

ANNUAL REPORT 2022/23



**NALA LOCAL
MUNICIPALITY**

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CHAPTER 1 – MAYOR’S FOREWORD AND EXECUTIVE SUMMARY

COMPONENT A: MAYOR’S FOREWORD

On behalf of the Nala Local Municipality, I hereby present this Annual Report for the Year 2022/23. This report will outline our performance on the targets we set ourselves to do over this period. The report will give our stakeholders and communities an insight into the performance and achievements of the Municipality. The mandate of Nala Local Municipality is not unique to the broader mandate given to Local Government by the South African Constitution, chapter 7. The only uniqueness we have is the different legitimate expectations of our citizenry. Our specific mandates are drawn from the road shows we embark upon in drafting our Integrated Development Plan, which is our guiding document in our performance.

The current Annual Report outlines our successes and shortcomings in relation to our political mandate as provided in the key focus areas of Local Government. The following are the national key performance areas through the municipality is obliged to render services to the community;

- Building a Municipality that is efficient, effective and responsive;
- Strengthen Accountability and promote clean municipality’s operations;
- Accelerating Service Delivery and supporting the vulnerable;
- Promoting Economic and Social development;
- Fostering Development Partnerships, Social Cohesion and community participation

Considering the above priority areas, it is important to note that these can never be successful on their own; it becomes important that as a collective, Councillors and Officials work together in identifying the challenges raised in the annual report and rectify them as soon as possible. Having said that, it is equally important to note that there are a few specific areas, which must receive particular attention going forward: 9 Improved mechanisms will need to be found to strengthen the accountability and discipline of officials in their daily work, both to each other and to political principals;

The establishment of project teams across the organisation must become central to a new way of working as officials. This will go a long way in breaking down the silo-approach to work. This project-based approach to work must be directly linked to the performance management system for administration. Speed, timing and excellence in the quality of daily work must become a key feature in the way in which officials undertake their work. The overall turn-around times of administrative and professional work will require significant improvement.

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Finally, the Municipality will ensure that its most valuable resource, i.e. its staff, is highly valued and supported. Training, personal development, career-pathing, talent management, coaching, mentoring and Employment Assistance Programmes are some of the specific interventions that will need to be enhanced. Equally, with the politicians, it is important that we focus our energies on the mandates we have from our respective political parties. Our differences should only be indication of a strong democratic state, not an impediment to deliver services to our people. I am, with greatest humility, presenting to you the 2022/23 Annual Report covering the reporting period 01 July 2022 to 30 June 2023.

Let me take this opportunity to extend gratitude to the Council, the Speaker, members of the Executive Committee, Councillors, the Municipal Manger, Directors, all Municipal employees, and staff in the political offices and the people of Nala Local Municipality in general for their cooperation during this financial year.

Thank you

Councilor N.M. Mashiya
The Mayor

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COMPONENT B: EXECUTIVE SUMMARY

1.1. MUNICIPAL MANAGER'S OVERVIEW

It is with great pleasure that I present the annual report for the financial year that ended 30 June 2023.

Section 121(1) of the Local Government: Municipal Finance Management Act 56 of 2003 (MFMA) stipulates that: "Every municipality and municipal entity must for each financial year prepare an annual report in accordance with its guidelines."

The purpose of the annual report is to:

- a) Provide a record of the activities of the Nala Local Municipality during the financial year 2022/23.
- b) Provide a report on performance against the budget of the Nala Local Municipality for the financial year reported on.
- c) Promote accountability to the local community for the decisions made throughout the year by the Municipality.

According to the MFMA, this Report should include:

- a) The annual financial statements of the Municipality, and consolidated annual financial statements, submitted to the Auditor-General for audit in terms of section 126 (1) of the MFMA;
- b) The Auditor-General's audit report in terms of section 126 (3) of the MFMA and in accordance with s45 (b) of the MSA; on the financial statements in (a) above;
- c) The annual performance report of the Municipality as prepared by the Nala Local Municipality in terms of section 45(b) of the Local Government: Municipal Systems Act 32 of 2000 (MSA);
- d) An assessment of the arrears on municipal taxes and service charges;
- e) An assessment of the Municipality's performance against the measurable performance objectives referred to in Section 17 (3) (b) of the MFMA for revenue collection from each revenue source and for each vote in the Municipality's approved budget for the financial year;
- f) Corrective action taken in response to issues raised in the audit reports referred to in paragraphs (b) and (d); and
- g) Recommendations of the Municipality's Audit Committee.

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The municipality sustained its AGSA audit outcome and received a qualified opinion with reduced findings. This however does not entirely reflect the steadfast commitment of the entire organization of a qualified audit report and it should be mentioned that all officials involved are extremely dedicated towards reaching this achievement. In terms of strategic planning and public participation it can be reported that the review process of the IDP encompassed the solicitation of inputs from members of the community and various stakeholders in line with requirements of the Municipal Systems Act. The IDP inter alia includes the municipal vision and mission, assessment of existing level of development, Council's development priorities and objectives, the status of Local Economic Development, Council Development Strategies aligned to National and Provincial Sector Plans, Council's operational strategies, financial plan including budget projections, Disaster Management Plan and Key Performance Indicators (KPI's) as core components of the plan. The IDP is aligned to the NDP, Free State Development Strategy and importantly the budget.


The following support programmes from sector departments to the Nala Local Municipality were sustained from the outer year through the financial year;

- (a) Lejweleputswa District IDP Managers Forum.
 - (b) Provincial IDP Managers Forum.
 - (c) Provincial SALGA's LED Working Group.
 - (d) Provincial and District Disaster Management Centres.
 - (e) Municipal Infrastructure Support Agency.
- ❖ The performance management system is up and running and backlogs resulting from years' dysfunctionality of the unit are being addressed. These include the monitoring of the SDBIP and compilation of quarterly performance reports for the financial year under review. The major challenge that needs urgent response, is capacitation of officials in the unit in preparation for the launching of a fully-fledged systems-based PMS. The requirement to comply with the *National Treasury's Circular 88* reporting template has also added on the capacity challenge of the unit as well. To address this challenge, the Provincial PMS unit is providing a continuous support and assessment of local municipalities' response in this regard. The Lejweleputswa district Municipality had seconded an intern to provide administrative support to the unit.
 - ❖ Capacity building is under way and critical position of Accounting Officer was filled on the 1st July 2022, whilst the posts of Director Corporate Services, Chief Financial Officer and Director Community Services remain vacant and are filled on acting capacities. However, necessary recruitment processes to fill these positions are underway.
 - ❖ Governance structures such as Audit Committee is functioning with positive inputs made toward improvement of good governance systems in the municipality. The post of Manager Internal Audit is still vacant since resignation of the official in April 2022, within six months of her appointment.

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- ❖ The oversight role of the municipality was not effective due to the non-sitting of the MPAC during the financial year under reporting.
- ❖ The Budget and Treasury Department has developed mechanisms to reduce unauthorized and irregular expenditure and strengthen supply chain evaluation committees, as a response to recommendations from the AGSA.
- ❖ Responding to critical issues raised by the Auditor – General, the municipality has compiled audit action plan and its being monitored monthly by all senior managers.
- ❖ Complaints management system is still manual, and complaints raised by the community are not timeously addressed. A Toll-free number should be installed to increase response capacity to complaints especially on weekends.
- ❖ Subsequent to resignation of Manager Internal Audit, the Lejweleputswa District Municipality has escalated its support to Nala LM to provide Internal Audit function to ensure quality assurance.
- ❖ Implementation of approved organizational structure has been finalized, except for minor issues of individual employees that are receiving attention of both Human Resource and Payroll. Furthermore, the institution has initiated yet another process to review the structure in line with the requirements of Municipal Staff Regulations of 2021, and this process should be complete by the end of the next financial year.
- ❖ The appointment of Manager Administration is critical to improve the filing system and establish a record management system that is compliant with the National Archives Act.
- ❖ The impact of these challenges will still reflect in the current year audit, however, the impact of the interventions will contribute towards the improved governance of service delivery in the financial year ending 30 June 2023.

We would like to appreciate with gratitude the support given by stakeholders, the municipal council, staff, district and the province to the municipality to ensure that its service delivery, mandates and targets are achieved. The above could not have been achieved within the short period of my appointment without the support from key stakeholders, I really appreciate the support Council, staff, district and province have given me.



Mr. SJ Lehloenya
Municipal Manager

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1.2. MUNICIPAL FUNCTIONS, POPULATION AND ENVIRONMENTAL OVERVIEW

This report addresses the performance of the Nala Local Municipality in the Free State in respect of its core legislative obligations and service delivery targets it has set for the financial year under reporting. Nala Local Municipality has created various fora to enhance its participatory initiatives.

The 2022/23 Annual Report reflects on the performance highlights of the Nala Local Municipality for the period starting from the 1st July 2022 to 30th June 2023. This Annual Report is prepared in terms of Section 121(1) of the MFMA.

1.2.1 INTRODUCTION TO BACKGROUND DATA

The most important data for the municipality is reflected below:

- ❖ Total estimated population was 78 515 according to Community Survey 2016.
- ❖ Total estimated number of households in 2016 was 23 653.
- ❖ Total number of formal households in 2016 was 21 961.
- ❖ Nala LM has provided Free basic Services to 11269 indigent households during the financial year under review. This figure constitutes 51% of the total households within service delivery mandate of Nala LM.
- ❖ Nala LM has an unemployment rate of 37%, and youth unemployment stands at 47.6%.
- ❖ Number of informal households by end of financial 2022/23 is 3154.

Nala Local Municipality is a Category B municipality situated in the northern part of the Lejweleputswa District in the Free State. The former Bothaville and Wesselsbron Traditional Local Councils and a section of the Vetvaal Transitional Rural Council were combined to form the Nala Local Municipality.

The Bothaville/Kgotsong area is located approximately 60km south of Klerksdorp, 80km north of Welkom and 240 km south of Pretoria in Gauteng. Wesselsbron/Monyakeng is situated approximately 70km south-west of Bothaville, approximately 35km west of Welkom/Odendaalsrus and 55km east of Hoopstad.

The Nala region is located within a significant agricultural region. It forms part of the so-called 'Maize Triangle' of South Africa. Bothaville is strategically located close to the gold mining towns of Klerksdorp/Orkney, whilst Wesselsbron is in proximity of Welkom/Odendaalsrus. They are directly dependent on these large urban centres for institutional and commercial support.

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Three major rivers feature prominently in the Free State Province, of which two flows through the Nala Municipality. The Vals River runs from east to west through the town of Bothaville towards the Vaal River, which forms the north-western boundary of the municipality, and the Vet River flows just south of the Wesselsbron district and forms the southern boundary of the Nala region. Both the rivers play a significant role in the provision of water to Bothaville and Wesselsbron respectively. The topography of the area is homogenous, with moderate slopes. The only significant natural feature is the sensitive wetland system found just south of Wesselsbron.



Nala Local Municipality with in the South African National Context

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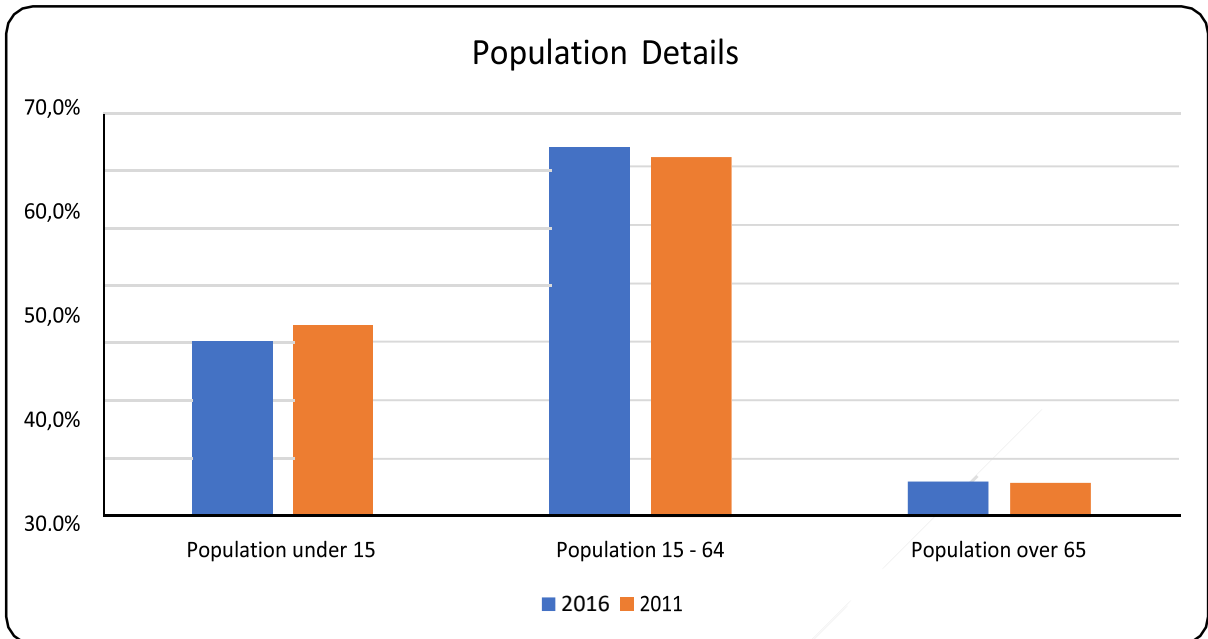
Nala Local Municipality within a Provincial Context

According to the table below there is a negative growth of 3.3% in the Nala population between 2011 and 2016. However, the number of households has increased from 20 803 and 23 563.

Population size		
Community Survey 2007	StatsSA 2011	Community Survey 2016
92 585	81 220	78 515

Population Size of Nala

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Population Details

According to Census 2011, Nala Local Municipality has a total population of 81 220. The Community Survey of 2016 estimated that the municipality has a total population of 78 515. This reflects a negative population growth for the area.

Population Group	Census 2011	Percentage	Community Survey 2016	Percentage
Black	75 653	93.1%	72 361	92.2%
Coloured	501	0.6%	223	0.3%
Indian or Asian	207	0.2%	309	0.4%
White	4679	5.9%	5622	7.1%
Other	180	0.2%	0%	0%
Total	81 220	100.00%	78 515	100.0%

Population Ethnicity

Of those aged 20 years and older (Census 2011), 7.4% have completed primary school, 34.7% have some secondary education, 22.2% have completed matric and 5.6% have some form of higher education. In the 2016 Community Survey it was established that of those aged 20 years and older that 21.7% have no schooling, 16.8% have completed primary school, 55% have some secondary education and 6.5% have some form of higher education.

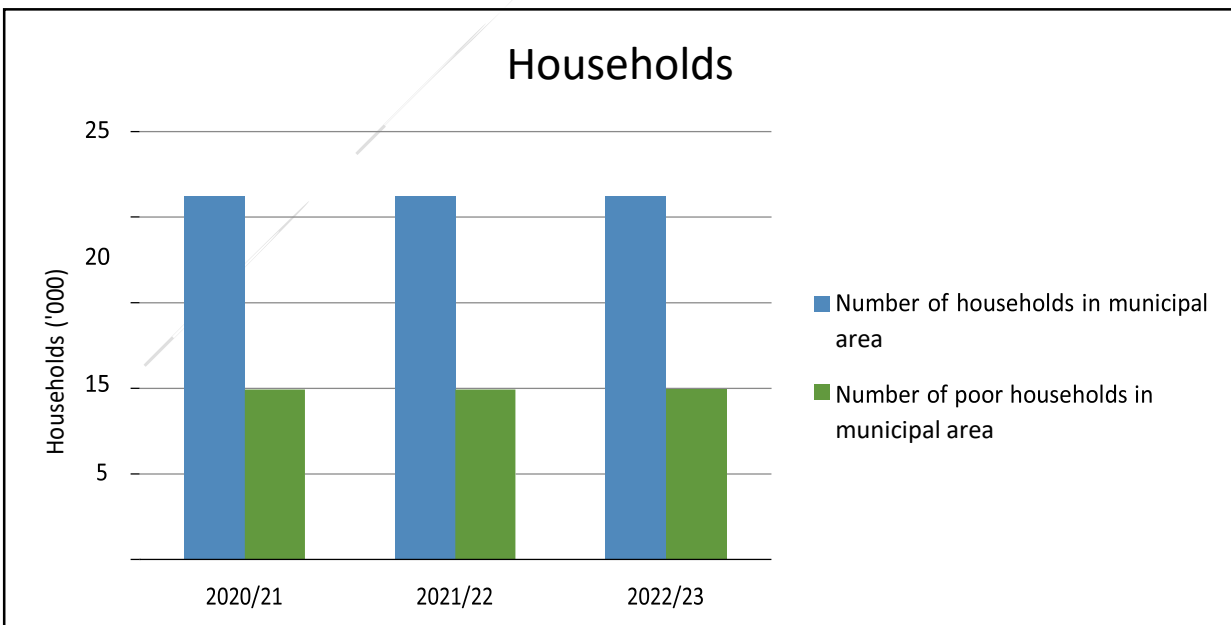
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Overview of Neighborhoods within Nala	
SettlementType	Households
Towns	
Bothaville	1 677
Wesselsbron	598
Sub-Total	2 275
Townships	
Kgotsoong	11 055
Monyakeng	7 390
Sub-Total	18 445
Rural settlements	
Balkfontein	83
Sub-Total	83
Informal settlements	
Total	21 219

Overview of Neighborhoods within Nala Municipality

1.3. SERVICE DELIVERY OVERVIEW

It is critical for the municipality to ensure that its citizens have access to basic services, including housing, water, improved sanitation and electricity. It is therefore necessary for the municipality to track progress against the targets set by government and to monitor its progress.

