
- the nature of the adjustments that would have been made if the amounts had been reclassified.

Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly, where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.20 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.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.20 Unauthorised expenditure (continued)

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).

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

1.21 Fruitless and wasteful expenditure

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

Fruitless and wasteful 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).

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

1.22 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).

1.23 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

1.24 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.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.24 Budget information (continued)

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

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

The approved budget covers the fiscal period from 2022/07/01 to 2023/06/30.

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.

In terms of MFMA section 31 and Virement Policy of the municipality, the municipality can shift funds within budget parameters.

The changes between Schedule B (Final Approved Budget) and Final Budget were due to reallocation within budget parameters.

Materiality has been assumed to be all the variance which are 10% or more. Below are explanation of differences identified:

1.25 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.

The municipality discloses:

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Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.25 Related parties (continued)

- The aggregate remuneration of key management personnel and the number of individuals, determined on a full-time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class;
- The total amount of all other remuneration and compensation provided to key management personnel, and close members of the family of key management personnel, by the municipality.

1.26 Events after reporting date

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

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

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

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

1.27 Value Added Tax

The Municipality is registered with the South African Revenue Services as a VAT vendor in accordance with section 15(2) of the Value Added Tax Act (No .89 of 1991).

The Municipality accounts for Value Added Tax on the payment basis as per the VAT Act.

1.28 General expenses

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence's of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

Recognition and measurement

Expenses are recognised on an accrual basis.

This means a basis of accounting under which transactions are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions are recorded in the accounting records and recognised in the financial statements of the periods to which they relate.

1.29 Accumulated Surplus

The municipality's surplus or deficit for the year is accounted in the accumulated surplus reserve in the statement of changes in net assets.

1.30 Long term debtors

Long term debtors are debtors that are receivable for a period exceeding 12 months from year end.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.31 Errors

A prior period error is corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the opening balances of assets, liabilities and net assets are restated for the earliest period for which retrospective restatement is practicable (which may be the current period).

When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the comparative information is restated to correct the error prospectively from the earliest date practicable.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

STANDARDS APPROVED AND EFFECTIVE FOR 2022/23 FINANCIAL YEAR

The following GRAP standards have been approved and effective to the municipality for the 2022/23 financial year and are unlikely to be a material impact:

GRAP 1 Presentation of Financial Statements
GRAP 2 Cash Flow Statements
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4 The Effects of Changes in Foreign Exchange Rates
GRAP 5 Borrowing Costs
GRAP 9 Revenue from Exchange Transactions
GRAP 10 Financial Reporting in Hyperinflationary Economies
GRAP 11 Construction Contracts
GRAP 12 Inventories
GRAP 13 Leases
GRAP 14 Events After the Reporting Date
GRAP 16 Investment Property
GRAP 17 Property Plant and Equipment
GRAP 18 Segment Reporting
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
GRAP 20 Related Party Disclosures
GRAP 21 Impairment of Non -Cash Generating Assets
GRAP 23 Revenue from Non- Exchange Transactions (Taxes and Transfers)
GRAP 24 Presentation of Budget Information in Financial Statements
GRAP 25 Employee Benefits
GRAP 26 Impairment of Cash-Generating Assets
GRAP 27 Agriculture
GRAP 31 Intangible Assets
GRAP 32 Service Concession Arrangements: Grantor
GRAP 34 Separate Financial Statements
GRAP 35 Consolidated Financial Statements
GRAP 36 Investments in Associates and Joint Ventures
GRAP 37 Joint Arrangements
GRAP 38 Disclosure of Interests of Other Entities
GRAP 100 Discounted Operations
GRAP 103 Heritage Assets
GRAP 104 Financial Instruments
GRAP 105 Transfer of Functions Between Entities Under Common Control
GRAP 106 Transfer of Functions Between Entities Not Under common Control
GRAP 107 Mergers
GRAP 108 Statutory Receivables
GRAP 109 Accounting by Principals and Agents
GRAP 110 Living and Non-Living resources

INTERPRETATIONS OF STANDARDS OF GRAP APPROVED AND EFFECTIVE FOR 2022/23 FINANCIAL YEAR

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

IGRAP 1 Applying the Probability Test on Initial Recognition of Revenue
 IGRAP 2 Changes in Existing Decommissioning, Restoration and Similar Liabilities
 IGRAP 3 Determining whether an arrangement contains a lease
 IGRAP 4 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
 IGRAP 5 Applying the restatement approach under the Standard of GRAP on financial reporting in hyperinflationary economies
 IGRAP 6 Loyalty Programmes
 IGRAP 7 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
 IGRAP 8 Agreements for the Construction of Assets from Exchange Transactions
 IGRAP 9 Distributions of Non-cash Assets to Owners
 IGRAP 10 Assets Received from Customers
 IGRAP 13 Operating Leases – Incentives
 IGRAP 14 Evaluating the Substance of Transactions Involving the Legal Form of a Lease
 IGRAP 15 Revenue – Barter Transactions Involving Advertising Services
 IGRAP 16 Intangible Assets – Website Costs
 IGRAP 17 Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset
 IGRAP 18 Recognition and Derecognition of Land
 IGRAP 19 Liabilities to Pay Levies
 IGRAP 20 Accounting for Adjustments to Revenue

3. Cash and cash equivalents

Cash and cash equivalents consist of

Cash on hand	3 991	3 991
Nedbank current account	7 560 476	6 412 607
Short-term deposits call accounts	55 168	8 518 979
Services and Utilities	1 221 050	75 250
Traffic	706 452	41 462
FNB Current account	310 513	93 779
	9 857 650	15 146 068

No cash and cash equivalents is pledged as collateral.

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2023	30 June 2022	30 June 2023	30 June 2022
Nedbank - Call Account MIG 37881152036	18 296	4 605 282	18 296	4 605 282
Nedbank - Call Account Electric Ringfence 37881152001	-	8 239	-	8 239
Nedbank - Call Account Electricity Grants 37881152087	-	72 050	-	72 050
Nedbank - Call Account Internal Projects 37881152109	-	11 451	-	11 451
Nedbank - Call Account INEP 37881152059	36 874	3 594 427	36 874	3 594 427
Nedbank - Call Account LGSETA 37881152079	-	124 067	-	124 067
Nedbank - Call Account EPWP 37881152028	-	97 319	-	97 319
Nedbank - Call Account FMG -37881152095	-	1 024	-	1 024
Nedbank - Call Account Retentions 37881151994	-	3 850	-	3 850
Nedbank - Call Account WSIG 37881152060	-	1 270	-	1 270
Nedbank - Traffic Account 1187895954	706 452	41 462	706 452	41 462
Nedbank Services and Utilities -1187876291	1 221 052	75 252	1 221 052	75 252
Nedbank Current Account - 1185919473	7 560 465	6 412 604	7 560 465	6 412 604
First National Bank - 62027040740	310 517	93 781	310 517	93 781
Total	9 853 656	15 142 078	9 853 656	15 142 078

Lekwa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
4. Inventories		
Consumable stores	4 954 036	2 542 044
Water for distribution	366 705	816 832
	5 320 741	3 358 876

Inventory pledged as security

No inventory is pledged as security.

5. Valued added tax receivable

Value added tax	91 713 428	55 084 123
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VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

6. Receivables from non-exchange transactions

Gross balances

Property Rates	476 880 531	407 530 930
Fines debtors	12 578 829	10 771 205
	489 459 360	418 302 135

Less: Allowance for impairment

Property Rates	(406 794 110)	(350 285 198)
Fines debtors	(12 521 795)	(10 433 462)
	(419 315 905)	(360 718 660)

Net balance

Property Rates	70 086 421	57 245 732
Fines debtors	57 034	337 743
	70 143 455	57 583 475

Rates

Current (0 -30 days)	14 593 012	14 610 399
31 - 60 days	11 245 649	11 185 551
61 - 90 days	10 449 565	10 569 553
91 - 120 days	10 278 415	10 289 107
>120 days	430 313 889	369 805 938
Less impairment	(406 794 109)	(359 214 816)
	70 086 421	57 245 732

Fines debtors

Fines	12 578 829	10 771 205
Less impairment	(12 521 795)	(10 433 462)
	57 034	337 743

Reconciliation of provision for impairment for statutory receivables

Lekwa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
6. Receivables from non-exchange transactions (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year (property rates and fines)	(360 735 160)	(287 847 685)
Contributions to allowance property rates	(56 492 412)	(71 367 131)
Contributions to allowance fines	(2 088 333)	(1 377 814)
Debt impairment written off	-	(142 530)
	(419 315 905)	(360 735 160)

Statutory receivables general information

Discount rate applied to the estimated future cash flows

Statutory receivables are accounted for as follows:

Traffic fines are issued to offenders in terms of the Criminal Procedures Act, hence this is therefore recognised as a statutory receivable. The receivable is calculated by determining the value of the fine to be paid on initial recognition, and accounting for subsequent measurement by taking into account reductions and discounts made to the value of the fine payable in terms of the court of law. No interest is charged on outstanding fines, and any additional penalties applied by the court is paid by the offender to the court directly, and is therefore not considered to be revenue for the municipality.

Property rates is levied in terms of the Municipal Property Rates Act, hence this is therefore recognised as a statutory receivable. The receivable is calculated by applying the Council approved rates and charges against the valuation of individual properties within the municipality jurisdiction. Council approved rebates and exemptions are further applied to reduce the receivable. Interest is applied on outstanding debt.

The basis of impairment takes into account the following:

The estimate were determined in accordance with the debt impairment policy of the municipality, supplemented by experience of past practices and statistics in relation to uncollectable debt.

In assessing whether statutory receivables are impaired, management considered both individually receivables that may be impaired as well as groups of similar receivables that may be impaired.

The total debtors were further separated into groups of similar receivables with similar risk profiles and assessed for impairment.

7. Receivables from exchange transactions

Gross balances

Electricity	304 586 982	258 887 642
Water	493 922 473	429 380 462
Sewerage	241 412 116	207 372 098
Refuse	183 243 055	153 915 806
Other debtors	160 828 909	158 651 725
	1 383 993 535	1 208 207 733

Less: Allowance for impairment

Electricity	(249 903 601)	(196 074 044)
Water	(472 466 099)	(402 500 446)
Sewerage	(232 818 992)	(197 469 002)
Refuse	(177 070 512)	(147 378 358)
Other debtors	(160 214 280)	(152 206 097)
	(1 292 473 484)	(1 095 627 947)

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
7. Receivables from exchange transactions (continued)		
Net balance		
Electricity	54 683 381	62 813 598
Water	21 456 374	26 880 016
Sewerage	8 593 124	9 903 096
Refuse	6 172 543	6 537 448
Other debtors	614 629	6 445 628
	91 520 051	112 579 786
Electricity		
Current (0 -30 days)	40 781 060	29 272 329
31 - 60 days	16 771 096	14 530 746
61 - 90 days	11 161 687	10 436 325
91-120 days	8 591 634	7 470 454
>120 days	227 281 505	197 177 788
Allowance for impairment	(249 903 601)	(196 074 044)
	54 683 381	62 813 598
Water		
Current (0 -30 days)	10 244 610	8 897 917
31 - 60 days	7 475 555	7 395 030
61 - 90 days	9 095 516	6 950 192
91 - 120 days	7 766 220	7 076 679
>120 days	459 340 572	399 060 643
Allowance for impairment	(472 466 099)	(402 500 445)
	21 456 374	26 880 016
Sewerage		
Current (0 -30 days)	4 989 152	4 481 721
31 - 60 days	4 324 793	3 715 554
61 - 90 days	4 119 430	3 402 397
91 - 120 days	3 971 254	3 469 908
>120 days	224 007 487	192 302 517
Allowance for impairment	(232 818 992)	(197 469 001)
	8 593 124	9 903 096
Refuse		
Current (0 -30 days)	3 846 039	3 350 657
31 - 60 days	3 285 689	2 715 813
61 - 90 days	3 099 853	2 568 278
91 - 120 days	2 998 761	2 543 205
>120 days	170 012 713	142 737 853
Allowance for impairment	(177 070 512)	(147 378 358)
	6 172 543	6 537 448
Other debtors		
Current (0 -30 days)	351 617	225 977
31 - 60 days	277 582	218 906
61 - 90 days	266 427	213 568
91 - 120 days	257 946	212 835
>120 days	159 320 852	157 425 954
Allowance for Impairment	(159 859 795)	(151 851 612)
	614 629	6 445 628

Lekwa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
7. Receivables from exchange transactions (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	(1 095 273 463)	(931 664 694)
Contributions to allowance	(197 200 021)	(163 963 253)
	(1 292 473 484)	(1 095 627 947)

Consumer debtors pledged as security

No consumer debtors were pledged as security.

8. Investment property

	2023			2022		
	Fair Value	Accumulated impairment	Carrying value	Fair Value	Accumulated impairment	Carrying value
Investment property	269 669 303	-	269 669 303	264 641 122	-	264 641 122

Reconciliation of investment property - 2023

	Opening balance	Fair value adjustments	Total
Investment property	264 641 122	5 028 181	269 669 303

Reconciliation of investment property - 2022

	Opening balance	Fair value adjustments	Total
Investment property	256 142 179	8 498 943	264 641 122

Pledged as security

No Investment Property is pledged as security.

IGRAP 18 DISCLOSURE ON INVESTMENT PROPERTY NOT RECOGNISED BY THE MUNICIPALITY.

Considering iGRAP 18 section 35 states "Legislation or similar means identifies custodians of land and confers on them specific rights and responsibilities. These rights and responsibilities mean that the custodian is responsible for acquiring, managing and disposing of land subject to the relevant legislative requirements. Where one entity is the custodian of land while another entity is the legal owner, the custodian has the right to direct access to and restrict or deny access of others to land. In these instances, the custodian, rather than the legal owner, controls the land."

