



Maquasi Hills Local Municipality
Annual Financial Statements
for the year ended 30 June 2022

Maquasi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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Maquasi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2022

General Information

Legal form of entity

Local Municipality

Nature of Business and Principal Activities

Maquasi Hills Local Municipality is a South African Category B municipality (Local Municipality) as defined by the Municipal Structures Act (Act no 117 of 1998). The municipality's operations are governed by the Municipal Finance Management Act (Act 56 of 2003), the Municipal Structures Act (Act 177 of 1998), Municipal Systems Act (Act 32 of 2000) and various legislations and regulations

Members of Council

Mayor

M.A Feliti

Speaker

MD Gouws Malinga (Until Oct 2021)

S.S. Nkatlo

Chief Whip

B.F.Maphatsoe (Until Oct 2021)

Councillors

R.J Moletsane

A.M. Hlongwane

P. Maleho

N.S. Monewang

M. Mothibi

Q. P Molosi

L.L Medupe

M.R. Mosholi

P.E. Rampai

K.P Leshomo

D.M Modisadife

G. J. Van Zyl

M.H.Motaung

T.S.Malebatsane

L.Metsoa

B.F.Maphatsoe

G.J Muller

J.U Swart

K. Calvert

D.H. Serape

MN Ntuli (Until Oct 2021)

IR Dintwe (Until Oct 2021)

KS Seakane (Until Oct 2021)

J Pheiffer (Until Oct 2021)

KJ Selebalo (Until Oct 2021)

AO Phutiagae (Until Oct 2021)

TP Bonang (Until Oct 2021)

SO Masibi (Until Jul 2021)

NF Maxatshwa (Until Oct 2021)

LS Mokgalagadi (Until Oct 2021)

MM Moepi (Until Oct 2021)

GS Maruping (Until Oct 2021)

MS Madibo (Until Oct 2021)

KA Mogapi (Until Oct 2021)

NL Tshingilane (Until Oct 2021)

GV Kgabi (Until Oct 2021)

Maquasi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2022

General Information

Grading of local authority	Grade 3
Accounting officer	NP Karelse
Chief Finance officer (CFO)	LJ Mogoemang
Registered Office	19 Kruger Street Wolmaransstad 2630
Business Address	19 Kruger Street Wolmaransstad 2630
Postal Address	Private Bag X3 Wolmaransstad 2630
Bankers	ABSA Wolmaransstad
Auditor	Auditor General South Africa
Attorneys	Motshabi and Modiboa Incorporated Attorneys Phambane Mokone Incorporated Attorneys Leepile Attorneys Incorporated Kgomo Attorneys Incorporated Morathi & Mataka Inc
Enabling legislation	Constitution of the Republic of South Africa (Act No. 108 of 1996) Municipal Finance Management Act (Act 56 of 2003) Division of Revenue Act The Income Tax Act (Act No. 58 of 1962) Value Added Tax Act (Act No. 89 of 1991) Municipal Structures Act (Act No 177 of 1998) Water Service Act (Act No.108 of 1997) Housing Act (Act No. 107 of 1997) Municipal Property Rates Act (Act No. 6 of 2004) Electricity Act (Act No. 41 of 1987) Skills Development Levies Act (Act No. 9 of 1999) Employment Equity Act (Act No. 55 of 1998) Unemployment Insurance Act (Act No. 30 of 1966) Basic Conditions of Employment Act (Act No. 75 of 1997) Municipal System Amendment Act (Act No. 7 of 2011) Municipal Planning and Performance Management Regulations Municipal Supply Chain Management Regulations Municipal Collective Agreements Municipal Budget and Reporting Regulations MFMA Circulars and Regulations

Maquasi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2023 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the income from services, rates and grants 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, they are supported by the municipality's external auditors.

The annual financial statements as set out on pages 6 to 96 which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2022 on their behalf by.

NP Karelse

Accounting officer

Maquasi Hills Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Report of the Accounting Officer

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

1. Review of activities

Main business and operations

Maquassi hills local municipality is a south african category B municipality as defined by the municipal structures act (act no 117 of 1998). The municipality's operations are governed by the municipal finance management act (act 56 of 2003), the municipal structures act (act 177 of 1998), municipal systems act (act 32 of 2000) and various legislations and regulations 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.

2. Going concern

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.

3. Subsequent events

The accounting officer is not aware of any material non-adjusting events after the reporting date relating to the financial period then ended 30 June 2022.

5. Accounting policies

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

6. Auditors

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

The annual financial statements as set out on pages 5 to 82 which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2022 on their behalf by.

NP Karelse

Accounting officer

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Statement of Financial Position

Figures in R	Notes	2022	2021 (Restated)
Assets			
Current assets			
Inventories	3	3 378 575	1 111 664
Other financial assets	4	360 000	360 000
Receivables from exchange transactions	5	45 961 496	78 971 872
Receivables from non exchange transactions	6	17 411 430	24 458 041
Cash and cash equivalents	8	12 522 141	23 504 020
Total current assets		79 633 642	128 405 597
Non-current assets			
Property, plant and equipment	9	987 546 642	969 874 575
Investment property	10	131 680 000	120 274 000
Total non-current assets		1 119 226 642	1 090 148 575
Total assets		1 198 860 284	1 218 554 172
Liabilities			
Current liabilities			
Other financial liabilities	11	30 188 058	24 577 803
VAT Payable	12	171 299 589	161 071 782
Consumer deposits	13	2 674 116	2 481 410
Payables from exchange transactions	14	402 769 531	349 939 463
Employee benefit obligation	15	1 384 000	1 182 000
Bank overdraft	8	-	471 525
Unspent conditional grants and receipts	16	3 731 035	742 183
Total current liabilities		612 046 329	540 466 166
Non-current liabilities			
Provisions	17	63 708 574	60 251 065
Other financial liabilities	11	29 663 114	31 897 751
Employee benefit obligation	15	24 532 001	23 659 000
Total non-current liabilities		117 903 689	115 807 816
Total liabilities		729 950 018	656 273 982
Net Assets		468 910 266	562 280 190
Accumulated surplus		468 910 266	562 280 190

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Statement of Financial Performance

Figures in R	Notes	2022	2021 (Restated)
Revenue			
Revenue from exchange transactions			
Service charges	18	181 684 645	221 185 362
Other Income	19	2 705 621	2 300 663
Rental of facilities and equipment		322 069	281 847
Interest received - Investment	20	622 607	753 803
Interest received - Service charges		73 979 803	58 810 355
Licences and permits	22	4 120 924	2 164 212
Total revenue from exchange transactions		263 435 669	285 496 242
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	51 401 647	53 607 782
Interest - Property rates	24	11 589 644	9 644 055
Transfer revenue			
Government grants and subsidies	25	218 203 148	222 482 532
Fines, Penalties and Forfeits	26	1 999 138	4 166 179
Total revenue from non-exchange transactions		283 193 577	289 900 548
Total revenue		546 629 246	575 396 790
Expenditure			
Employee related cost	27	(89 930 608)	(88 301 480)
Remuneration of councillors	28	(8 957 854)	(9 662 381)
Depreciation and amortisation	29	(43 940 919)	(48 295 452)
Finance cost	30	(11 740 225)	(9 091 444)
Lease rentals on operating lease	31	-	(28 600)
Debt impairment	32	(229 792 439)	(203 774 998)
Bulk Purchases	33	(133 019 944)	(111 745 540)
Contracted services	34	(32 846 344)	(30 480 112)
General expenses	35	(102 367 127)	(71 864 545)
Total expenditure		(652 595 460)	(573 244 552)
Actuarial gains/(losses)	36	1 190 290	3 294 142
Losses on sale of assets		-	(196 650)
Gains on fair value adjustments	37	11 406 000	5 617 000
Inventory losses/write downs		-	(20 580)
Impairment loss		-	(764 418)
(Loss) / profit for the year		(93 369 924)	10 081 732

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Statement of Changes in Net Assets

Figures in R

	Retained income	Total
Balance at 1 July 2020	552 198 458	552 198 458
Changes in net assets		
Surplus for the year	10 081 732	10 081 732
Balance at 30 June 2021	562 280 190	562 280 190
Balance at 1 July 2021 as previously reported	664 806 996	664 806 996
Effects of changes in accounting policy (Note 42)	(128 450 460)	(128 450 460)
Correction of prior period errors (Note 42)	25 923 654	25 923 654
Balance at 1 July 2021 as restated	562 280 190	562 280 190
Changes in net assets		
Deficit for the year	(93 369 924)	(93 369 924)
Balance at 30 June 2022 as restated	468 910 266	468 910 266

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Statement of Cash Flows

Figures in R	Notes	2022	2021 (Restated)
Receipts			
Property rates		70 482 837	21 904 393
Service charges		60 657 623	55 328 716
Other revenue		6 928 033	79 164 412
Transfers and Subsidies - Operational		148 802 773	165 510 200
Transfers and Subsidies - Capital		68 910 133	54 884 877
Interest		622 607	753 803
Gross cash receipts		356 404 006	377 546 401
Payments			
Suppliers and employees		(294 301 656)	(319 332 729)
Finance charges		(11 740 225)	(9 091 444)
Gross cash payments		(306 041 881)	(328 424 173)
Net cash flows from operating activities	38	50 362 124	49 122 227
Cash flows used in investing activities			
Purchase of property, plant and equipment		(61 065 185)	(51 392 890)
Proceeds from sales of investment property		-	1 014 000
Cash flows used in investing activities		(61 065 185)	(50 378 890)
Cash flows from financing activities			
Increase or (decrease) in consumer deposits		192 706	129 481
Cash flows from financing activities		192 706	129 481
Net decrease in cash and cash equivalents		(10 510 355)	(1 127 182)
Cash and cash equivalents at beginning of the year		23 032 495	24 159 676
Cash and cash equivalents at end of the year	8	12 522 140	23 032 494

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Figures in R

Statement of financial performance

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Revenue						
Property rates	60 841 000	(7 116 952)	53 724 048	51 401 647	2 322 401	
Service charges - electricity revenue	81 296 000	-	81 296 000	67 742 322	13 553 678	
Service charges - water revenue	72 483 000	28 076 300	100 559 300	68 148 453	32 410 847	
Service charges - sanitation revenue	34 145 000	(3 826 510)	30 318 490	30 646 378	(327 888)	
Service charges - refuse revenue	14 907 000	340 186	15 247 186	15 147 492	99 694	
Rental of facilities and equipment	863 000	522 504	1 385 504	322 069	1 063 435	
Interest earned - external investments	700 000	-	700 000	622 607	77 393	
Interest earned - outstanding debtors	85 778 000	-	85 778 000	85 569 447	208 553	
Dividends received	2 000	(2 000)	-	-	-	
Fines, penalties and forfeits	10 520 000	-	10 520 000	1 999 138	8 520 862	
Licences and permits	14 300 000	1 700 000	16 000 000	4 120 924	11 879 076	
Transfers and subsidies	148 116 950	807 331	148 924 281	149 037 426	(113 145)	
Other revenue	2 464 210	(686 290)	1 777 920	2 705 621	(927 701)	
Total Revenue (excluding capital transfers and contributions)	526 416 160	19 814 569	546 230 729	477 463 524	68 767 205	

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Figures in R

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Expenditure						
Employee related costs	103 764 786	(3 642 786)	100 122 000	89 930 608	10 191 392	
Remuneration of councillors	10 051 968	106 930	10 158 898	8 957 854	1 201 044	
Debt impairment	132 876 000	-	132 876 000	229 792 439	(96 916 439)	
Depreciation & asset impairment	51 484 000	-	51 484 000	43 940 919	7 543 081	
Finance charges	6 836 000	-	6 836 000	11 740 225	(4 904 225)	
Bulk purchases	57 764 000	-	57 764 000	133 019 944	(75 255 944)	
Contracted services	9 238 000	16 141 092	25 379 092	32 846 344	(7 467 252)	
Transfers and subsidies	-	-	-	-	-	
Other expenditure	26 434 652	12 451 592	38 886 244	102 367 127	(63 480 883)	
(Losses) / gains on net monetary position	-	-	-	(12 596 290)	12 596 290	
Total Expenditure	398 449 406	25 056 828	423 506 234	639 999 170	(216 492 936)	
Surplus/(Deficit)	127 966 754	(5 242 259)	122 724 495	(162 535 646)	285 260 141	
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	69 110 050	4 000 000	73 110 050	69 165 722	3 944 328	
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporatons, Higher Educational Institutions)	813 000	-	813 000	-	813 000	
Profit / (loss) for the year	197 889 804	(1 242 259)	196 647 545	(93 369 924)	290 017 469	