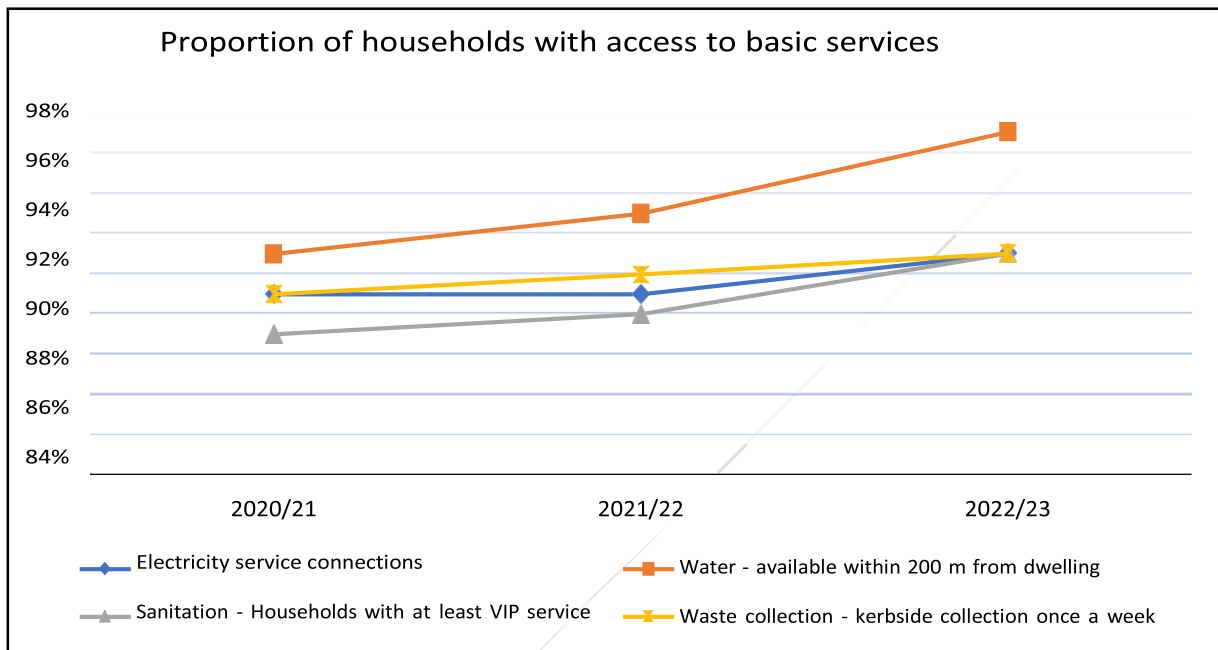


Household Data

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The figure below shows the current state regarding service delivery. The data derives from annual performance reports two previous financial years.

The municipality provide access to services to their citizens. All the areas that are the municipality's area of responsibility have access to the basic services provided by the municipality. The onus is therefore on the owner of the property to pay for the connection of the services to their households.



Proportional access to basic services

COMMENT ON ACCESS TO BASIC SERVICES

Currently 98% of the households in the formalized municipal area have access to piped water house connections and 100% of the households in the informal municipal area has piped water within 200m from their dwelling. Regarding access to basic sanitation 91% of households had access to flush toilets and ventilated pit latrines (VIPs) and 91% of households received a weekly kerbside refuse removal service. In the municipality's area of operation 91% of households had access to electricity. There were several challenges that need to be addressed, and the following need to be taken into consideration.

- ❖ Nala is providing approximately 23653 households with basic services, and the number is likely to increase as new connections are being implemented. Almost 2000 households in informal settlements earmarked for upgrading will soon add to the above figure as the municipality together with the Department of Human Settlement and Human Development Agency (HAD) embark on a national programme to upgrade informal settlements. Approximately 950 households in Khalinkomo and Vergenoeg has been recently formalized.

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and are earmarked for development of new infrastructure such as the construction of water and sanitation reticulation network for 950 households from FY 2023/2024 and for the electrification of 950 households in the FY 2024/2025. There is an addition of 1354 households with Tjovitjo informal settlement just established in Kgotsong and this figure will now surpass 1000 households that needs basic service infrastructure like water, sanitation, refuse collection, electricity and properly constructed roads and streets. The municipality is providing water to these services by communal taps withing the 200m radius.

- ❖ There is an ongoing construction of water and sanitation network in Botharnia 9 Phase 2 (behind Bothaville Shell Filling station). This project started in 2020/2021 (Project NoRFP – HS – BO1/2016/2017). However, this project was also delayed by the Covid-19 pandemic. Currently there is a contractor on site busy with the Construction of water and sanitation reticulation network infrastructure for 426 sites. The project is implemented by the Department of Human Settlement working together with HAD in the Free State Provincial Government. A few sites have been sold to consumers.
- ❖ Breaking New Grounds Housing project (BNG) is earmarked to build 1000 housing units. Phase 1 of this project will cover 645 housing units in Mattharantlha and Phase 2 will cover 355 housing units in identified sites in Kgotsong. For the financial year under reporting 404 households were earmarked for construction. This project is spearheaded by the department of Human Settlement, and they have started with the construction of foundations in the settlement. A few foundations have been completed at the end of financial year under reporting.
- ❖ The municipality has finalized registration with MIG of Khalinkomo and Vergenog project, planned for installation of basic services (water and sanitation) infrastructure to 950 households in during the financial year under review, construction is planned to start in February 2024. This is a multi-year MIG project and is planned for completion in June 2026. The municipality has also sent and application for funding of mass electrification of 950 households in Khalinkomo and Vergenog.
- ❖ At the end of financial year under reporting the municipality had done two blue drop and green drop assessments to determine the quality of drinking water and sewer respectively. These assessments were done with the assistance of Bloem Water and the Department of Water and Sanitation. This collaboration will go a long way to provide capacity to the municipality in this regard.
- ❖ During the financial year under reporting, 11269 indigent households with threshold income below R4 000 pm, were provided with Free Basic Services. This figure indicates an increase of 59.3%, from 6693 in the previous financial year.
- ❖ The municipality has completed upgrading of 2.5km of outfall sewer in Kgotsong at the end of financial year 2022/23.

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- ❖ During the financial year under reporting, the municipality has completed paving of 3.2km of roads in Kgotsong and Monyakeng. 1.33km was planned for the construction of stormwater canals with stone pitching in Monyakeng and Wesselsbron. Construction of 1.6km paving in Sebotsa, Monnamoncho is planned for the 2023/2024 financial year, whilst paving of Boneni street was completed during the financial under reporting.
- ❖ During the financial year under reporting the municipality had planned to build a Multi – Purpose Sports Court in Matlharantlheng and four sports ground in Monyakeng. At the end of financial year, the complex had not been started, however construction of four sports grounds in Monyakeng was done. Funding for this project is allocated from 5% of MIG projects.
- ❖ The municipality has planned to rezone parks and open spaces to create sites to be sold to community members to address housing and sites backlogs. About 1354 sites were earmarked for sale during the financial year under reporting.
- ❖ Nala Local Municipality has not finalized the review of critical input sector plans such as the Water Service Development Plan (WSDP), the Spatial Development Framework (SDF), Integrated Waste Management Plan (IWMP), Energy Plan, Roads and Storm-Water Master Plan and Environmental Management Plan (EMP). Review of these sector plans is critical to effectively enhance the credibility of future planning environment in the municipality. The integrated waste management plan is outdated and needs review. The municipality is planning to review this sector plan internally, whilst the Spatial Development Framework (SDF) will be reviewed through the support of Department of Agriculture, Land Reform and Rural Development (DALRRD). The draft SDF ready for tabling before council by the 2023/24 financial year.
- ❖ Provision of basic services to farm schools and households is still a challenge because farms fall outside the municipiaity's infrastructure network; and these households are in private land.
- ❖ Unprotected and unguarded landfill sites are still a challenge as they contribute more to environmental pollution. Management of landfill sites in both Bothaville and Kgotsong does not comply with the provisions of NEMA. This issue of non – compliance is a long-standing matter and the Department of Environmental Affairs has not fully committed itself on what interventions should be made. Illegal dumping of refuse is also a challenge and the municipality has planned to place skip bins in illegal dumping sites.
- ❖ There is a growing need to conduct awareness campaigns as save water campaigns, environmental awareness, management of sanitation network especially regarding

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sewer spillage and its resultant consequences of water pollution, waste disposal and transversal diseases such as HIV/Aids and TB for the community. There is a growing need also in the community to hold joint traffic management awareness campaigns to warn road users of potential danger of violating traffic rules.

- ❖ A proper cemetery management and maintenance plan is a necessity. Post-Covid-19 there is still a growing need to avail more land for the expansion of burial sites in Nala. More land has been availed and this portion should be included in the reviewed SDF.
- ❖ Capacitating and equipping local sports council to carry out the government mandate to foster social cohesion through sports in Nala Local Municipality. The municipality has the obligation to support participation in sports by upgrading of sports facilities and establishing a sports desk.
- ❖ Capacitating the LED unit so that it renders its service to local community. Promotion of Local Economic Development through support for SMMEs and availing land for emerging local farmers from the historically disadvantaged communities. Local economic development is a national key performance area for municipalities. Programmes have been held to support our economic development and participation in agriculture. More land has been made available for youth to participate in the sector.

COMMENT ON OPERATING RATIOS:

Expenditure on repairs and maintenance remains low and should be improved on. Employee-cost remains in the accepted norm.

As can be deduced from the above table of ratios, the municipality is consistently growing its financial sustainability based on prudent accounting principles as prescribed by the MFMA.

1.4. FINANCIAL HEALTH OVERVIEW

This overview sets out highlights of the municipality's financial performance in the past year. Full details appear in the annual financial statements.

The municipality has performed relatively well over the past year despite the prevailing market and economic conditions, in line with its business plan. Despite the existence of indigent communities within the municipality's area of jurisdiction and the impact it has on the revenue collection rate which in turn put pressure on the cash flows, the municipality's cash flows remained relatively consistent as compared to the previous financial year.

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Financial Overview: 2022/2023
R `000

Details	Original budget	Adjustment Budget	Actual
Income:			
Grants	R155 090	R161 611	R195 864
Taxes, Levies and tariffs	R272 423	R282 506	R228 952
Other Income	R88 667	R94 695	R54 525
Sub Total	R516 179	R538 813	R479 341

Financial Overview

The current operating ratio's is shown in the table below.

Operating Ratios	
Detail	%
Employee Cost	31.12%
Repairs & Maintenance	2.6%
Finance Charges & Impairment	8.5%

Operating Ratio's

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The municipality however needs to improve its costing system to adequately account for actual costs spent on Repairs & Maintenance. At this stage the costs of Repairs & Maintenance is understated as employee and operational costs are not factored in the above calculation.

The capital expenditure for the last three years is reflected in the table below.

Total Capital Expenditure: 2020/21 to 2022/23			
	R `000		
Detail	2020/21	2021/22	2022/23
Original Budget	R39 175	R42 673	R43 295
Adjustment Budget	R39 675	R48 373	R43 295
Actual	R38 308	R43 423	R43 295

Capital Expenditure

1.5. ORGANISATIONAL DEVELOPMENT OVERVIEW

NALA LM STAFF MIGRATION AND THE TRANSITION TO THE WAGE CURVE SALARY STRUCTURE

At the beginning of the 2022/2023 financial year NALA LM begun implementing the following HR Business process that underlines organisational development milestones, namely:

1st: Staff Migration to the Council adopted Organisation Structure

2nd: Transition to the Wage-Curve Salary Structure – [The salary structure which is aligned to the TASK Grading System.

During the financial year 2021/2022, staff migration to the newly adopted organizational structure could not be finalised because disputes / appeals lodged by a significant number of employees against their placements had not been concluded.

This report therefore seeks to provide an overview of how the above-mentioned HR Business processes unfolded.

An overview of how the process of Staff Migration unfolded:

A.1. Background to the Staff Migration Process in general as a prerequisite to Evaluation of Jobs (JE)

The staff migration process entails various activities undertaken by the Municipality during which it transfers employees into respective positions as set out in the reviewed Organisation Structure. The staff migration process is one of the prescribed requirements by the JE Policy Guidelines which outlines requirements that the Municipality must meet before it can evaluate the tasks performed by its employees in respective positions. The sole purpose of evaluating tasks performed by employees

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is to determine the monetary worth of positions subject to the criteria set out in the T.A.S.K JE Collective Agreement. The JE project dates back to 2013 which saw the signing of the TASK JE Collective Agreement confirming the TASK system as the only JE system to be applied in the local government sector. Emanating from the previous (old) municipal administration which had their own JE systems and prior to the democratic dispensation, these presented serious disparities for the amalgamated municipalities and across the local government sector.

A.2. NALA LM JE Process compliance to Prerequisite outlined by the JE POLICY Guidelines

The following prerequisite to JE & T.A.S.K wages structure implementation were met:

A Job Evaluation Unit (JEU) was established within the NALA LM

NALA JEU consisted of the HR Manager as the Head of the JEU, & 3-HR Officials

Local IMATU & SAMWU representatives participated in the NALA JEU as Observers

There is a Council approved Organisational Structure recording the positions all jobs and their designations.

The Job Descriptions (JDs) of at least 95% of positions on the approved Organisational Structure are written in the T.A.S.K format.

A.3. NALA LM Approach to Staff Migration

A Migration Committee was established by the resolution of the LLF to do preparatory work on the migration of the staff to the newly adopted Organisational Structure.

The Migration Committee was established as an adaptation of the Restructuring LLF Sub-committee for the purpose of advising the LLF on the implementation of the staff migration.

The Migration Committee produced a Migration Memorandum of Agreement which served as the policy guideline for the purpose of the staff migration process.

The process of staff migration was conducted on the base of the approved Organisational Structure, the Skills Audit findings as well as the Employment Equity Plan as prescribed by the Memorandum of Agreement

The output of the Migration Committee on staff migration was handed over to the LLF for further discussion and adoption.

All staff members were notified in writing about their migration to respective positions on the newly adopted Org-structure and to lodge appeal if any is dissatisfied.

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A.4. OVERVIEW REPORT ON THE STAFF MIGRATION APPEALS

A.4.1. Background: About the Staff Migration Appeals Committee

The Migration Appeal Committee was established to give effect to section 4 of the NALA LM Migration Memorandum of Agreement as a dispute resolution mechanism which seeks to ensure fairness in addressing disputes/appeals of unhappy employees emanating from the staff migration process decisions.

A.4.2 The Appeals Committee, its composition, and terms of reference

The Appeals Committee was formally established by the LLF Resolution of 17 MAY 2022

The Appeals Committee was constituted of the following NALA LM Officials who represents key stakeholders in the NALA Local Labour Forum:

- Mr. TW Tshoeute: NALA LM
- Mr. B. E. Motsoso: IMATU
- Me. D. Boneni : SAMWU

The Appeals Committee excluded the Independent Arbitrator from adjudicating the Appeal Hearings as directed by the LLF resolution of 17 MAY 2022.

The Appeal Hearings adopted by the Appeals Committee took the form of a hearing de novo (i.e., hearing migration disputes afresh and with no access to the records of the Migration Committee).

A.4.3. The Lifespan of the Appeals Committee

The Appeals Committee was required to complete its work within three (3) weeks of its establishment. During the month of July 2022, a total number of [120] disputes/appeals applications as received were attended to and resolved.

An overview of how the transition to the Wage-Curve salary structure unfolded: - The Bench-marking Process.

B.1. Background to the Bench-marking process in general

The Bench-marking process entails one Municipality adopting the T.A.S.K Wage-Curve structure of another municipality with equivalent category and grading in order to determine salaries applicable to the positions on its reviewed Organisational Structure. The municipality whose T.A.S.K Wage-curve structure is being adopted must have undergone the entire JE process. The credibility of the Bench-marking process arises from the Provincial Audit Committee as the authority that ratifies the JE- results of any municipality that undergoes the entire JE process.

B.2. NALA LM Approach to the Bench-marking process

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NALA LM and its local Unions (IMATU & SAMWU) did reach an agreement through the Local Labour Forum to undergo the Bench-marking process instead of the time-consuming Job Evaluation Process. The following are some of the crucial JE Wage curve Pay-structure base that NALA LM used in the Bench-marking process:

The Categorization Model: Municipalities of equivalent category B and Grading-4 as follows: - Dr. J.S. Moroka LM Job Evaluations results.

A reliance on the criteria stipulated in the Employment Equity Act, Code of Good Practice on Equal Pay for Work of Equal Value to ascertain the value of the job for the purpose of applying the principle of equal pay for work of equal value.

B.3. Motivations for adopting JE Wage Curve structure through the Bench-marking process.