Municipalities shared and continue to share responsibility with provinces for the release of investment property for housing development, land use planning, and land use and building control. In terms of this responsibility, the Department of Human Settlement identified and repatriated investment property owned by the municipality to fulfill its mandate with respect to the delivery of houses. The location of the investment property includes the following suburbs: Azalea, Meyerville, Morgenzon, Sakhile, Sivukile, Standerton, Standerton West, and Stanfield Hill. Whilst the municipality has legal title to the investment property, it does not recognise the investment property because, from the date of repatriation, the Department of Human Settlements is responsible for the subdivision, planning, and urban development and the subsequent allocation of the built houses to beneficiaries. The Municipality has no right to control the investment property and is not involved in key decisionmaking with respect to the use of this investment property.

Lekwa Local Municipality

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8. Investment property (continued)

In addition, several stands owned by the municipality in Azalea, Meyerville, Morgenzon, Sakhile, Sivukile, Standerton, Standerton West, and Stanfield Hill have been illegally occupied and permanent structures were put up by the invaders. Although the investment property is legally owned by the municipality, the municipality has no right to control it as it cannot (a) directly use the investment property's future economic benefits or service potential to provide services to beneficiaries; (b) exchange, dispose of, or transfer the investment property; and/or (c) use the investment property in any other way to generate future economic benefits or service potential. The municipality therefore does not recognize such investment property in its financial statements as it does not have control over it.

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.

The Municipality has lost control of 5,911 investment properties that was calculated to a total size of 6,184,654m² with an estimated value of R443,789,744 on 30 June 2023 and was not included in the Investment Property Register since the Municipality no longer exercises control over said properties.

This value was calculated based on the Professional Valuers opinion and will not necessarily reflect in the AFS.

Township	Property Count	Sum Area (m ²)	Sum Value
Azelea	487	281 114	31 537 414
Meyerville	4	40 448	1 741 009
Morgenzon	10	18 924	2 013 907
Sakhile	1 862	2 828 658	132 031 317
Sivukile	317	483 808	23 564 072
Standerton	3 200	2 499 461	243 711 499
Standerton West	24	21 622	6 525 913
Standfield Hill	7	10 619	2 664 613
	5 911	6 184 654	443 789 744

Lekwa Local Municipality

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8. Investment property (continued)

Details of valuation

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

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

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

2023:

The effective date of the revaluations was Friday, 30 June 2023. Revaluations were performed by an West Rand Consulting (Pty) Ltd. Mr. P.H. Venter was the valuer at West Rand Consulting (Pty) Ltd to perform the valuations. Mr. P.H. Venter is a registered Professional Associated Valuer with the SA Council for Valuers Profession, registration number 7428, a member of the SA Institute of Valuers and has the appropriate experience in performing valuation of investment properties.

The valuation for the land portion was based on adapted comparable sales and for the improvements there-on on replacement costs.

Prior year revaluation were performed form 2021 to 2023.

These assumptions are based on current market conditions.

Refer to note 41 for prior period errors.

2008 - 2022:

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

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

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

2008 (-2.9)
2009 (-1.8)
2010 (5.5)
2011 (2.8)
2012 (4.7)
2013 (3.6)
2014 (8.3)
2015 (6.4)
2016 (5.8)
2017 (4.1)
2018 (3.8)
2019 (3.5)
2020 (1.7)
2021 (4.5)
2022 (3.6)

Lekwa Local Municipality

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9. 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	35 880 417	-	35 880 417	35 880 417	-	35 880 417
Buildings	113 345 687	(44 562 139)	68 783 548	112 234 009	(42 733 894)	69 500 115
Plant and machinery	4 619 956	(3 999 278)	620 678	4 423 195	(3 922 414)	500 781
Furniture and fixtures	6 582 736	(5 066 736)	1 516 000	6 370 236	(5 059 882)	1 310 354
Motor vehicles	97 393 727	(66 828 282)	30 565 445	95 148 227	(67 020 703)	28 127 524
IT equipment	17 692 733	(8 533 852)	9 158 881	10 145 156	(8 890 332)	1 254 824
Roads Infrastructure Community	968 823 407	(487 586 473)	481 236 934	966 702 848	(492 825 036)	473 877 812
Electricity network	114 342 135	(44 044 479)	70 297 656	113 041 025	(42 044 731)	70 996 294
Landfill Site Asset	383 802 593	(151 579 415)	232 223 178	372 189 190	(143 663 624)	228 525 566
Wastewater network	32 577 097	(14 459 882)	18 117 215	32 813 065	(14 551 330)	18 261 735
Water network	371 315 625	(100 966 962)	270 348 663	334 845 900	(97 489 087)	237 356 813
	253 609 325	(99 914 699)	153 694 626	246 822 598	(97 502 638)	149 319 960
Total	2 399 985 438	(1 027 542 197)	1 372 443 241	2 330 615 866	(1 015 703 671)	1 314 912 195

Lekwa Local Municipality

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Transfers received	Work in progress - additions	Work in progress - transfers out	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	35 880 417	-	-	-	-	-	-	-	-	-	35 880 417
Buildings	69 500 115	1 111 678	-	-	-	-	-	(2 481 017)	-	652 772	68 783 548
Plant and machinery	500 781	196 761	-	-	-	-	-	(112 493)	(1 474)	37 103	620 678
Furniture and fixtures	1 310 354	212 500	-	-	-	-	-	(61 241)	(134 063)	188 450	1 516 000
Motor vehicles	28 127 524	2 245 501	-	-	-	-	-	(317 392)	(1 796 127)	2 305 939	30 565 445
IT equipment	1 254 824	7 577 762	(25 293)	-	-	-	-	(256 057)	(175 332)	782 977	9 158 881
Roads network	473 877 812	2 158 000	-	17 216 833	1 988 070	(17 216 833)	-	(22 717 209)	(180 227)	26 110 488	481 236 934
Community	70 996 294	-	-	-	2 033 956	(732 846)	-	(2 316 923)	(141 768)	458 943	70 297 656
Electricity network	228 525 566	9 004 706	-	-	2 608 697	-	-	(8 200 883)	(1 991 884)	2 276 976	232 223 178
Landfill site asset	18 261 735	-	-	-	1 832 122	-	(235 969)	(1 740 673)	-	-	18 117 215
Wastewater network	237 356 813	-	-	-	36 469 725	-	-	(6 604 031)	(1 202 895)	4 329 051	270 348 663
Water network	149 319 960	-	-	-	6 786 727	-	-	(5 201 384)	(554 972)	3 344 295	153 694 626
	1 314 912 195	22 506 908	(25 293)	17 216 833	51 719 297	(17 949 679)	(235 969)	(50 009 303)	(6 178 742)	40 486 994	1 372 443 241

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Transfers received	Work in progress - additions	Work in progress - transfers Out	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	35 880 417	-	-	-	-	-	-	-	-	35 880 417
Buildings	63 996 779	147 121	8 882 141	-	-	-	(3 697 773)	(246 156)	418 003	69 500 115
Plant and machinery	562 726	62 098	-	-	-	-	(125 090)	(15 545)	16 592	500 781
Furniture and fixtures	936 218	692 771	-	-	-	-	(271 780)	(106 536)	59 681	1 310 354
Motor vehicles	26 871 712	3 611 250	-	-	-	-	(4 461 976)	-	2 106 538	28 127 524
IT equipment	665 092	966 264	-	-	-	-	(381 313)	(105 274)	110 055	1 254 824
Roads network	477 292 908	-	2 025 512	19 428 763	(4 200 000)	-	(38 168 175)	-	17 498 804	473 877 812
Community	73 796 831	-	-	3 806 877	(3 412 586)	-	(3 484 487)	-	289 659	70 996 294
Electricity network	230 392 257	3 288 462	7 234 543	9 144 471	(10 950 460)	-	(11 030 489)	(354 410)	801 192	228 525 566
Landfill site asset	19 530 503	-	-	-	-	448 130	(1 716 898)	-	-	18 261 735
Wastewater network	240 505 099	97 831	5 592 429	5 284 012	(7 801 847)	-	(7 514 260)	(415 206)	1 608 755	237 356 813
Water network	156 409 108	94 240	10 206 087	1 102 679	(10 586 411)	-	(8 899 561)	(717 697)	1 711 515	149 319 960
	1 326 839 650	8 960 037	33 940 712	38 766 802	(36 951 304)	448 130	(79 751 802)	(1 960 824)	24 620 794	1 314 912 195

Pledged as security

There are no assets assets pledged as security:

Lekwa Local Municipality

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9. Property, plant and equipment (continued)		
Property, plant and equipment in the process of being constructed or developed		
Cumulative expenditure recognised in the carrying value of property, plant and equipment		
Community	4 101 056	2 799 946
Electricity network	7 494 652	4 885 957
Roads network	-	15 228 762
Landfill	1 832 120	-
Waste water network	44 950 317	8 480 591
Water network	18 251 211	11 464 485
	76 629 356	42 859 741

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

Reconstruction of the Rooikoppen pump station 2 and construction of the booster pump station with pumping main.	9 711 296	9 711 296
Project was not completed due to stoppage of Contractor as a result of land disputes. Pump house, guard house and sewer pipeline were constructed. All electrical and mechanical equipment procured was delivered to Lekwa LM and kept at our Stores. The project has since been taken over GSDM and currently being implemented through WSIG for completion. Equipment collected by appointed Contractor for installation.		

Reconciliation of Work-in-Progress 2023

	Opening balance	Additions/capital expenditure	Transferred to expenditure	Transferred to completed items	Total
Water	11 464 485	6 786 726	-	-	18 251 211
Waste water	8 480 591	36 469 725	-	-	44 950 316
Community	2 799 946	2 033 958	(732 848)	-	4 101 056
Electrical network	4 885 957	2 608 696	-	-	7 494 653
Landfill	-	1 832 120	-	-	1 832 120
Roads network	15 228 762	1 988 071	-	(17 216 833)	-
	42 859 741	51 719 296	(732 848)	(17 216 833)	76 629 356

Reconciliation of Work-in-Progress 2022

	Opening balance	Additions/capital expenditure	Transferred to expenditure	Transferred to completed items	Total
Water	20 948 218	1 102 678	-	(10 586 411)	11 464 485
Waste water	10 998 428	5 284 010	(836 100)	(6 965 747)	8 480 591
Community	2 405 656	3 806 875	-	(3 412 585)	2 799 946
Electrical network	6 691 947	9 144 470	-	(10 950 460)	4 885 957
Road network	-	19 428 762	(2 174 466)	(2 025 512)	15 228 784
	41 044 249	38 766 795	(3 010 588)	(33 940 715)	42 859 763

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Contracted services	29 077 448	14 555 867
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Lekwa Local Municipality

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Figures in Rand	2023	2022
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9. Property, plant and equipment (continued)

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.

Lekwa Local Municipality was fined R70 Million for non-compliance with the National Environmental Management Act. The Municipality is not obliged to pay the fine amount to the State or any other entity, however the fine amount is to be used for repairs and maintenance for specified equipment.

Lekwa Local Municipality

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10. Heritage assets

	2023			2022		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	106 187	-	106 187	106 187	-	106 187

Reconciliation of heritage assets 2023

	Opening balance	Total
Art Collections, antiquities and exhibits	106 187	106 187

Reconciliation of heritage assets 2022

	Opening balance	Total
Art Collections, antiquities and exhibits	106 187	106 187

11. Other receivables from exchange transactions

Syntell Receivable	-	111 673
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The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.

Other debtor relates to monies owed to the Municipality from Syntell on prepaid electricity sales.

12. Other financial assets

Residual interest at cost

Lekwa Local Municipality

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Figures in Rand	2023	2022
12. Other financial assets (continued)		
Eskom SOC Ltd	31 805 035	30 451 433
Eskom SOC Ltd - The amount held is a deposit to Eskom. The deposit bears interest at a linked rate. The increase in the amount of the deposit related to interest accrued.		
Nedbank Fleet Facility	237 546	223 800
The deposit bears interest at a linked rate . the increase in the amount of the deposit related to interest accrued.		
	32 042 581	30 675 233

Non-current assets

Residual interest at cost	32 042 581	30 675 233
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13. Payables from exchange transactions

Trade payables	2 313 077 780	2 212 028 394
Payments received in advance	48 559 252	20 006 228
Retentions	12 228 352	8 634 846
Salary accruals	43 043 544	18 006 708
Accrued leave pay	22 809 145	22 621 035
Accrued bonus	7 133 995	5 903 720
Unallocated deposits	14 901 599	17 450 548
	2 461 753 667	2 304 651 479

Included in the Payments received in advance above is an amount of R1 722 789.09 which relates to a portion of Pre-Paid Electricity purchases made in the month of June 2023 and were unused at at 30 June 2023.