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Figures in R

Statement of Financial Position

		Approved budget	Adjustments	Final budget	Actual amount on comparative basis	Difference between final budget and actual
Assets						
Current assets						
Cash	8	(60 379 617)		(60 379 617)	2 322 244	(62 701 861)
Call investment deposits	8	387 714		387 714	10 199 897	(9 812 183)
Consumer debtors	6	283 794 643		283 794 643	45 961 496	237 833 147
Other debtors	5	66 142 399		66 142 399	17 411 430	48 730 969
Other financial assets					360 000	
Inventory	3	824 818		824 818	3 378 575	(2 553 757)
Total current assets		290 769 957	-	290 769 957	79 633 642	211 496 315
Non-current assets						
Investment property	9	-	-	-	131 680 000	(131 680 000)
Property, plant and equipment		1 680 458 051	11 179 365	1 691 637 416	987 546 642	704 090 774
Total non-current assets		1 680 458 051	11 179 365	1 691 637 416	1 119 226 642	572 410 774
		-	-	-	-	-
Total assets		1 971 228 008	11 179 365	1 982 407 373	1 198 860 284	783 547 089

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Figures in R

	Approved budget	Adjustments	Final budget	Actual amount on comparable basis	Difference between final budget and actual
Liabilities					
Current liabilities					
Borrowing	5 629 225		5 629 225	30 188 058	(24 558 833)
Consumer deposits	(119 979 489)		(119 979 489)	2 674 116	(122 653 605)
Trade and other payables	1 216 087 948		1 216 087 948	577 800 155	638 287 793
Provisions	22 166 977		22 166 977	1 384 000	20 782 977
Total current liabilities	1 123 904 661	-	1 123 904 661	612 046 329	511 858 332
Non-current liabilities					
Borrowing	41 020 225	-	41 020 225	29 663 114	11 357 111
Provisions	34 627 234	-	34 627 234	88 240 575	(53 613 341)
Total non-current liabilities	75 647 459	-	75 647 459	117 903 689	(42 256 230)
	-	-	-	-	-
Total liabilities	1 199 552 120	-	1 199 552 120	729 950 018	469 602 102
Net assets	771 675 888	11 179 365	782 855 253	468 910 266	313 944 987
COMMUNITY WEALTH/EQUITY					
Reserves	365 468			-	
Accumulated Surplus/(Deficit)	959 333 420	(1 242 259)	958 091 161	468 910 265	489 180 896
COMMUNITY WEALTH/EQUITY	959 333 420	(1 242 259)	958 091 161	468 910 265	489 180 896

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Figures in R

Cashflow statement

	Approved budget	Adjustments	Final budget	Actual amount on comparative basis	Difference between final budget and actual
Cashflow statement					
Receipts					
Property rates	-	-	-	70 482 837	(70 482 837)
Service charges	-	-	-	60 657 623	(60 657 623)
Other revenue	(16 139 000)	-	(16 139 000)	6 928 033	(23 067 033)
Transfers and Subsidies - Operational	-	-	-	148 802 773	(148 802 773)
Transfers and Subsidies - Capital	-	-	-	68 910 133	(68 910 133)
Interest	(47 563 000)	-	(47 563 000)	622 607	(48 185 607)
Dividends	-	-	-	-	-
	(63 702 000)	-	(63 702 000)	356 404 006	(420 106 006)
Payments					
Suppliers and employees	(294 835 410)	-	(294 835 410)	(294 301 656)	(533 754)
Finance charges	-	-	-	(11 740 225)	11 740 225
	(294 835 410)	-	(294 835 410)	(306 041 881)	11 206 471
Net cashflow from operations	(358 537 410)	-	(358 537 410)	50 362 125	(408 899 535)

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Figures in R

Cash flows used in investing activities

Decrease (increase) in non-current receivables

Decrease (increase) in non-current investments

Capital assets

Cash flows used in investing activities

Cash flows from financing activities

Increase (decrease) in consumer deposit

Repayment of borrowing

Cash flows from financing activities

Net decrease in cash and cash equivalents

Cash and cash equivalents at beginning of the year

Cash and cash equivalents at end of the year

	-	-	-	-
	(70 782 000)	(70 782 000)	(61 065 185)	(9 716 815)
	(70 782 000)	-	(61 065 185)	(9 716 815)
	121 109 783	121 109 783	-	
		-	192 706	(192 706)
	121 109 783	-	192 706	(192 706)
	(308 209 627)	-	(10 510 354)	(418 809 056)
	(72 557 903)	(72 557 903)	23 032 495	(95 590 398)
	(380 767 530)	-	12 522 141	(514 399 454)

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

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:

In the process of applying its accounting policies, and in preparing the annual financial statements, management is required to make various judgements, including estimates and assumptions, that may affect the determination of the reporting framework, affect amounts represented in the annual financial statements and as well as 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:

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Accounting Policies

Presentation of Annual Financial Statements continued...

Financial assets

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

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Subsequent Measurement

Financial Assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial Liabilities are categorised as either at fair value, financial liabilities at cost or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation.

Receivables

Receivables are classified as financial assets at amortised cost and are subsequently measured amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the averaged prime interest rate for the reporting financial period.

The risk-free rate is adjusted with the following premium

Risk category	Premium adjustment
High risk	1.25%
Medium risk	0.75%
Low risk	0.25%

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Accounting Policies

Presentation of Annual Financial Statements continued...

The risk factors and premium adjustment to the risk-free rate are reviewed annually by management.

Fair value estimation

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

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

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.

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. 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 supply and demand for municipal services, timing of cash flows, together with economic factors such as inflation and interest rates. Refer to sections 1.12 and 1.13 for more detail on the accounting policies for impairment of cash-generating and non-cash generating assets.

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.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Useful lives and residual values of property, plant and equipment

The municipality's management determines the estimated useful lives and residual values for the property, plant and equipment. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

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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 liability.

Other key assumptions for post employment medical obligations are based on current market conditions. Additional information is disclosed in Note 15.

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.

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.

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
- sale in the ordinary course of operations.

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

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Presentation of Annual Financial Statements continued...

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

Initial measurement

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

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

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

Fair value

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

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

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

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

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

Derecognition

Once the Municipality 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.

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1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

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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
Buildings	Straight-line	30 years
Infrastructure	Straight-line	
• Electricity		5-80 years
• Roads		5-80 years
• Water		10-100 years
• Sewerage		15-100 years
• Pedestrians malls		10-100 years
• Housing		80 years
• Solid Waste		5-100 years
• ICT		1- 120 years
Community	Straight-line	
• Buildings and other assets		20-80 years
• Recreation facilities		10-80 years
• Security measures		5-15 years
Other property, plant and equipment	Straight-line	
• Buildings		20-80 years
• Office Equipment		3-5 years
• Furniture and fittings		7 years
• Other items of plant and equipment		2-20 years
• Motor vehicles		5-7 years
• Plant and machinery		7 -10 years

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

1.7 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

Initial recognition

Financial instruments are recognised when the Municipality becomes a party to contractual provision of the instruments.

Financial instruments are initially recognised at fair value. In the case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added to the fair value.

Financial Instruments are categorised according to their nature as either financial instruments at fair value, held at amortised cost, or held at cost. The classification depends on the nature and terms of the financial instrument for which the financial instruments were obtained / incurred and takes place at initial recognition.

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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Presentation of Annual Financial Statements continued...

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.

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

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

Subsequent measurement of financial assets and financial liabilities

Trade and other receivables

Debtors are subsequently measured at fair value less provision for impairment. Bad debts are written off during the year in which they are identified in surplus or deficit.

Trade and other payables

Trade payables are subsequently measured at amortised cost, using the effective interest rate method.

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Accounting Policies

Presentation of Annual Financial Statements continued...

Cash and cash equivalents, and short-term investments

Cash and cash equivalents comprise cash on hand and demand deposits; and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially measured at fair value and subsequently measured at amortised cost.

Bank overdraft, borrowings and other financial liabilities

Borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the effective interest rate method. Bank overdraft and other financial liabilities are subsequently carried at amortised cost.

Impairment and uncollectability of financial assets

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

Financial assets measured at amortised cost

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

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

Derecognition

Financial assets

The entity derecognises a financial asset only when:

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

- derecognise the asset; and
- recognise separately any rights and obligations created or retained in the transfer.

On the derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received (including any asset obtained less any liability assumed) is recognised in surplus or deficit..

Maquasi Hills Local Municipality

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Accounting Policies

Presentation of Annual Financial Statements continued...

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled, waived or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

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
Trade and other receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
short-term investments	Financial asset measured at amortised cost

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

Class	Category
Annuity borrowings	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Trade and other payables from non exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

1.8 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.

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Presentation of Annual Financial Statements continued...

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

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.

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Presentation of Annual Financial Statements continued...

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, an 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

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.

1.9 Tax

Value Added Tax

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The Municipality accounts for Value Added Tax on the payments basis

1.10 Leases

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

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

Operating leases - The Municipality as lessor

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

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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

Operating leases - The Municipality as lessee

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

1.11 Inventories

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

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

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

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

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

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

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

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

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

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

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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Accounting Policies

Presentation of Annual Financial Statements continued...

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

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

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

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of impairment loss

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

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An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

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

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

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

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

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

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

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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Presentation of Annual Financial Statements continued...

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

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

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

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

Useful life is either:

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

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

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

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

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

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

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Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit

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

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

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

Reversal of an impairment loss

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

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

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

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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

1.14 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

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Accounting Policies

Presentation of Annual Financial Statements continued...

Defined contribution plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight-line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

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

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

The Municipality also provides long service awards. Awards are accrued over the period of employment. Independent qualified actuaries carry out valuations of these awards. The cost of providing the above mentioned benefits is determined using the projected unit credit method.

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Presentation of Annual Financial Statements continued...

Actuarial gains/losses

Actuarial gains and losses may result from increases or decreases in either the present value of a defined employee benefit obligation or the fair value of any related plan assets. Causes of actuarial gains and losses may include:

- unexpectedly high or low rates of employee turnover, early retirement or mortality or of increase in salaries, benefits or medical costs;
- the effect of changes in estimates of future employee turnover, early retirement or mortality or of increase in salaries, benefits or medical costs;
- the effect of changes in the discount rate; and
- differences between the actual return on plan assets and the expected return on plan assets.

Actuarial gains and losses are recognised in full in the year that they occur in surplus or deficit.

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 surplus (deficit).

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

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Accounting Policies

Presentation of Annual Financial Statements 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 41.

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.

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Presentation of Annual Financial Statements continued...

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

1.16 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.17 Revenue 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.

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Presentation of Annual Financial Statements continued...

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates and Value Added Tax(VAT).

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.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by:

- services performed to date as a percentage of total services to be performed;
- surveys of work performed; or
- the proportion that the costs incurred to date bear to the total estimated costs of the transaction.

Interest

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

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

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

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Presentation of Annual Financial Statements continued...

1.18 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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.

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Presentation of Annual Financial Statements continued...

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

Measurement

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

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

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

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

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 municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

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.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

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Accounting Policies

Presentation of Annual Financial Statements continued...

Transfers and Grants

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.

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.

Income Forgone

Bequests that satisfy the definition of an asset 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.

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Accounting Policies

Presentation of Annual Financial Statements continued...