The following are some of the reasons NALA LM must migrate to the JE Wage curve Pay Structure:

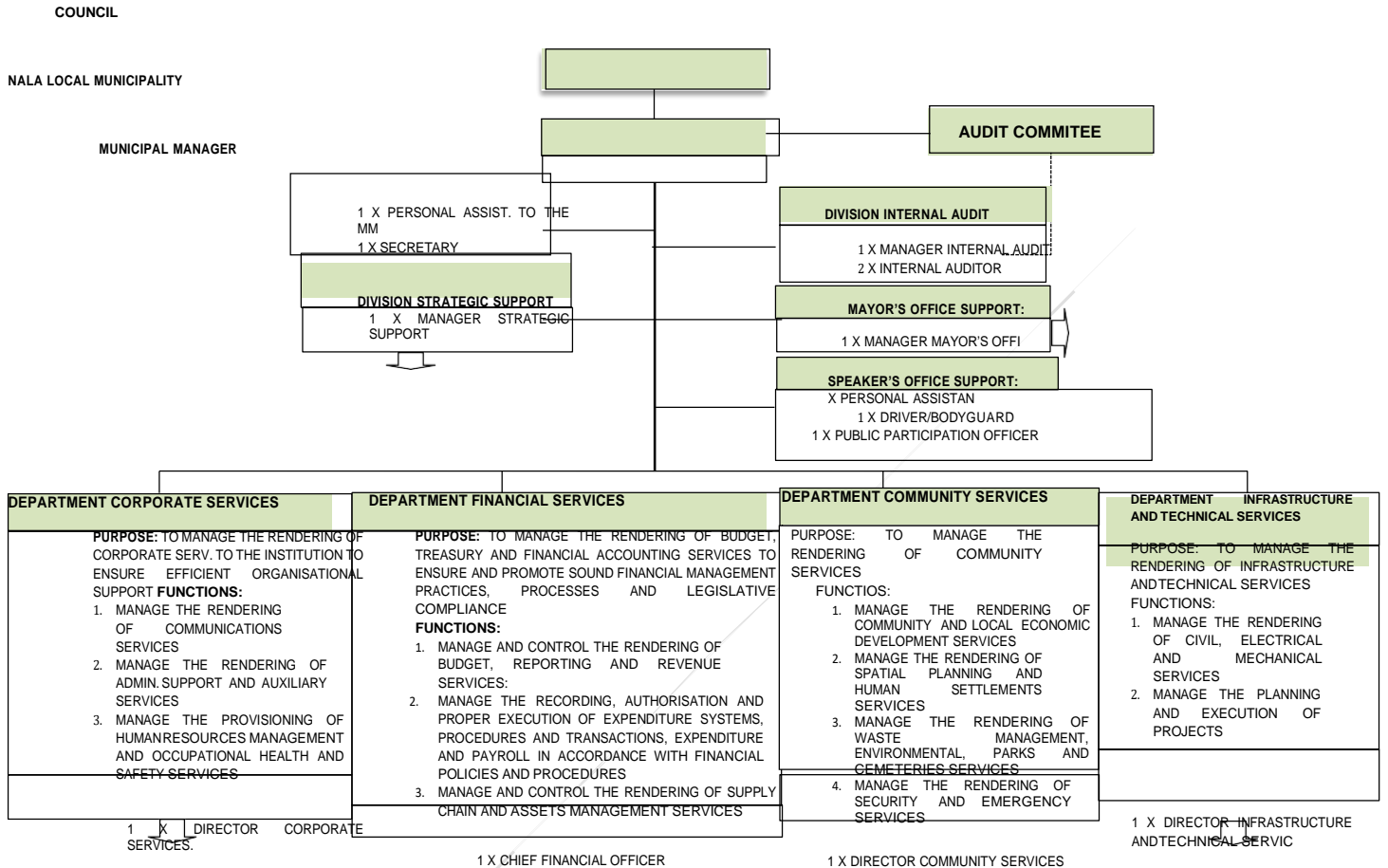
- The proper and uniform implementation of JE is paramount in determining the value and worth of each job across the board. Hence the need to apply the T.A.S.K system consistently in order to accurately reflect the job grade which in turn informs the level of pay.
- It is regarded as the best practice to use Performance Management as a basis for progression through the Pay Scales.

Chapter 1

The macro level organizational structure

NALA LOCAL MUNICIPALITY: PROPOSED ORGANISATIONAL STRUCTURE OFFICE OF THE MUNICIPAL MANAGER

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Chapter 1

Figure 4: Macro Design

The macro structure that was adopted is shown in the picture above.

1.6. AUDITOR GENERAL REPORT

The Auditor General Report for 2022/23 financial year is fully detailed out in Chapter 6 of the Annual Report. According to the AGSA Report 2022/23 financial year, the municipality got a qualified audit opinion. This suggests that the institution has maintained its previous financial year's audit opinion.

The audit outcomes history for Nala Local Municipality is shown below:

Opinion	2020/21	2021/22	2022/23
Unqualified opinion without matters (Clean Audit)			
Unqualified opinion with emphasis of matter or other matter			
Qualified opinion	⊗	⊗	⊗
Adverse Opinion			
Disclaimer			

Table 7: Audit Outcome History

Please see chapter 6 – The Auditor-General Report is contained in Chapter 6.

1.7. STATUTORY ANNUAL REPORT PROCESS

According to Legislation, the Annual Report of a municipality must be tabled in the Municipal Council on or before 31 January each year for recommendation and noting for oversight. In order to enhance Councils oversight function, the municipality should submit their Annual Reports as soon as possible after the financial year-end ideally this ought to be the end of August. Both the draft Annual Financial Statements and the Annual Report were submitted by the end of August to the Auditor-General. Management is currently developing processes and systems in order to ensure that the remaining sections be in place for the 2022/23 Annual Report process. It is expected that the entire process should be concluded by the end of December.

Chapter 1

The legislated calendar and process for the creation, submission, review, and approval of the 2022/23 Annual Report is set out in the table below.

No	Activity	Timeframe
1	Consideration of next financial year's Budget and IDP process plan. Except for the legislative content, the process plan should confirm in-year reporting formats to ensure that reporting and monitoring feeds seamlessly into the Annual Report process at the end of the Budget/IDP implementation period.	July
2	Implementation and monitoring of approved Budget and IDP commences (In-year financial reporting).	
3	Finalize 4 th quarter Report for previous financial year	
4	Submit draft 2022/23 Annual Report to Internal Audit and Auditor-General	
5	Municipal entities submit draft annual reports to MM	
6	Audit/Performance committee considers draft Annual Report of municipality and entities (where relevant)	August
7	Mayor tables the unaudited Annual Report and AFS	
8	Municipality submits draft Annual Report including consolidated annual financial statements and performance report to Auditor General.	
9	Auditor General assesses draft Annual Report including consolidated Annual Financial Statements and Performance data	September - October
10	Municipality receive and start to address the Auditor General's comments	November
11	Mayor tables Annual Report and audited Financial Statements to Council complete with the Auditor- General's Report	
12	Audited Annual Report is made public, and representation is invited	
13	Oversight Committee assesses Annual Report	
14	Council adopts Oversight report	December
15	Oversight report is made public	
16	Oversight report is submitted to relevant provincial councils	
17	Commencement of draft Budget/ IDP finalisation for next financial year. Annual Report and Oversight Reports to be used as input.	January

Statutory Annual Report Process

Chapter 1

COMMENT ON THE ANNUAL REPORT PROCESS:

The municipality has been able to meet the new deadlines as per *MFMA Circular No. 63* issued by the National Treasury in September 2012. Substantial progress has been made to align the format and contents of the Annual Report with the guidelines issued by the National Treasury. A concerted effort has been made by the municipality to ensure adherence to the above timelines with the compilation of the unaudited 2022/23 Annual Report.

The municipality appreciates the importance of alignment between the IDP, Budget and Performance Management System and the process to ensure proper alignment is continuously being reviewed and implemented.

Chapter 2

CHAPTER 2 – GOVERNANCE

Good governance is reflected by participatory, consensus-oriented, accountable, transparent, responsive, effective, and efficient, equitable, inclusive government that complies with the rule of law and ethical considerations. It assures that corruption is minimized, proper and legally acceptable procedures and systems are put in place for effective integrated planning and budgeting and that the views of the public and in particular of the most vulnerable in society are being heard in decision-making.

COMPONENT A: POLITICAL AND ADMINISTRATIVE GOVERNANCE

Section 151(3) of the Constitution states that the Council of a municipality has the right to govern, on its own initiative, the local government affairs of the local community. Council, as political governance, performs both legislative and executive functions and focuses on decision-making to formulate policy and to play an oversight and participatory role.



2.1 POLITICAL GOVERNANCE

INTRODUCTION TO POLITICAL GOVERNANCE

Nala Local Municipality strives to uphold its legislative authority and co-operative governance as required by the Constitution and other relevant legislation. The municipality maintains good working relations with provincial and national government, the Lejweleputswa District Municipality and neighbouring municipalities and intergovernmental agencies.

Nala Local Municipality consists of 24 councilors of which 12 are ward councilors and 12 are proportional representative councilors. The Speaker, honorable Councilor N. Ntlebi, presides at Council meetings. The list below indicates all councilors with their names, gender representation.

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No	NAME	GENDER	WARD	POLITICAL PARTY
1	Nozililo Martha Mashiya (Mayor) 	F	PR CLLR	ANC
2	Ndabeni Elias Ntlebi (Speaker) 	M	WARD 7	ANC

Chapter 2

No	NAME	GENDER	WARD	POLITICAL PARTY
3	Puleng Angelina Mahoko	F	WARD 1	ANC
4	Petrus Van Wyk	M	WARD 2	ANC
5	Mthetho William Velembo	M	WARD 3	ANC
6	Patricia Dikeledi Swartbooi	F	WARD 4	ANC
7	Modise Marman Molutsi	M	WARD 5	ANC
8	Makuane Simon Mothebe	M	WARD 6	ANC
9	Mokgethi Shadrack Sekhejane	M	WARD 8	ANC
10	Bengu Hendrik Mkhondwane	M	WARD 9	ANC
11	Zacharia Motshwari Moshane	M	WARD 10	ANC
12	Joseph Sootho Tau	M	WARD 11	ANC
13	Marthinus Christoffel Barnard	M	WARD 12	DA
14	David Christie Ross	M	PR CLLR	DA
15	Eulender Ruth Mokolokolo	F	PR CLLR	EFF
16	Phaki William Mafojane	M	PR CLLR	EFF
17	Annah McQueen Makunye	F	PR CLLR	EFF
18	Ishmael Seeiso Mokotedi	M	PR CLLR	EFF
19	Pulane Letia Mpholo	F	PR CLLR	EFF
20	Rantjhome Johannes Ntaopane	M	PR CLLR	EFF
21	Molatudi William Mothibi	M	PR CLLR	NCF
22	Edward Ponki Sai	M	PR CLLR	NCF
23	Desmond Reed	M	PR CLLR	VF+
24	Diaan Botha	M	PR CLLR	VF+

NALA Councillors

The Council of Nala Local Municipality is a Collective Executive System and consists of the Council which is the highest decision-making body, and it meets monthly whereas the Act determines Council to meet at least once a quarter. Amongst the critical issues delegated to Council to consider and approve are:

- Annual Budget and Budget related policies.
- Integrated Development Plan (IDP)
- Policies
- Disposal of Assets

Chapter 2

- Land

2.2 ADMINISTRATIVE GOVERNANCE

According to Section 60 (b) of the MFMA, the Municipal Manager as the accounting officer of the municipality must provide guidance on compliance with this Act to political structures, political office bearers and officials of the municipality and any entity under the sole or shared control of the municipality.

The Municipal Manager is the head of the administration and primarily serves as the chief custodian of service delivery and the implementation agent of political priorities. She is assisted by her management team.

The key priority of the Management Team is to establish a solid leadership core within the organisation which permeates through to middle and supervisory management levels. The Management Team Structure is outlined in the table below:

Name of Official	Department	Core Functions
Mr. Sekonyela Joseph Lehloenyana	Municipal Manager	Strategic leadership and management of the Municipality
Mr. Mochela Frank Lekitlane	Acting Director: Financial Services	Financial management and compliance.
Mr. Itumeleng Jethro Mokotedi	Director Engineering Services	Infrastructure, operations and maintenance, basic services
Vacant	Director Corporate Services	Corporate identity, Human Resource, legal services and support services.
Mr. Sehularo Phillip Modisadife	Acting Director: Community Services and LED	Community development services and Local Economic Development

Management Structure

Chapter 2

COMPONENT B: INTERGOVERNMENTAL RELATIONS

In terms of the Constitution of South Africa, all spheres of government and all organs of state within each sphere must co-operate with one another, in mutual trust and good faith, fostering friendly relations. They must assist, support, inform and consult one another on matters of common interest, coordinate their actions, adhering to agreed procedures and avoid legal proceedings against one another.

Several intergovernmental relation (IGR) structures promote and facilitate co-operative governance and intergovernmental relations between the respective spheres of government. Intergovernmental relations are regulated by the Intergovernmental Relations Framework Act, 2005. The IGR structures assist in aligning municipal planning and development initiatives, promotes an approach which fosters shared service agreements and collaborates on matters of mutual concern to the district.

Note: MSA S3 requires that municipalities exercise their executive and legislative authority within the constitutional system of co-operative governance envisaged in the Constitution S41.

2.3 INTERGOVERNMENTAL RELATIONS

To adhere to the principles of the Constitution as mentioned above, the Municipality participates in the following intergovernmental structures:

NATIONAL INTERGOVERNMENTAL STRUCTURES

- Municipal Managers National Forum
- SALGA National Assembly

PROVINCIAL INTERGOVERNMENTAL STRUCTURE

❖ Premier's Coordinating Forum (PCF)	Quarterly Executive Mayor/Municipal Manager
❖ SALGA Working Groups	Quarterly Councilors/Snr Managers
❖ Municipal Managers Forum	Quarterly - Municipal Manager
❖ Provincial IDP Managers' Forum	Quarterly - Municipal Manager
❖ Provincial LED Forum	Quarterly - Municipal Manager

Chapter 2

- ❖ Provincial Public Participation Forum Quarterly – Executive Mayor/Mayor

RELATIONSHIPS WITH MUNICIPAL ENTITIES

There are no municipal entities at Nala that the municipality has relationships with.

Chapter 2

COMPONENT C: PUBLIC ACCOUNTABILITY AND PARTICIPATION

The Constitution (Section 152) sets out the objectives of local government, one of which is the provision of democratic and accountable government to local communities. This is reiterated by Section 15(b) of the Municipal Systems Act (2000) which requires a municipality to establish and organise its administration to facilitate a culture of accountability amongst its staff.

PUBLIC PARTICIPATION

Municipalities are required to encourage local communities and community organisations to participate in the matters of local government. A Municipality is required to develop a culture of community participation and develop a system of participatory municipal governance that compliments formal representative governance. The Municipality is also required to supply its community with information concerning municipal governance, management, and development.

Section 16 of the MSA refers specifically to the development of a culture of community participation within municipalities. It states that a municipality must develop a culture of municipal governance that complements formal representative government with a system of participatory governance. For this purpose, it must encourage and create conditions for the local community to participate in the affairs of the community. Such participation is required in terms of:

- the preparation, implementation, and review of the IDP
- establishment, implementation, and review of the performance management system
- monitoring and review of the performance, including the outcomes and impact of such performance

2.4 PUBLIC MEETINGS

The ward committees support the ward councilor who receives reports on development, participate in development planning processes, and facilitate wider community participation. To this end, the Municipality constantly strives to ensure that all ward committees' function optimally with community information provision; convening of meetings; ward based planning service delivery; IDP formulation and performance feedback to communities. Twelve (12) Ward

Chapter 2

Committees were established by the municipality in the inception of this council in 2021. The newly elected members of the Ward Committees were trained to ensure that they are capable to execute their duties as committee members.

The purpose of a ward committee is:

- to get better participation from the community to inform council decisions.
- to make sure that there is more effective communication between the Council and the community; and
- to assist the ward councilor with consultation and report-backs to the community.

Ward committees should be elected by the community they serve. The ward councilor serves on the ward committee as the chairperson. Although ward committees have no formal powers, they advise the ward councilor who makes specific submissions directly to the administration. These committees play a very important role in the development and annual revision of the integrated development plan of the area.

Public meetings were held as follows and other council meetings were held under strict Covid-19 regulations from March 2019/20 to the end of June 2020/21. Some of these meetings could not take place out of a concern that they would be super spreader for the pandemic of Covid-19. However, online meetings were recommended during this period.

Public Meetings						
Nature and purpose of meeting	Date of events	Number of Participating Municipal Councilors	Number of Participating Municipal Administrators	Number of Community members attending	Issue addressed (Yes/No)	Dates and manner of feedback given to Community
IDP Review 2020/2021 Public Consultations	11 Feb 22 – 02 Mar 22	24	15	9 789	Yes	N/A
IDP Reps Forum						
IDP Reps Forum						
Mayoral Imbizo	11 May 22	12	17	1 654	Yes	N/A
Stakeholders' consultation on the Annual Report 2019/20						

Chapter 2

2.5 IDP PARTICIPATION AND ALIGNMENT

IDP Participation and Alignment Criteria*	Yes/No
Does the municipality have impact, outcome, input, output indicators?	Yes
Does the IDP have priorities, objectives, KPIs, development strategies?	Yes
Does the IDP have multi-year targets?	Yes
Are the above aligned and can they calculate into a score?	Yes
Does the budget align directly to the KPIs in the strategic plan?	No
Do the IDP KPIs align directly to the Section 57 Managers	Yes
Do the IDP KPIs lead to functional area KPIs as per the SDBIP?	Yes
Do the IDP KPIs align with the provincial KPIs on the 12 Outcomes	Yes
Were the indicators communicated to the public?	Yes
Were the four quarter aligned reports submitted within stipulated time frames?	Yes
*Section 26 Municipal Systems Act 2000	

IDP Participation and Alignment Criteria

Chapter 2

COMPONENT D: CORPORATE GOVERNANCE

Corporate governance is the set of processes, practices, policies, laws, and stakeholders affecting the way an institution is directed, administered, or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the institution is governed.