14. Consumer deposits

Electricity	2 254 514	2 153 623
Water	1 184 627	1 115 308
	3 439 141	3 268 931

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	-	35 373 864
Municipal Disaster Relief Grant	6 625 000	-
	6 625 000	35 373 864

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

16. Employee benefit obligations

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

Carrying value

Present value of the defined benefit obligation medical benefit plan	(66 193 000)	(72 060 000)
Present value of the defined benefit obligation long service award	(14 944 000)	(14 298 000)
	(81 137 000)	(86 358 000)
Non-current liabilities	(75 282 000)	(82 193 000)
Current liabilities	(5 855 000)	(4 165 000)
	(81 137 000)	(86 358 000)

Lekwa Local Municipality

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Figures in Rand	2023	2022
16. Employee benefit obligations (continued)		
Net expense recognised in the statement of financial performance		
Current service cost	3 531 000	3 408 000
Interest cost	9 790 000	8 001 000
Actuarial (gains) losses	(13 928 000)	(3 889 000)
Employer benefit payments	(4 614 000)	(4 669 000)
	(5 221 000)	2 851 000
Calculation of actuarial gains and losses		
Actuarial (gains) losses – PEMA	(13 467 000)	(3 898 000)
Actuarial (gains) losses – LSA	(461 000)	9 000
	(13 928 000)	(3 889 000)

Lekwa Local Municipality

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16. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date

Mortality during employment 2023: SA 85-90

Mortality during employment 2022: SA 85-90

Discount rates used	12,44 %	11,80 %
Proportion for eligible current non member employees joining the scheme by retirement	15,00 %	15,00 %
Health care cost inflation rate	8,05 %	8,42 %
Net discount rate - health care cost inflation	4,06 %	3,12 %
Maximum subsidy inflation rate	5,66 %	5,94 %
Net discount rate - maximum subsidy inflation	6,41 %	5,53 %
Continuation of membership at retirement	75,00 %	75,00 %
Proportion with a spouse dependent at retirement	60,00 %	60,00 %
Average retirement age	62,00 %	62,00 %

Withdrawal from service (PEMA and LSA):

Age	Females	Males
20	9%	9%
30	6%	6%
40	5%	5%
50	3%	3%
55+	0%	0%

Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	Eligible Employees	Continuation members	Total	% change
Central assumptions		37.963	28.230	66.193	
Health care inflation rate	+1%	41.461	29.978	71.439	8%
	-1%	33.778	26.573	60.351	-9%
Discount rate	+1%	32.555	26.255	58.810	-11%
	-1%	44.720	30.504	75.224	14%
Post-employment mortality	+1 yr	37.154	27.305	64.459	-3%
	-1 yr	38.752	29.156	67.908	3%
Average retirement age	-1 yr	41.285	28.230	69.515	5%
Continuation of membership at retirement	-10%	33.308	28.230	61.538	-7%

Lekwa Local Municipality

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16. Employee benefit obligations (continued)

The post-employment mortality adjustment “-1 yr”, for example, assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

The table above indicates, for example, that if medical inflation is one percentage point greater than the long-term assumption made, the liability will be 8% higher than that shown.

Sensitivity Analysis Continued

The table below summarises the results of this analysis on the Current-service and Interest Costs for the year ending 30 June 2023.

Assumption	Change	Current-Svc. Cost	Interest Cost	Total	% change
Central assumptions		2,409,000	8,323,000	10,732,000	
Health care inflation rate	+1%	2,632,000	8,976,000	11,608,000	8%
	-1%	2,120,000	7,582,000	9,702,000	-10%
Discount rate	+1%	2,021,000	7,956,000	9,977,000	-7%
	-1%	2,910,000	8,736,000	11,646,000	9%
Post-employment mortality	+1 yr	2,356,000	8,082,000	10,438,000	3%
	-1 yr	2,463,000	8,563,000	11,026,000	3%
Average retirement age	-1 yr	2,540,000	8,719,000	11,259,000	5%
Continuation of membership at retirement	-10%	2,120,000	7,726,000	9,846,000	-8%

Provision for Long Service Awards

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member’s death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Long Service Awards

	Year ending 30/06/2023	Year ending 30/06/2022
Opening accrued liability	14 298 000	13 844 000
Plus Service Cost	1 122 000	1 058 000
Plus Interest / Finance Cost	1 467 000	1 143 000
Contributions (benefits vested)	(1 482 000)	(1 756 000)
Actuarial (Gain)/Loss	(461 000)	9 000
Expected Employer Benefit Payments	-	-
	14 944 000	14 298 000

General description of the type of plan

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

Principal assumptions used as at the balance sheet date

Lekwa Local Municipality

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16. Employee benefit obligations (continued)

Discount rates used	11,01 %	10,81 %
General earnings inflation rate - long time	6,44 %	7,33 %
Net discount rate	4,29 %	3,24 %
Average retirement age	62,00 %	62,00 %

Sensitivity Analysis

The table below summarises the results of the sensitivity analysis.

Sensitivity Analysis on the Unfunded Accrued Liability (in R Millions)

Assumption	Change	Liability	% Change
Central assumptions		14,944,000	
General earnings inflation	+1%	15,669,000	5%
	-1%	14,276,000	-4%
Discount rate	+1%	14,254,000	-5%
	-1%	15,705,000	5%
Average retirement age	+2 yrs	16,275,000	-9%
	-2yrs	13,343,000	-12%
Withdrawal rates	x2%	12,698,000	-16%
	x0.5%	16,399,000	11%

The table above indicates, for example, that if earnings inflation is one percentage point greater than the long-term assumption made, the liability will be 5% higher.

The table below summarises the results of this analysis on the Current-service and Interest Costs for the year ending 30 June 2023.

Assumption	Change	Current-Svc. Cost	Interest Cost	Total	% change
Central assumptions		1,122,000	1,467,000	2,589,000	
General earnings inflation rate	+1%	1,198,000	1,549,000	2,747,000	6%
	- 1%	1,054,000	1,392,000	2,446,000	-6%
Discount rate	+1%	1,061,000	1,201,000	2,200,000	0%
	-1%	1,191,000	1,410,000	2,601,000	0%
Average retirement age	+2 yrs	1,219,000	1,615,000	2,834,000	9%
	-2 yrs	1,020,000	1,288,000	2,308,000	-11%

Lekwa Local Municipality

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16. Employee benefit obligations (continued)

Withdrawal rates	x2	866,000	1,213,000	2,079,000	-20%
	-0.5%	1,302,000	1,633,000	2,935,000	13%

Impact of COVID-19

It is difficult to estimate what impact the pandemic is likely to have on the Municipality's liability at this stage. There is still much uncertainty as to how it will affect mortality in the medium to long term, and what effect treatments and/or vaccines will have.

The sensitivities in tables above may be used to understand the potential impacts on the liability (and expenses) of, for example, an increase in the expected general earnings inflation rate, or an increase in the discount rate, or an increase in the withdrawal rates.

Once any long-term impacts of COVID-19 on the various valuation parameters becomes more evident, appropriate adjustments to the parameters will be feasible. In the meanwhile, any short-term impacts of actual experience being different to the current long-term assumptions will contribute to actuarial gain/loss items.

Lekwa Local Municipality

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17. Provisions

Reconciliation of provisions - 2023

	Opening Balance	Change in provision	Finance cost	Total
Environmental rehabilitation provision	46 680 158	(235 968)	3 260 638	49 704 828

Reconciliation of provisions - 2022

	Opening Balance	Change in provision	Finance cost	Total
Environmental rehabilitation provision	44 392 831	448 130	1 839 197	46 680 158

Environmental rehabilitation provision

Lekwa Local Municipality consists of two (2) towns (Standerton and Morgenzon). Standerton and Morgenzon are located in an area of agricultural significance and Standerton is the central business district of Lekwa Municipality.

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

Lekwa Local Municipality

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17. Provisions (continued)

Key financial assumptions and calculations used

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

The discount rate was deduced from the average of the Zero-Coupon Yield Curve (Nominal Bond) over the entire durations applicable in the future. The annualised long term discount rate at 30 June 2023 was 12.31% p.a.. The consumer price inflation of 5.40% p.a. was obtained from the differential between the averages of the Nominal Bond Yield Curve and the Real Bond Yield Curve (Zero Yield Curves).

The Zero-Coupon Yield Curves were obtained from the Bond Exchange of South Africa after the market closed on 30 June 2023.

Discount rate (D) 12.31%
Consumer price inflation (C) 5.40%
Net discount rate 6.56%

Standerton Landfill Site:

The landfill site is situated approximately 1.5km from Kosmospark which is a suburb in Standerton. The Standerton landfill site is responsible for accommodating the solid waste of Standerton and Sakhile which is a township in Standerton. The total population of Standerton and Sakhile accumulates to 98 764 in 2023. (Census 2011 adjusted to 2023 at 1.42% annually).

The site is accessed by a gravel road linked to the R546 asphalt main road and its coordinates are 26,906166°S 29,241434°E. The estimated total footprint of the item is approximately 192 600m² and the fully utilised area is approximately 123 500m². The total partially used airspace is 73 860.43m³ as per drone stock piling. A total of 45 100m².

The remaining life is calculated at 5 years, up to 2028 based on the annual population growth and available air space.

Morgenzenon Landfill site:

The landfill site is situated approximately 237m from Morgenzenon. The Morgenzenon landfill site is responsible for accommodating the solid waste of Morgenzenon and Sivukile which is a township in Morgenzenon. The total population of Morgenzenon and Sivukile accumulates to 8951 in 2023. (Census 2011 adjusted to 2023 at 1.42% annually).

The site is accessed by an asphalt R39 main road and its coordinates are 26,728805°S 29,621867°E. The estimated total footprint of the item is approximately 10 500m² and the fully utilised area is approximately 8 100m². The total partially used airspace is 682.69m³.

The remaining life is calculated at 3 years, up to 2026 based on the annual population growth and available air space.

18. Revenue

Service charges	494 599 652	507 936 365
Rental income	1 643 457	1 728 552
Other operational income	1 629 783	1 727 452
Interest received on trade and other receivables	72 041 982	48 927 895
Interest received bank and other financial assets	2 484 376	1 795 374
Property rates	152 872 339	167 992 751
Government grants & subsidies	228 015 864	164 886 330
Public contributions and donations	1 740 500	1 151 190
Fines, Penalties and Forfeits	2 593 669	2 982 889
	957 621 622	899 128 798

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
18. Revenue (continued)		
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	494 599 652	507 936 365
Rental income	1 643 457	1 728 552
Other operational income	1 629 783	1 727 452
Interest received on trade and other receivables	72 041 982	48 927 895
Interest received bank and other financial assets	2 484 376	1 795 374
	572 399 250	562 115 638
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	152 872 339	167 992 751
Transfer revenue		
Government grants & subsidies	228 015 864	164 886 330
Public contributions and donations	1 740 500	1 151 190
Fines, Penalties and Forfeits	2 593 669	2 982 889
	385 222 372	337 013 160
19. Service charges		
Sale of electricity	354 116 937	371 288 842
Sale of water	72 399 269	71 728 178
Sewerage and sanitation charges	39 502 132	37 169 179
Refuse removal	28 581 314	27 750 166
	494 599 652	507 936 365
20. Rental income		
Rental income		
Rental income	1 643 457	1 728 552
21. Fines, Penalties and Forfeits		
Illegal Connections Fines	224 225	1 182 737
Overdue Books Fines	40	102
Municipal Traffic Fines	2 369 404	1 800 050
	2 593 669	2 982 889
22. Other operational income		
Tender deposits received	7 898	41 739
Cemetery fees	147 561	127 662
Building plan charges	125 243	172 368
Clearance certificates	183 711	178 955
Miscellaneous income	980 982	1 055 266
Connection and reconnection fees	184 388	151 462
	1 629 783	1 727 452

Lekwa Local Municipality

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Figures in Rand	2023	2022
23. Investment revenue		
Interest revenue		
Bank and other financial assets	2 484 376	1 795 374
Interest revenue		
Interest charged on trade and other receivables	72 041 982	48 927 895
	74 526 358	50 723 269
24. Property rates		
Rates received		
Residential	86 217 095	105 304 664
Business and Commercial	47 074 831	44 174 400
State government and PBO	5 162 843	3 906 806
Agriculture -small farm holdings and farms	14 417 570	14 606 881
	152 872 339	167 992 751
Valuations		
Residential	5 465 587 557	5 465 587 557
Commercial	1 135 956 557	1 135 956 557
State	1 564 021 540	1 564 021 540
Municipal	210 976 000	210 976 000
Small holdings and farms	4 047 413 300	4 047 413 300
	12 423 954 954	12 423 954 954

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2024.

Lekwa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
25. Government grants & subsidies		
Operating grants		
Equitable share	152 423 000	134 832 020
Expanded Public Works Grants	1 855 000	2 471 000
	154 278 000	137 303 020
Capital grants		
Municipal Infrastructure Grant	67 887 864	14 933 136
Financial Management Grant	2 850 000	2 650 174
Integrated National Electrification Programme	3 000 000	10 000 000
	73 737 864	27 583 310
	228 015 864	164 886 330
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	75 592 864	30 589 330
Unconditional grants received	152 423 000	134 297 000
	228 015 864	164 886 330
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Energy Efficiency and Demand Side Management Grant		
This grant is utilised for the planning and implementation of energy efficient technologies ranging from traffic and street lighting to energy efficiency in buildings and water service infrastructure.		
Municipal Disaster Grant (MDG)		
This grant is utilised for COVID-19 related expenditure with regard to Personal Protective Equipment and Cleaning Materials for Decontamination and Sanitising of Municipal Buildings.		
Municipal infrastructure grant		
Balance unspent at beginning of year	35 373 864	-
Current-year receipts	32 514 000	50 307 000
Conditions met - transferred to revenue	(67 887 864)	(14 933 136)
	-	35 373 864
This grant is utilised to construct roads and bridges, sportsfields, community halls and streetlighting as part of the upgrading of informal settlement areas.		
Expanded public works grant		
Balance unspent at beginning of year	-	535 020
Current-year receipts	1 855 000	2 471 000
Conditions met - transferred to revenue	(1 855 000)	(2 471 000)
Un-approved roll over - transferred to Equitables share	-	(535 020)
	-	-

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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Figures in Rand	2023	2022
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25. Government grants & subsidies (continued)

The Expanded Public Works Programme is a government programme aimed at the alleviation of poverty and unemployment. This programme ensures the full engagement on Labour Intensive Methods of Construction to workers for skills development.

Integrated National Electrification Programme

Current-year receipts	3 000 000	10 000 000
Conditions met - transferred to revenue	(3 000 000)	(10 000 000)
	-	-

This grant is utilised for electricity connections to households in various areas, serviced by Eskom, within the Municipal jurisdiction.