Indigent Subsidy

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.

1.19 Investment income

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

1.20 Borrowing costs

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

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

1.21 Comparative figures and prior period errors

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The Municipality corrects material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

- restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance 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.

1.23 Fruitless and wasteful expenditure

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

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

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Presentation of Annual Financial Statements continued...

1.24 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008)

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

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

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

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

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

1.25 Budget information

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

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

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

The approved budget covers the fiscal period from 2021/07/01 to 2022/06/30.

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Accounting Policies

Presentation of Annual Financial Statements continued...

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

The comparison between the last budget approved by the Municipal Council and the final budget is included as an appendix to the financial statements. Explanations of the significant variances between the last approved budget and final budget are included in the related appendix.

Furthermore explanations of the significant variances between the budget and actual amounts are also included as an appendix to the financial statements. Refer to note .

1.26 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.

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Accounting Policies

Presentation of Annual Financial Statements continued...

1.27 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.

2. New standards and interpretations

Standards and interpretations effective and adopted in the current year

In the current year, the municipality has not adopted any standards and interpretations relevant to its operations.

Standards and Interpretations early adopted

The municipality has chosen not to early adopt any standards and interpretations.

Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 01, 2022 or later periods:

GRAP 104 (amended): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decisionmaking, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

These revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect the following:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Accounting Policies

New standards and interpretations continued...

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 25: Employee Benefits

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS® 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14®) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

Key amendments to GRAP 25

Maquasi Hills Local Municipality

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Accounting Policies

New standards and interpretations continued...

The Board agreed to align GRAP 25 with IPSAS 39, but that local issues and the local environment need to be considered. As a result of this decision, there are areas where GRAP 25 departs from the requirements of IPSAS 39. The Board's decisions to depart are explained in the basis for conclusions.

The amendments to GRAP 25 are extensive and mostly affect the accounting for defined benefit plans. A new renumbered Standard of GRAP (e.g. GRAP 39) will not be issued, but rather a new version of the current GRAP 25.

The municipality expects to adopt the standard for the first time in the future. The effective date of these revisions have not yet been set.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

IGRAP 7: Limit on defined benefit asset, minimum funding requirements and their interaction

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS® 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14®) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

The effective date of these revisions have not yet been set. The municipality expects to adopt the revisions for the first time in the future.

Guideline: Guideline on the Application of Materiality to Financial Statements

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Accounting Policies

New standards and interpretations continued...

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP & References to pronouncements used in the Guideline.

The guideline is encouraged to be used by entities. The municipality expects to adopt the guideline for the first time in the future. It is unlikely that the guideline will have a material impact on the economic entity's annual financial statements.

iGRAP21: The Effect of Past Decisions on Materiality

The Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3) applies to the selection of accounting policies. Entities apply the accounting policies set out in the Standards of GRAP, except when the effect of applying them is immaterial. This means that entities could apply alternative accounting treatments to immaterial items, transactions or events (hereafter called "items").

The Board received questions from entities asking whether past decisions to not apply the Standards of GRAP to immaterial items effect future reporting periods. Entities observed that when they applied alternative accounting treatments to items in previous reporting periods, they kept historical records on an ongoing basis of the affected items. This was done so that they could assess whether applying these alternative treatments meant that the financial statements became materially "misstated" over time. If the effect was considered material, retrospective adjustments were often made.

This Interpretation explains the nature of past materiality decisions and their potential effect on current and subsequent reporting periods.

iGRAP 21 addresses the following two issues:

- Do past decisions about materiality affect subsequent reporting periods?
- Is applying an alternative accounting treatment a departure from the Standards of GRAP or an error?

The municipality expects to adopt the interpretation for the first time in the 2022/2023 financial year.

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Accounting Policies

New standards and interpretations continued...

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

An municipality applies judgement based on past experience and current facts and circumstances. The effective date of this amendment is for years beginning on or after 01 April 2025.

The municipality expects to adopt the amendment for the first time in the 2024/2025 financial statements.

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
3. Inventories		
3.1 Inventories comprise:		
Consumable stores	3 255 556	988 645
Water for distribution	123 019	123 019
	3 378 575	1 111 664
3.1.1 Consumables inventory stores - Reconciliation		
Opening balance	988 645	494 768
Purchases during the year	3 693 447	19 156 838
Expenditure	(1 426 536)	(18 683 811)
Write offs	-	20 850
Closing balance	3 255 556	988 645
4. Other financial assets		
Designated at fair value		
ABSA Bank Limited	360 000	360 000
Current assets	360 000	360 000
	360 000	360 000

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
5. Receivables from exchange transactions		
Consumer debtors - Electricity	27 392 569	14 352 069
Consumer debtors - Water	10 022 602	45 294 721
Consumer debtors - Waste water	5 612 226	12 792 500
Consumer debtors - Refuse	2 934 099	6 532 582
	45 961 496	78 971 872
Gross balances		
Consumer debtors - Electricity	96 881 278	80 695 938
Consumer debtors - Water	974 140 005	865 461 316
Consumer debtors - Waste water	451 692 638	405 175 652
Consumer debtors - Refuse	232 867 891	209 242 081
	1 755 581 812	1 560 574 987
Less : Allowance for impairment		
Consumer debtors - Electricity	(69 488 709)	(66 343 869)
Consumer debtors - Water	(964 117 403)	(820 166 595)
Consumer debtors - Waste water	(446 080 412)	(392 383 152)
Consumer debtors - Refuse	(229 933 792)	(202 709 499)
	(1 709 620 316)	(1 481 603 115)
Net Balance		
Consumer debtors - Electricity	27 392 569	14 352 069
Consumer debtors - Water	10 022 602	45 294 721
Consumer debtors - Waste water	5 612 226	12 792 500
Consumer debtors - Refuse	2 934 099	6 532 582
	45 961 496	78 971 872
Ageing		
Electricity		
Current (0 - 30 days)	27 746 160	2 511 004
31 - 60 days	1 846 891	2 656 704
61 - 90 days	1 634 666	9 837 881
91 - 120 days	2 971 772	5 695 129
121 + days	62 681 788	55 866 891
	96 881 277	76 567 609
Water		
Current (0 - 30 days)	22 782 109	15 314 325
31 - 60 days	10 555 840	15 665 394
61 - 90 days	11 055 799	14 810 821
91 - 120 days	11 614 914	18 164 262
121 + days	918 131 344	819 527 303
	974 140 006	883 482 105
Waste water		
Current (0 - 30 days)	9 046 792	3 731 496
31 - 60 days	4 195 345	3 683 931
61 - 90 days	4 091 284	3 648 561
91 - 120 days	4 062 824	3 623 894
121 + days	430 296 393	393 536 422
	451 692 637	408 224 304

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
<i>Receivables from exchange transactions continued...</i>		
Refuse		
Current (0 - 30 days)	4 502 053	1 882 103
31 - 60 days	2 124 688	1 859 867
61 - 90 days	2 076 084	1 847 185
91 - 120 days	2 062 811	1 834 928
121 + days	222 102 255	203 436 259
	232 867 891	210 860 342
<u>Reconciliation of Provision for Debt Impairment</u>		
Balance at beginning of	(1 481 603 115)	(1 198 291 093)
Effects of change in accounting policy	-	(115 932 481)
Restated balance	(1 481 603 115)	(1 314 223 574)
Contribution to provision	(228 017 202)	(167 379 541)
Balance at end of year	(1 709 620 317)	(1 481 603 115)

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
6. Receivables from non-exchange transactions		
Traffic fines	15 137 476	14 962 394
Consumer debtors - Rates	2 102 891	9 374 811
Other sundry debtors	171 063	120 836
	17 411 430	24 458 041
Gross balances		
Traffic fines	33 646 381	31 990 927
Consumer debtors - Rates	204 332 325	211 823 871
Other sundry debtors	4 663 771	4 099 506
	242 642 477	247 914 304
Less : Allowance for impairment		
Traffic fines	(18 508 905)	(17 028 533)
Consumer debtors - Rates	(202 229 434)	(202 449 060)
Other sundry debtors	(4 492 708)	(3 978 670)
	(225 231 047)	(223 456 263)
Net Balance		
Traffic fines	15 137 476	14 962 394
Consumer debtors - Rates	2 102 891	9 374 811
Other sundry debtors	171 063	120 836
	17 411 430	24 458 041
Ageing		
Rates		
Current (0 - 30 days)	9 818 971	9 669 938
31 - 60 days	4 333 117	4 229 507
61 - 90 days	4 462 000	4 103 928
91 - 120 days	4 421 803	4 153 954
121 + days	183 192 060	192 773 057
	206 227 952	214 930 384
Other sundry debtors		
Current (0 - 30 days)	132 431	1 882 103
31 - 60 days	39 954	1 859 867
61 - 90 days	43 508	1 847 185
91 - 120 days	111 006	1 834 928
121 + days	4 336 873	203 436 259
	4 663 772	210 860 342
Reconciliation of Provision for Debt Impairment		
Rates		
Balance at beginning of	(202 449 061)	(152 445 242)
Effects of change in accounting policy	-	(14 760 038)
Restated balance	(202 449 061)	(167 205 280)
Contribution to provision	219 627	(35 243 781)
Balance at end of year	(202 229 434)	(202 449 061)

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
<i>Receivables from non-exchange transactions continued...</i>		
Fines		
Balance at beginning of	(17 028 533)	(55 874 659)
Contribution to provision	(1 480 372)	(829 139)
Reversal of provision	-	39 675 265
Balance at end of year	(18 508 905)	(17 028 533)

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
7. Statutory receivables		
In accordance with the principles of GRAP 108, Statutory Receivables of the municipality are classified as follows:		
Receivables from Non-Exchange Transactions		
Rates	204 332 325	211 823 871
Fines	33 646 381	31 990 927
Total Statutory Receivables (before provision)	237 978 706	243 814 798
Less: Provision for debt impairment		
Rates	(202 229 434)	(202 449 060)
Fines	(18 508 905)	(17 028 533)
Total provision	(220 738 339)	(219 477 593)
Total Statutory Receivables (after provision)	17 240 367	24 337 205
Statutory Receivables arises from the following legislation:		
Taxes	- Value Added Tax Act (No 89 of 1991)	
Rates	- Municipal Properties Rates Act (No 6 of 2004)	
Fines	- Criminal Procedures Act	
Statutory receivables are initially measured at transaction value, and subsequently at cost.		
<u>(Rates): Ageing</u>		
Current (0 - 30 days)	9 818 971	9 669 938
31 - 60 days	4 333 117	4 229 507
61 - 90 days	4 462 000	4 103 928
91 - 120 days	4 421 803	4 153 954
121 + days	183 192 060	192 773 057
Total	206 227 952	214 930 384
<u>Reconciliation of Provision for Debt Impairment</u>		
Balance at beginning of year	(219 477 594)	(208 319 901)
Contribution to provision	(1 260 745)	(36 072 920)
	-	24 915 227
Balance at end of year	(220 738 339)	(244 392 821)
<u>Interest Received from Statutory Receivables</u>		
Receivables from Non-Exchange Transactions	11 589 644	9 644 055
	11 589 644	9 644 055

Interest is levied at a rate determined by the council on outstanding rates amounts.

Every effort is made to ensure compliance with the standard, but due to the risk of omission of some items due to a lack of experience with implementing this standard, the municipality is utilising the transitional provisions contained within Directive 4 that grant the municipality a period of three years in order to finalise the classification and measurement for Statutory Receivables.

The transitional period commences from 1 June 2019 and will be utilised until the period ending 30 June 2022.

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R

8. Cash and cash equivalents

Cash and cash equivalents comprise:

Cash

Cash on hand	56 632	47 780
Balances with banks	2 265 612	-
Total cash	2 322 244	47 780

Cash equivalents

Short term investments	10 199 897	23 456 240
Total cash equivalents	10 199 897	23 456 240

Total cash and cash equivalents included in current assets

12 522 141 **23 504 020**

Bank overdrafts

- (471 525)

Total overdrawn cash and cash equivalents included in current liabilities

- **(471 525)**

Net cash and cash equivalents

12 522 141 **23 032 495**

No cash and cash equivalents were pledged as security for obligation.