2.6 AUDIT AND RISK MANAGEMENT

AUDIT

The Municipality has an Internal Audit Unit as required by Section 165(1) of the MFMA and two Internal Auditors who report to the Municipal Manager. The post of Manager Internal Audit was filled on the 1st October 2021, however, the incumbent resigned from the post within six months of her appointment rendering the post vacant at the end of financial year 2021/22. The Audit and Performance and Risk Committee is still functional and hold its quarterly meetings as per the adopted schedule.

RISK MANAGEMENT

The Risk management unit was set up immediately after the Manager Internal Audit post was filled. The Risk Officer is appointed to manage the unit and reports directly to the Municipal Manager. The Risk Register has been developed and adopted by Council during the previous financial year 2021/22. Risk Management provides a clear and structured approach to identifying risks. Having a clear understanding of all risks allows the municipality to measure and prioritize them and take the appropriate actions to reduce possible losses.

In terms of Section 62 (1)(i) and Section 95(c)(i) of the MFMA, “the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure- that the municipality has and maintains effective, efficient and transparent systems – of financial and risk management and internal control;”. No risk assessment was done during the 2021/22 financial year.

2.7 ANTI-CORRUPTION AND FRAUD

The initiative to promote good governance and accountability is premised on the principle that serving the people is fundamentally a privilege. The Local Government Anti-Corruption Strategy developed by DPLG is modelled around the Public Service Anti-Corruption Strategy. The Accounting Officer of the municipality remains the principal person responsible for implementation of Anti-Corruption and Fraud

Chapter 2

Strategy.

Section 83(c) of the MSA refers to the implementation of effective bidding structures to minimize the possibility of fraud and corruption and the Municipal Finance Management Act (MFMA), Section 112(1) (m)(i) identify supply chain measures to be enforced to combat fraud and corruption, favoritism and unfair and irregular practices. Section 115(1) of the MFMA states that the accounting officer must take steps to ensure mechanisms and separation of duties in a supply chain management system to minimize the likelihood of corruption and fraud.

Fraud prevention can be seen as the cumulative effect of both prevention and detection systems incorporated by management. The detection of fraud can only lead to the prevention thereof if the response thereto acts as a deterrent. Implementing good governance, ethics, accountability as well as strategies and policies to prevent fraud and corruption is based on the principle that service delivery is the priority of the Municipality. Implementation of these principles and awareness are continuous processes aimed at ensuring that the interest and the needs of the public are met.

The municipality is committed to fighting fraudulent behaviour at all levels within the institution. The municipality has a Fraud Prevention Plan which is also supported by an Anti- Fraud, Corruption and Financial Misconduct Policy as well as a Code of Ethics. This plan and policy is based on the institution's core ethical values, driving the business of Nala, development of its systems, policies and procedures, interactions with the public and other stakeholders, and even decision-making by individual managers representing the institution.

This means that the municipality's departments, other business units and external stakeholders must be guided by the Strategy/Plan, as the point of reference for their conduct in relation to municipality. In addition to promoting ethical conduct within the municipality, it also intends to assist in preventing, detecting, investigating, and sanctioning fraud and corruption.

The municipality operates in terms of legislation and Councilors do not form part of the procurement processes. Internal Audit reviews segregation of duties and processes. The Audit and Performance Audit Committee performs an overseeing role, and all members are independent.

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2.8 SUPPLY CHAIN MANAGEMENT

The supply chain management policy of a municipality or municipal entity must be fair, equitable, transparent, competitive, and cost-effective and comply with a prescribed regulatory framework for municipal supply chain management. The municipality has a Supply Chain Management Policy in place and three SCM committees are set up within the unit.

REVIEW OF SCM POLICY

The Nala Local Municipality has adopted the SCM Policy incorporating Preferential Procurement (SCM Policy) which are reviewed annually. The policy is implemented by a functional SCM Unit (SCMU) under the direct supervision of the Chief Financial Officer. With the new organizational structure just been finalized, the post of Manager Supply Chain and Assets should be filled.

SUPPLY CHAIN MANAGEMENT UNIT

SCM Reg.3 states the following:

- Each Municipality must establish a Supply Chain Management Unit to implement its supply chain management policy
- An SCM Unit must, where possible, operate under the direct supervision of the Chief Financial Officer or an official to whom this duty has been delegated in terms of Section 82 of the act
- The Supply Chain Management unit is under the direct supervision of the CFO. There is institutional structure in place to allow for the establishment of the unit.
- The Municipal Manager has also implemented a delegation system for procurement-related actions, which includes the establishment of bid committees and the appointment of members. The delegations also allow for appropriate segregation of duties and councilors are not involved in any of the procurement and tender processes.

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REPORTING

All Monthly reports are consolidated to form Quarterly's SCM Reports that are submitted to Provincial and National Offices for compliance purposes.

2.9 WEBSITES

Section 75 of the MFMA requires that the municipalities place key documents and information on their website, including the IDP, the annual budget, adjustment budget and budget related documents and policies. The Nala LM website has been reestablished after long years of being dysfunctional.

The performance of the Municipality in this regard is shown below.

Municipal Website: Content and Currency of Material		
Documents published on the Municipality's / Entity's Website	Yes / No	Publishing Date
Current annual and adjustments budgets and all budget-related documents	Yes	12 April 2022
All current budget-related policies	No	
The previous annual report ('2020/21)	No	
The annual report ('2020/21) published/to be published	No	
All current performance agreements required in terms of section 57(1)(b) of the Municipal Systems Act' ('2021/22) and resulting scorecards	No	
All service delivery agreement' ('2020/21)	No	
All long-term borrowing contract' ('2020/21)	No	
All supply chain management contracts above a prescribed value (give value) for 2020/21	No	
An information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14 (2) or (4) during '2020/21	No	
Contracts agreed 'n '2021/22 to which subsection (1) of section 33 apply, subject to subsection (3) of that section	No	
Public-private partnership agreements referred to in section 120 made in '2021/22	No	
All quarterly reports tabled in the council in terms of section 52 (d) during '2020/21	No	

Municipal Website; Content & Currency of Material

2.10 SATISFACTION SURVEYS UNDERTAKEN

The municipality did not conduct any community surveys in the 2022/23 financial year.

Chapter 2

2.11 BY-LAWS INTRODUCED

Section 11(3) of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) empowers Municipal Councils to exercise executive and legislative authority to pass and implement by-laws and policies.

Section 11 of the MSA gives a Council the executive and legislative authority to pass and implement by-laws and policies. No new by-laws were introduced in the 2022/23 financial year and those that were promulgated in the past outer financial years have not been implemented yet.

By-laws Introduced during '2022/23					
Newly Developed	Revised	Public Participation Conducted Prior to Adoption of By-Laws (Yes/No)	Dates of Public Participation	By-Laws Gazetted* (Yes/No)	Date of Publication
None	None	None	None	None	None

By-Law

Chapter 3

CHAPTER 3 – SERVICE DELIVERY PERFORMANCE

OVERVIEW OF PERFORMANCE WITHIN THE ORGANISATION

Municipal Performance management system is a tool used to measure the implementation of Organisational strategies. It is a planning tool to be used to monitor, measure and review set municipal indicators to ascertain effectiveness, efficiency and service delivery impact by the Municipality.

Performance management provides mechanism to measure whether strategic targets set by an organisation and employees are met.

The Constitution of South Africa 1996, Section 152 which deals with the objectives of Local Government flags on Accountable Government as a requirement. These upsurges the principle of Section 195 (i) which are linked to performance management which are as follows:

- Promotion of efficient, economic and effective usage of resources,
- Accountable public administration,
- Promotion of Transparency through provision of information,
- To be responsive to needs of own community,
- Thorough facilitation of public service culture and accountability amongst staff members.

Municipal systems act 2000 requires municipalities to establish a Performance management system and Municipal Finance Management Act requires proper alignment between municipal budget and its integrated development plan and encourages monitoring of performance of budget against IDP through Service Delivery Budget Implementation plan.

In addition, Regulation 7(l) of Local Government: Municipal planning and Performance management regulations, 2001 states that a municipal management system entails a framework which deals on how a municipality 's cycle

Chapter 3

and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted including determining roles of different role players. The municipality adopted its own IDP process plan which was approved by Council in August 2022.

3.1 LEGISLATIVE REQUIREMENTS

3. PROCESS FOLLOWED PERFORMANCE SYSTEM FOR 2022/23

This Annual Performance Report has been compiled in compliance with the requirements of section 46 (1) of the Local Government: Municipal Systems Act, 2000; which stipulates as follows:

- (1) A municipality must prepare for each financial year a performance report reflecting—
 - (a) the performance of the Municipality and each external service provider during that financial year;
 - (b) a comparison of the performance referred to in paragraph (a) with targets set for performance in the previous financial year; and
 - (c) Measures taken to improve performance

3.2 ORGANISATION PERFORMANCE

This Report reflects actual performance of the Municipality as measured against the performance indicators and targets in its Integrated Development Plan (IDP) and Service Delivery and Budget Implementation Plan (SDBIP) for 2022/2023.

The format of the report will reflect the Municipality's Key Performance Indicators (KPI) per Municipal Key Performance Area. Each KPA has a number as set out in municipal IDP which was deliberately designed by the Nala Local Municipality to focus its development initiatives in a more coherent and organised manner. This report will also endeavour to report to Council the Municipality's performance in terms of the five (5) National Government's Strategic Key Performance Areas for local government mentioned below;

1. Basic Service Delivery,
2. Local Economic Development and Community Services,
3. Municipal Financial Viability and Management, and

Chapter 3

4. Municipal Transformation and Institutional Development,
5. Good Governance and Public Participation.

The municipality adopted its own IDP process plan which was approved by Council in August 2021.

3.4 THE IDP AND BUDGET

The IDP and Budget were reviewed and approved by Council on the 31st May 2023. Municipal’s strategic goals and objectives are linked to the budget through the SDBIP. The SDBIP serves as management performance tool and forms part of Nala`s performance management system.

The Municipality endeavoured during the development of its SDBIP that the “SMART” principle was adhered to in the setting of indicators and objectives. Emphasis was placed on ensuring that targets were specific, and time bound, thus making it measurable. The Five – Year IDP was developed for 2022-2027. This IDP is reviewed annually together with the MTREF.

Performance Management Checklist

	Performance Management Framework	All MSA s57/56 Performance contracts signed	Audit Committee	Municipal Public Accounts Committee (MPAC)	Quarterly Performance Reporting Council	Annual Reporting to Council
	Yes	Yes	Yes	Yes	Yes	Yes

3.5 The Service Delivery and Budget Implementation Plan

The organisational performance is evaluated by means of a municipal scorecard (Top Layer SDBIP) at organisational level and through departmental operational plans or Service Delivery Budget Implementation Plans (SDBIP).

The SDBIP is a plan that converts the IDP and budget into measurable criteria on how, where and when the strategies, objectives and normal business process of the municipality is implemented. It also allocates responsibility to directorates to



Chapter 3

deliver the services in terms of the IDP and Budget.

The MFMA Circular No.13 prescribes that:

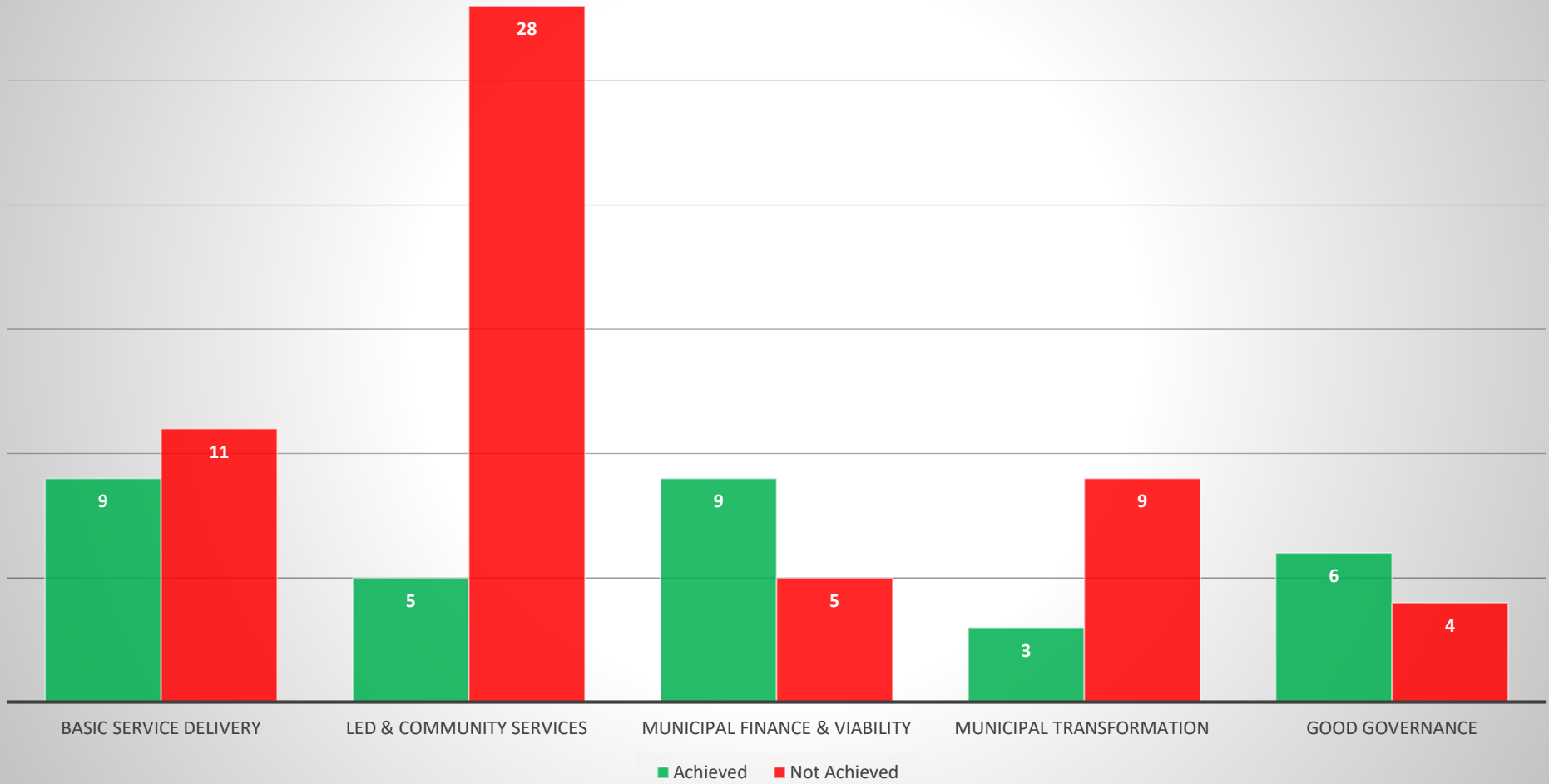
- The IDP and budget must be aligned,
- The budget must address the strategic priorities,
- The SDBIP should indicate what the municipality is going to do during next 12 months,
- and The SDBIP should form the basis for measuring the performance against goals set during the budget /IDP processes.