Financial Management Grant

Current-year receipts	2 850 000	2 600 000
Conditions met - transferred to revenue	(2 850 000)	(2 600 000)
	-	-

This grant is utilised for Interns' salaries to advance the implementation of the MFMA, training of officials to meet the minimum competency requirements, and for Asset Management and Financial System enhancements and training.

Municipal Disaster Relief Grant

Current-year receipts	6 625 000	-
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The Municipality was allocated an amount of R6,625,000 within the 2022/2023 financial period for the Municipal Disaster Response Grant (MDRG). The funding was only transferred and received by the Municipality in June 2023 which is the final month of the year end.

26. Public contributions and donations

Public contributions and donations	1 740 500	1 151 190
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The municipality received donations of a motor vehicle and library.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
27. Employee related costs		
Basic	165 104 136	151 380 112
Bonus	13 230 770	10 303 763
Medical aid - company contributions	13 969 755	12 326 210
UIF	1 047 391	1 037 864
Other payroll levies	5 839 309	6 922 774
Leave pay provision charge	1 396 737	2 023 742
Short term benefit	3 531 000	1 170 666
Defined contribution plans	31 855 315	29 104 154
Travel, motor car, accommodation, subsistence and other allowances	11 457 200	11 943 563
Overtime payments	18 981 303	15 548 985
Long-service awards	1 492 945	1 667 950
Acting allowances	590 794	3 075 599
Housing benefits and allowances	823 909	700 548
Allowances cellular and telephonic services	2 354 401	2 288 827
	271 674 965	249 494 757

Remuneration of municipal manager MJ Lamola

Annual Remuneration	970 395	-
Car Allowance and other allowances	180 000	-
Contributions to UIF, Medical and Pension Funds	8 869	-
	1 159 264	-

Remuneration of acting municipal manager JM Mokgatsi

Annual Remuneration	11 685	718 107
Car Allowance and other allowances	-	348 220
Contributions to UIF, Medical and Pension Funds	-	10 989
Other	-	(73 874)
	11 685	1 003 442

Remuneration of acting municipal manager - LD Tsotetsi

Annual Remuneration	-	926 637
Car Allowance and other allowances	-	454 296
Contributions to UIF, Medical and Pension Funds	-	14 200
Other	-	(85 600)
	-	1 309 533

Remuneration of chief finance officer K Duba

Annual Remuneration	1 075 970	1 017 894
Car Allowance and other allowances	240 000	240 010
Contributions to UIF, Medical and Pension Funds	13 739	13 768
	1 329 709	1 271 672

Remuneration of development and planning executive manager - MR MP Phosa

Annual Remuneration	925 768	868 288
Car Allowance and other allowances	360 000	360 000
Contributions to UIF, Medical and Pension Funds	12 752	12 781
	1 298 520	1 241 069

Remuneration of acting director corporate services executive manager - L Scheepers

Lekwa Local Municipality

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Figures in Rand	2023	2022
27. Employee related costs (continued)		
Annual Remuneration	-	104 825
Car Allowance and other allowances	-	47 821
Contributions to UIF, Medical and Pension Funds	-	996
Other	-	(70 453)
	-	83 189
Remuneration of Technical executive manager - E Kwangwa		
Annual Remuneration	-	202 790
Car Allowance and other allowances	29 087	116 516
Contributions to UIF, Medical and Pension Funds	410	4 518
	29 497	323 824
Remuneration of community services executive manager - T Mtshiselwa		
Annual Remuneration	844 066	-
Car Allowance and other allowances	268 100	-
Contributions to UIF, Medical and Pension Funds	29 475	-
Other	188 816	-
	1 330 457	-
Remuneration of acting technical services executive manager - LD Tsotetsi		
Annual Remuneration	518 917	-
Car Allowance and other allowances	214 422	-
Contributions to UIF, Medical and Pension Funds	10 232	-
Other	126 967	-
	870 538	-
Remuneration of corporate services executive manager - L Khoza		
Annual Remuneration	383 665	-
Car Allowance and other allowances	151 996	-
Contributions to UIF, Medical and Pension Funds	5 363	-
	541 024	-
Remuneration of technical services executive manager - SM Jiyane		
Annual Remuneration	917 070	-
Car Allowance and other allowances	74 700	-
Contributions to UIF, Medical and Pension Funds	10 568	-
	1 002 338	-
28. Remuneration of councillors		
Executive Major	1 228 258	663 416
Deputy Executive Mayor	6 364	-
Speaker	736 232	394 024
Councillors	10 893 681	6 617 850
Councillors' pension contribution	923 024	666 420
	13 787 559	8 341 710

Lekwa Local Municipality

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Figures in Rand	2023	2022
28. Remuneration of councillors (continued)		
In-kind benefits		
The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
29. Depreciation and amortisation		
Property, plant and equipment	50 009 302	79 751 802
30. Impairment loss		
Property, plant and equipment	6 178 742	1 960 824
An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. Infrastructure assets - GRAP 26.(23) states: In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications: (g):Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. Due to significant budget constraints, the municipality could not maintain the maintenance plan as required for the infrastructure assets. This lead to the value in use being lower than the economic value of the assets. Assets were therefore impaired to a condition grade lower based on physical assessment of these assets.		
Reversal of impairments		
Property, plant and equipment	(40 486 994)	(24 621 749)
Repairs and additions to the network assets resulted in previous conditions of assets to improve, thus a reversal of impairments.		
Total impairment losses (recognised) reversed	(34 308 252)	(22 660 925)
31. Finance costs		
Trade and other payables	149 526 889	94 359 986
Interest costs - LSA, PEMA and Landfillsite provision	13 050 637	9 840 198
	162 577 526	104 200 184
32. Auditors' remuneration		
Fees	10 111 372	5 973 325
33. Debt impairment		
Debt impairment	255 426 284	206 686 719

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
34. Operational costs		
Advertising	2 675 288	2 182 433
Auditors remuneration	10 111 372	5 973 325
Bank charges	1 034 129	780 647
Skills development levy	2 343 075	2 104 086
Commission paid	6 333 933	7 162 804
Compensation fund	1 864 380	1 363 994
Debt collection	911 049	1 007 625
Entertainment	83 613	67 541
Fines and penalties	4 144 501	3 834 782
Ward Committees	1 765 500	852 000
Insurance	4 009 398	2 507 563
Conferences and seminars	313 723	105 775
IT expenses	12 327 650	10 182 780
Hiring of equipment and water tankers	7 056 318	2 665 135
Signage	261 311	25 400
Protective clothing	1 872 467	2 488 602
Subscriptions and membership fees	3 752 974	5 748 330
Telephone and fax	2 888 451	2 883 293
Travel - local	4 448 034	1 837 778
Levies	1 029 845	1 051 117
Transfers and subsidies	732 848	-
	69 959 859	54 825 010
35. Bulk purchases		
Electricity - Eskom	421 367 560	429 416 982
Water	54 216 050	55 545 161
	475 583 610	484 962 143
Electricity losses		
Electricity Losses	125 019 695	158 257 039
Percentage Loss: Distribution losses	25 %	36 %

Lekwa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand 2023 2022

35. Bulk purchases (continued)

Water losses

Water losses 230 578 296 212 407 671

Percentage Loss:

Distribution losses 69 % 47 %

Electricity losses for the current year amounted to 25% i.e R 125 019 695 (2022: 36% i.e. R 158 257 039). These losses comprise of technical and nontechnical losses.

Technical losses, being losses within the network which are inherent in any network, account for 10% .Non-technical losses, being theft, faults, billing errors etc., account for 15%. Attempts are currently being made to reduce these non-technical losses.

Non revenue water i.e. non billed water amounted to 69% i.e. R 230 578 296 (2022: 47% i.e. R 212 407 671). 10% of these losses can be accounted for it in terms of the National Guidelines for non revenue water. 59% of these losses cannot be accounted for mainly due to the non-metering of this water, being theft, faults, billing errors etc.. This problem is currently being addressed whereby additional meters are being installed and a data cleansing process will be initiated to address losses.

36. Contracted services

Outsourced Services

Fire Services 32 890 73 770
Meter Management 861 704 803 100
Security Services 36 473 973 31 673 018

Consultants and Professional Services

Business and Advisory 10 479 520 31 744 206
Legal Cost 6 512 400 15 987 518

Contractors

Employee Wellness 33 260 -
Maintenance of Buildings and Facilities 462 909 7 498 309
Maintenance of Equipment 31 531 149 18 038 352
Maintenance of Unspecified Assets 23 696 29 835
Medical Services 246 359 240 832
Sewerage Services 464 -

86 658 324 106 088 940

Lekwa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
37. Cash used in operations		
Deficit	(362 282 536)	(357 753 869)
Adjustments for:		
Depreciation and amortisation	50 009 302	79 751 802
Gain on sale of assets and liabilities	25 293	-
Fair value adjustments	(5 028 181)	(8 198 234)
Impairment reversals	(34 308 252)	(22 660 925)
Debt impairment	255 426 284	206 686 719
Bad debts written off	99 982	235 602
Movements in value added tax	(36 629 305)	(21 265 222)
Movements in employee benefits	(5 221 000)	2 851 000
Movements in provisions	12 060 627	(108 580 894)
Changes in working capital:		
Inventories	(1 961 865)	(1 514 478)
Other receivables from exchange transactions	111 673	(111 670)
Consumer debtors	(217 233 941)	(266 937 424)
Other receivables from non-exchange transactions	(12 559 980)	5 776 941
Payables from exchange transactions	133 635 338	194 021 708
Unspent conditional grants and receipts	(28 748 864)	34 838 844
Consumer deposits	170 210	8 618
	(252 435 215)	(262 851 482)

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	83 333 887	74 564 727
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Total capital commitments

Already contracted for but not provided for	83 333 887	74 564 727
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This committed expenditure relates to plant and equipment and will be financed by grants and funds internally generated, etc.

Lekwa Local Municipality

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39. Contingencies

Nature or details of the case	Description/citation of parties	Case number	2023	2022
Claim for damages resulting from a motor vehicle collision, claimant obtained default judgement: Negligent driving of the Municipality Vehicle	Lethusang Michael Mothobi	1541/2015	(84 128)	(84 128)
Claim for damages arising from breach of Contract: Procurement irregularities.	Hayes Matkovich Development (Pty) Ltd.	34401/12	(65 756 794)	(65 756 794)
Claim for balance of account for services rendered and a counterclaim for cancellation of a settlement agreement: Procurement irregularities.	El Gondor Trading 137 (Pty) Ltd	2657/2017	(17 558 033)	(17 558 033)
Claim for balance of account for services rendered on the basis of Undue Enrichment, services rendered for Lekwa but procured by GSDM: breach of contract and SLA.	Afri-Infra Group (Pty) Ltd & Gert Sibande District Municipality	2599/2018	(747 246)	(747 246)
The plaintiffs are claiming damages of their property situated in Cosmos Park which was destroyed by fire and Lekwa failed to extinguish the fire. Employees not properly trained to extinguish fires.	Henning Jacobus Kruger	4122/2018	(860 000)	(860 000)
Notice of Motion: breach of contract.	Lekwa L.M//Eskom Holdings SOC LTD.	0126/19	(215 859 677)	(215 859 677)
Claim for balance of account for goods supplied: Breach of contract.	Eskom Holding Limited.	1606/2020	(1 171 884 988)	(1 171 884 988)
Claim for damages caused by fire due to the negligence of Lekwa in not doing fire breaks in the Farm owned by Lekwa; Negligence and neglect of property owned by the Municipality	Frans Johannes Joubert, Rise Shine SB (PTY) LTD// Avoxeni Farming CC	1536/2021	(928 055)	(928 055)
Claim for damages caused by fire due to the negligence of Lekwa in not doing fire breaks in the Farm owned by Lekwa; Negligence and neglect of property owned by the Municipality	Frans Johannes Joubert// Blue Sands Trading 852 CC// Avoxeni Farming CC//Lekwa Local Municipality.	1537/2021	(388 310)	(388 310)
Claim for damages caused by fire due to the negligence of Lekwa in not doing fire breaks in the Farm owned by Lekwa; Negligence and neglect of property owned by the Municipality	Pheela Abraham Motaung & Other//Lekwa Local Municipality	47901/2012	(810 000)	(810 000)
Claim for balance of account for services rendered: Breach of contract and SLA.	Rand Water//Lekwa Local Municipality	3006/2020	(3 037 828)	(3 037 828)

Lekwa Local Municipality

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39. Contingencies (continued)

The plaintiff is claiming; 1. Payment of the sum of R564 979.61 2. Interest on the aforementioned amount at the rate of 10.25% calculated from 2 November 2018 until date of full and final payment. 3. Cost of suit	Tlou Consulting (Pty) Ltd// Lekwa Local Municipality.	711/2020	-	(564 979)
Claim for balance of invoice for services rendered: Breach of the obligations in terms of the agreement.	Iliso Consulting T/A Nako Iliso (Pty)Ltd//Lekwa Local Municipality	396/2022	(82 702)	(82 702)
This is an eviction matter. The plaintiff is claiming; 1. Payment of the sum of R 2 977 635.15; 2. Interest at 10 % p/a; 3. Cost of suit on an Attorney and client scale; 4. Further and/or alternative relief.	Sizowakha security and cleaning services //Lekwa local Municipality.	4179/22	-	(2 977 635)
The plaintiff is claiming; 1. Payment of the sum of R 370 352.90; 2. Interest at 10 % p/a; 3. Cost of suit to be paid by defendants. 4. Condonation for the late filing on the notice in terms of section 3(1) of Act 40 of 2002. 5. Further and/or alternative relief.	Dawson & Dobson (Pty)LTD // Lekwa Local Municipality and Vuxaka Consulting Engineers (Pty) LTD.	Case : 671/ 2021	-	(370 353)
Claims for damages as a result of failure to supply water in terms Statutory and Constitutional obligations: Service delivery and lack thereof.	Astral Operations Limited and Meadow feeds Standerton Properties Limited // Lekwa Local Municipality.	1288/2022	(93 239 412)	(93 239 412)
Claim for loss of support and personal injuries due electrocution by electrical network: Negligence of property belonging to the Municipality.	Wessel Johannes Kotze & Eskom Holdings.	671/2021	(19 200 000)	(19 200 000)
Claim for balance of account for services rendered: Breach of contract and SLA.	Phumi Trading JV Masallo Zwane Construction//Lekwa	11741/2012	(2 903 684)	(2 903 684)
Labour matter, the claimant elected to refer the matter to the magistrate's court, loss of income and benefits: Labour dispute	Joseph Bhutana Mbuli//Lekwa Local Municipality and Others	131/2022	(43 945)	(43 945)

Lekwa Local Municipality

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Figures in Rand	2023	2022		
39. Contingencies (continued)				
The plaintiff sued the municipality for non-compliance with the NEMA legislation, The lawsuit relates to contraventions happening at the Standerton Dumping site. Plaintiff alleges that the debris and trash dumped by members of the community is contaminating the environment, polluting the general space and also having adverse environmental impact. The plaintiff alleges that the municipality is reckless and or neglecting its responsibilities in relation to maintaining and managing the Dump site.	A Du Plessis OBO Gerrit Coetzee Boerdery //Lekwa Local Municipality	1574/2019	-	(200 000)
(1 593 384 802)				(1 597 497 769)

The amounts listed above have been provided by the legal experts handling the respective cases and it was deemed impracticable to include the legal costs to be incurred due to the complicated nature of the cases they are handling and uncertainty of the time frames required to conclude these cases.