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R

Cash and cash equivalents continued...

The Municipality had the following bank accounts

Account number / Description	Bank statement balances			Cash book balances		
	June 30 2022	June 30 2021	June 30 2020	June 30 2022	June 30 2021	June 30 2020
Primary bank accounts						
Absa Bank - MAIN 4055605473	(200 575)	(1 537 524)	2 271 895	2 265 612	(471 525)	245 066
Absa Bank - PMU 4064023765	8 231 213	12 617 561	5 952 717	8 231 214	12 617 562	5 952 717
Absa Bank - PREMIER 4055686261	1 016 253	8 637 967	9 989 288	(1 629 215)	8 637 968	9 989 288
Absa Bank - LICENCING 4050989969	503 081	1 214 590	3 917 164	2 503 081	1 214 591	3 917 164
Absa Bank - TMT 4061545689	128 601	195 928	3 367 517	84 785	195 929	3 367 517
Absa Bank - PUBLIC SAFETY 4049678703	347 293	124 285	31 316	323 335	124 285	31 316
Absa Bank - SOLIDARITY FUND 4052543232	20 436	22 547	1 727	20 437	22 546	1 727
Absa Bank - HOUSING DVT FUND 4055636965	18 230	19 992	21 456	18 230	19 992	21 456
Absa Bank - CALL ACCOUNT 4064692380	16 543	18 127	19 435	16 543	18 127	19 435
Absa Bank - MONEY MARKET 9126643503	531 464	509 053	488 594	531 464	509 054	488 594
Absa Bank - ESKOM GUARANTEE 9138622959	99 973	96 186	92 320	100 023	96 186	92 320
	10 712 515	21 918 713	26 153 429	12 465 509	22 984 715	24 126 600

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R

9. Property, plant and equipment

	Cost / Valuation	2022 Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	2021 Accumulated depreciation and accumulated impairment	Carrying value
Land	109 261 918	-	109 261 918	109 261 918	-	109 261 918
Buildings	118 397 478	(104 946 200)	13 451 278	118 397 478	(100 100 261)	18 297 217
Plant and machinery	4 343 977	(3 806 343)	537 634	4 311 499	(3 594 783)	716 716
Furniture and fittings	3 279 693	(2 882 839)	396 854	3 279 693	(2 771 369)	508 324
Motor vehicles	17 714 501	(10 719 604)	6 994 897	11 499 060	(9 625 664)	1 873 396
Office equipment	1 465 868	(1 028 610)	437 258	1 303 368	(909 471)	393 897
IT Equipment	3 367 460	(2 650 498)	716 962	3 101 810	(2 416 994)	684 816
Infrastructure	1 586 126 158	(811 119 022)	775 007 136	1 562 616 713	(776 387 610)	786 229 103
Community assets	59 001 423	(47 294 984)	11 706 439	59 001 423	(44 817 158)	14 184 265
Work in progress	68 596 868	-	68 596 868	37 197 396	-	37 197 396
Other Property,plant and equipment	1 863 243	(1 423 845)	439 398	1 835 243	(1 307 716)	527 527
	1 973 418 587	(985 871 945)	987 546 642	1 911 805 601	(941 931 026)	969 874 575

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R

Property, plant and equipment continued...

9.1 Balances at year end and movements for the year

	Land	Buildings	Plant and machinery	Furniture and fittings	Motor vehicles	Infrastructure	Community Assets	Work in progress	Office equipment	Computer equipment	Other Property, plant and equipment	Total
Reconciliation for the year ended 30 June 2022												
Balance at 1 July 2021												
At cost	109 261 918	118 397 478	4 311 499	3 279 693	11 499 060	1 562 616 713	59 001 423	37 197 396	1 303 368	3 101 810	1 835 243	1 911 805 601
Accumulated depreciation	-	(100 100 261)	(3 594 783)	(2 771 369)	(9 625 664)	(776 387 610)	(44 817 158)	-	(909 471)	(2 416 994)	(1 307 716)	(941 931 026)
Net book value	109 261 918	18 297 217	716 716	508 324	1 873 396	786 229 103	14 184 265	37 197 396	393 897	684 816	527 527	969 874 575
Additions	-	-	32 478	-	6 215 441	-	-	54 361 115	162 500	265 651	28 000	61 065 185
Transfers	-	-	-	-	-	11 480 821	-	(11 480 821)	-	-	-	-
Depreciation	-	(4 845 939)	(211 560)	(111 470)	(1 093 940)	(34 795 686)	(2 477 826)	-	(119 139)	(233 503)	(116 129)	(44 005 192)
Closing balance at 30 June 2022												
At cost	109 261 918	118 397 478	4 343 977	3 279 693	17 714 501	1 586 126 158	59 001 423	68 596 868	1 465 868	3 367 460	1 863 243	1 973 418 587
Accumulated depreciation	-	(104 946 200)	(3 806 343)	(2 882 839)	(10 719 604)	(811 119 022)	(47 294 984)	-	(1 028 610)	(2 650 498)	(1 423 845)	(985 871 945)
Net book value	109 261 918	13 451 278	537 634	396 854	6 994 897	775 007 136	11 706 439	68 596 868	437 258	716 962	439 398	987 546 642
Reconciliation for the year ended 30 June 2021												
Balance at 1 July 2020												
At cost	109 261 918	118 397 478	4 311 501	3 082 264	11 499 060	1 515 989 980	59 001 423	34 163 403	824 247	2 900 068	1 370 571	1 860 801 913
Accumulated depreciation	-	(96 159 615)	(2 777 010)	(2 371 676)	(7 843 394)	(737 667 191)	(42 806 014)	-	(664 287)	(1 606 233)	(975 735)	(892 871 155)
Net book value	109 261 918	22 237 863	1 534 491	710 588	3 655 666	778 322 789	16 195 409	34 163 403	159 960	1 293 835	394 836	967 930 758
Additions	-	-	-	197 429	-	-	-	50 049 929	479 121	201 739	464 672	51 392 890
Transfers	-	-	-	-	-	46 626 733	-	(46 626 733)	-	-	-	-
Depreciation	-	(3 940 646)	(504 328)	(382 427)	(1 782 270)	(38 706 555)	(2 011 144)	-	(184 703)	(538 522)	(244 858)	(48 295 453)
Impairment loss	-	-	(313 447)	(17 266)	-	(13 864)	-	-	(60 481)	(272 237)	(87 123)	(764 418)
Other changes, movement	-	-	-	-	-	-	-	(389 203)	-	-	-	(389 203)
Closing balance at 30 June 2021												
At cost	109 261 918	118 397 478	4 311 499	3 279 693	11 499 060	1 562 616 713	59 001 423	37 197 396	1 303 368	3 101 810	1 835 243	1 911 805 601
Accumulated depreciation	-	(100 100 261)	(3 594 783)	(2 771 369)	(9 625 664)	(776 387 610)	(44 817 158)	-	(909 471)	(2 416 994)	(1 307 716)	(941 931 026)
Net book value	109 261 918	18 297 217	716 716	508 324	1 873 396	786 229 103	14 184 265	37 197 396	393 897	684 816	527 527	969 874 575

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
<i>Property, plant and equipment continued...</i>		
9.2 Additional disclosures		
No assets were pledged as a security and there are no restrictions on the title of the property, plant and equipment.		
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.		
10. Investment property		
Balances at year end and movements for the year		
Reconciliation for the year		
At Fair value	120 274 000	115 671 000
Movements for the year		
Gains (losses) on fair value adjustment	11 406 000	5 617 000
Disposals	-	(1 014 000)
Investment property at end of year	131 680 000	120 274 000
At fair value	131 680 000	120 274 000

No assets are pledged as security.

The significant portion of the Municipality's investment property is vacant land.

Investment properties were valued by an independent professional valuator during the 2021/2022 financial year end.

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.

Details of valuation

The following valuation approach was followed for investment property:

Comparable Sales approach

The Comparable Sales approach is the best suited method of valuation for the subject property which is based on the premise that properties with similar attributes are likely to fetch similar price if sold around the same time. Fair value was supported by market evidence as Comparable sales method was used to determine the market value of all the properties.

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	322 069	281 847
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There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal and no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements for the financial year ended 30 June 2022

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
11. Other financial liabilities		
At Amortised cost		
DBSA loan - 61007165	31 897 751	34 024 062
DBSA Loan arrears - 61007165	27 950 942	22 449 235
DBSA Loan arrears - 61007163	2 479	2 257
	59 851 172	56 475 554
Non-current portion of other financial liabilities	29 663 114	31 897 751
Current portion of other financial liabilities	30 188 058	24 577 803
	59 851 172	56 475 554
Defaults and breaches		
DBSA loan 61007165 was obtained in 2013 with a term of 20 years. The loan is repayable in quarterly instalments of R947 095.19 at an interest rate of 5%. The municipality has missed the instalments for the current financial years and preceding years due to liquidity crisis.		
The carrying amount payable which is in default at the end of the reporting period	27 953 421	22 451 492
In April 2021, the municipality entered into a loan restructuring agreement with DBSA where it was agreed that the outstanding balance of the loan together with the amounts in arrears will be payable in sixty quarterly instalments of R1 027 848.23 commencing 30 June 2021.		
During the period, there were breaches of this loan restructuring agreement terms as the municipality missed all the restructured payments. These breaches permitted the lender to accelerate or place on demand payment of all amounts owing by the municipality to the DBSA.		
12. VAT Payable		
VAT Payable	171 299 589	161 071 782
	171 299 589	161 071 782
13. Consumer deposits		
Electricity	2 053 903	1 891 013
Water	620 213	590 397
Total Consumer deposits	2 674 116	2 481 410

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
14. Payables from exchange transactions		
Payables from exchange transactions comprise:		
Trade payables	332 562 039	293 194 640
Debtors with credit balances	9 867 517	6 023 564
Unallocated deposits	599 515	1 646 328
Accrued leave pay	7 681 803	8 063 198
Accrued bonus	1 602 665	1 717 871
Retention	6 928 509	10 103 176
Salary control	3 157 129	3 475 973
Other creditors	872 188	(58 984)
Deposits	4 854 283	4 853 628
Accruals	30 509 555	18 706 735
Creditor - Licencing	4 134 328	2 213 334
Total payables from exchange transactions	402 769 531	349 939 463

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
15. Employee benefit obligations		
The amounts recognised in the statement of financial position are as follows:		
Post retirement health care benefits	21 477 000	20 558 000
Long service awards	4 439 001	4 283 000
	25 916 001	24 841 000
Non-current liabilities	24 532 001	23 659 000
Current liabilities	1 384 000	1 182 000
	25 916 001	24 841 000
Post retirement health care benefits		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	20 558 000	21 347 334
Benefits paid	(714 833)	(687 212)
Net expense recognised in the statement of financial performance	1 633 833	(102 122)
	21 477 000	20 558 000
Net expense recognised in the statement of financial performance		
Current service cost	867 000	1 009 730
Interest cost	2 076 000	1 988 775
Actuarial (gains) losses	(1 309 167)	(3 100 627)
	1 633 833	(102 122)
Key assumptions used		
Assumptions used at the reporting date:		
Discount rate used	11.85%	10.24%
Long service awards		
Opening balance	4 283 000	4 131 649
Benefits paid	(644 877)	(327 348)
Net expense recognised in the statement of financial performance	800 877	478 699
	4 439 000	4 283 000
Net expense recognised in the statement of financial performance		
Current service cost	331 000	350 965
Interest cost	351 000	321 249
Actuarial (gains) losses	118 877	(193 515)
	800 877	478 699
Key assumptions used		
Assumption		2022 Value p.a.
Discount rate		10.81%
General earnings inflation rate (long-term)		7.33%
Net effective discount rate		3.24%

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
16. Unspent conditional grants and receipts		
Municipal Infrastructure grant	3 054 566	721 867
Water Services Infrastructure grant	572 606	-
Provincial Government Library Grant	83 547	-
Dr Kenneth Kaunda District Municipality	20 316	20 316
	3 731 035	742 183

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

The amounts will be recognised as revenue when conditions have been met.