The overall assessment of actual performance against targets set for the Key Performance Indicators as documented in the SDBIP is illustrated in terms of the following assessment methodology:

Color	Category	Explanations
	KPI not met	Target less than 100%
	KPI well met	Target between 100% and more

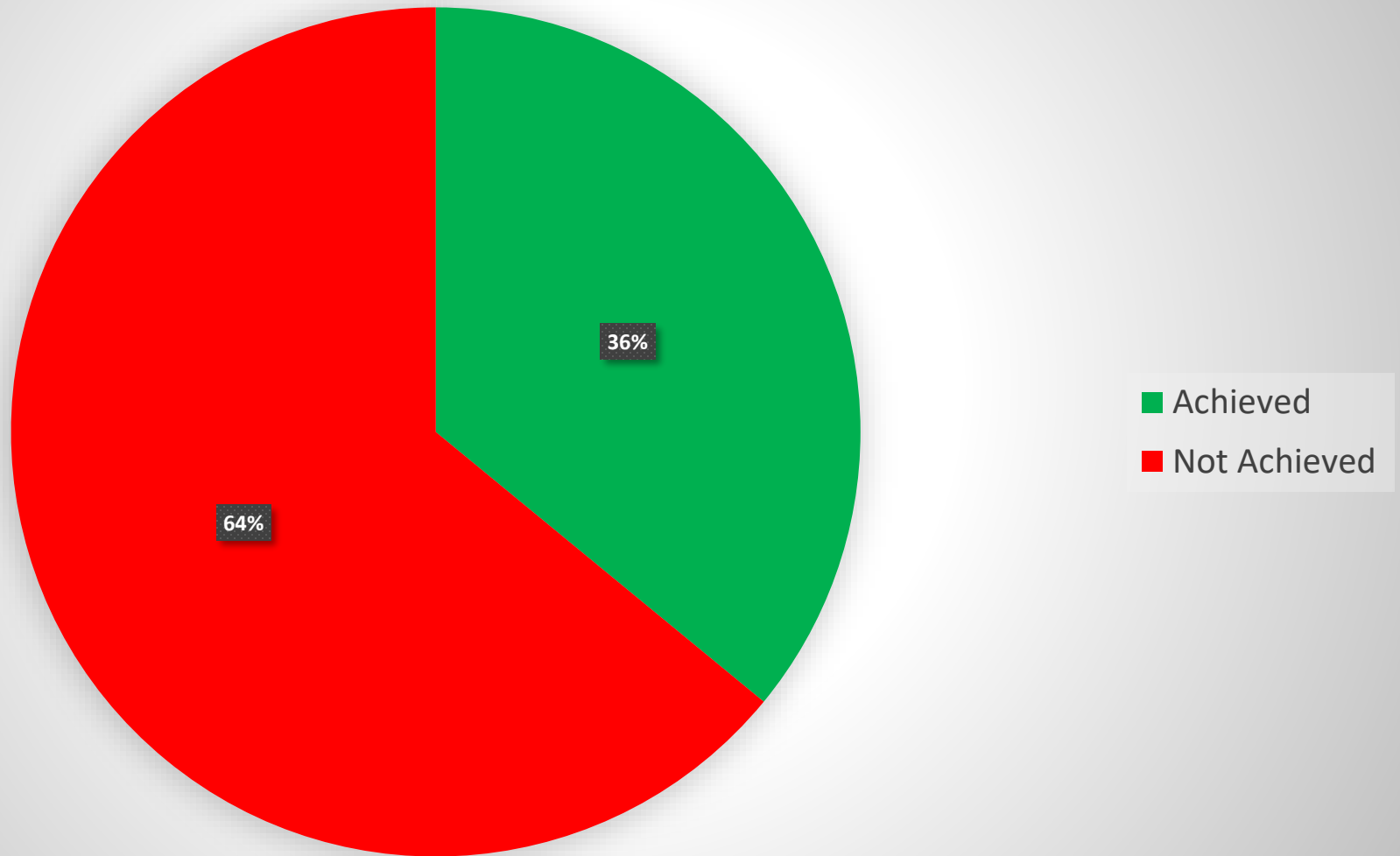
Chapter 3

MUNICIPAL KPA'S PERFORMANCE



Chapter 3

OVERALL MUNICIPAL PERFORMANCE



Chapter 3

KPA1: BASIC SERVICE DELIVERY								
REF	IDP Objectives 2022/23	KPI	Unit of Measure	2021/2022 Baseline	Budget	Annual Target	Actual achievement	Reasons for non-achievement and Remedial Action
TL 1.1	To ensure that all households in a formal settlement in the Nala municipal area have access to basic level of water.	To register the project (water reticulation network for 950 households/sites in Vergenog and Khalinkomo) under MIG for financial year 2023/24 by 30 June 2023.	Registration Certificate/Letter.	Not registered with MIG for implementation.		To register the project (water reticulation network for 950 households/sites in Vergenog and Khalinkomo) under MIG for financial year 2023/24 by 30 June 2023.	Achieved	
TL 1.2	To ensure healthy quality of drinking water.	Conduct one (1) Blue drop assessment test.	Number of assessments report done	1		1	Achieved	
TL1.3	To ensure that all households in formal settlements in the municipal area have access to basic level of sanitation.	To register the project with MIG for the financial year 2022/2023.	Registration Letter from MIG.	Not registered with MIG.		To register the project under MIG	Achieved	
TL1.4	To ensure compliance with green drop assessment standards.	Conduct one (1) green drop assessment test.	Number of assessments report done	1		1	Achieved	
TL1.5	Bothaville: Refurbishment/Maintenance of Wastewater treatment plants.	Development of Business Plan for the refurbishment/Maintenance of Wastewater Treatment Plants by 30 th June 2023.	Approved Plan.	0		Approved Plan	Not achieved	Reason for non-performance: MIG and DWS cannot fund the municipality beyond a certain amount, and this could not be included. Remedial: To pursue DWS to avail funds for this project.
TL1.6	To ensure that all households in formal settlements in the municipal area have access to basic level of sanitation.	Kgotsong: Upgrading of Outfall Sewer pipeline: Phase 2 (wards 6 and 7).	Kilometers	3km		3km	2.52km Not achieved	Reason for non-performance: lack of funds. Remedial: Applied for funding from the DWS to finance the remainder of the planned pipeline.
TL1.7	To ensure that identified	Construction of 1,33km	Kilometer.	1.33km		1.33km	0.23km	Reason for non-performance: The contractor

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	internal roads in Nala municipal area are maintained and/or upgraded to facilitate economic and social activity required for the sustainable development of the municipality.	paved road and stormwater channel: Boneni Street by 30 th June 2023.					Not achieved	was struggling with material due to lack of funding. Remedial: We agreed to pay the supplier of paving bricks through cession to assist the contractor and accelerate implementation of the project.
TL1.8	Proper management of high-water tables in Nala LM.	Kgotsong: Construction of 2.5km Sub-soil Drainage system in Two Rooms Section by 30 th June 2023.	Kilometer	2.5km		2.5km	Achieved	
TL1.9	To ensure that identified internal roads in Nala municipal area are maintained and/or upgraded to facilitate economic and social activity required for the sustainable development of the municipality	Regraveling of roads (20 km of 41km) by 30 th June 2023.	Kilometers	20km		20km	Achieved	
TL1.10	Proper management and maintenance of drainage systems of municipal roads and stormwater for effective reduction of runoff of rainwater or melted snow into roads and properties.	Bothaville: Cleaning of 20km Storm water channels and Catch pits by 30 th June 2023.	Kilometers	20km		20km	Achieved	
TL1.11	To ensure that identified internal roads in Nala municipal area are maintained and/or upgraded to facilitate economic and social activity required for the sustainable development of the municipality.	Potholes repair by 30 th June 2023.	Report on the sealing of potholes	0		Quarterly report on the sealing of potholes	Achieved	
TL1.12	To ensure that there is sports development within Nala Local Municipality and to reduce crime rate.	Construction of 2 new multipurpose sport court in Kgotsong	Number	0		2 New multi-purpose sports complexes by 30 June 2023	Achieved	
TL1.13	To ensure sustainable	Development of Electricity	Approved	0		Approved Plan	No approved.	Reasons for non-

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	provision and access to electricity for all households connected to the municipal distribution network.	Maintenance Plan by 30 th June 2023.	Electricity Maintenance Plan.			by 30 June 2023.	plan Not achieved	achievement: Lack of capacity. Remedial action: To seek support from the relevant sector department.
TL1.14	To ensure sustainable provision and access to electricity for all households connected to the municipal distribution network.	Installation of 160 new electricity meter boxes Wesselsbron Ext 12 and 13 by 30 th June 2023.	Number	160		160	160 Achieved	Planned for 2023/2024 FY.
TL1.15	To ensure sustainable provision and access to electricity for all households connected to the municipal distribution network.	Replacement of old electricity cables in Wesselsbron by 30 th June 2023.	Kilometer	0		Not specified.	Not achieved	Reason for non-performance: Lack of funds Remedial: Planned for 2023/2024 FY
TL1.16	To ensure sustainable provision and access to electricity for all households connected to the municipal distribution network.	Replacement of 200 LV distribution poles in Wesselsbron and Kgotsong by 30 th June 2023.	Number	200		200 poles by 30 th June 2023.	Not achieved	Reason for non-performance: Lack of funds Remedial: To be complete in the next FY 2023/2024
TL1.17	To ensure sustainable provision and access to electricity for all households connected to the municipal distribution network.	Refurbishment and fencing of Kgotsong main Sub-station by 30 th June 2023.	Fencing	0		Not specified.	Not achieved	Reason for non-performance: Lack of funds Remedial: To be complete in the next FY 2023/2024
TL1.18	To ensure sustainable provision and access to electricity for all households connected to the municipal distribution network.	Refurbishment and fencing of Bothaville Goldfields Lamoon-Doring Sub-stations by 30 th June 2023.	Technical Report on fencing and refurbishment.	0		Technical Report on fencing and refurbishment.	Not achieved	Reason for non-performance: Lack of funds Remedial: To be complete in the next FY 2023/2024
TL1.19	To ensure sustainable provision and access to electricity for all households connected to the municipal distribution network.	Refurbishment of electrical network in Meyerhof by 30 th June 2023.	Technical Report on refurbishment electrical network in Meyerhof.	0		Technical Report on refurbishment electrical network in Meyerhof. By 30 th June 2023.	Not Achieved	Reason for non-performance: Lack of funds Remedial: To be complete in the next FY 2023/2024
TL1.20	Maximise efficient operations of municipal fleet for accelerated service delivery and improved safety of vehicles and drivers.	Fleet: Purchase of Special vehicles (2 tractors and 1 TLB) by 30 th June 2023.	Number	0		Purchase of 1 TLB 2 Tractors	Achieved	

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No	No of KPI	Achieved KPI's	Not Achieved KPI's	% of KPIs Achieved
1	20	9	11	45%

KPA 2: COMMUNITY SERVICES AND LED								
REF	IDP Objectives 2022/23	KPI	Unit of Measure	2021/2022 Baseline	Budget	Annual Target	Actual achievement	Reasons for non-achievement and Remedial Action
TL2.1	Facilitate economic growth, development and creation of decent employment opportunities.	No of jobs created through the municipality's EPWP by date.	Number	New		No of jobs created through the municipality's EPWP 30 June 2023	Not achieved	<p>Reason for non-performance: The Municipality does not allocate budget for this project and cannot therefore determine number of jobs to be created.</p> <p>Remedial action: To rely on the CWP for the determination of allocation of budget and the number of jobs to be created per financial year.</p>
TL2.2	Facilitate economic growth, development and creation of decent employment opportunities.	Submit to Council for adoption an Expanded Public Works Programme (EPWP) Policy by date	Approved EPWP Policy	New		Expanded Public Works Programme (EPWP) Policy submitted to Council by 30 th September 2022	Not achieved	<p>Reason for non-performance: Lack of capacity to develop the policy.</p> <p>Remedial: To seek support and capacity from COGTA Free State</p>
TL2.3	To ensure that all businesses operating in the Municipality have licences and are operating according to legislation.	Submit to Council for adoption, a Business Registration and Licensing By-Law by date	Approved By-Laws	New		Submit to Council for adoption, a Business Registration and Licensing By-Law 31 st Oct. 2022	Not achieved	<p>Reason for non-performance: No licensing of businesses until the new Bill has been promulgated by the Free State Provincial government to regulate establishment of businesses</p>

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TL2.4	To ensure that all businesses operating in the Municipality have licences and are operating according to legislation.	Management of the issuing of business licensing	Number of reports	Ongoing		4 quarterly reports on the issuing of business licencing by 30 th June 2022/2023	Training was issued to more than 60 SMME'S as part of Business Support for both Kgotsong and Monyakeng on the 28 th Feb 2023	
TL2.5	To review LED Strategy	Review of LED strategy by date	Approved LED Strategy.	0		LED Strategy reviewed and adopted by 30 th November 2022.	Not achieved	Reason for non-performance: Lack of in-house capacity Remedial action: To seek support from COGTA FS's LED unit
TL2.6	To promote responsible Tourism, Arts and Heritage	The Development of the Nala Tourism Plan	Approved Plan	0		Adopted tourism plan by 31 st March 2023	Not achieved	Reason for non-performance: Tourism Project Submitted to National Department of Tourism for financial/developmental intervention on the 31 st March 2023 Remedial action: To seek advice from the Nation Tourism, Arts and Heritage department
TL2.7	Proper Spatial Planning and effective land use management.	Development of Spatial Development Framework (SDF). Developed by a Service Provider. COGTA	Approved SDF by 30 th June 2023.	2013/14 SDF		Approved SDF by 30 th June 2023.	Not achieved	Reason for non-performance: The draft SDF was tabled before council for noting and to be sent for public comments. However, public participation processes for have halted due to lack of capacity of municipal officials. Remedial action: Public participation should be done as a legal requirement

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								before final adoption by council.
TL2.8	To ensure effective urban planning that will promote spatial planning and social cohesion	In-house Township Establishment in Kgotsong. (A Register of Informal Settlements in Nala LM)	Number	404 in Bothaville Ext 15.		301 sites in Mabitleng Informal Settlement in Kgotsong. 54 sites in Seropesabanya informal settlement in Kgotsong. 74 sites in Tokologo informal settlement. 950 sites in Khalinkomo (Extension 12 and 13).	Not achieved	Reason for non-performance: Department of Human settlement they are busy developing business plan for 2024/25 Remedial action: DHS to accelerate construction of basic infrastructure on un-serviced sites
TL2.9	To ensure effective urban planning that will promote spatial planning and social cohesion	Rezoning and Subdivision of parks and open spaces for development of sites by 30 th June 2023.	Number of sites	0		157 sites to be developed in Kgotsong open spaces and parks.	Not achieved	Reason for non-performance: Planning and Development Team did not procure 8mm Y bar for pegging the yard.
TL2.10	To ensure effective urban planning that will promote proper spatial planning & social cohesion.	Number of land use applications submitted within 60 days of receipt	Number	Ongoing		Number of land use applications approved by 30 th June 2023.	Not achieved	Reasons for non-achievement. Lack of capacity to process applications in time. Remedial action The municipality must capacitate the unit to enable it to do its work.
TL2.11	To ensure effective urban planning that will promote proper spatial planning & social cohesion.	Sale of un-serviced sites in Botharnia 9 (behind Shell filling station) by end of June 2023	Number of sites to be sold.	380		24	Achieved	

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TL2.12	To ensure effective urban planning that will promote proper spatial planning & social cohesion.	Development of Disposal of Land Policy	Approved Disposal of Land Policy by 30 th September 2022.	New Indicator		Policy approved by Council by 30 th September 2022.	Not achieved	<p>Reasons for non-achievement: Lack of capacity to develop the Policy.</p> <p>Remedial action: To seek support for development of this Policy from relevant sector departments in the Province.</p>
TL2.13	To manage urbanisation of existing urban areas	Development of the Anti-Land Invasion bylaw by 30 th June 2023	Final-Land Invasion bylaw	New Indicator		Anti- Land Invasion by-law by 30 th June 2023.	Not achieved	<p>Reasons for non-achievement: Lack of capacity to develop a by-law.</p> <p>Remedial action: To seek support for development of this by-law from COGTAFS.</p>
TL2.14	To protect the municipal properties and employees against potential threats.	Number of security management reports compiled and submitted to EXCO and council.	Number	New		100% security incidents reported and investigated.	Not achieved	<p>Reason: There were no reports of security incidents in the municipality</p> <p>Remedial: Security department should compile reports of any security incidents</p>
TL2.15	To Aspire a healthy, safe and crime free communities	Conduct 60 By-law enforcement programs by date	Number	New		Conduct 120 By-law enforcement programs by 30 th June 2023	Not achieved	<p>Reason for non-performance: Lack of capacity to by – Law enforcement</p> <p>Remedial: Employ more law-enforcement and conduct joint operations with provincial Traffic Officers and SAPS</p>
TL2.16	Aspire to healthy, safe and crime free communities	Report on Number of Road Offence Tickets Issued by date	Number	New		400 Road Offence Tickets issued by 30 th June 2023	400 Achieved	

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TL2.17	Improve visibility of Traffic Officers on the Road	Number of Law enforcement operations conducted	Number	New		100 Law enforcement operations conducted by 30 June 2023	15 Not achieved	Reason for non-performance: Nala LM working together with National Traffic and SAPS. That is why we are not reach our target. Nala does not have main power to do roadblocks.
TL2.18	To ensure improved access to appropriate basic services and infrastructure	Number of Urban and township areas with access to refuse removal services	Number	New		All households at Bothaville, Wesselsbron, Kgotsong and Monyakeng with access to refuse removal by end Sept 2023	21907 Achieved	
TL2.19	To rehabilitate Bothaville and Wesselsbron Landfill sites	Fencing of Landfil sites at both Bothaville and Wesselsbron				Landfill sites fenced by end June 2023	Not achieved	Reasons for non-performance Lack of resource capacity (finance and expertise). Remedial action To seek support from the department of DESTEA.
TL2.20	Maintenance of Waste Water Treatment Plants in Bothaville.	Review of IWMP by end June 2023	Approved IWMP by end June 2023	Approved IWMP by end of June 2023		1	Not achieved	Reasons for non-achievement: Lack of capacity to review the IWMP. Remedial action: To seek support for development of this by-law from the Province.
TL2.21	To rehabilitate Bothaville and Wesselsbron Landfill sites	Paving of 5km Landfill access roads at both Bothaville and Wesselsbron	Kilometer	0		5km of Landfill access roads paved by 30 th June 2023	Not achieved	Reasons for non-performance Lack of resource capacity (finance and expertise). Remedial action To seek support from the department of DESTEA

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TL2.22	To ensure improved access to appropriate basic services and infrastructure	10 skip bins by 30 th June 2023.	Number	0		10 Skip bins placed at all Illegal dumping sites by 31 st January 2023	Not achieved	Reason for non-performance: The IWMP is outdated and should be reviewed, sent to council for noting before it is advertised for public comment
TL2.23	Environmental Protection.	Review of Environment Management Plan	Approved Plan (EMP)	Draft Environmental Management Plan.		Approved Environmental Management Plan by 31 st Dec. 2022	Not achieved	Reason for non-performance: The EMP is outdated and should be reviewed, sent to council for noting before it is advertised for public comment
TL2.24	Environmental Protection	Approved Disaster Management Plan	Approved DMP	Draft DMP		Approved DMP by 30 th June 2023	Not achieved	Reasons for non-performance Lack of capacity. Remedial action Seek support from DESTEA
TL2.25	To ensure improved access to appropriate basic services and infrastructure	Purchase of 2 waste removal tractors by date	Date	New		Purchase of waste removal tractors by 31 October 2022	Not achieved	Reasons for non-performance. Because of lack of budget Municipality managed to purchase only two. Remedial action To make budget allocation for the next financial year.
TL2.26	To ensure improved access to appropriate basic services and infrastructure	Repairs and Maintenance of Community Halls (ALL FOUR community Halls)	Number	0		4 Community halls by 30 th June 2023.	Not achieved	Reason for non-achievement: Maintenance Team has not made cost estimates for repairs of these halls. Remedial action: The Maintenance Team has stated with draft cost estimation.
TL2.27	To ensure improved access to appropriate basic services and infrastructure	Number of Emerging Enterprises (SMME's provided with training workshop by date	Date	New		Emerging Enterprise training workshop held by end Feb 2023	Not achieved	Reasons for non-performance Lack of capacity. Remedial action Seek support from sector departments.