The following contingent assets was noted.

A case between Lekwa Local Municipality//TFTFM was instituted by Lekwa for cancellation of the SLA and refund of R4 312 603.40 claimed for breach of contract by the Service Provider. The prospects look good.

	2023	2022
Description/citation of parties		
TFM Sekhatlo (Pty) Ltd & Kwane Capital (Pty) Lt vs Lekwa LM	R4 312 603.40	R4 312 603.40

Lekwa Local Municipality

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40. Related parties

Relationships

Accounting Officers

Refer to accounting officers' report note

Members of key management

Refer to note 27 for detailed remuneration

Councillors and Mayoral committee members

Refer to General information on page 1

Related party balances

The outstanding balances disclosed above relates to Councillors with arrear accounts as at year end from the services rendered by the municipality. The nature of the services relates to provision of water, sewer, refuse and property rates.

Refer to Note 50 for a detailed breakdown showing individual names and balances.

Key management information

<u>Executive management 2022 financial year</u>	<u>Description</u>	<u>Amount</u>
Acting Municipal Manager (Period: From 18 June 2021 to 13 January 2022)	Mokgatsi JM	R 1 003 441
Acting Municipal Manager (Period: From 14 January 2022 to 11 July 2022)	Tsotetsi LD	R 791 867
Chief Financial Officer (Period: From 03 February 2021 to date)	Duba KD	R 1 271 672
Executive Manager: Planning & Development (Period: From 01 October 2019 to date)	Phosa MP	R 1 241 068
Acting Executive Manager Corporate Services (Period: From 21 June 2021 to 20 July 2021)	Scheepers L	R 83 189
Acting Executive Manager Corporate Services (Period: From 11 August 2021 to 13 January 2022)	Tsotetsi LD	R 517 666
Acting Executive Manager Technical (Period: From 21 June 2021 to 30 November 2021) resigned and comeback (Period: From 01 April 2022 to date)	Kwangwa E	R 323 824
<u>Executive management 2023 financial year</u>	<u>Description</u>	<u>Amount</u>
Municipal Manager	Lamola MJ	R 1 159 265
Acting Municipal Manager	Mokgatsi JM	R 11 919
Chief Financial officer	Duba KD	R 1 329 709
Executive Manager: Planning & Development (Period: From 01 October 2019 to date)	Phosa MP	R 1 298 520
Acting Executive Manager Corporate Services (Period: From 11 August 2021 to 13 January 2022)	Tsotetsi LD	R 870 538
Executive Manager Corporate Services	Jiyane SM	R 1 002 338

Lekwa Local Municipality

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Figures in Rand		2023	2022
40. Related parties (continued)			
Acting Executive Manager Technical (Period: From 21 June 2021 to 30 November 2021) resigned and cameback (Period: From 01 April 2022 to date)	Kwangwa E	R 29 497	
Executive Manager Community Services	Mtshiselwa T	R 1 330 457	
Executive Manager Corporate Services	Khoza L	R 541 024	

Remuneration of key executive management

Lekwa Local Municipality

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40. Related parties (continued)

Remuneration of mayoral committee members and councillors

2023

Name	Basic salary	Car Allowance	Cellphone Allowance	Contributions to Medical and Pension Funds	Other benefits received	Total
Executive Mayor Cllr DL Thabethe	866 157	-	41 100	68 379	8 379	984 015
Speaker Cllr O Phiri	509 962	182 345	41 100	57 528	6 443	797 377
Chief Whip Cllr DJ Msibi	474 693	171 000	41 100	57 664	6 069	750 526
Cllr JT Sebilwane: MMC: Planning & Economic	478 426	171 000	41 100	51 300	6 043	747 869
Cllr SA Majozi : MMC : Technical Services	478 426	171 000	41 100	51 300	6 043	747 869
Cllr PC Mahlaba : MMC: Corporate Services	477 826	171 000	41 100	51 300	6 036	747 262
MMC Community Services - Cllr SM Modise	477 826	171 000	41 100	51 300	6 036	747 263
	3 763 316	1 037 345	287 700	388 771	45 049	5 522 181

Lekwa Local Municipality

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40. Related parties (continued)

2022

Name	Basic salary	Other short-term employee benefits	Post-employment benefits	Total
Executive Mayor Cllr DL Thabethe	491 974	72 831	52 647	617 452
Speaker - Cllr O Phiri	291 944	152 372	39 775	484 091
Chief Whip - Cllr DJ Msibi	272 676	161 870	37 395	471 941
MMC: Planning & Economic - Cllr JT Sebilwane	226 256	105 262	25 140	356 657
MMC : Technical Services - Cllr SA Majozi	226 256	108 902	25 140	360 298
MMC: Corporate Services - Cllr PC Mahlaba	255 069	123 572	31 292	409 933
MMC Community Services - Cllr SM Modise	276 461	99 595	32 353	408 409
	2 040 636	824 404	243 742	3 108 781

Remuneration of councillors

2023

Name	Basic salary	Car Allowance	Cellphone Allowance	Contributions to Medical and Pension Funds	Other benefits received	Housing Allowance	Total
Cllr MR Motloung	270 289	-	41 400	21 640	2 897	-	336 226
Cllr SW Masondo	198 157	72 132	41 100	21 640	2 750	-	335 779
Cllr CAO Franco	255 301	92 569	41 100	27 771	3 423	-	420 164
Cllr DJ Msibi	474 693	171 000	41 100	57 664	6 069	-	750 526
Cllr DJ Venter	199 219	72 132	41 100	21 640	2 761	-	336 852
Cllr DL Thabethe	866 157	-	41 100	68 379	8 379	-	984 015
Cllr DR Manana	270 289	-	41 100	21 640	2 894	-	335 923
Cllr GJ Xulu	208 623	74 266	41 100	22 672	2 861	-	349 522
Cllr JC Stoltz	246 810	89 352	41 100	26 739	3 322	-	407 323
Cllr JD Nkuta	270 289	-	41 100	21 640	2 894	-	335 923
Cllr JT Sebilwane	478 426	171 000	41 100	51 300	6 043	-	747 869
Cllr LM Marago	270 289	-	41 100	21 640	2 894	-	335 923

Lekwa Local Municipality

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40. Related parties (continued)

Cllr MS Mngomezulu	270 289	-	41 100	21 640	2 894	-	335 923
Cllr O Phiri	509 962	182 345	41 100	57 528	6 443	-	797 378
Cllr PM Radebe	199 218	72 132	41 100	21 640	2 761	-	336 851
Cllr RS Tsotetsi	226 117	92 569	41 100	57 557	3 428	-	420 771
Cllr SA Maboea	199 218	72 132	41 100	21 640	2 760	-	336 850
Cllr SA Majozi	478 426	171 000	41 100	51 300	6 043	-	747 869
Cllr SA Tshabalala	198 158	72 132	41 100	21 640	2 750	-	335 780
Cllr SB Ngqulunga	270 289	-	41 100	21 640	2 894	-	335 923
Cllr SP Ngwenya	270 289	-	41 100	21 640	2 894	-	335 923
Cllr TC Motaung	270 289	-	41 100	21 640	2 894	-	335 923
Cllr APM Mthimkhulu	270 289	-	41 100	21 640	2 894	-	335 923
Cllr ML Molaba	270 289	-	41 100	21 640	2 894	-	335 923
Cllr NC Nhlapho	272 407	-	41 100	21 321	2 919	-	337 747
Cllr NS Tlhakudi	255 788	92 569	41 100	27 771	3 428	-	420 656
Cllr PC Mahlaba	477 826	171 000	41 100	51 300	6 037	-	747 263
Cllr SA Silosini	357 653	122 757	41 100	37 031	4 595	-	563 136
Cllr SM Modise	477 826	171 000	41 100	51 300	6 037	-	747 263
Cllr W Venter	254 426	-	41 400	27 771	3 602	92 569	419 768
	9 537 301	1 962 087	1 233 600	962 004	115 354	92 569	13 902 915

2022

Name	Basic salary	Car Allowance	Cellphone Allowance	Contributions to Medical and Pension Funds	Other benefits received	Deductions withheld	Total
Cllr MR Motloung	167 066	-	29 600	17 831	3 918	-	218 415
Cllr NE Nombeje	37 925	2 947	7 639	6 895	-	(4 044)	51 362
Cllr SW Masondo	126 337	45 574	29 600	15 770	-	(3 061)	214 220
Cllr CAO Franco	155 260	51 271	28 920	19 766	-	(85)	255 132
Cllr DJ Msibi	272 676	103 756	28 613	37 395	29 501	-	471 941
Cllr DJ Venter	128 211	41 252	28 920	16 760	682	-	215 825
Cllr DL Thabethe	491 974	18 622	28 613	52 647	25 596	-	617 452
Cllr DR Manana	167 066	-	29 600	17 821	3 917	-	218 404
Cllr FE Madela	39 095	-	6 959	7 213	415	-	53 682
Cllr GJ Xulu	126 875	41 252	29 600	16 760	2 779	-	217 266

Lekwa Local Municipality

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40. Related parties (continued)

Cllr JC Stoltz	157 453	55 592	28 920	19 341	-	(5 163)	256 143
Cllr JD Nkuta	167 066	-	29 600	17 821	3 918	-	218 405
Cllr JT Sebilwane	226 256	83 798	22 200	25 140	-	(737)	356 657
Cllr LM Marago	167 066	-	29 600	17 821	3 918	-	218 405
Cllr MS Mngomezulu	167 066	-	29 600	17 821	3 918	-	218 405
Cllr O Phiri	291 944	104 282	28 613	39 775	19 476	-	484 090
Cllr PM Radebe	128 211	41 252	28 920	16 760	6 634	-	221 777
Cllr PS Hlatshwayo	32 389	10 595	7 639	5 161	-	(4 393)	51 391
Cllr RS Tsotetsi	115 426	45 377	22 200	20 705	-	(297)	203 411
Cllr SA Maboea	109 011	45 574	29 600	14 745	18 895	-	217 825
Cllr SA Majozi	226 256	83 798	22 200	25 140	2 904	-	360 298
Cllr SA Tshabalala	127 464	46 949	29 600	16 010	-	(4 178)	215 845
Cllr SB Ngqulunga	170 759	-	29 600	17 821	4 296	-	222 476
Cllr SE Khumalo	37 854	4 322	7 639	6 471	1 792	-	58 078
Cllr SL Nhlapo	35 416	13 117	8 235	5 304	504	-	62 576
Cllr SP Ngwenya	167 066	-	29 600	17 821	3 918	-	218 405
Cllr TC Motaung	165 545	-	29 361	17 821	3 900	-	216 627
Cllr APM Mthimkhulu	167 066	-	29 600	17 821	3 918	-	218 405
Cllr ML Molaba	167 066	-	29 600	17 821	3 918	-	218 405
Cllr NC Nhlapo	43 609	-	7 161	3 536	-	(887)	53 419
Cllr NS Tlhakudi	153 728	51 270	28 920	19 766	2 995	-	256 679
Cllr PC Mahlaba	255 069	89 691	29 600	31 292	4 280	-	409 932
Cll SA Silosini	160 093	45 377	28 620	20 826	980	-	255 896
Cllr SM Modise	276 461	69 832	29 600	32 352	163	-	408 408
Cllr W Venter	155 260	13 456	28 920	19 766	37 805	-	255 207
	5 583 085	1 108 956	873 212	673 516	194 940	(22 845)	8 410 864