See note 25 for reconciliation of grants from National/Provincial Government.

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)		
17. Provisions				
The total amounts recognised in the statement of financial position are as follows:				
Environmental rehabilitation	63 708 574	60 251 065		
	63 708 574	60 251 065		
Reconciliation of provisions - 2022	Opening balance	Additions	Reductions	Closing balance
Environmental rehabilitation	60 251 065	3 457 509	-	63 708 574
	60 251 065	3 457 509	-	63 708 574
Reconciliation of provisions - 2021	Opening balance	Additions	Reductions	Total
Environmental rehabilitation	57 825 043	2 426 022	-	60 251 065
	57 825 043	2 426 022	-	60 251 065

Environmental rehabilitation provision

The provision is made in terms of the licensing stipulations. The Provision has been determined on the basis of the recent independent study by taking into account a number of factors to the design, manner of operations and rehabilitation measures proposed which was assessed, investigated and tested. There is no anticipated environmental harm, groundwater pollution, leachate leakage that could be found. The municipality did not alter any structure and infrastructure to the existing landfill.

The CPI is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used is based on the annual average CPI for the financial year. The average of the CPI for the year amounted to 6%.

The current expected remaining life of the landfill is estimated as follows, after which the resulting outflows of economic benefits or service potential is expected.

Maquassie	1 year
Leeuwdongstad	1 year
Witpoort	1 year
Wolmaranstad	5 years

Rehabilitation and closure report was compiled by Ekolaw Consulting appointed by the Council.

Changes in the present value of provision for landfill rehabilitation are as follows:

Opening balance	60 251 065	57 825 043
Additions	3 457 509	-
Prior period error (Please refer to note 42)	-	2 426 022
	63 708 574	60 251 065

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
18. Service charges		
Sale of electricity	67 742 322	81 229 598
Sale of water	68 148 453	97 607 534
Solid waste	30 646 378	28 357 124
Refuse removal	15 147 492	13 991 106
	181 684 645	221 185 362
19. Other Income		
Sale of publications	137 009	389 550
Information and handling fees	230 927	245 495
Advertisements	40 931	48 466
Planning and development	170 198	66 651
Valuation services	-	568
Burial fees	193 173	215 335
Photocopy and faxes	8 493	449
Insurance refund	404 504	76 998
Incidental cash supplies	1 412	508 670
Forfeited deposits	1 518 974	748 481
	2 705 621	2 300 663
20. Interest received - Investment		
Bank	622 607	753 803
	622 607	753 803
21. Interest received - Service charges		
Interest - Receivables from non-exchange transactions	73 979 803	58 810 355
	73 979 803	58 810 355
22. Licences and permits		
Road and Transport	4 120 924	2 164 212
	4 120 924	2 164 212

Maquassi Hills Municipality entered into a principal agent relationship with the Department of Transport (DOT) whereby the Municipality performs vehicle registration and licencing functions on behalf of the Department of transport.

Maquassi Hills Municipality is the agent as defined in GRAP 109 as it has been directed by Department of Transport (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

Maquassi Hills Municipality receives a fixed fee of 20% of all monthly revenue collected in respect of licencing and registration of motor vehicles and shall deposit 80% of the said revenue collected on a monthly basis to Department of Transport Account on or before the 7th day of each month. There were no changes to significant terms and conditions during the reporting period.

There are no significant risks attached to the arrangement.

Refer to Note 14 for details of the liability resulting from the arrangement,

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
23. Property rates		
Residential	29 088 520	28 161 752
Commercial	6 812 283	7 393 288
State	1 854 448	4 449 305
Small holdings and farms	13 646 396	13 603 437
	51 401 647	53 607 782
Valuations		
Residential	1 808 977 284	1 587 317 351
Commercial	338 140 086	295 350 382
State	196 506 378	71 899 587
Agriculture	2 697 863 834	2 867 126 754
Other	71 268 058	250 842 528
	5 112 755 640	5 072 536 602
24. Interest received - Property rates		
Interest - Receivables from non-exchange transactions	11 589 644	9 644 055
	11 589 644	9 644 055

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
25. Government grants and subsidies		
Operating grants		
Equitable share	143 540 867	160 563 000
Finanacial management grant	3 100 000	3 028 971
Expanded public works programme	1 386 000	1 142 000
Provincial Government library grant	859 453	896 902
LG SETA	151 106	-
	149 037 426	165 630 873
Capital grants		
Municipal Infrastructure grant	36 577 434	25 233 775
Provincial Infrastructure grant	3 160 894	1 438 549
Water Service Infrastructure grant	29 427 394	30 179 336
	69 165 722	56 851 660
	218 203 148	222 482 533

Equitable Share

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

All registered indigents receive a monthly subsidy which is funded from the grant.

Municipal Infrastructure Grant

Balance unspent at beginning of year	721 867	1 070 765
Current-year receipts	39 632 000	24 884 876
Conditions met - transferred to revenue	(36 577 434)	(25 233 774)
Repayment of unspent grant	(721 867)	-
Balance unspent at the end of the year	3 054 566	721 867

The Municipality Infrastructure Grant complements the equitable share grant for local government, however, it is provided conditionally to Municipalities. One of the key objects of the grant is to fully subsidise the capital costs of providing basic services to poor households. This implies that priority must be given to meeting the basic infrastructure needs of poor households, through the provision of appropriate bulk, connector, and internal infrastructure in key services. The grant was used by the Municipality to build and develop its infrastructure. The unused funds are committed and remain a liability at financial year end.

Water Service Infrastructure Grant

Balance unspent at beginning of year	-	179 336
Current-year receipts	30 000 000	30 000 000
Conditions met - transferred to revenue	(29 427 394)	(30 179 336)
Balance unspent at the end of the year	572 606	-

The grant is used for water service infrastructure and restructuring. The capacity building and restructuring grants were set up to assist municipalities in developing and providing quality water services. The grant was utilised by the Municipality for its intended purposes(see note 15).

Provincial Infrastructure Grant

Current-year receipts	3 160 894	1 438 549
Conditions met - transferred to revenue	(3 160 894)	(1 438 549)
Balance unspent at the end of the year	-	-

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
Government grants and subsidies continued...		
<p>The purpose of this grant was to develop infrastructure required to connect or augment a water resource, to infrastructure serving extensive areas across municipal boundaries or large regional bulk infrastructure serving numerous communities over a large area with the Municipality. This is an in kind service received from the Department of Water Affairs relating to water infrastructure projects incurred on the Municipality's behalf. (see note 15).</p>		
Finance Management Grant		
Balance unspent at beginning of year	-	28 971
Current-year receipts	3 100 000	3 000 000
Conditions met - transferred to revenue	(3 100 000)	(3 028 971)
Balance unspent at the end of the year	-	-
<p>The main purpose of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. Its primary purpose is to assist in building strong financial management skills. The grant was utilised by the Municipality for its intended purposes (see note 15).</p>		
Provincial Government Library Grant		
Current-year receipts	943 000	896 902
Conditions met - transferred to revenue	(859 453)	(896 902)
Balance unspent at the end of the year	83 547	-
EPWP Roads		
Current-year receipts	1 386 000	1 142 000
Conditions met - transferred to revenue	(1 386 000)	(1 142 000)
Balance unspent at the end of the year	-	-
<p>The grant is received from the National Department of Public Works for creating job opportunities for unemployed persons and so allowing economic participation and resulting in poverty alleviation (see note 15).</p>		
Dr Kenneth Kaunda Local Municipality		
Balance unspent at beginning of year	20 316	20 316
Balance unspent at the end of the year	20 316	20 316
Total		
Balance unspent at beginning of year	742 183	1 299 388
Current-year receipts	78 221 894	61 362 327
Conditions met - transferred to revenue	(74 511 175)	(61 919 532)
Repayment of unspent grant	(721 867)	-
Balance unspent at the end of the year	3 731 035	742 183
26. Fines, Penalties and Forfeits		
Illegal connection fees	82 468	7 729
Municipal traffic fines	1 916 670	4 158 450
	1 999 138	4 166 179

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
27. Employee related cost		
Basic	52 758 561	48 845 065
Bonus	3 614 463	3 755 270
Medical aid - company contributions	4 963 216	4 471 641
UIF	483 640	425 530
Contributions - Bargain council	28 377	27 535
Leave pay provision charge	853 268	2 892 869
Contributions - Group Life Insurance	414 596	379 580
Pension contributions	8 683 486	8 403 843
Defined contribution plans	867 000	1 358 487
Travel allowances	3 884 448	4 606 796
Overtime payments	8 522 146	7 614 716
Long service awards	331 000	-
Housing benefits and allowances	450 425	446 567
Cellular and Telephone	382 567	400 350
Rental Subsidy	56 250	56 500
Scarcity allowance	511 600	1 486 513
Standby Allowance	3 125 565	3 130 218
	89 930 608	88 301 480
Remuneration of Municipal Manager - Mr VE Zikalala		
Annual Remuneration	-	2 035 274
Car Allowance	-	309 879
Contributions to UIF, Medical and Pension Funds	-	1 745
	-	2 346 898
Mr VE Zikalala was Municipal manager from July 2020 to 31 May 2021		
Remuneration of Municipal Manager - Mr KJ Leseisane (Nov 2021 - March 2022)		
Annual Remuneration	353 093	-
Car Allowance	116 149	-
Acting allowance	115 327	88 949
Contributions to UIF, Medical and Pension Funds	12 518	-
Other allowances	14 088	-
	611 176	88 949
Remuneration of Chief Financial Officer - Mr LJ Mogoemang		
Annual Remuneration	660 107	659 060
Car Allowance, Accommodation and Other allowances	252 763	255 609
Contributions to UIF, Medical and Pension Funds	34 213	46 489
	947 083	961 158
Remuneration of Executive directors		

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
<i>Employee related cost continued...</i>		
Director: Community Services - Mr VG Nicodemus		
Annual Remuneration	703 645	703 645
Car Allowance, accommodation and other allowances	260 684	264 009
Contributions to UIF, Medical and Pension Funds	2 125	1 932
	966 454	969 586
Director: Corporate Services - Mr KJ Leseisane (Jul 2021 - Oct 2022)		
Annual Remuneration	225 215	686 721
Car Allowance	74 895	255 609
Contributions to UIF, Medical and Pension Funds	10 414	18 823
Other allowances	9 200	
	319 723	961 153
Acting Director: Corporate Services - Mr VK Motlashuping		
Acting allowance	25 122	-
	25 122	-
Director: Engineering - Mr N Mwase		
Annual Remuneration	703 645	703 645
Car Allowance, accommodation and other allowances	260 684	264 009
Contributions to UIF, Medical and Pension Funds	2 125	1 932
	966 454	969 586
28. Remuneration of councillors		
Mayor	905 260	938 369
Executive committee members	2 070 139	2 144 638
Speaker	735 558	759 577
Councillors	5 001 546	5 104 918
Chief Whip	245 351	714 879
	8 957 854	9 662 381
29. Depreciation and amortisation		
Property, plant and equipment	43 940 919	48 295 452
	43 940 919	48 295 452
30. Finance cost		
Measured at amortised cost - Non current borrowings	3 375 618	3 162 527
Overdue accounts	2 480 098	1 192 871
Provision for landfill sites	3 457 509	2 426 022
Interest expense on employee benefit obligation	2 427 000	2 310 024
	11 740 225	9 091 444

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
31. Lease rentals on operating lease		
Contractual amounts	-	28 600
	<u>-</u>	<u>28 600</u>
32. Debt Impairment		
Contribution to debt impairment provision	229 792 439	203 774 998
	<u>229 792 439</u>	<u>203 774 998</u>
33. Bulk purchases		
Electricity - Eskom	80 908 351	61 517 822
Water	52 111 593	50 227 718
	<u>133 019 944</u>	<u>111 745 540</u>
Electricity losses		
Electricity units (Kwh) purchased from Eskom	47 254 776	48 386 108
Electricity units (Kwh) sold to customers	(33 057 546)	(50 966 726)
	<u>14 197 230</u>	<u>(2 580 618)</u>
Distribution loss or (gain)	30%	-5%
<p>Electricity loss for the financial year is 30% (2021: 5% gain). The electricity distribution loss for the current financial year is 14 197 230 (2021: 2 580 618 KWH gain). The Rand value of Electricity loss for the current financial year is R24 726 873 (2021: R3 294 673). The distribution gain is attributable to the units purchased that are based on actual reading supplied by Eskom and the units sold by the municipality that are based on both actual and estimated electricity meter readings.</p>		
Water losses		
Water (KL) purchased	4 161 369	4 229 998
Water (KL) sold to customers	(2 144 286)	(3 218 688)
	<u>2 017 083</u>	<u>1 011 310</u>
	48%	24%

Water loss for the financial year is 48%(2021:24%). The water losses for the current financial year is 2 017 083 (2021: 1 011 310). The Rand value of water losses for the current financial year R21 216 832(2021:R12 064 928).