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TL2.28	Ensure compliance with National Building Regulation and Standards	Number of legal and illegal inspections conducted in compliance with National Building Regulation and Standards	Number	New		Conduct 80 Inspections on Legal and illegal Building works by 30 June 2023	Not achieved	<p>Reasons for non-performance Lack of human resource capacity.</p> <p>Remedial action Seek capacity from sector departments.</p>
TL2.29	Ensure compliance with SPLUMA	Turnaround time (in days) on the approval of building plans submitted to the municipality	Turnaround time	New		Approve Complete Development Applications within 90 days in terms of SPLUMA from the date of submission by property owners	Not achieved	<p>Reasons for non-performance. Lack of capacity</p> <p>Remedial action Seek support from sector departments</p>
TL2.30	To ensure improved access to appropriate basic services and infrastructure	Cemeteries Maintenance Plan by 30 th June 2023.	Approved Plan	0		Approved Cemeteries Maintenance Plan by 30 th June 2023.	Not achieved	<p>Reasons for non-performance Lack of equipment to maintain cleanliness of cemeteries.</p> <p>Remedial action To purchase of needed equipment.</p>
TL2.31	Development of new cemeteries	Construction of New # Square Kilometers Cemeteries at Bothaville and Kgotsong by 30 th June 2023.	Square Kilometers	New		Construction of New # Square kilometers Cemeteries at Bothaville and Kgotsong by 30 th June 2023.	Not achieved	<p>Reasons for non-performance No reports on new land acquired for cemeteries extension.</p> <p>Remedial action Council to resolve on allocation of land for new cemeteries.</p>
TL2.32	To ensure improved access to appropriate basic services and infrastructure	Reports on Maintenance of Parks and Sport fields by 30 June 2023.	Quarterly reports	New		Quarterly Reports on cutting of grass on Parks, open spaces and Sport fields	Not achieved	<p>Reasons for non-performance Lack of equipment to maintain cleanliness of parks and sports fields.</p> <p>Remedial action The purchase of needed equipment.</p>

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TL2.33	To ensure that the community of Nala LM has sports facilities	Monyakeng: Development of 4 soccer training grounds and goal posts	No	0		4	4 Achieved	
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No	No of KPI	Achieved KPI's	Not Achieved KPI's	% of KPIs Achieved
1	33	5	28	4

KPA:3 MUNICIPAL FINANCIAL VIABILITY AND FINANCIAL MANAGEMENT								
REF	IDP Objectives 2022/23	KPI	Unit of Measure	2022/23 Baseline	Budget	Annual Target	Actual achievement	Reasons for non-achievement and Remedial Action
TL3.1	To monitor, evaluate & improve the financial viability of Nala local municipality as measured in the key indicators in Municipal Planning & Performance Regulations, 2001.	95% of consumer debtors revenue collected (actual total collections as a percentage of total levies/billings)	Collected Revenue / Billed Revenue x 100	62%		≥95%	Not achieved Only 55% collection rate was done..	Reason for non-achievement The high unemployment in Nala LM has caused that ratepayers do not pay their monthly municipal services Remedial action To implement credit control and debt management policy
TL3.2	Provision of free basic services to registered indigent households	Review of Indigent Policy by end of May 2023.	Indigent Policy	Current Indigent Policy		Approved Indigent Policy by end of May 2023	Achieved	
TL3.3	Provision of free basic services to registered indigent households	Provision of free basic services to all registered indigents at least once a month.	Number	11269		11269	Achieved	
TL3.4	Adhere to set accounting and auditing standards.	Submission of annual financial statements for auditing purposes by 31 st of August 2023.	Date of submission	1		To submit by 31 st of August 2023	Not Achieved The Annual Financial	Reason for non-achievement Financial systems failure to generate AFS in time.

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KPA:3 MUNICIPAL FINANCIAL VIABILITY AND FINANCIAL MANAGEMENT								
REF	IDP Objectives 2022/23	KPI	Unit of Measure	2022/23 Baseline	Budget	Annual Target	Actual achievement	Reasons for non-achievement and Remedial Action
							Statement was submitted on 06 th September 2022	Remedial action To correct financial systems challenges and upgrade to a more efficient one.
TL3.5	To monitor, evaluate & improve the financial viability of Nala local municipality as measured in the key indicators in Municipal Planning & Performance Regulations, 2001.	% of a municipality's capital budget actually spent on capital projects identified for a particular financial year in terms of the municipality's integrated development plan (MFMA Circular 71)	Actual Capital Expenditure/ Budget Capital Expenditure x 100			R33 439 000.00	Achieved	
TL3.6	To proper daily updating of inventory book.	Value of assests sold/purchased by 30 th June 2023.	Value	0		Value of assets sold/purchased by 30 th June 2023..	Achieved	
TL3.7	Financial Systems	Ensure compliance with mSCOA of all financial systems.	Migration to Mscoa compliant financial system.	0		30 th June 2023	Not achieved	Reason for non-achievement The municipality still owes the current service provider. Remedial Action Municipality will ensure that the current financial system account is paid in full to enable the municipality to source Mscoa compliant financial system
TL3.8	Response to audit report findings.	Development of Audit Action Plan.	Monthly reports on the implementation of Audit Action Plan.	Draft		30 th June 2023	Achieved	
TL3.9	Management of trading services	Creation of a secondary account by 1st July 2023.	Secondary account opened.	0		1 st July 2023	Not achieved	Remedial action The municipality will ensure the secondary account is opened in 2023/24 FY

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KPA:3 MUNICIPAL FINANCIAL VIABILITY AND FINANCIAL MANAGEMENT								
REF	IDP Objectives 2022/23	KPI	Unit of Measure	2022/23 Baseline	Budget	Annual Target	Actual achievement	Reasons for non-achievement and Remedial Action
TL3.10	To monitor, evaluate & improve the financial viability of Nala local municipality as measured in the key indicators in Municipal Planning & Performance Regulations, 2001.	Compliant annual budget (MTREF) and IDP compiled and approved by end of May 2023.	Actual date budget approved (31 st May 2023)	15 June 2022		31 st May 2023	Achieved	
TL3.11	To monitor, evaluate & improve the financial viability of Nala local municipality as measured in the key indicators in Municipal Planning & Performance Regulations, 2001.	Mid-year budget assessment and budget adjustments report submitted on or before 25 January 2023 (s72 of MFMA)	Date Mid-year assessment submitted.	30 January 2022		Submitted on or before 25 January 2023	Achieved	
TL3.12	To monitor, evaluate & improve the financial viability of Nala local municipality as measured in the key indicators in Municipal Planning & Performance Regulations, 2001.	Actual % of allocated expenditure on repairs and maintenance as a percentage of the approved/adjusted budget	Total Repairs and Maintenance Expenditure /Total amount budgeted for repairs and maintenance x 100	0.8%		0.8%	Achieved	
TL3.13	To monitor, evaluate & improve the financial viability of Nala local municipality as measured in the key indicators in Municipal Planning & Performance Regulations, 2001.	No. of SCM reports to be submitted to council.	Sum of reports to be submitted	4		4		
TL3.14	To monitor, evaluate & improve the financial viability of Nala local municipality as measured in	Net Operating Surplus Margin (MFMA Circular 71)	(Total Operating Revenue – Total Operating Expenditure)/	0%		≥0%		Remedial action The Municipality will ensure improve revenue collection in order to improve the cash flow position of the municipality

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KPA:3 MUNICIPAL FINANCIAL VIABILITY AND FINANCIAL MANAGEMENT								
REF	IDP Objectives 2022/23	KPI	Unit of Measure	2022/23 Baseline	Budget	Annual Target	Actual achievement	Reasons for non-achievement and Remedial Action
	the key indicators in Municipal Planning & Performance Regulations, 2001.		Total Operating Revenue x 100%					

No	No of KPI	Achieved KPI's	Not Achieved KPI's	% of KPIs Achieved
1	14	9	5	64%

KPA 4: MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT								
REF	IDP Objectives 2022/23	KPI	Unit of Measure	2022/23 Baseline	Budget	Annual Target	Actual achievement	Reasons for non-achievement and Remedial Action
TL4.1	Management of administrative process of all council sittings	Timely delivery of ordinary council meeting agendas within provisions of standard rules and orders.	Three days ordinary council and two days special	4		4	Achieved	
TL4.2	Management of administrative process of all council and its Section 79 and 80 committees	Timely delivery of ordinary council meeting agendas within provisions of standard rules and orders.	Three days ordinary meetings	12		12	Not achieved	Reason: The new schedule has been developed and based on that there is reduction on the number of meetings to be held
TL4.3	To facilitate transformation & development in Nala local municipality	% of a municipality's budget actually spent on implementing its workplace skills plan	%/R value spent on training divided by total operational budget of the municipality	1%		1%	Not achieved	
TL4.4	To facilitate transformation & development in Nala local municipality	NO%% of people from employment equity target groups employed in the three highest levels	No/% of employees from designated groups in three highest levels of	0%		50%	Not achieved	Reason: Slow progress of Recruitment Remedial: EE Target groups will be include in filling of critical post in the next FY

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KPA 4: MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT

REF	IDP Objectives 2022/23	KPI	Unit of Measure	2022/23 Baseline	Budget	Annual Target	Actual achievement	Reasons for non-achievement and Remedial Action
		of management in compliance with a municipality's approved employment equity plan	management divided by total number of employees in three highest levels of management					
TL4.5	To facilitate transformation & development in Nala local municipality	No. of quarterly reports to Council on the tracking of council resolutions (at the end of each quarter - Sept, Dec, Mar & Apr)	Quarterly reports submitted.	2		4	Not achieved	Reason: Minutes of previous council meetings are yet to be reviewed & adopted by council Remedial: Engage with the office of the Speaker to comply with Mun. Structures Act
TL4.6	To ensure good governance & public participation in Nala Local municipality	WSP, annual training report (ATR) & PIVOTAL report compiled & submitted to LGSETA on 30 April each year.	Date annual training report and WSP submitted to the LGSETA	28-May-22		30 April 2023	Achieved	
TL4.7	To facilitate transformation & development in Nala local municipality	Review of EE Plan and numerical goals and targets by 30 March 2023	Revised EE Plan and Council Resolution	30-Jan-22		30-Jan-23	Not achieved	Reasons for non-performance Lack of capacity to review EE Plan Remedial action To seek support from sector departments
TL4.8	To facilitate transformation & development in Nala local municipality	No. of EE Reports submitted to DoL by 15 January each year [EEA2 and EEA4]	Sum of reports submitted	30-Jan-22		EEA2 & EEA4 submitted on the 15 th Jan 2023		
TL4.9	To facilitate transformation & development in Nala local municipality	No. of LLF meetings held per annum	Sum of LLF meetings held per year	4		4	Not achieved	Reason: Labour unrest impeded the sitting of LLF sittings Remedial: Hold pre-LLF meetings with Labour to iron out differences before LLF meetings
TL4.10	Organisational development.	Finalisation of Migration Report	Approved Migration Report	Draft Migration Report.		Approved Migration Report by end	Not achieved	Acquisition of integrated IT System via procurement

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KPA 4: MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT

REF	IDP Objectives 2022/23	KPI	Unit of Measure	2022/23 Baseline	Budget	Annual Target	Actual achievement	Reasons for non-achievement and Remedial Action
						of end of September 2022.		
TL4.11		Filling of funded, critical posts by end of June 2023.	Number of vacant funded posts to be filled.			Thirteen (13) critical posts filled by end of June 2023.	Not achieved	Reason: Staff Migration Appeals process were still in progress and hence appointments were halted Remedial: The 13 Critical post will be gradually filled in the new FY
TL4.12	Regulation of working hours.	Installation of a system based clocking device linked to Payroll.	Delivery note Appointment Letter	Manual system		30 th June 2023	Not achieved	Reason: Failure to acquire new IT System which can link clocking to Payroll Remedial: Acquisition of integrated IT System via procurement

No	No of KPI	Achieved KPI's	Not Achieved KPI's	% of KPIs Achieved
1	12	3	9	25%

KPA 5 GOOD GOVERNANCE AND PUBLIC PARTICIPATION(MM)

REF	IDP Objectives 2021/22	KPI	Unit of Measure	2020/21 Baseline	Budget	Annual Target	Actual achievement	Reasons for non-achievement and Remedial Action
TL5.1	To ensure good governance & public participation in Nala Local Municipality	No. of audit committees held per annum	Sum of audit committees held	4		4	Not achieved	Reason for performance: The Municipality did not have respective directors to compile reports to be presented to Audit Committee. Remedial Action: To appoint directors in the 2023/24 financial year.
TL5.2	To ensure good	Annual Report tabled in	Date annual	30-Jan-22		Report	Achieved	

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KPA 5 GOOD GOVERNANCE AND PUBLIC PARTICIPATION(MM)

REF	IDP Objectives 2021/22	KPI	Unit of Measure	2020/21 Baseline	Budget	Annual Target	Actual achievement	Reasons for non-achievement and Remedial Action
	governance & public participation in Nala Local municipality	council on or before 31 Jan 2023	report tabled			submitted on or before 31-Jan-2023		
TL5.3	To ensure good governance & public participation in Nala Local municipality	Annual review of IDP completed before the end of May 2023	Date annual review completed	15-June-2022		31-May-2023	Achieved	
TL5.4	Organisational Performance Management System.	Review/development of Performance Management Policy and Framework aligned to IDP by end May 2023.	Approved reviewed PMS Policy and Framework.	0		31 May 2023.	Not achieved	<p>Reason for performance The municipality developed the PMS policy and framework, however the council only noted and did not approve.</p> <p>Remedial action The municipality will submit the PMS policy and framework to council to approve next financial year 2023/24</p>
TL5.5	Performance agreements for MM and managers directly accountable compiled and signed on time (NKPI: 2)	Annual Performance agreements signed within fourteen (14) days of the beginning of new financial year.	Signed performance agreements for all senior managers 31 st July 2022.	0		31 st July 2022	Achieved	
TL5.6	To facilitate transformation & development in Nala Local municipality	Annual council schedule compiled and approved by end of January each year	Annual Schedule provided on or before 31 st January 2023	January 2023		Submitted on or before 31 Jan 2023.	Achieved	
TL5.7	To ensure good governance & public participation in Nala Local municipality	Number notices for scheduled meetings distributed to Councillors and officials at least 48 hours before the meeting	No. of notices distributed 48 hours.	12		12	Not achieved	<p>Reason for performance The current manual distribution register does not make provision for time of delivery, and it can therefore not be determined the exact time of delivery of notice.</p> <p>Remedial action</p>

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KPA 5 GOOD GOVERNANCE AND PUBLIC PARTICIPATION(MM)

REF	IDP Objectives 2021/22	KPI	Unit of Measure	2020/21 Baseline	Budget	Annual Target	Actual achievement	Reasons for non-achievement and Remedial Action
								Online distribution of notices should be used regularly
TL5.8	To promote democracy and public participation in the affairs of the municipality	Number of public participation meetings	Number of public participation meetings.	0		4	Achieved	
TL5.9	Promotion of consideration of risk assessment in municipal decision making processes.	Review of Risk Management Policy and Register by 31 st October 2022.	Reviewed Policy and Risk Register	Approved Policy		Review of Risk Management Policy and Register by 31 st October 2022.	Achieved	
TL5.10	To ensure development of credible IDP.	Development of a Five year High level Strategic Plan	Approved Plan	0		31 st December 2022.	Not achieved	Remedial action Municipality to seek support from the District

No	No of KPI	Achieved KPI's	Not Achieved KPI's	% of KPIs Achieved
1	10	6	4	60%

Chapter 4

CHAPTER 4 – ORGANISATIONAL DEVELOPMENT PERFORMANCE (PERFORMANCE REPORT PART II)

During the IDP review for 2022/23 one of the weaknesses identified related to the municipal personnel. The following weaknesses were identified:

- ❖ The current organogram was not responsive to the municipality's capacity to meet its strategic objectives and skills demands.
- ❖ Lack of specific job descriptions for various posts did not allow for effective supervision.
- ❖ Most posts do not appear on the organogram and have serious budget implications.
- ❖ The organogram was top-heavy and did not make sufficient provision for posts at an operational level.
- ❖ Many of the employees do not have the requisite skills and competencies and employment trends will continue if drastic steps are not taken to enforce compliance (people meet requirements of the post during recruitment).
- ❖ Lack of performance management and quality standards for staff, results in low morale of staff and wide-ranging inefficiency, and low productivity.

Due to the weaknesses identified the municipality is planning to review the current organizational structure to address these weaknesses.