41. Prior-year adjustments

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

Statement of financial position

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand		2023	2022	
41. Prior-year adjustments (continued)				
2022				
	Note	As previously reported	Correction of error	Restated
Cash and cash equivalents		15 485 967	(339 899)	15 146 068
Inventories		3 283 353	75 523	3 358 876
Value added tax		16 219 634	38 864 489	55 084 123
Other receivable from exchange transactions		4 607 259	(4 495 586)	111 673
Receivables from non - exchange transactions		68 325 567	(10 742 092)	57 583 475
Receivables from exchange transactions		113 737 439	(1 157 652)	112 579 787
Investment property		223 684 124	40 956 998	264 641 122
Property, plant and equipment	1	306 333 855	8 578 340	314 912 195
Heritage assets		106 187	-	106 187
Other financial assets		30 675 233	-	30 675 233
Other receivables from exchange transactions		3	(3)	-
Payables from exchange transactions		(2 398 136 045)	93 484 566	(2 304 651 479)
Consumer deposits		(3 273 692)	4 761	(3 268 931)
Employee benefit obligations		(86 358 000)	-	(86 358 000)
Unspent conditional grants		(35 373 864)	-	(35 373 864)
Provisions		(180 410 486)	133 730 328	(46 680 158)
Accumulated deficit		921 093 466	(298 959 773)	622 133 693
Accumulated deficit opening balance		622 133 693	(321 373 002)	300 760 691
		-	-	-

Statement of financial performance

2022

	Note	As previously reported	Correction of error	Re-classification	Restated
Service charges		507 885 782	50 583	-	507 936 365
Rental income		1 728 552	-	-	1 728 552
Other operating income		1 727 452	-	-	1 727 452
Interest received on trade and other receivables		65 431 374	-	(16 503 479)	48 927 895
Interest received bank and other financial assets		1 795 340	-	-	1 795 340
Interest received on receivables from non-exchange transactions		-	-	16 503 479	16 503 479
Property rates		170 255 466	(2 262 715)	-	167 992 751
Government grants and subsidies		164 886 330	-	-	164 886 330
Public contributions and donations		1 151 190	-	-	1 151 190
Fines, Penalties and Forfeits		2 982 889	-	-	2 982 889
Employee related costs		(249 494 757)	-	-	(249 494 757)
Remuneration of councillors		(8 341 710)	-	-	(8 341 710)
Depreciation and amortisation		(79 740 275)	(11 077)	-	(79 751 352)
Finance costs		(94 206 417)	(9 993 767)	-	(104 200 184)
Debt impairment		(231 747 037)	24 824 716	235 602	(206 686 719)
Bad debts written off		-	-	(235 602)	(235 602)
Bulk purchases		(471 393 458)	(13 568 685)	-	(484 962 143)
Contracted services		(100 407 321)	(5 681 619)	-	(106 088 940)
Inventory consumed		(13 547 438)	-	-	(13 547 438)
Operational costs		(48 128 902)	(6 696 108)	-	(54 825 010)
Fair value adjustments		7 355 184	843 050	-	8 198 234
Actuarial gains/(losses)		3 889 000	-	-	3 889 000
Reversal of impairments		22 707 780	(46 855)	-	22 660 925
Surplus for the year		(345 210 976)	(12 542 477)	-	(357 753 453)

Prior period errors

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

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41. Prior-year adjustments (continued)

The following prior period error adjustments occurred:

Error 1: Cash and cash equivalents

An adjustment of R339 933 on short-term was done for prior year. The adjustment was as result of Nedbank call account transactions in 2022 feeding into the FNB call account vote because of system set-up. Adjustment reversed the Nedbank transactions sitting on FNB call account vote which was overstated by Nedbank Transactions feeding FNB vote, the account FNB was closed in 2020.

Typing error on the breakdown of the cash and cash equivalents was due to a mismatching of accounts.

The main account was incorrectly mapped in caseware with an opening balance of FNB call account leading to a difference of R10 918.85 when compared to bank statement ,the account was remapped and the error was corrected to match the correct bank statement balance of R6 412 604.

Service utility closing balance account/vote with the amount of R50 was incorrectly mapped to FNB leading to an understatement of R50 as compared to the bank statement balance.

Previously reported	15 485 967
Prior period adjustment	-339 899
	15 146 068

Error 2: Inventory

Consumables were understated due to a purchase Invoice received in the 2022 financial year was not captured. The correction was effected by debiting the consumable stores against the accruals as the Invoice remained unpaid at 30 June 2022. In addition, there stock issues made post audit which led to the increase.

Previously reported	3 283 353
Prior period adjustment	75 523
	3 358 876

Error 3: Other receivables from exchange transactions

Other receivables from exchange transactions -Syntell underpayments from cash collections of pre-paid electricity sales were overstated due to omission of deducting expenses incurred by Vodacom on behalf of the municipality.

Previously reported	4 607 259
Prior period adjustment 2021	-1 127 345
Prior period adjustment 2022	-3 368 241
	111 672

Error 4: Provisions

Cumulative Interest levied by DWS on disputed accounts which was posted under Provisions was derecognised in the 2022 financial year upon settling of the long outstanding dispute.

During the current financial year, it was noted that the interest calculated in the 2022 FY was based on the net discount rate of 2021 erroneously so, resulting in understatement of the Provision for Decommission in 2022FY and the finance costs. The adjustment was initially incorrectly posted in the Leave Provision segment on the mscoa trial balance and subsequently corrected.

In addition, Leave deceased balance was derecognised during the current financial year to correct an overstated provision balance upon obtaining evidence that no deceased employee is owed by the municipality. The adjustment was made against Accumulated Surplus.

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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41. Prior-year adjustments (continued)

Previously reported	-180 410 486
Prior period adjustment: DWS	133 694 131
Prior period adjustment: Decommission restoration provision	-2 502 057
Prior period adjustment: Leave provision	2 502 057
Prior period adjustment: Leave deceased	36 196
	46 680 159

Error 5: Payables from exchange transactions

During the current year the long outstanding dispute on the total payable and billing between DWS and Lekwa was settled resulting in adjustment of the payable from DWS. In addition, some unpaid invoices as at 30 June 2022 for contracted services rendered including legal costs incurred in the 2022FY and prior years were not recorded in the prior year resulting in understatement of contracted expenses and Accruals.

Previously reported	-2 398 136 156
Prior period adjustment:	93 484 680
	-2 304 651 479

Error 6: Receivables from Exchange Transactions

Receivables from Exchange Transactions were overstated due to inclusion of receivables which do not meet both the definition and recognition criteria of an asset as they do not form part of the Age Analysis. The cumulative balance as well as the Accumulated Provision for Impairment was derecognised since the receivables do not meet the definition and recognition criteria of an Asset in terms of GRAP 104 paragraph 75.

Previously reported	113 737 442
Prior period adjustment 2021	-1 157 654
Prior period adjustment 2022	
	112 579 787

Error 7: Receivables from non-exchange transactions

Receivables from non-exchange transactions were overstated due to properties owned by the municipality billed and recorded as receivables. The cumulative receivable balance from non-exchange transactions for the period 2021 financial year and beyond was adjusted against Accumulated Surplus, whilst the 2022 financial year increase in receivable due to billing was adjusted against the Revenue from non-exchange transactions.

Previously reported	68 325 566
Prior period adjustment 2022	-10 742 092
	57 583 474

Error 8: Bulk purchases

Bulk Water Purchases invoiced by DWS under account # 440 were reversed in totality in 2022 financial year upon settling of the long outstanding dispute, and bulk purchases expenses invoiced under acc # 699 were correctly recorded.

Reduction of Bulk Electricity Purchase expenses overstated in the 2022 financial year due to double recording of the expense which was already posted in the sub-module.

Increase in electricity purchase for Morgenzon small account with an invoice received in the 2022 financial year and not captured against the accrual vote.

Previously reported	471 393 457
Prior period adjustment: DWS Bulk purchases	24 820 651
Prior period adjustment: Electricity bulk water purchases	-11 257 435
Prior period adjustment: DWS Bulk water purchases	5 469
	484 962 142

Error 9: Debt impairment

Lekwa Local Municipality

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41. Prior-year adjustments (continued)

Impairment expenditure for receivables which did not meet the definition and recognition criteria of an asset was reversed upon derecognition of those receivables in terms of GRAP 104 paragraph 68 & 75.

Previously reported	201 684 072
Prior period adjustment: Impairment of receivables not part of the age analysis	-24 824 716
Prior period adjustment: Investment property	796 194
	176 063 161

Error 10: Finance costs

Interest Levied on bulk water purchases by DWS under account # 440 was reversed in totality in 2022FY upon settling of the long outstanding dispute, interest levied under acc # 699 was recorded.

Correction of Interest levied by SARS on late payment of PAYE which was understated in the 2022FY due to omission of recording interest incurred as per SARS Statement of Account to address a finding raised by the AGSA.

Previously reported	94 206 418
Prior period adjustment 2022	9 993 767
	104 200 184

Error 11: Operational costs

Operational costs were understated in the 2022 financial year due to non-recording of some invoices for expenditure incurred on water research levies, SARS penalties and commission expense incurred on sale of pre-paid electricity.

Previously reported	48 128 900
Prior period adjustment 2022	6 696 109
	54 825 010

Error 12: Property rates

Correction of revenue from non-exchange transactions (property rates) which was overstated due to municipal properties own billing.

Previously reported	-170 255 465
Prior period adjustment 2022	2 262 715
	-167 992 749

Error 13: Services charges

Correction of Service charges understated due to incorrect recording of revenue from pre-paid electricity sales for 2022 financial year

Previously reported	-507 885 781
Prior period adjustment 2022	50 583
	-507 936 364

Error 14: Investment property

Investment properties where the municipality had lost control over the properties were removed from the register. Accumulated impairment was also retrospectively reversed to align the investment property register to the accounting policy. The removal of the properties also had an impact on the fair value movement which was also retrospectively corrected.

Previously reported	223 684 124
Prior period adjustment 2022	40 956 997
	264 641 122

Error 15: Property plant and equipment

Lekwa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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41. Prior-year adjustments (continued)

Additions were identified during the 2023 compilation that related to the prior year and were thus correctly accounted for. Capital projects which were still in the process of completion in the prior year were identified to be completed in the prior period through confirmation of completion certificates obtained.

Previously reported	1 306 333 857
Prior period adjustment 2022	8 578 340
	1 314 912 195

Error 16: Depreciation and amortisation

Depreciation was restated due to additions identified in the current year that related to the prior period.

Previously reported	79 740 277
Prior period adjustment 2022	11 077
	77 947 732

Error 17: Fair value adjustment

Investment properties where the municipality had lost control over the properties were removed from the register. Accumulated impairment was also retrospectively reversed to align the investment property register to the accounting policy. The removal of the properties also had an impact on the fair value movement which was also retrospectively corrected.

Fair value adjustment - 843 050

Error 18: Contracted services

Legal costs incurred in prior years were incorrectly recorded in the 2022 financial year due to the municipality recording the expense using the payment date instead of the invoice date. This resulted in overstatement of expenses in the 2022FY and understatement of the Accumulated Deficit opening balance in 2022 financial year. The correction was made by crediting the expense account on the SOFP and debiting the Accumulated Deficit.

Some unpaid invoices as at 30 June 2022 for contracted services rendered in the 2022 financial year were not recorded in the prior year resulting in understatement of contracted expenses and Accruals. In addition, some repairs & maintenance expenses were incorrectly capitalised resulting in overstatement of WIP (SOFP) & understatement of contracted service expenditure (SOFP).

Previously reported	100 407 319
Prior period adjustment - legal cost	-6 026 703
Prior period adjustment - Building and equipment facilities & Equipment , Project management	11 708 323
	106 088 939

Error 19: Accumulated surplus opening balance

The adjustment of R321 373 002 was made to the accumulated surplus opening balance which relates to expenditure incurred in 2021 and prior years, however the adjustment were processed in 2023 Financial year as result of system limitations.

Previously reported	622 133 693
Prior period adjustment	-321 373 002
	300 760 725

Error 20: Unauthorised expenditure

Unspent MIG conditional grant that was not fully cash-backed as at 30 June 2022 as a result of SARS attaching the municipal bank account and garnishing an amount of R20 586 700. This amount was not included in the unauthorised expenditure incurred during the 2022 financial year. This has resulted in an understatement of unauthorised expenditure by R 20 231 786, and the amount was subsequently included in the unauthorised expenditure to correct the mistatemet.

Lekwa Local Municipality

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41. Prior-year adjustments (continued)

Previously reported	1 486 000 802
Prior period adjustment	20 231 786
	1 506 232 588

Error 21: Value added tax

VAT Input adjustment upon raising of Accrual balance and the corresponding expense leg on 2022FY Invoices which were not recorded as at year-end.

Reclassification of Input VAT from the Recognised segment to the Input VAT Accrual segment.

Adjustment of VAT upon Prior period recognition of capital projects transaction that was issued on 20 June 2022 but only paid for and recognised in the 2023 FY.

Adjustment of VAT Input Opening Balance on 01.07.2022 which was understated due to Legal costs incurred in 2021 FY but erroneously recorded in the 2022FY.

Reduction of VAT Payable and SARS penalties which were overstated.

Net adjustment to the VAT Input on Syntell commission expense upon adjustment of the 2022FY commission which was understated.

Correction of VAT Input for the 2022FY on Bulk purchases for DWS Account after confirmation of the correct account balances upon dispute resolution.

Previously reported	16 214 987
Prior Period adjustment - accruals balance	658 287
Prior Period adjustment - reclassification of input vat	312 403
Prior Period adjustment - legal costs	1 657 661
Prior Period adjustment - bulk purchases	36 069 040
Prior Period adjustment - capital adjustment	96 575
Prior Period adjustment - SARS penalties	35 063
Prior Period adjustment - Syntell	40 105
	55 084 125

Interest reclassification

During the year under review, it was noted that Interest Received from Non-Exchange Transactions was incorrectly disclosed on the Statement of Comprehensive Income under Revenue from Exchange transactions in contravention of GRAP 23 paragraph .09A which states that interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction. A reclassification journal was passed to move the interest relating to Property rates from Revenue from Exchange transactions to Revenue from Non-exchange transactions.