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
34. Contracted services		
Outsourced Services		
Catering Services	1 243 113	1 640 745
Traffic fineas management	150 524	30 960
Consultants and Professional services		
Business and advisory	22 997 892	37 388 621
Infrastructure and Planning	1 163 162	1 932 468
Contractors		
Electrical	2 873 727	(13 008 562)
Event promoters		
Maintenance of buildings and facilities	-	89 667
Maintenance of other assets	15 920	21 957
Prepaid electricity vendors	(7 500)	-
Safeguard and security	4 409 506	2 384 256
	32 846 344	30 480 112
35. General expenses		
Advertising	1 568 862	1 874 844
Auditors remuneration	4 938 083	4 776 780
Bad debts written off	51 370 144	34 861 306
Bank charges	641 229	656 818
Computer expenses	69 814	-
Consulting and professional fees	-	(460)
Consumables	22 974 364	18 683 810
Hire	9 409 358	623 194
Insurance	824 983	2 050 058
Motor vehicle licence registration fee	-	-
Printing and stationery	-	422
Subscription and membership fees	1 032 361	1 226 052
Telephone and fax	830 557	1 086 334
Travel and subsistence	1 786 171	3 669 545
Travel and subsistence - Non employees	3 889 097	6 972
Uniform and protective clothing	163 695	4 495
Skills development Levy Fund	749 558	655 694
Remuneration of ward committees	1 619 336	1 241 000
Signage	-	8 680
Registration fees - national	388 771	396 057
Licence agency fees	110 744	42 945
	102 367 127	71 864 546
36. Actuarial gains/(Losses)		
Long service awards	(118 877)	193 515
Post Retirement health care benefits	1 309 167	3 100 627
	1 190 290	3 294 142
37. Fair value adjustment		
Investment property (fair value model)	11 406 000	5 617 000
	11 406 000	5 617 000

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
38. Cash flows from operating activities		
Loss / (profit) for the year	(93 369 924)	10 081 732
Adjustments for:		
Depreciation and amortisation	43 940 919	48 295 452
Provisions adjustment	3 457 509	2 426 022
Employee benefit obligation adjustment	1 075 001	6 236 000
Actuarial gain or loss	(1 190 290)	(3 294 142)
Impairment adjustment	229 792 439	203 774 998
Loss/ (profit) on disposal of assets	-	196 650
Gains on fair value adjustments	(11 406 000)	(5 617 000)
Impairment loss	-	764 418
Inventory write-down to net realisable value	-	20 580
Bad debts written off	51 370 144	34 861 306
Other non-cash items	(10 026 787)	(10 849 128)
Leave and bonus provision adjustments	(815 445)	(2 436 959)
	306 197 490	274 378 197
Change in working capital:		
Inventories	(2 266 911)	(534 387)
Receivables from non-exchange transactions	5 271 827	(389 123)
Other receivables from exchange transactions	(195 006 825)	(224 667 001)
Payables from exchange transactions	48 170 675	9 535 422
VAT	(10 227 807)	(17 693 309)
Other financial liabilities	(5 610 255)	(2 126 347)
Unspent conditional grants and receipts	(2 988 852)	407 562
Consumer deposits	192 706	129 481
	(162 465 442)	(235 337 702)
Net cash flows from operations	50 362 124	49 122 227

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
39. Commitments		
Authorised Capital expenditure		
Approved and contracted for		
Property, plant and equipment	44 911 133	38 432 015
Prior period error. Refer to Note 42	-	31 153 557
	44 911 133	69 585 572
Total Capital commitments		
Approved and contracted for	44 911 133	69 585 572
	44 911 133	69 585 572
Authorised Operational commitments		
Approved and contracted for		
Operational commitments	13 438 351	4 259 718
Total operational commitments		
Approved and contracted for	13 438 351	4 259 718
	13 438 351	4 259 718

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
40. Contingencies		
Contingent liabilities		
Case	Status	Amount
Mr Conrad Beaton - A claim for damages on a car that hit pothole	The claim was submitted to the Insurer, however the amount is within excess of R20 000. Therefore it is still in progress at the management level.	17 460
Tumelo Boys - A claim for damages on a car that hit pothole	The claim was submitted to the Insurer, however the amount is within excess of R20 000. Therefore it is still in progress at the management level.	13 430
Itumeleng Morake - A claim for damages on a car that hit pothole	The claim was submitted to the Insurer, however the amount is within access. Therefore it is still in progress at the management level.	3 600
Lefa Sentsho - A claim for damages on a car that hit pothole	The claim was submitted to the Insurer, however the amount is within access. Therefore it is still in progress at the management level.	4 000
Department of Labour - Non Compliance with Basic Conditions on Compensation Commission Payments	The municipality disputed this matter and there are further engagements	2 720 009
Mr Hugo Van Der Merwe - A claim for damages on a car that hit pothole	Submitted to insurance and awaiting the outcome	34 519
Chrisstoffel Nicolaas Gerhardus Janse Van Vuuren- A claim for rotten meat due to power failure resulting from the municipality	The claim was submitted to the Insurer, however the amount is within acces of R20 000. Therefore it is still in progress at the management level.	10 316
Mr Shalk Van Der Merwe- A claim for damages on a car that hit pothole	The claim was submitted to the Insurer, however the amount is within acces of R20 000. Therefore it is still in progress at the management level.	9 249
Clear away property investments vs Maquassi Hills Local Municipality - Application for cross-appeal claim	Pending Appeal	314 824
Maxprof vs Maquassi and others	Matter Pending	600 000
Mr KD Mohadi - A claim for damages suffered councillor subsequent to his house being burned down during a community riot.	Case still in progress-	82 460
Kgopane - Review application	Case still in progress	300 000
Mr MM Volscheck - Damage to vehicle	Case still in progress	7 273
Windy Mahlangu - Unfair labour practice dispude, the matter is pending to CCMA	Case still in progress - Appeal	300 000
IR Jones vs Maquassi Hills - the applicant claim that the current Appointed Municipal Manager was unlawfully appointed	Case still in progress	950 000
Korone engineers vs Maquassi hills - The applicant claim that it was appointed for the project of Leeudoringstad Sewer pound rehabilitation which the municipality disputes	Case still in progress - council resolution	250 000
Mr D. Struwig - The claim of relates to the damage to his vehicle by a pothole in Leeudoringstad.	Case still in progress	8 924
Mr R Ali - The claim relates to damages to his vehicle by potholes	Case still in progress	18 043

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
Contingencies continued...		
Mr Manele - The claim relate to damage to his wall and fence	Case still in progress	63 800
CLLR Percy Mokgabi urgent application	Case still pending	450 000
Mr M. Besani - The contract of the Municipality's former Director: Engineering Services was terminated and the matter is currently at the Labour Court for review	Case still in progress	300 000
		6 457 907
Contingent Assets		
Case	Status	Amount
MHLM vs SAMWU	Case still in progress	339 158
MHLM vs Mothetos construction	Case still in progress	250 000
KWANE CAPITAL The municipality issued an application to review the appointment of Kwane Capital	Case still in progress	950 000
		1 539 158

41. Related parties

Relationships

Key management information

Class	Name	Number
Executive management		
Acting Municipal Manager	NP Karelse	1
Acting Municipal Manager	Mr KJ Leseisane	1
Chief Financial Officer	LJ Mogoemang	1
Director: Community Services	Mr VG Nicodemus	1
Director: Corporate Services	Mr KJ Leseisane	1
Acting Director: Corporate Services	Mr VK Motlashuping	1
Director: Engineering	Mr N Mwase	1

Council

Mayor	M.A Feliti	1
Councillors	Refer to General Information under Councillors	

Remuneration of management

Executive management

Please refer to Note 27 - Employee related cost

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)	
<i>Related parties continued...</i>			
Councillors			
2022			
Surname and Initials	Basic salary	Allowances	Total
MA Feliti	371 184	212 205	583 389
MD Gouws Malinga	210 058	111 812	321 870
BF Maphatsoe	255 967	211 369	467 337
SS Nkatlo	332 866	139 569	472 435
GJ Van Zyl	303 847	145 682	449 529
GV Kgabi	61 917	50 733	112 651
NL Tshingilane	151 119	94 231	245 350
M.N Ntuli	57 958	54 693	112 651
IR Dintwe	63 764	48 886	112 651
KJ Selebalo	151 119	94 231	245 350
AO Phutiyagae	63 764	48 886	112 651
TP Bonang	137 078	108 272	245 350
SO Masibi	6 462	7 175	13 637
NF Maxatshwa	61 917	50 733	112 651
LS Mokgalagadi	72 648	40 123	112 771
TS Malebatsane	384 710	172 716	557 426
JG Muller	204 323	112 508	316 830
J Pheiffer	72 648	40 003	112 651
MM Moepi	63 764	48 886	112 651
MS Madibo	72 648	40 003	112 651
SG Maruping	72 648	40 003	112 651
KA Mogapi	63 764	48 886	112 651
KS Seakane	72 648	40 003	112 651
MA Hlongwane	118 349	85 864	204 213
P Maleho	125 012	79 201	204 213
NS Monewang	312 062	132 713	444 775
M Mothibi	120 570	84 003	204 573
QP Molosi	131 675	72 405	204 079
LL Medupe	129 454	75 719	205 173
P.E Rampai	116 128	88 084	204 213
PK Leshomo	118 349	85 864	204 213
MD Modisadife	118 343	112 156	230 499
RJ Moletsane	280 482	164 294	444 775
MR Mosholi	118 349	85 864	204 213
JU Swart	131 675	72 913	204 587
L Metoa	131 675	72 538	204 213
MH Motaung	131 675	70 593	202 267
KS Calvert	131 675	70 593	202 267
DH Serape	92 824	51 133	143 957
	5 617 117	3 365 542	8 982 659