COMPONENT A: INTRODUCTION TO THE MUNICIPAL PERSONNEL

4.1 EMPLOYEE TOTALS, TURNOVER AND VACANCIES

The primary objective of Human Resource Management is to render an innovative Human Resource service that addresses both skills development and an administrative function. Key to the functionality of the Human Resource Management is the ability to maintain a workforce that is skilled and productive. to achieve this important goal, Nala LM has within its employment 484 employees performing their duties in various sections of the municipality.

Chapter 4

The employee totals for the year under review is reflected in the table below.

Employees		
Description	2022/2023	2023/2024
	Employees No.	Employees No.
Council General	44	40
Office of the Municipal Manager	07	08
Corporate Services: Admin	29	23
Finance Administration	54	48
Human Resources	06	08
Municipal Buildings	16	25
Finance Management Grant	04	03
Planning & Development	10	09
PMU	03	03
Security	59	67
Cemeteries	29	21
Housing	10	11
Public Safety (Traffic)	08	06
Public Safety (Fire)	03	05
Waste Water Management	12	14
Waste Management Solid Waste	55	50
Waste Management Sanitation	18	20
Engineering Services Admin	02	02
Engineering Services Roads	35	29
Mechanical Workshop & Fleet	02	11
Water Distribution	69	57
Electricity Distribution	30	24
TOTAL	505	484

Employees Table

Vacancy Rate: 2022/23			
Designations	*Total Approved Posts No.	*Total Filled Posts No.	*Vacancies (as a proportion of total posts in each category) %
Municipal Manager	1	1	100%
CFO	1	0	0%
Other S56 Managers (excluding Finance) Posts)	3	1	66%
Senior management: Levels 1-3	23	15	65%

Chapter 4

Vacancy Rate: 2022/23			
	*Total Approved Posts No.	*Total Posts Filled No.	*Vacancies (as a proportion of total posts in each category) %
Highly skilled supervision: levels 4-12	522	477	60.5%

Vacancy Rate

A high turnover may be costly to a municipality and might negatively affect productivity, service delivery and institutional memory/organisational knowledge. Below is a table that reflects the turnover rate within the Municipality.

Turn-over Rate			
Details	Total Appointments during the Financial Year 2022/23 No.	Terminations during the Financial Year No.	Turn-over Rate*
2022/23	03	20	15%

Turn-over Rate

4.2 POLICIES

Nala LM has a number Policies and plans to provide guidance for a fair and equitable staff treatment and a consistent approach to the managing of staff.

HR Policies and Plans				
	Name of Policy	Completed %	Reviewed date	Date adopted by council or comment on failure to adopt
1.	Affirmative Action	100%	July 2011	Nala LM
2.	Attraction and Retention	100%	July' 2011	Nala LM
3.	Code of Conduct for employees	0%		As Per MSA 32, 2000
4.	Delegations, Authorisation & Responsibility	100%	1-Jul-18	Nala LM
5.	Disciplinary Code and Procedures	0%	N/A	SALGBC Collective agreement
6.	Essential Services	0%	N/A	SALGBC Collective agreement

Chapter 4

7.	Employee Assistance / Wellness	100%	1-Jul-18	NALA LM
8.	Employment Equity	100%	1-Jul-11	NALA LM
9.	Exit Management	100%	1-Jul-11	NALA LM
10.	Grievance Procedures	0%	N/A	SALGBC Collective Agreement
11.	HIV/Aids	100%	1-Jul-11	NALA LM
12.	Human Resource and Development	100%	1-Jul-19	Per NALA HR Strategy
13.	Information Technology	100%	1-Jul-13	NALA LM
14.	Job Evaluation	0%	N/A	SALGBC Wage curve agreement
15.	Leave	0%	1-Jul-11	SALGBC Collective agreement
16.	Occupational Health and Safety	50%	1-Jul-18	NALA LM
17.	Official Housing	0%	1-Jul-11	SALGBC Collective Agreement
18.	Official Journeys	0%	1-Jul-11	SALGBC Collective Agreement
19.	Official transport to attend Funerals	50%	1-Jul-17	NALA LM
20.	Official Working Hours and Overtime	0%	N/A	SALGBC Collective Agreement
21.	Organisational Rights	0%	N/A	SALGBC Collective Agreement
22.	Payroll Deductions	50%	1-Jul-13	NALA LM
23.	Performance Management and Development	20%	Jul-13	NALA LM
24.	Recruitment, Selection and Appointments	100%	1-Jul-11	NALA LM
25.	Remuneration Scales and Allowances	0%	N/A	SALGBC Collective agreement
26.	Resettlement	50%	1-Jul-11	NALA LM
27.	Sexual Harassment	100%	1-Jul-11	NALA LM
28.	Skills Development	100%	1-Jul-11	NALA LM
29.	Smoking	100%	1-Jul-11	NALA LM
30.	Special Skills	100%	1-Jul-19	Per Nala HR Strategy
31.	Work Organisation	100%	N/A	Per Nala HR Strategy
32.	Uniforms and Protective Clothing	50%	1-Jul-18	NALA LM
33.	Other:			

Policies

Chapter 4

4.3 INJURIES ON DUTY AND SICK LEAVE TAKEN

An occupational injury is a personal injury, disease or death resulting from an occupational accident. Compensation claims for such occupational injuries are calculated according to the seriousness of the injury/disease and can be costly to a municipality. Occupational injury will influence the loss of man hours and therefore financial and productivity performance.

The table below provides the total number of injuries within the municipality.

Number and Cost of Injuries on Duty			
Type of injury	Injury Leave Taken Days	Employees using injury leave No.	Total Estimated Cost R
Required basic medical attention only			
Temporary total disablement	68	01	R62 516.48
Permanent disablement			
Fatal			
Total	68	01	R62 516.48

Injuries on Duty

The number of sick leave days taken by employees has service delivery and cost implications. The monitoring of sick leave identifies certain patterns or trends. Once these patterns are identified, corrective action can be taken.

Chapter 4

Number of days and Cost of Sick Leave (excluding injuries on duty)		
Salary band	Number of days	Cost
Employees	1 387.50	R1,471,617.69

Sick leave taken

4.3 SUSPENSIONS

During the year under review the Municipality suspended four (4) employees, however three (3) suspensions are lifted.

4.4 PERFORMANCE REWARDS

In terms of regulation 8 of the Local Government: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006 R.805 a bonus may only be paid after the municipal council has adopted the annual report of the year under review.

Managers (Directors) appointed in terms of Section 56 of the MSA are on fixed-term performance contracts. The Individual Performance Management System has not yet been cascaded down to the second reporting line of managers. Currently no performance bonus system or policy exists to pay bonus to non-section 57 employees, and also no assessment on Directors was done for the financial year under review.

Chapter 4

4.5 SKILLS DEVELOPMENT AND TRAINING

The municipality is addressing challenges of skills shortage within its workforce through various training agencies and training platforms provided by the government. These training agencies assist the central government to help professionalize municipalities by ensuring that incumbents are capacitated with suitable requisite skills to enable them to perform their various tasks and duties.

The table below indicates the number of employees that received training in the year under review:

Skills Matrix														
Management level	Gender	Employees in post as at 30 June '2021/22	Number of skilled employees required and actual as at 30 June '2021/22											
			Learnerships			Skills programmes & other short Courses			Other forms of training			Total		
			Actual: End of '2020/21	Actual: End of '2021/22	2021/22 Target	Actual: End of '2020/21	Actual: End of '2021/22	2021/22 Target	Actual: End of '2020/21	Actual: End of '2021/22	2021/22 Target	Actual: End of '2020/21	Actual: End of '2021/22	2021/22 Target
MM and s57	Female	1	-	-	-	-	-	-	-	-	-	-	-	-
	Male	5	-	-	-	-	-	-	-	-	-	-	-	-
Councillors, senior officials and managers	Female	8	02	01	-	-	-	-	-	-	-	-	-	-
	Male	16	04	02	-	-	-	-	-	-	-	-	-	-

Chapter 4

Technicians and associate professionals*	Female		03	03	-	-	-	-	-	-	-	-	-	-
	Male		04	05	-	-	-	-	-	-	-	-	-	-
Professionals	Female				-	-	-	-	-	-	-	-	-	-
	Male				-	-	-	-	-	-	-	-	-	-
Sub total	Female	9	4	4	-	-	-	-	-	-	-	-	-	-
	Male	21	7	7	-	-	-	-	-	-	-	-	-	-
		30	11	11	-	-	-	-	-	-	-	-	-	-

The Skills Development Act (1998) and the Municipal Systems Act, (2000), require employers to supply employees with the necessary training to develop its human resource capacity. Section 55(1) (f) states that as head of administration the Municipal Manager is responsible for the management, utilisation, and training of staff.

The corrective action planned is to embark on the same training interventions not achieved in order to reach the target as per Skills Development Plan of the Institution, the interventions will be populated on the WSP that is submitted to LGSETA on annual basis

Chapter 4

COMPONENT B: CAPACITATING THE MUNICIPAL WORKFORCE

In terms of Section 83 (1) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003), the Accounting Officer, Senior Managers, the Chief Financial Officer, non-financial managers and other financial officials of a municipality must meet the prescribed financial management competency levels that are key for the successful implementation of the

Municipal Finance Management Act. National Treasury has prescribed such financial management competencies in Government Notice 493 dated 15 June 2007.

To assist the above-mentioned officials to acquire the prescribed financial competencies, National Treasury, with the collaboration of various stakeholders and role-players in the local government sphere, developed an outcome-based NQF Level 6 qualification in Municipal Finance Management. In terms of the Government Notice 493 of 15 June 2007, "(1) No municipality or municipal entity may, with effect 1 January 2013 (exempted until 30 September 2015 as per Government Notice 179 of 14 March 2014 and again as per Government Gazette 40593 of 3 February 2017), employ a person as a financial official if that person does not meet the competency levels prescribed for the relevant position in terms of these Regulations". The table below provides details of the financial competency development progress as required by the regulation:

Financial Competency Development: Progress Report*						
Description	A. Total number of officials employed by municipality (Regulation 14(4)(a) and (c))	B. Total number of officials employed by municipal entities (Regulation 14(4)(a) and (c))	Consolidated: Total of A and B	Consolidated: Competency assessments completed for A and B (Regulation 14(4)(b) and (d))	Consolidated: Total number of officials whose performance agreements comply with Regulation 16 (Regulation 14(4)(f))	Consolidated: Total number of officials that meet prescribed competency levels (Regulation 14(4)(e))
Financial Officials	01	-	01	01	01	01
Accounting officer	-	-	-	-	-	-
Chief financial officer	-	-	-	-	-	-
Senior managers	01	-	01	01	01	01
Any other financial officials	07	-	07	-	-	-
Supply Chain Management Officials	04	-	04	01	-	01
Heads of supply chain management units	-	-	-	-	-	-

Chapter 4

Supply chain management senior managers	-	-	-	-	-	-
TOTAL	13		13	03	02	03

Financial Competency Progress Report

COMPONENT C: MANAGING THE WORKFORCE EXPENDITURE

4.6 EMPLOYEE EXPENDITURE

Section 66 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) states that the Accounting Officer of a Municipality must report to the Council on all expenditure incurred by the Municipality on staff salaries, wages, allowances and benefits. This is in line with the requirements of the Public Service Regulations, (2002), as well as National Treasury Budget and Reporting Regulations SA22 and SA23.

The success or failure of a municipality depends on the quality of its political leadership, sound governance of its finances, the strength of its institutions and the calibre of staff working for the municipality. Municipalities are required to carry out quality services in an effective, efficient and financially sound manner by supporting the principles of ensuring cost-effective and affordable service delivery. Accountability and transparency are, therefore, important when managing workforce expenditure. If the Municipality wants to be effective, it is important to ensure that the Municipality plan properly. To ensure that the Municipality adhere to legislation, only approved and budgeted posts on the structure are advertised.

Number of Employees Whose Salaries Were Increased Due to Their Positions Being Upgraded	
Beneficiaries	Total
Employees	239
Total	

Number of Employees Whose Salaries Were Increased Due to Their Positions Being Upgraded

The number of employees whose salaries were increased due to their position being upgraded for the financial year under review is high because of migration process.

Chapter 4

Evaluation				
Occupation	Number of employees	Job evaluation level	Remuneration level	Reason for deviation
	None			

Employees Whose Salary Levels Exceed the Grade Determined by Job Evaluation

Employees appointed to posts not approved				
Department	Level	Date of appointment	No. appointed	Reason for appointment when no established post exists
	None			

Employees appointed to posts not approved

COMMENT ON UPGRADED POSTS AND THOSE THAT ARE AT VARIANCE WITH NORMAL PRACTICE:

The number of employees whose salaries were increased due to their position being upgraded for the financial year under review is high because of migration process that took place.

Chapter 5

CHAPTER 5 – FINANCIAL PERFORMANCE

Chapter 5 contains information regarding financial performance and highlights specific accomplishments. Below is the Audited Annual Financial Statement:



Nala Local Municipality
(Registration number FS185)
Annual Financial Statements
for the year ended 30 June 2023

Nala Local Municipality

(Registration number FS185)

Annual Financial Statements for the year ended 30 June 2023

General Information

Nature of business and principal activities

Providing municipal services and maintaining the best interests of the local community mainly in the Nala area.

Mayoral committee

Executive Mayor

Mashiya MN

Speaker

Ntlebi NE

Executive Committee / Mayoral Committee

Mothibi MW (Chair)

Mafojane PW

Moshane ZM

Ross DC

Sekhejane MS

Councillors

Barnard MC

Botha D

Mahoko PE

Makunye AM

Mkhondwani BH

Mokotedi IS

Molutsi MM

Mothebe MS

Mpholo PL

Ntaopane RJ

Reed D

Sai EP

Swartbooi PD

Tau ER

Tau JS

Van Wyk P

Velembo MW

Grading of local authority

Grade 3

Municipal demarcation code

FS185

Acting Chief Finance Officer

Lekitlane MF

Accounting Officer

Lehloenya SJ

Registered office

Municipal Offices

8 Preller Street

Bothaville

9660

Capacity of local authority

Medium Capacity Municipality

Postal address

Private Bag X15

Bothaville

9660

Bankers

First National Bank

External auditors

Auditor-General of South Africa

Nala Local Municipality

(Registration number FS185)

Annual Financial Statements for the year ended 30 June 2023

General Information

Attorneys

Maritz-Willemse Attorneys Incorporated

Finger Attorneys

Mohobo Attorneys Incorporated

Nala Local Municipality

(Registration number FS185)

Annual Financial Statements for the year ended 30 June 2023

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

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Abbreviations used:

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
UIF	Unemployment Insurance Fund
PAYE	Pay As You Earn (Employee's Tax)

Nala Local Municipality

(Registration number FS185)

Annual Financial Statements for the year ended 30 June 2023

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 06 September 2023 and were signed by:

Lehloenya SJ
Accounting Officer

Nala Local Municipality

(Registration number FS185)

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Position as at 30 June 2023

Figures in Rand	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Inventories	10	4,130,667	3,770,890
Receivables from exchange transactions	11	152,253,132	108,004,879
Receivables from non-exchange transactions	12	10,922,156	9,420,094
VAT receivable	13	136,251,770	114,541,318
Cash and cash equivalents	14	12,225,061	24,077,036
		315,782,786	259,814,217
Non-Current Assets			
Investment property	3	555,880,511	594,599,969
Property, plant and equipment	4	1,167,732,538	1,167,226,903
Intangible assets	5	268,352	335,497
Other financial assets	6	173,773	152,250
		1,724,055,174	1,762,314,619
Total Assets		2,039,837,960	2,022,128,836
Liabilities			
Current Liabilities			
Payables from exchange transactions	7	1,128,292,541	917,665,431
Consumer deposits	8	3,908,782	3,906,596
Employee benefit obligation	9	6,734,000	6,084,000
Unspent conditional grants and receipts	15	2,351,107	2,074,992
		1,141,286,430	929,731,019
Non-Current Liabilities			
Employee benefit obligation	9	40,535,000	39,902,000
Provisions	16	54,606,505	47,331,812
		95,141,505	87,233,812
Total Liabilities		1,236,427,935	1,016,964,831
Net Assets		803,410,025	1,005,164,005
Accumulated surplus		803,410,025	1,005,164,005
Total Net Assets		803,410,025	1,005,164,005

Nala Local Municipality

(Registration number FS185)

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	202,524,578	176,533,656
Rental of facilities		497,883	649,078
Interest received - Exchange receivables		43,554,637	24,161,840
Discount received		1,904	-
Other income	20	3,447,056	2,340,485
Interest received - Investment	21	2,951,910	1,769,267
Dividends or similar distributions received	21	14,889	12,059
Total revenue from exchange transactions		252,992,857	205,466,385
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	26,427,254	24,156,963
Interest received - Non exchange receivables		3,670,110	2,042,781
Transfer revenue			
Government grants & subsidies	23	195,864,058	182,606,134
Fines, Penalties and Forfeits	19	386,850	128,501
Total revenue from non-exchange transactions		226,348,272	208,934,379
Total revenue	17	479,341,129	414,400,764
Expenditure			
Employee related costs	24	(196,496,391)	(176,124,255)
Remuneration of councillors	25	(9,542,796)	(8,715,894)
Depreciation and amortisation	26	(28,396,118)	(35,596,239)
Finance costs	28	(60,226,030)	(34,441,287)
Debt Impairment	30	(86,104,096)	(99,301,022)
Bulk purchases	32	(170,309,693)	(165,829,499)
Contracted services	33	(23,225,757)	(16,048,801)
General Expenses	31	(35,464,773)	(30,941,682)
Repairs and maintenance		(19,578,554)	(25,996,733)
Total expenditure		(629,344,208)	(592,995,412)
Operating deficit		(150,003,079)	(178,594,648)
Gain / (loss) on property, plant and equipment recognised		(46,753,783)	(12,675,773)
Fair value adjustments on other financial assets	35	21,523	17,532
Actuarial gains / (losses)	9	6,729,794	6,358,071
Impairment loss	27	(11,748,436)	(5,849,919)
		(51,750,902)	(12,150,089)
Deficit for the year		(201,753,981)	(190,744,737)

Nala Local Municipality

(Registration number FS185)

Annual Financial Statements for the year ended 30 June 2023

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Balance at 01 July 2021	1,195,908,742	1,195,908,742
Changes in net assets		
Restated deficit for the year	(190,744,737)	(190,744,737)
Total changes	(190,744,737)	(190,744,737)
Restated* Balance at 01 July 2022	1,005,164,006	1,005,164,006
Changes in net assets		
Deficit for the year	(201,753,981)	(201,753,981)
Total changes	(201,753,981)	(201,753,981)
Balance at 30 June 2023	803,410,025	803,410,025

Nala Local Municipality

(Registration number FS185)

Annual Financial Statements for the year ended 30 June 2023

Cash Flow Statement

Figures in Rand	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Taxation		15,804,686	44,454,893
Sale of goods and services		84,035,360	82,126,058
Grants		196,140,173	180,971,405
Interest income		50,176,657	27,973,888
Dividends or similar distributions received		14,889	12,059
Other receipts		3,973,916	2,216,640
		<u>350,145,681</u>	<u>337,754,943</u>
Payments			
Employee costs		(199,989,662)	(183,681,323)
Suppliers		(45,911,530)	(100,660,139)
Finance costs		(48,190,194)	(25,767,194)
Other cash item		(21,710,452)	(26,786,711)
		<u>(315,801,838)</u>	<u>(336,895,367)</u>
Net cash flows from operating activities	34	<u>34,343,843</u>	<u>859,576</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(46,195,818)	(36,658,616)
Proceeds from sale of property, plant and equipment	4	-	596,400
Net cash flows from investing activities		<u>(46,195,818)</u>	<u>(36,062,216)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(11,851,975)</u>	<u>(35,202,640)</u>
Cash and cash equivalents at the beginning of the year		24,077,036	59,279,676
Cash and cash equivalents at the end of the year	14	<u>12,225,061</u>	<u>24,077,036</u>

The accounting policies on pages 10 to 41 and the notes on page 90 form an integral part of the annual financial statements.