Contingencies

Contingent Liabilities per Litigation register disclosed in the prior year were restated with a total amount of R1 636 080 upon obtaining confirmations from the attorneys.

Previously reported	1 599 133 489
Prior period adjustment	-1 636 080
	1 597 497 769

Lekwa Local Municipality

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41. Prior-year adjustments (continued)		
Irregular expenditure		
Previously reported	-	703 559 931
Prior period adjustment opening balance	-	(169 316 166)
Prior period adjustment on 2021	-	5 109 512
Irregular identified by AGSA	-	72 638 093
Additional identified in current year relating to prior year	-	6 820 087
Restated opening balance	-	618 811 457

Irregular expenditure was incorrectly disclosed as 703 559 931 due to a capturing error. The amount has been restated to R 618 811 457 refer to note 47. There was an overstatement of irregular expenditure by R 169 316 166 and additional expenditure identified by AGSA of R618 811 457 and R6 820 087 additional expenditure identified by management in current year that related to prior year.

Fruitless and wasteful expenditure

Previously reported	-	566 354 732
Prior period adjustment	-	152 616 798
Restated opening balance	-	718 971 530

Fruitless & wasteful expenditure was adjusted with a sum of R152 616 797.92.

Department of Water & Sanitation: Due to the dispute of DWS being concluded, the municipality has recognised interest to the amount of R188 252 504 which was previously not reported.

Reconciliations on VAT & PAYE interest and penalties resulted in a decrease of -R2 799 911.80.

In 2022 an amount of R32 835 794.46 was added incorrectly into the register as prior period error. Restated balance R718 971 529.95

Commitments

Opening balance	-	18 518 487
Prior period adjustment	-	56 046 240
Restated opening balance	-	74 564 727

Contracts that were previously unavailable were made available in the current year. Some of these contracts had an impact on the commitments of the prior period as the projects were active then. Certain projects were transferred out in the 2023 comparison as the completion certificates were only made available in the current year. These transfers resulted in the commitments being reduced as there was no commitment left.

42. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Lekwa Local Municipality

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42. Risk management (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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.

Credit risk

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

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

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

Financial instrument	2023	2022
Other financial asset	32 042 581	30 675 233
Trade and other receivables from exchange transactions	91 520 051	112 579 786
Cash and cash equivalents	9 853 656	15 141 876

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.

Financial instruments

Financial assets		
Trade and other receivables exchange transactions	91 520 051	112 579 786
Short term deposits	55 170	8 518 980
Other financial asset - Eskom Deposit	31 805 035	30 451 433
Other financial asset - Ned-fleet facility	237 546	223 800
Services and utilities	1 221 052	75 252
Traffic current account	706 452	41 462
Nedbank current account	7 560 465	6 412 604
FNB current account	310 517	93 781
Financial liabilities		
Finance lease obligation	3 200 210	-
Payables from exchange transactions	2 459 261 196	2 304 651 479
Consumer deposits	3 439 141	3 268 931

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43. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated deficit of R (663 043 222) 2022 R (622 133 694) and that the municipality's total liabilities exceed its assets by R (663 043 222) 2022 R (622 133 694).

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. This is strengthened by the fact that the municipality in terms of legislation has the power to levy rates which guarantees continued generation of revenue. The municipality is implementing various initiatives to improve the current situation

Mitigating Actions

In order to mitigate the effects of these prevailing conditions the municipality has developed the following: Financial Recovery Plan which has seven strategies developed to address governance issues, organisational structures, HR management, service delivery, improved financial sustainability, budget restructuring and improved cashflow management, budget funding plan which is mainly aimed at reducing distribution losses, improving debtors collection and ensuring operating expenditure is in line with operating revenue. Further to that there are other revenue raising strategies and debt collection initiatives which are implemented and monitored on a weekly basis by revenue enhancement committee.

Significant Judgements / Assumptions

In arriving at this conclusion of going concern, the following judgements /assumptions were made:

- '- the municipality will continue to generate positive operating cash flows;
- '- the municipality will not rely on short-term borrowings to finance long term assets in the near future;
- '- the municipality will not rely on long-term funding to finance operational expenses;
- '- the municipality will not experience significant deterioration in the value of assets used to generate revenue and/or cash flows;
- '- the municipality will continue to experience increase in revenue generated;
- '- there is no intention by the National Treasury to enforce surrendering of surpluses;
- '- there is no likelihood of government ceasing or reducing funding to the municipality;
- '- the municipality will continue to be able to substantively fulfill its mandate and remain a going concern;
- '- there are no plans to discontinue significant operations of the municipality;
- '- there are no foreseeable labour difficulties;
- '- there will be no decline in demand for the municipality's goods or services; and ;
- '- there are no anticipated changes in legislation or government policy which will have an adverse effect on the municipality.

44. Events after the reporting date

There were no material events that required an adjustment to the annual financial statements after the reporting date.

45. Unauthorised expenditure

Opening balance as previously reported	1 506 232 588	1 339 811 583
Add: Unauthorised expenditure - overspending on budget in the current year	242 994 147	146 189 219
Add: Unauthorised expenditure - prior period	-	20 231 786
Less: Amount written off	(1 339 811 582)	-
Closing balance	409 415 153	1 506 232 588

Unauthorised expenditure relates over-expenditure on votes due to unfunded budget.

MPAC has concluded the investigation for unauthorised expenditure for period July 2011 to June 2021 and they are currently busy with the investigation for 30 June 2023.

Disciplinary steps taken/criminal proceedings

No disciplinary action or steps taken/criminal proceedings.

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46. Fruitless and wasteful expenditure		
Opening balance as previously reported	718 971 529	494 760 309
Add: Prior period error on opening balance	-	152 616 798
Add: Interest on overdue accounts	151 914 693	68 474 286
Add: Penalties on late payments	5 313 312	3 120 136
Less: Amount written off - current	(461 924 514)	-
Closing balance	414 275 020	718 971 529

Fruitless and wasteful expenditure relates to interest charged on long overdue accounts and penalties charged on late payment due to inadequate cashflow.

MPAC has concluded the investigation for fruitless and wasteful expenditure for period July 2011 to June 2021 and they are currently busy with the investigation for 30 June 2023.

Disciplinary steps taken/criminal proceedings

No disciplinary action or steps taken/criminal proceedings.

47. Irregular expenditure

Opening balance as previously reported	618 811 457	678 303 411
Add: Irregular expenditure - non compliant	4 527 729	771 490
Add: Irregular expenditure - appointment of service providers	15 472 347	29 594 542
Add: Irregular expenditure - tender process	41 815 054	-
Add: Irregular Identified by AGSA	-	72 638 093
Add: Irregular relating to prior year identified in current year	-	6 820 087
Less: Irregular expenditure overstated - prior period	-	(169 316 166)
Less: Amount written off - current	(502 167 158)	-
Closing balance	178 459 429	618 811 457

Irregular expenditure relates quotations which were not compliant with SCM regulations, contracted services which had expires SLAs and appointment of service providers where tender processes not adequately adhered to.

The historical irregular expenditure from July 2011 to July 2021 amounting to R 502 167 158 was written off during the 2024 financial year this has resulted in an event after reporting period and the irregular expenditure note has been adjusted according to include the write-off.

MPAC has concluded the investigation for irregular expenditure for period July 2011 to June 2021 and they are currently busy with the investigation for 30 June 2023.

Disciplinary steps taken/criminal proceedings

No disciplinary action or steps taken/criminal proceedings.

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48. Deviation from supply chain management regulations

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

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

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

Order Number	Date	Supplier	Amount	Description	Reason
42337	2022/10/12	Tomco Electrical & Mechanical	R 230 849	Repair of mini sub	It was impractical or possible to follow official procurement process as the Mini Sub had to be stripped before a quote is issued. Section 36(1)(v)
42319	2022/10/21	Nkomo	R 136 500	Hiring of water tankers	Interruption of water supplier due to excessive load shedding that resulted in emergency procurement 36(1)(i)
42314	2022/10/21	Phakamile	R 122 850	Hiring of water tankers	Interruption of water supplier due to excessive load shedding that resulted in emergency procurement 36(1)(i)
42640	2022/11/21	Nkomo	R 156 000	Hiring of water tankers	Interruption of water supplier due to excessive load shedding that resulted in emergency procurement 36(1)(i)
42380	2022/11/02	Nkomo	R 156 000	Hiring of water tankers	Interruption of water supplier due to excessive load shedding that resulted in emergency procurement 36(1)(i)
42379	2022/11/02	Phakamile	R 210 000	Hiring of water tankers	Interruption of water supplier due to excessive load shedding that resulted in emergency procurement 36(1)(i)
42686	2023/03/23	Richtrau Trading 22 CC	R 191 475	Hiring of jetting vacuum truck for 20 days wet rate	Disaster that damaged infrastructure that resulted in emergency procurement 36(1)(i)
42655	2023/03/14	Facilitators Construction Serv	R 240 120	Hiring of 2 tipper truck for 20 days wet rate	Disaster that damaged infrastructure that resulted in emergency procurement 36(1)(i)

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48. Deviation from supply chain management regulations (continued)

42626	2023/03/02	Orathu Construction and Project	R 371 565	Hire of 2 grader for 20 days	Disaster that damaged infrastructure that resulted in emergency procurement 36(1)(i)
42718	2023/04/18	Nkosibeko Trading Enterprise	R 208 260	2x hiring of 2x10M cubic tipper truck wet rate for 20 days 9 hours a day	Disaster that damaged infrastructure that resulted in emergency procurement 36(1)(i)

49. Segment information

General information

Identification of segments

In accordance with GRAP 18, Segment Reporting, a segment as an activity of the municipality that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity); whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and for which separate financial information is available. The municipality has identified various activities within the municipality that meets the definition of a segment. Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

Aggregated segments

The municipality operates throughout the Mpumalanga Province in ten cities. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout Gauteng were sufficiently similar to warrant aggregation.

The grouping of these segments is consistent with the functional classification of government activities which considers the nature of the services, the beneficiaries of such services and the fees charged for the services rendered (if any). These reportable segments as well as the goods and/or services for each segment are set out below:

- Segment 1 Community and Social Services
- Segment 2 Energy sources /electricity
- Segment 3 Unallocated
- Segment 4 Town Planning and Local Economic Development
- Segment 5 Public Safety
- Segment 6 Public Works and Roads
- Segment 7 Solid Waste and Cleansing

2022 Segment Reporting

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49. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2023

	Community and Social Services	Electricity	Planning and Development and Housing	Public Safety	Road Transport	Waste Management	Unallocated	Total
Revenue								
Service charges	72 399 269	352 618 859	-	-	-	69 581 524	-	494 599 652
Rental Income	3 391	-	69 494	-	1 570 572	-	-	1 643 457
Interest received bank and other financial assets	-	1 353 602	-	-	-	-	1 130 774	2 484 376
Interest received on trade and other receivables	-	-	-	-	-	-	72 041 982	72 041 982
Interest received on receivables from non-exchange transactions	-	-	-	-	-	-	33 494 534	33 494 534
Property Rates	-	-	-	-	-	-	152 872 339	152 872 339
Public contributions and donations	-	-	-	-	-	-	1 740 500	1 740 500
Other operational income	189 897	169 588	825 699	56 707	811	-	387 081	1 629 783
Government Grants and Subsidies	-	3 000 000	-	-	1 855 000	-	223 160 864	228 015 864
Fine, Penalties and Forfeits	40	224 225	-	-	2 369 404	-	-	2 593 669
Total segment revenue	72 592 597	357 366 274	895 193	56 707	5 795 787	69 581 524	484 828 074	991 116 156
Entity's revenue								991 116 156

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	Community and Social Services	Electricity	Planning and Development and Housing	Public Safety	Road Transport	Waste Management	Unallocated	Total
49. Segment information (continued)								
Expenditure								
Employee related cost	26 264 068	20 897 258	28 602 427	45 454 452	19 042 406	48 143 018	83 271 335	271 674 964
Remuneration of councillors	-	-	-	-	-	-	13 787 559	13 787 559
Depreciation and amortisation	-	48 268 629	-	-	-	1 740 673	-	50 009 302
Finance costs	34 711 860	110 702 656	-	-	-	3 260 637	13 902 373	162 577 526
Debt Impairments	69 965 654	53 829 557	2 088 333	-	-	65 042 145	64 500 595	255 426 284
Bulk purchases	54 216 050	421 367 560	-	-	-	-	-	475 583 610
Contracted services	38 655 572	27 095 945	1 000 141	187 606	488 832	1 774 642	17 455 587	86 658 325
Inventory consumed	7 397 345	26 377	21 712	231 337	4 812 799	724 918	7 645 933	20 860 421
Bad debts written off	-	-	-	-	-	-	99 982	99 982
Operational cost	7 043 525	7 251 642	604 388	2 410 434	2 273 498	2 316 365	48 060 006	69 959 858
Loss on disposal of an asset	-	-	-	-	-	-	25 293	25 293
Fair value adjustments	-	-	-	-	-	-	(5 028 181)	(5 028 181)
Reversal of impairments	-	-	-	-	-	-	(13 928 000)	(13 928 000)
Acturial gains/losses	-	-	-	-	-	-	(34 308 252)	(34 308 252)
Total segment expenditure	238 254 074	689 439 624	32 317 001	48 283 829	26 617 535	123 002 398	195 484 230	1 353 398 691
Total segmental surplus/(deficit)	(165 661 477)	(332 073 350)	(31 421 808)	(48 227 122)	(20 821 748)	(53 420 874)	289 343 844	(362 282 535)
Assets								
Inventories	(3 978 684)	(12 954 973)	(234 205)	(621 056)	(361 366)	3 833 877	19 637 148	5 320 741
Value added tax	7 024 849	88 094 076	(32 698 054)	528 453	20 768 318	(34 982 026)	42 977 812	91 713 428
Receivables from non exchange transactions	-	-	-	(419 028)	5 760	-	70 556 722	70 143 454
Receivables from exchange transactions	73 385 287	(4 535 108)	79 918	-	18 840 543	(151 828 609)	155 578 017	91 520 048
Cash and equivalents	(197 675 621)	714 617 897	(3 477 283)	(6 653 016)	(32 646 707)	160 449 598	(624 757 214)	9 857 654
Investment property	-	-	-	-	-	-	269 669 304	269 669 304
Property, plant and equipment	230 755 050	236 461 561	40 062 626	-	506 555 597	342 020 622	16 587 784	1 372 443 240
Heritage assets	-	-	-	-	-	-	106 187	106 187
Other financial assets	-	31 805 035	-	-	-	-	237 546	32 042 581
Total segment assets	109 510 881	1 053 488 488	3 733 002	(7 164 647)	513 162 145	319 493 462	(49 406 694)	1 942 816 637