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)	
<i>Related parties continued...</i>			
2021			
Surname and Initials	Basic salary	Allowances	Total
GJ Van Zyl	462 507	194 869	657 375
GV Kgabi	455 196	230 855	686 052
NL Tshingilane	402 180	255 196	657 375
GJ Muller	195 154	105 752	300 906
J Pheiffer	195 154	105 752	300 906
MD Gouws Malinga	485 555	219 699	705 254
MN Ntuli	154 264	146 642	300 906
IR Dintwe	169 699	131 206	300 906
KJ Selebalo	402 180	255 556	657 735
BF Maphatsoe	219 835	206 196	426 031
AO Phutiyagae	169 699	131 206	300 906
TP Bonang	364 472	292 903	657 375
SO Masibi	154 264	146 642	300 906
NF Maxatshwa	166 337	134 569	300 906
LS Mokgalagadi	195 154	105 752	300 906
TS Malebatsane	195 154	105 752	300 906
MM Moepi	169 699	131 206	300 906
SD Manele	5 239	1 746	6 985
PT Mokgabi	93 228	102 068	195 296
MS Madibo	195 154	105 752	300 906
SG Maruping	189 915	104 005	293 920
KA Mogapi	169 699	131 206	300 906
KS Seakane	195 154	105 752	300 906
	5 404 894	3 450 280	8 855 174
Councillors' arrear consumer accounts owing	Outstanding less than 90 days	Outstanding more than 90 days	Total
Ms Nkatlo SS	13 142	117 139	130 281
Mr Feliti MA	3 782	1 609	5 391
Mr Molosi QP	3 775	41 738	45 513
Mr Medupe LL	7 540	108 647	116 187
Mr Modisadife MD	1 862	37 499	39 361
Mr Moletsane RJ	1 968	43 668	45 636
Mr Mosholi MR	2 571	73 269	75 840
Ms Motaung MH	1 170	-	1 170
Mr Calvert KS	378	28 143	28 521
Mr Malebatsane TS	364	4 610	4 975
	36 553	456 322	492 875

Councillor TS Malebatsane's close family member(brother) is a director of Indlela Data (Pty) Ltd and Ilezwani construction (Pty) Ltd. These suppliers are both private companies which had transactions and balances during the financial year with details as shown below:

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R		2022	2021 (Restated)
<i>Related parties continued...</i>			
Company	Description of services	Transactions(R)	Balance(R)
Indlela Data (Pty) Ltd	IT support and IT equipment	3 852 939	774 556
Ilezweni construction (Pty) Ltd	Supply of Property for COVID	-	-
		<u>3 852 939</u>	<u>774 556</u>

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
42. Prior period adjustments		
Prior period errors		
The following prior period errors were identified and the corrections have now been made to amounts previously reported in the annual financial statements of the Municipality.		
Trade and other payables		
Payables from exchange transactions were understated by R366 514 due to incorrect calculation of leave provision. The error occurred in the 2020/21 financial year.		
Accruals amounting to R18 706 735 were incorrectly classified as trade payables. Please refer to note No 14.		
Investment property		
Investment property was understated by R862 000 due to incorrect fair value gain recognised. The error occurred in the 2021 financial year.		
Cash and cash equivalents		
Cash and cash equivalents was understated by R1 910 075 due to Provincial infrastructure grant receipt of R1 438 549 that was not recorded and an overdraft of R471 526 that was incorrectly classified as current asset.		
The error occurred in the 2021 financial year.		
Unspent conditional grants		
Unspent conditional grants were overstated by R629 730 due to conditions met on Provincial Government Library Grant that were not transferred to revenue.		
The error resulted in understatement of revenue by R91 701 in 2021 financial year and R538 029 in 2020 financial year.		
Taxes and transfers payable (Non exchange)		
Taxes and transfers payable were overstated by R3 631 841 due to conditions met on Library grant that were not transferred to revenue. The error occurred in periods prior to 2021 financial year.		
Receivables from non-exchange transactions		
Receivables from non-exchange transactions were overstated by R36 212 421 due to the following:		
Provincial infrastructure grant was overstated by R1 351 115 due over spending on Provincial Infrastructure grant that was incorrectly recognised as a receivable. The error occurred in the periods prior to 2021.		
Traffic fines were overstated by R34 861 306 due to inclusion of old traffic fines tickets that could not be supported. The traffic fines were written off. The error occurred in the 2021 financial year.		
Fair value gains		
Fair value gain was understated by R862 000 due to incorrect fair value gain recognised on Investment property. The error occurred in the 2021 financial year.		

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
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Prior period adjustments continued...

Provisions

Provisions were understated by R2 426 022 in the 2020/21 financial year due to omission of interest expense on provision for landfill rehabilitation.

Government Grants and subsidies

Government grants and subsidies were understated by R1 530 249 due to Provincial infrastructure grant revenue of R1 438 549 that was not recorded and conditions met on Provincial Government Library Grant of R91 701 that were not transferred to revenue. The error occurred in the 2021 financial year.

General expenses

General expenses were understated by R34 861 306 due to bad debts on traffic fines that were not written off. The error occurred in the 2021 financial year.

Finance cost

Finance costs were understated by R2 426 022 in the 2020/21 financial year due to omission of interest expense on provision for landfill rehabilitation.

Employee cost

Employee cost was understated by R366 514 due to incorrect calculation of leave provision.

Cashflow statement

The cashflow statement for the 2020/21 financial year was reperformed with restated figures.

Irregular expenditure

Irregular expenditure was understated by R131 996 501 due to non inclusion of irregular expenditure items identified during the pervious periods.

Unauthorised expenditure

Unauthorised expenditure was overstated by R492 520 725 to incorrect calculation in the previous years. The error to the amount of (R614 300 490) occurred from 2017/2018 to 2019/20 financial years and R121 779 765 occurred in the 2020/21 financial year.

Commitments

Capital Commitments were understated by R31 153 557 in the 2020/21 financial year due to incorrect contract amounts and/or incorrect payments being captured.

Change in accounting policy

The Municipality changed its accounting policy on Debt impairment to align it with the requirements of GRAP 104 - Financial Instruments.

The change in accounting policy was applied retrospectively resulted in a net decrease of R84 144 409 on Receivables from exchange transactions and R10 193 226 on Receivables from non exchange transactions for the financial year ending 2020/2021. The change also resulted in a decrease of debt impairment by R36 640 375 for the 2020/21 financial year.

The Municipality implemented its accounting policy on Unallocated deposits retrospectively. The implementation resulted in a net reduction of R748 481 in Trade and other payables and a corresponding increase in other income.

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R

Prior period adjustments continued...

The effects of the errors above and change in accounting policy can be summarised as follows:

Statement of financial position

	Previously reported	Correction of prior period error (Other)	Correction of prior period error (Classification)	Effects of change in accounting policy	Restated balance
Receivables from exchange transactions	163 116 281	-	-	(84 144 409)	78 971 872
Receivables from non-exchange transactions	70 863 688	(36 212 421)	-	(10 193 226)	24 458 041
Investment property	119 412 000	862 000	-	-	120 274 000
Cash and cash equivalents	21 593 943	1 438 549	471 525	-	23 504 017
Payables from exchange transactions	(350 321 428)	(366 514)	-	748 481	(349 939 461)
Provisions	(57 825 043)	(2 426 022)	-	-	(60 251 065)
Other financial liabilities - Non current	(77 854 392)	23 505 185	22 451 456	-	(31 897 751)
Other financial liabilities - Current	(2 126 347)	-	(22 451 456)	-	(24 577 803)
Unspent conditional grants	(1 371 913)	629 730	-	-	(742 183)
Taxes and transfers payable	(3 631 841)	3 631 841	-	-	-
Bank overdraft	-	-	(471 525)	-	(471 525)
Accumulated surplus	(664 806 995)	8 937 652	-	93 589 154	(562 280 189)
	(782 952 047)	-	-	-	(782 952 047)

Statement of Financial Performance

	Previously reported	Correction of prior period error	Correction of prior period error (Classification)	Effects of change in accounting policy	Restated balance
Other Income	1 675 880	-	-	748 481	748 481
Fair value gains	4 755 000	862 000	-	-	5 617 000
Government Grants and subsidies	220 952 283	1 530 249	-	-	222 482 532
General expenses	(37 003 239)	(34 861 306)	-	-	(71 864 545)
Employee cost	(87 934 971)	(366 514)	-	-	(88 301 485)
Finance cost	(6 665 422)	(2 426 022)	-	-	(9 091 444)

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R

Prior period adjustments continued...

Debt impairment	(240 415 373)	-	-	36 640 375	(203 774 998)
	(144 635 842)	(35 261 593)	-	37 388 856	(144 184 459)

Disclosures

Commitments - Capital	38 432 015	31 153 557	-	69 585 572
Irregular expenditure	253 040 005	131 996 501	-	385 036 506
Unauthorised expenditure	1 480 149 198	(492 520 725)	-	987 628 473
	1 771 621 218	(329 370 667)	-	1 442 250 551

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
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43. Risk Management

The municipality's activities expose it to a variety of financial risks: market risk (interest rate risk), credit risk and liquidity risk.

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.

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

	Less than 1 year	More than 1 year
At 30 June 2022		
Trade and other payables	402 769 531	-
Other financial liabilities	30 188 058	29 663 114
	Less than 1 year	More than 1 year
At 30 June 2021		
Trade and other payables	349 939 463	-
Other financial liabilities	24 577 803	31 897 751

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
Risk Management continued...		
The credit quality of receivables are further assessed by grouping individual debtors into different categories with similar risk profiles. The categories include the following: Bad Debt, Deceased, Good payers, Slow Payers, Government Departments, Debtors with Arrangements, Indigents, Municipal Workers, Handed over to Attorneys and Untraceable account. These categories are then impaired on a group basis based on the risk profile/credit quality associated with the group.		
Financial assets exposed to credit risk at year end were as follows:		
Financial instrument		
Cash and cash equivalent	12 522 141	23 504 020
Receivables from exchange transactions	45 961 496	78 971 872
Receivables from non-exchange transactions	17 411 430	24 458 041
Other financial assets	360 000	360 000

No receivables are pledged as security for financial liabilities.

Due to the short term nature of trade and other receivables the carrying value disclosed in note 5 & 6 of the financial statements is an approximation of its fair value. Interest on overdue balances (rates) are included at prime rate where applicable.

For financial assets which are past due and impaired refer to note 5 & 6. None of the financial assets terms have been renegotiated. None of the financial assets were used as security or collateral.

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed above.

The entity only enters into non-current investment transactions with major banks with high quality credit standing. Although the credit risk pertaining to non-current investments are considered to be low, the maximum exposure are disclosed above.

Interest rate risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

Foreign exchange risk

The municipality does not engage in foreign currency transactions.

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
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Risk Management continued...

Price risk

The municipality is not exposed to price risk.

The municipality does not hedge foreign exchange fluctuations.

44. Financial Instruments disclosure

Categories of financial instruments

Financial Assets	Classification		
Investments			
Short term deposits	Held to maturity	10 199 897	23 456 240
Consumer Debtors			
Receivables from exchange transactions	Financial instruments at amortised cost	45 961 496	78 971 872
Other financial assets			
Other financial assets		360 000	360 000
Bank Balances and Cash			
Balances with banks	Financial instruments at amortised cost	2 265 612	-
Cash Floats and Advances	Financial instruments at amortised cost	56 632	47 780
Summary of Financial Assets		58 843 637	102 835 892
Financial Liability	Classification		
Trade Payables			
Payables from exchange transactions	Financial instruments at amortised cost	332 562 040	293 194 636
Other financial liabilities	Financial instruments at amortised cost	59 851 172	56 475 554
Summary of Financial Liability		392 413 212	349 670 190

45. Events after the reporting date

The municipality have not identified any material non-adjusting events after the reporting date relating to the financial period then ended 30 June 2022.

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
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46. Going concern

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.

We draw attention to the fact that at 30 June 2022, the municipality had an accumulated surplus of R468 910 266 and that the municipality's total assets exceed its liabilities by R468 910 266.

The Council is not aware of any new material changes that may adversely impact the Municipality. The Council is also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the Municipality.

The municipality has established Revenue Enhancement Committee which is responsible for the following: Identify new revenue streams, monitor and report on the implementation of the Credit Control & Debt Collection Policy, Financial Plan and Cost Containment Policy.

The municipality is currently in the process of handing over accounts that's are owing for 90 days plus through its attorneys. The municipality expects to continue with actions to improve the debt collection to improve its financial position, management is confident that the municipality will continue in operate for the foreseeable future.

There is continued government funding as reflected in the Equitable Share allocation for 2021/2022 and 2022/2023 and Conditional Grants such as MIG and WSIG.

47. Fruitless and wasteful expenditure

Opening balance as previously reported	17 584 129	15 099 852
Restated opening balance	17 584 129	15 099 852
Add: Fruitless and wasteful Expenditure - current year	5 383 929	2 484 277
Closing balance	22 968 058	17 584 129

Expenditure identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings	2022
Interest on late payments	Under investigation	5 383 929
		5 383 929

The fruitless and wasteful expenditure incurred in 2021/22 relates mainly to interest and penalties on late payments to Eskom, DBSA, Government Printing Works and SARS and settlement made to the former Municipal manager.

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
48. Irregular expenditure		
Opening balance as previously reported	444 804 155	253 040 005
Prior period error. Refer to Note 42	-	131 996 501
Opening balance as restated	444 804 155	385 036 506
Add: Irregular Expenditure - current	37 974 042	48 416 707
Add: Irregular expenditure identified by AGSA from prior year contracts	-	11 350 942
Irregular expenditure awaiting condonement by National Treasury	482 778 197	444 804 155
Incidents/cases identified in the current year include those listed below and are under investigation:		
Incidents/cases identified	Disciplinary steps taken/criminal proceedings	Amount
SCM and Tender processes not followed	None	37 453 092
49. Unauthorised expenditure		
Opening balance as previously reported	987 628 473	1 447 153 421
Prior period error. Refer to Note 42		(614 300 490)
Restated opening balance	987 628 473	832 852 931
Add: Unauthorised expenditure for the year	57 308 154	154 775 542
Closing balance	1 044 936 627	987 628 473

Unauthorised expenditure recorded in the financial period 2021/2022 was due to expenditure that was more than the allocated budget in Finance, Municipal Managers Office, Engineering, Community Services, Corporate Services, Budget and Treasury Office and Councillors.

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
50. Additional disclosure in terms of Section 125 Municipal Finance Management Act Section 2003		
Contribution to SALGA		
Opening balance	1 210 314	1 115 360
Raised in the current year	1 189 388	1 210 314
Amount paid - current year	(1 063 023)	(1 115 360)
Closing balance	<u>1 336 679</u>	<u>1 210 314</u>
Audit fees		
Opening balance	3 753 937	3 753 937
Current year fee	5 931 593	5 396 572
Amount paid - current year	(5 172 270)	(5 396 572)
Closing balance	<u>4 513 260</u>	<u>3 753 937</u>
The outstanding audit fees is part of the creditors accruals for the year.		
PAYE and UIF		
Current year subscription / fee	14 666 512	13 845 802
Amount paid - current year	(14 666 512)	(13 845 802)
Closing balance	<u>-</u>	<u>-</u>
Pension and medical aid deductions		
Current year subscription / fee	17 311 607	21 379 684
Amount paid - current year	(15 828 963)	(21 379 684)
Closing balance	<u>1 482 644</u>	<u>-</u>
VAT		
VAT receivable/(payable)	(171 299 589)	(161 071 782)
	<u>(171 299 589)</u>	<u>(161 071 782)</u>

VAT is payable on the cash basis.

VAT output payables and VAT input receivables are shown in note 12

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
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51. 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 and includes a note to the annual/interim 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 Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R		2022	2021 (Restated)
<i>Deviation from supply chain management regulations continued...</i>			
Supplier Name	Services provided	Reason for deviation	Amount
Adapt IT Pty Ltd	GRAP Template for Municipalities – Annual Renewal (Full Year)	Sole Provider of AFS Preparation Software	93 204
Bona Bona Game Lodge	Conference room for 35 people from 27 May 2022 to 28 May 2022	Due to instability in the municipality, it was not feasible to hold the Exco in the premises. The situation was volatile due to the municipal workers wild cat strike, therefore no other places available	6 900
Bona Bona Game Lodge	Conference room for 35 people from 27 May 2022 to 28 May 2022	Due to instability in the municipality, it was not feasible to hold the Exco in the premises. The situation was volatile due to the municipal workers wild cat strike, therefore no other places available	6 500
Bona Bona Game Lodge	Conference room for 15 people from 24 May 2022 to 25 May 2022	Due to instability in the municipality, it was not feasible to hold the Exco in the premises. The situation was volatile due to the municipal workers wild cat strike, therefore no other places available	1 200
JP Security	Provision of Security Services for a Period of 30 days at Maquassi Hills Local Municipality - SCM No. 55/2020/21	SCM processes were not yet concluded regarding the appointment of new service provider.	200 100
Klerksdorp Rekord	Tender Adverts	Only Newspaper circulating locally at District level. MSC Regulation 22(1)	6 935
Klerksdorp Rekord	Tender Adverts	Only Newspaper circulating locally at District level. MSC Regulation 22(1)	6 164
Klerksdorp Rekord	Tender Adverts	Only Newspaper circulating locally at District level. MSC Regulation 22(1)	17 336
Klerksdorp Rekord	Vakatures	Only Newspaper circulating locally at District level. MSC Regulation 22(1)	54 706
Klerksdorp Rekord	Placing of Adverts for Alienation of Property, Invitation to Bid, notice for the Inspection of Supplementary Valuation Roll and Call for Nominations for Persons to be Appointed as a Member to the Municipal Tribunal	Only Newspaper circulating locally at District level. MSC Regulation 22(1)	94 890
Klerksdorp Rekord	Tender Notice 24	Only Newspaper circulating locally at District level. MSC Regulation 22(1)	196 620
Klerksdorp Rekord	Community Services Vacancies (Notice 11/2022)	Only Newspaper circulating locally at District level. MSC Regulation 22(1)	74 553

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Figures in R		2022	2021 (Restated)
<i>Deviation from supply chain management regulations continued...</i>			
Kwende Electrical Supplies	Supply and Delivery of Electrician's Tools	There is an increased rate of vandalism in Leeudoringstad substation and pumpstation. We urgently require the tools to install/secure the substation/pumpstation.	16 886
Media 24	Municipal Vacancies		49 680
NTT Nissan	Repairs and Maintenance of a Vehicle	Vehicles still under service plan and the disc and front brakes had to be replaced and they are not covered by the plan needed to be repaired	5 557
NTT Nissan Klerkdorp	Repairs and Maintenance of vehicles a	Vehicles still under service plan and a rod stabiliser that is not covered by the plan needed to be repaired	2 392
NTT Nissan Klerksdorp	Repairs and Maintenance of a Vehicle	Vehicles still under service plan and the disc and front brakes had to be replaced and they are not covered by the plan needed to be repaired	3 638
O.T. Electrical Trading Pty Ltd	Supply, Delivery and Installation of Pole Mounted Transformer 100KVA 11000V - 400V	The 100KVA pole transformer, 11 000/400V was stolen from the pole next to the Sedibeng Water Concrete ground Reservoirs in Leeudoringstad, early Monday morning on the 3rd of May 2021	123 455
Olebogeng Trading Enterprise	PA System 11 Qty	Municipal employees were on strike and offices were closed; therefore, the budget processes were to be undertaken	74 250
Orange Toyota Klerksdorp	Service of HRG 188 NW	The Vehicle was Taken to Toyota for Diagnosis and since they are its Manufactures and in view of the Additional cost of strip and quote and the need for it to be Urgently Repaired for Service Disconnections to be executed, the Municipality continued with them for repairs.	14 051
Orange Toyota klerksdorp	Service of Fortuner 2006 JJY 784 NW	The Vehicle was Taken to Toyota for Diagnosis and since they are its Manufactures and in view of the Additional cost of strip and quote and the need for it to be Urgently Repaired for Service Disconnections to be executed, the Municipality continued with them for repairs.	6 106
Prax05607 T/A Coensdiesel	120 Vragte	Emergency of Bulk Water from a private borehole for tankering to the communities	36 000
Rand Data Forms Pty Ltd	Section 56 Summons books Qty 20	Traffic Fines Books	7 820

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Figures in R		2022	2021 (Restated)
<i>Deviation from supply chain management regulations continued...</i>			
Westvaal Klerkdorp	Wiring on Isuzu Refuse Compactor Truck	New Purchased Trucks still under warranty and the wiring is not part of the plan	1 087
Wonke Build IT	Supply and Delivery of Material Secure Pumpstation/Substation	As proposed the material is urgent. The thieves tried to strip the substation in Leeudoringstad 14/11/2021 and the lock was broken.	44 217
Wonke Build IT	Tools for Water Maintenance	The shortage of bulk water has reached alarming levels. The maintenance teams require tools to be able to install jojo tanker and connect the existing water supply system.	56 737
Wonke Build IT	Supply and Delivery of tools/fittings	Municipality intends to fill up the Jojo's while there is water in the system to reduce water tinkering costs. Municipality cannot wait for more than a day as there is an emerging strike at Sedibeng Water	3 295
Wonke Supplies Pty Ltd	Renovation of Makwassie Municipal Office due to storm	Conditions might be worse if we were to wait for seven days to advertise for quotations to repair damages	41 452
Wonke Supplies Pty Ltd	Sheet H.R. 6.00mm 2500x1200mm Qty 4	Conditions might be worse if we were to wait for seven days to advertise for quotations to repair damages	19 283
Workshop Electronics Pty Ltd	Calibration of A grade VTS and Repairs	Calibrate A grade VTS Equipment. Workshop Electronics is the Sole Provider to Calibrate Equipment	16 605
Workshop Electronics Pty Ltd	Supply Fit and Repair of Testing Station Roller Doors Castings, Bearings, Left & Right spring. Inner shaft, spring holders, Recoil & retention springs, set limits to motor, refit motor, extend existing chains on motor	Due to service delivery to the Community regarding testing of vehicles. Urgency is for revenue enhancement pay-point (Dept) of Transport may terminate our authorization and then the Municipality must re-apply for authorization to provide the vehicle testing station	36 674
			1 318 292

51. Budget information and explanation of differences

Material differences between the final budget and actual amounts

Statement of financial performance

Service charges - electricity revenue

Variance is due to the inability to reliably monitor the service performance leading to the adjustment budget as the municipal billing system was encountering errors that completely disproportionated allocations of the performance

Maquasi Hills Local Municipality

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
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Deviation from supply chain management regulations continued...

Service charges - water revenue

Variance is due to the inability to reliably monitor the service performance leading to the adjustment budget as the municipal billing system was encountering errors that completely disproportionated allocations of the performance

Rental of facilities and equipment

No proceeds were received from rental of Unit U for the year due to disputes logged resulting in material underperformance of the item.

Interest earned - external investments

Poor cash flow resulted in the municipality keeping lesser positive balances resulting in lesser anticipated income

Other revenue

overperformance due to recognition of forfeited deposits

Expenditure

Employee related costs

The Municipality did not fill all vacancies budgeted for the year due to the cash flow

Remuneration of councillors

Due to savings from benefits appropriated to councillors with an increase equivalent to employee related costs that was not implemented as the upper limits did not increase for the year

Depreciation & asset impairment

Non impairment of assets in the current financial year

Debt impairment

The provision is more than anticipated due to non payment of services.

Finance charges

Due to cash flow challenges, not all the outstanding debts could be repaid on time / as agreed resulting in the incurring more interest than anticipated

Bulk purchases

inclusive of water stock not recognised as inventory consumed

Contracted services

rental of equipment and machinery to address the backlogs of service delivery

Other expenditure

recognition of bad debts not appropriated for as well as part rental of equipment

Maquasi Hills Local Municipality

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Notes to the Financial Statements

Figures in R	2022	2021 (Restated)
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Deviation from supply chain management regulations continued...

Statement of financial position

Cash and cash equivalents

Reduction in cash is as the municipality has been experiencing a low cash flow which has not picked up in performance since the pandemic

Call investment deposits

Recognition of deposits

Consumer debtors

Due to the correction of the roll.

Other debtors

due to new site establishments occupants background of being predominantly indigent

Inventory

Due to inventory retake.

Investment property

Misrepresented on the budget.

Property, plant and equipment

Misappropriation on the budget.