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	Community and Social Services	Electricity	Planning and Development and Housing	Public Safety	Road Transport	Waste Management	Unallocated	Total
49. Segment information (continued)								
Total assets as per Statement of financial Position								1 942 816 637
Liabilities								
Finance lease obligation - current	-	-	-	-	-	-	797 181	797 181
Payables from exchange transactions	920 678 064	1 807 169 354	303 774	75 888 429	2 769 319	21 206 535	(366 261 808)	2 461 753 667
Consumer deposits	425 769	972 342	-	-	-	186 516	1 854 512	3 439 139
Employee benefit obligation - current	53	229 947	-	-	-	(230 000)	5 855 000	5 855 000
Unspent conditional grants and receipts	-	-	-	-	-	-	6 625 000	6 625 000
Finance lease obligation - non current - non current	-	-	-	-	-	-	2 403 029	2 403 029
Employee benefit obligations - non current	-	-	-	-	-	-	75 282 000	75 282 000
Provisions	-	-	-	-	-	49 704 828	-	49 704 828
Total segment liabilities	921 103 886	1 808 371 643	303 774	75 888 429	2 769 319	70 867 879	(273 445 086)	2 605 859 844
Total liabilities as per Statement of financial Position								2 605 859 844

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.

2022

	Community and Social Services	Electricity	Planning and Development and Housing	Public Safety	Road Transport	Waste Management	Unallocated	Total
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49. Segment information (continued)

Revenue

Service charges	71 728 178	371 288 842	-	-	-	64 919 345	-	507 936 365
Rental Income	5 391	-	-	-	1 720 384	-	2 777	1 728 552
Interest received bank and other financial assets	-	987 597	-	-	-	-	807 778	1 795 375
Interest received on trade and other receivables	-	-	-	-	-	-	48 927 895	48 927 895
Interest received on receivables from non-exchange transactions	-	-	-	-	-	-	16 503 479	16 503 479
Property rates	-	-	-	-	-	-	167 992 750	167 992 750
Public contributions and donations	-	-	-	-	-	-	1 151 190	1 151 190
Other operational income	154 701	146 665	701 900	52 786	10 968	-	660 433	1 727 453
Government grants and subsidies	-	10 000 000	-	-	17 404 238	-	137 482 092	164 886 330
Fines, penalties and forfeits	-	1 182 736	-	1 800 050	102	-	-	2 982 888
Total segment revenue	71 888 270	383 605 840	701 900	1 852 836	19 135 692	64 919 345	373 528 394	915 632 277

Entity's revenue

915 632 277

Expenditure

Employee related cost	24 022 215	18 958 750	26 079 926	39 746 310	18 396 239	42 927 293	79 364 020	249 494 753
Remuneration of councillors	-	-	-	-	-	-	8 341 710	8 341 710
Depreciation and Amotisation	14 006 884	11 029 529	-	-	38 168 175	9 231 160	7 316 054	79 751 802
Finance costs	31 344 690	50 431 006	-	-	-	1 839 198	20 585 291	104 200 185
Debt Impairments	57 496 402	48 481 964	1 377 814	142 530	(41 688 364)	53 128 324	87 748 049	206 686 719
Bulk purchases	55 545 161	429 416 982	-	-	-	-	-	484 962 143
Contracted services	33 734 202	15 298 404	5 743 125	77 554	2 510 555	1 044 190	47 680 909	106 088 939
Inventory consumed	8 641 593	44 662	24 955	451 046	234 109	192 472	3 958 600	13 547 437
Bad debts written off	-	-	-	-	-	-	235 602	235 602
Operational cost	1 645 174	5 640 604	638 591	1 375 383	1 202 005	2 477 241	41 846 011	54 825 009
Fair value adjustments	-	-	-	-	-	-	(8 198 234)	(8 198 234)
Reversal of impairments	(887 281)	(446 781)	-	-	(17 498 804)	(1 193 549)	(2 634 510)	(22 660 925)
Acturial gains/losses	-	-	-	-	-	-	(3 889 000)	(3 889 000)
Total segment expenditure	225 549 040	578 855 120	33 864 411	41 792 823	1 323 915	109 646 329	282 354 502	1 273 386 140
Total segmental surplus/(deficit)	(153 660 770)	(195 249 280)	(33 162 511)	(39 939 987)	17 811 777	(44 726 984)	91 173 892	(357 753 863)

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	Community and Social Services	Electricity	Planning and Development and Housing	Public Safety	Road Transport	Waste Management	Unallocated	Total
49. Segment information (continued)								
Assets								
Inventories	(2 318 935)	(5 995 884)	(187 095)	(490 364)	(185 067)	(1 676 233)	14 212 452	3 358 874
Value added tax	2 387 730	72 319 000	(32 706 653)	393 629	19 326 777	(32 112 504)	25 476 146	55 084 125
Other receivables from exchange	-	111 673	-	-	-	-	-	111 673
Receivables from non exchange transactions	-	-	-	(138 318)	4 608	-	57 717 187	57 583 477
Receivables from exchange transactions	109 613 195	23 057 727	-	-	17 502 287	(124 525 718)	86 932 296	112 579 787
Cash and equivalents	(178 034 957)	629 246 972	(3 147 385)	(4 237 872)	(23 776 026)	163 814 663	(568 719 330)	15 146 065
Investment property	-	-	-	-	-	-	264 641 122	264 641 122
Property, plant and equipment	218 813 903	244 145 823	40 062 626	-	476 470 816	265 800 188	69 618 839	1 314 912 195
Heritage assets	-	-	-	-	-	-	106 187	106 187
Other financial assets	-	30 451 433	-	-	-	-	223 800	30 675 233
Total segment assets	150 460 936	993 336 744	4 021 493	(4 472 925)	489 343 395	271 300 396	(49 791 301)	1 854 198 738
Total assets as per Statement of financial Position								1 854 198 738
Liabilities								
Payables from exchange transactions	718 517 480	1 476 559 766	149 170	76 737 094	1 374 637	(667 580)	31 980 915	2 304 651 482
Consumer deposits	251 173	871 980	-	-	-	187 573	1 958 204	3 268 930
Employee benefit obligation - current	-	-	-	-	-	-	4 164 999	4 164 999
Unspent conditional grants and receipts	-	-	-	-	-	-	35 373 864	35 373 864
Employee benefit obligation - non current	(53)	(229 947)	-	-	-	230 000	82 193 000	82 193 000
Provisions	-	-	-	-	-	46 680 158	-	46 680 158
Total segment liabilities	718 768 600	1 477 201 799	149 170	76 737 094	1 374 637	46 430 151	155 670 982	2 476 332 433
Total liabilities as per Statement of financial Position								2 476 332 433

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.

Information about geographical areas

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49. Segment information (continued)		
Management does monitor performance geographically but does not at present have reliable separate financial information for decision making purposes. Processes have been put in place to generate this information at a transaction level and in the most cost effective manner		
50. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government (SALGA)		
Opening balance	2 619 400	-
Current year subscription / fee	3 896 335	3 119 400
Amount paid - current year	(3 113 610)	(500 000)
	3 402 125	2 619 400
Audit fees		
Opening balance	810 459	243 601
Current year subscription / fee	10 111 372	5 973 325
Amount paid - current year	(7 494 373)	(5 406 467)
	3 427 458	810 459
PAYE and UIF		
Opening balance	15 344 638	18 455 270
Current year subscription / fee	49 081 022	56 834 222
Amount paid - current year	(56 438 889)	(59 944 854)
	7 986 771	15 344 638
Pension and Medical Aid Deductions		
Opening balance	6 296 252	488 232
Current year subscription / fee	71 279 757	64 612 298
Amount paid - current year	(64 772 626)	(58 804 278)
	12 803 383	6 296 252

VAT

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

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2023:

30 June 2023	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr .DL Thabethe - Executive Mayor	8 539	249 309	257 848
Cllr .O Phiri- Speaker	3 319	60 565	63 884
Cllr. DJ Msibi- Chiefwhip	1 625	41 649	43 274
Cllr .PC Mahlaba	3 871	121 660	125 531
Cllr .JT Sebilane	1 589	32 025	33 614
Cllr. SM Modise	4 163	91 794	95 957
Cllr .AM Majozi	7 320	207 273	214 593
Cllr.DR Manana	1 356	17 735	19 091
Cllr. MR Motloung	2 972	27 182	30 154
Cllr.GJ Xulu	4 645	119 254	123 899
Cllr.NS Tlhakudi	4 810	83 404	88 214
Cllr.SA Silosini	5 984	-	5 984
Cllr.APM Mthimkhulu	2 819	72 804	75 623
Cllr. RS Tsoetsi	3 547	98 632	102 179
Cllr .DJ Venter	7 150	3 445	10 595
Cllr. MS Mngomezulu	3 211	5 402	8 613
Cllr.JC Stoltz	8 066	4 102	12 168
Cllr.LM Marago	3 777	35 132	38 909
Cllr SP Ngwenya	2 641	14 854	17 495
Cllr.SA Tshabalala	1 781	20 172	21 953
Cllr.CAO Franco	1 883	-	1 883
Cllr.W Venter	7 150	3 445	10 595
Cllr SB Ngqulunga	2 022	18 896	20 918
Cllr .TC Motaung	1 214	28 130	29 344
Cllr. NC Nhlapho	2 164	45 906	48 070
	97 618	1 402 770	1 500 388

Other matters

Lekwa Local Municipality was fined R70 Million for non-compliance with the National Environmental Management Act. The Municipality is not obliged to pay the fine amount to the State or any other entity, however the fine amount is to be used for repairs and maintenance for specified equipment.

Apart from the R70 million fine, a sum of R500,000 is to be paid to the Department of water and sanitation and Department of agriculture, rural development, land and environmental affairs (R250,000 each).

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51. Change in estimate

Property, plant and equipment

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

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

Category and reason for change in accounting estimate	Depreciation before adjustment	Depreciation after adjustment	Difference in depreciation
Property, plant and equipment - Remaining useful lives reviewed	77 758 357	50 009 302	(27 749 055)

52. Finance lease obligation

Minimum lease payments due

- within one year	2 416 290	-
- in second to fifth year inclusive	3 442 436	-
	5 858 726	-
less: future finance charges	(2 658 516)	-
Present value of minimum lease payments	3 200 210	-

Present value of minimum lease payments due

- within one year	797 181	-
- in second to fifth year inclusive	2 403 029	-
	3 200 210	-
Non-current liabilities	2 403 029	-
Current liabilities	797 181	-
	3 200 210	-

The municipality has entered into a rental agreement with Dido Digital Document (Pty) Ltd for the leasing of printing and photocopier machines. The rental agreement is classified as a finance lease agreement due to the substance over form.

The inception date of the lease agreement is 01 September 2022 and effective for 36 months. The lessor shall at all times retain ownership and title of all equipment. The cost per copy is R0.16 per page mono and R0.62 per page colour, high volume cost per copy is R0.16 per page mono and R0.85 per page color for the first year of the contract. The lessor will annually on the anniversary of the contract make submissions to the client to adjust the service charge in line with the CPI. The implicit Interest Rate per month was 3%.

Contingent rents Including VAT	119 422	-
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53. Bids awarded to family of employees in service of the state

2023

Service provider	Connected person	Institution	Capacity	Contract Value
MPPM Consulting engineering	Mrs M Senyatsi	City of Ekurhuleni	Divisional Head systems development and support	39 271 616

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54. Accounting by principals and agents

The entity is a party to a principal-agent arrangement.

Details of the arrangement are as follows:

Lekwa Local Municipality appointed Syntell (Pty) Ltd as an agent for selling and collecting of sales revenue from pre-paid electricity on behalf of the municipality. The duration of the agreement is from 12 December 2017. In terms of the agreement, Syntell (Pty) Ltd is entitled to a commission of 4.58% including VAT plus 0,03 cents per sale on free basic sales prepaid shops. Syntell withheld the commission from the cash collections and pays over the Net Amount to Lekwa Local Municipality. The commission withheld has been disclosed as an expense under Operational Expenses.

Entity as a principal

Reconciliation: Syntell Receivable

Opening balance	111 673	-
Total Sales Pre-paid Electricity (Inc VAT)	54 347 983	58 832 297
Less: Commission withheld	(7 194 924)	(6 398 527)
Less: Payments made during the year	(47 264 732)	(52 322 097)
	-	111 673

Agency fees reconciliation

Agency fees raised	7 194 924	6 398 527
Agency fees paid	(7 194 924)	(6 398 527)
	-	-

Total amount receivable from Syntell (Pty) Ltd **2023** (R 0) and **2022** (R 111 673). The outstanding amount is expected to be settled within 12 months. There are no other resources held on behalf of the municipality. There are no other expenditure in the relationship (except that of commission payable.)