Nala Local Municipality

(Registration number FS185)

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts	Variance	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	242,763,088	(43,252,245)	199,510,843	202,524,578	3,013,735	Note 49
Rental of facilities and equipment	218,763	-	218,763	497,883	279,120	Note 49
Interest received - Exchange receivables	76,751,000	(23,347,528)	53,403,472	43,554,637	(9,848,835)	Note 49
Discount received	-	-	-	1,904	1,904	Note 49
Other income	4,669,728	-	4,669,728	3,447,056	(1,222,672)	Note 49
Interest received - investment	1,122,166	-	1,122,166	2,951,910	1,829,744	Note 49
Dividends or similar distributions received	5,370	-	5,370	14,889	9,519	Note 49
Total revenue from exchange transactions	325,530,115	(66,599,773)	258,930,342	252,992,857	(5,937,485)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	5,818,957	-	5,818,957	26,427,254	20,608,297	Note 49
Interest received - Non-exchange	-	-	-	3,670,110	3,670,110	
Transfer revenue						
Government grants & subsidies	198,385,000	622,814	199,007,814	195,864,058	(3,143,756)	Note 49
Fines, Penalties and Forfeits	80,872	-	80,872	386,850	305,978	Note 49
Total revenue from non-exchange transactions	204,284,829	622,814	204,907,643	226,348,272	21,440,629	
Total revenue	529,814,944	(65,976,959)	463,837,985	479,341,129	15,503,144	
Expenditure						
Employee related costs	(160,137,291)	(13,339,509)	(173,476,800)	(196,496,391)	(23,019,591)	Note 49
Remuneration of Councilors	(9,490,853)	(123,909)	(9,614,762)	(9,542,796)	71,966	Note 49
Depreciation and amortisation	(43,284,000)	-	(43,284,000)	(28,396,118)	14,887,882	Note 49
Impairment loss/ Reversal of impairments	-	-	-	(11,748,436)	(11,748,436)	Note 49
Finance costs	(15,600,000)	(11,858,128)	(27,458,128)	(60,226,030)	(32,767,902)	Note 49
Debt Impairment	(41,119,856)	-	(41,119,856)	(86,104,096)	(44,984,240)	Note 49
Bulk purchases	(118,000,000)	42,992,659	(75,007,341)	(170,309,693)	(95,302,352)	Note 49
Contracted Services	(30,647,691)	(2,968,644)	(33,616,335)	(23,225,757)	10,390,578	Note 49
General Expenses	(96,227,973)	10,304,158	(85,923,815)	(35,464,773)	50,459,042	Note 49
Repairs and maintenance	-	-	-	(19,578,554)	(19,578,554)	Note 49
Total expenditure	(514,507,664)	25,006,627	(489,501,037)	(641,092,644)	(151,591,607)	
Operating deficit	15,307,280	(40,970,332)	(25,663,052)	(161,751,515)	(136,088,463)	
Gain / (loss) on property, plant and equipment recognised	-	-	-	(46,753,783)	(46,753,783)	Note 49
Fair value adjustments	-	-	-	21,523	21,523	Note 49
Actuarial gains/losses	-	-	-	6,729,794	6,729,794	Note 49
	-	-	-	(40,002,466)	(40,002,466)	
Deficit before taxation	15,307,280	(40,970,332)	(25,663,052)	(201,753,981)	(176,090,929)	
	15,307,280	(40,970,332)	(25,663,052)	(201,753,981)	(176,090,929)	

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Accounting Policies

Figures in Rand	Note(s)	2023	2022
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1. Presentation of Annual Financial Statements

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

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 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:

Receivables

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

The impairment for 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.

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Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

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

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

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. 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 tangible assets are inherently uncertain and could materially change over time.

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 16 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the 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.

Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 9.

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.

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Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

GRAP 24: Presentation of budget information

Deviations between the budget and actual amounts are regarded as material if they exceed a 10% deviation, or an amount greater than R10 000.

All material differences are explained in the notes to the annual financial statements.

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.

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

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

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

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

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	50 years

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.

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.

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Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.6 Property, plant and equipment (continued)

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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Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.6 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Land	Straight-line	Indefinite
Buildings	Straight-line	10 - 60 years
Motor vehicles	Straight-line	5 - 15 years
Infrastructure		
- Electricity	Straight-line	5 - 60 years
- Roads	Straight-line	10 - 80 years
- Structures	Straight-line	10 - 60 years
- Stormwater drainage	Straight-line	50 - 60 years
- Sewer reticulation	Straight-line	5 - 10 years
- Waste water treatment works	Straight-line	15 - 80 years
- Water reticulation	Straight-line	20 - 60 years
Other property, plant and equipment		
- Furniture and fittings	Straight-line	5 - 7 years
- IT equipment	Straight-line	6 - 7 years
- Landfill sites	Straight-line	12 - 13 years
- Office equipment	Straight-line	4 - 7 years
- Plant and machinery	Straight-line	4 - 7 years
- Vehicles	Straight-line	7 - 15 years
- Airports	Straight-line	5 - 60 years

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.7 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.8 Intangible assets

An asset is identifiable if it either:

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

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

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

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

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

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

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

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

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

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Accounting Policies

1.8 Intangible assets (continued)

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

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	4 years

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

Intangible assets are derecognised:

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

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

1.9 Financial instruments

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

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

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

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

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

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

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

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

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Accounting Policies

1.9 Financial instruments (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.

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

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

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

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Accounting Policies

1.9 Financial instruments (continued)

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

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Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.9 Financial instruments (continued)

Gains and losses

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

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

Impairment 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 the estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flow from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, 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 party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
 - derecognises the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

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

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

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1.9 Financial instruments (continued)

Financial liabilities

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

An exchange between an existing borrower and lender of debt instruments with the substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standards of GRAP on Revenue from Non-Exchange Transactions.

Presentation

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

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expenses in surplus or deficit.

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

1.10 Statutory receivables

Identification

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

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

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

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

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

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

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1.10 Statutory receivables (continued)

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.

Impairment losses

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

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

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

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

In estimating the future cash flows, 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.

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1.10 Statutory receivables (continued)

Derecognition

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

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

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

1.11 Leases

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.12 Inventories

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

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

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

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

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1.12 Inventories (continued)

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.

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

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

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

1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. 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.

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.

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1.13 Impairment of cash-generating assets (continued)

Value in use

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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1.13 Impairment of cash-generating assets (continued)

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

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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 municipality estimates the recoverable amount of that asset.

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.

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.

1.14 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.

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

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

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

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

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

Useful life is either:

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

Identification

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

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

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.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Reversal of an impairment loss

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

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.

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.

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1.15 Employee benefits

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

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1.15 Employee benefits (continued)

Defined contribution plans

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

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

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

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

Payments to defined contribution retirement plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

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1.15 Employee benefits (continued)

Defined benefit plans

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

Actuarial valuations are conducted on an annual basis by independent actuaries for each plan. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.15 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

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

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Accounting Policies

1.15 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

Other post retirement obligations

The municipality 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 a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

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Accounting Policies

1.15 Employee benefits (continued)

Termination benefits

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

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

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

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

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

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

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

1.16 Provisions and contingencies

Provisions are recognised when:

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

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

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Accounting Policies

1.16 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

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

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

1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.18 Revenue from exchange transactions

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

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

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

Measurement

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

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

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Accounting Policies

1.18 Revenue from exchange transactions (continued)

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 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 the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest and dividends

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

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

Interest is recognised using the effective interest rate method. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

1.19 Revenue from non-exchange transactions

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

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

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

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.

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Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

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.

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

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

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

Recognition

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

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

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 municipality 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. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

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Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Taxes (Property rates for municipalities)

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

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.

Transfers

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind are not recognised.

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

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

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Accounting Policies

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.

1.24 Irregular expenditure

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

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

- Municipal Finance Management Act, Act 56 of 2003, and its regulations;
- Municipal Systems Act, Act 32 of 2000, and its regulations;
- Public Office-Bearers Act, Act 20 of 1998, and its regulations; and
- The municipality's supply chain management policy, and any by-laws giving effect to that policy

Irregular expenditure that was incurred and identified during the current financial period and was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register.

Irregular expenditure that was incurred and identified during the current financial period and for which condonement is being awaited at year end must be recorded in the irregular expenditure register.

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.

Irregular expenditure that was incurred and identified in the current financial year and which was not condoned by 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 by 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 impaired and disclose such in the relevant note to the financial statements. If the irregular expenditure has not been condoned and no person is liable by law, the expenditure related thereto must remain against the relevant program/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular register.

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.

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Accounting Policies

1.25 Segment information

A segment is an activity of a municipality:

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

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

Measurement

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

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

1.26 Budget information

Municipality's 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 01/07/2021 to 30/06/2022.

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

1.27 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.

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Accounting Policies

1.27 Related parties (continued)

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

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

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

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

1.28 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.

Since June 2020 the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses were forced to cease or limit operations. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing and closures of non-essential services triggered significant disruptions in businesses world wide, resulting in an economic slowdown.

Global stock markets also experienced great volatility and significant weakening. Governments and central banks responded with monetary and fiscal interventions to stabilise economic conditions. As the municipality is operating in the municipal sector and is classified as an essential service provider, that operated throughout lockdown, the impact on the municipality's financial position and financial performance was limited, and it is assumed that funds will be available to finance future operations.

Council is not aware of any material events which occurred after the reporting date and up to date of the issue of the financial statements, which require adjustment to the financial statements.

1.29 Value-Added Tax

The municipality is registered with the South African Revenue Service (SARS) for value-added tax (VAT) on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

1.30 Accumulated surplus

The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipality. Any surpluses/deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credited against accumulated surplus/deficit when retrospective adjustments are made.

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2023 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Guideline on Accounting for Landfill Sites	To be determined	Unlikely there will be a material impact
• GRAP 25 (as revised): Employee Benefits	01 April 2023	Unlikely there will be a material impact
• iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	01 April 2023	Unlikely there will be a material impact
• GRAP 104 (as revised): Financial Instruments	01 April 2025	Unlikely there will be a material impact
• iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	Unlikely there will be a material impact

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3. Investment property

	2023		2022			
	Cost /	Accumulated Carrying value	Cost /	Accumulated Carrying value		
	Valuation	depreciation and accumulated impairment	Valuation	depreciation and accumulated impairment		
Investment property	562,430,057	(6,549,546)	555,880,511	595,082,931	(482,962)	594,599,969

Reconciliation of investment property - 2023

	Opening balance	Disposals	Reclassification	Impairments	Depreciation	Total
Investment property	594,599,969	(33,867,442)	1,214,568	(6,009,967)	(56,617)	555,880,511

Reconciliation of investment property - 2022

	Opening balance	Depreciation	Total
Investment property	594,658,203	(58,234)	594,599,969

Pledged as security

No investment property were pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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4. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	123,942,681	(5,738,468)	118,204,213	132,896,472	-	132,896,472
Buildings	145,573,559	(90,349,694)	55,223,865	145,474,273	(89,410,361)	56,063,912
Motor vehicles	13,375,322	(3,530,221)	9,845,101	8,745,322	(3,383,395)	5,361,927
Infrastructure	1,907,405,415	(925,886,860)	981,518,555	1,880,193,794	(909,863,071)	970,330,723
Other equipment	8,157,093	(5,216,289)	2,940,804	7,508,017	(4,934,148)	2,573,869
Total	2,198,454,070	(1,030,721,532)	1,167,732,538	2,174,817,878	(1,007,590,975)	1,167,226,903

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Change in estimate	Disposals	Work-in-progress	Reclassification on	Depreciation	Impairment loss	Total
Land	132,896,472	-	-	(7,739,223)	-	(1,214,568)	-	(5,738,468)	118,204,213
Buildings	56,063,912	-	-	(487,022)	1,353,683	-	(1,706,708)	-	55,223,865
Motor vehicles	5,361,927	4,630,000	-	-	-	-	(146,826)	-	9,845,101
Infrastructure	970,330,723	32,722,537	2,404,857	(4,667,025)	6,864,144	-	(26,136,681)	-	981,518,555
Other equipment	2,573,869	238,560	-	-	410,516	-	(282,141)	-	2,940,804
	1,167,226,903	37,591,097	2,404,857	(12,893,270)	8,628,343	(1,214,568)	(28,272,356)	(5,738,468)	1,167,732,538

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Change in estimate	Disposals	Work-in-progress	Depreciation	Impairment loss	Total
Land	132,896,472	-	-	-	-	-	-	132,896,472
Buildings	62,737,195	2,250,230	-	(4,188,081)	(799,605)	(2,453,208)	(1,482,619)	56,063,912
Motor vehicles	5,673,824	-	-	(447,033)	-	248,880	(113,744)	5,361,927
Infrastructure	973,042,481	9,480,867	6,929,743	(8,490,914)	26,607,625	(32,985,522)	(4,253,557)	970,330,723
Other equipment	2,214,641	757,814	-	(146,143)	11,762	(264,205)	-	2,573,869
	1,176,564,613	12,488,911	6,929,743	(13,272,171)	25,819,782	(35,454,055)	(5,849,920)	1,167,226,903

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4. Property, plant and equipment (continued)

Included in Property, plant and Equipment is land assets, registered as Nala Local Municipality at the Deeds Office although the land is occupied. This is a historic matter as a result of delays in issuing of title deeds to previously disadvantage communities.

Pledged as security

No property, plant and equipment were pledged as security.

Reconciliation of Work-in-Progress 2023

	Included within Infrastructure	Included Within Buildings	Included within Other PPE	Total
Opening balance	58,479,217	108,054	362,702	58,949,973
Additions/capital expenditure	37,451,866	1,353,683	7,413,891	46,219,440
Transferred to completed items	(30,587,722)	-	(7,003,375)	(37,591,097)
	65,343,361	1,461,737	773,218	67,578,316

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included Within Buildings	Included within Other Assets	Total
Opening balance	31,871,592	907,658	350,941	33,130,191
Additions/capital expenditure	35,315,767	1,450,625	1,542,302	38,308,694
Transferred to completed items	(8,708,142)	(2,250,230)	(1,530,540)	(12,488,912)
	58,479,217	108,053	362,703	58,949,973

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.

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5. Intangible assets

	2023			2022		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Patents, trademarks and other rights	1,975,065	(1,706,713)	268,352	1,975,065	(1,639,568)	335,497

Reconciliation of intangible assets - 2023

	Opening balance	Amortisation	Total
Computer software	335,497	(67,145)	268,352

Reconciliation of intangible assets - 2022

	Opening balance	Amortisation	Total
Computer software	419,447	(83,950)	335,497

Pledged as security

No intangible assets were pledged as security.

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Notes to the Annual Financial Statements

6. Other financial assets

Designated at fair value

Unlisted shares	173,773	152,250
Unlisted shares consist of 8 236 (2022: 8 236) equity shares valued at R8.15 (2022: R6.40) each in Agribel Limited and 7 110 (2022: 7 110) equity shares in Senwes Limited valued at R15.00 (2022: R14.00) each.		

Non-current assets

Designated at fair value	173,773	152,250
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Financial assets at fair value

Fair value hierarchy of financial assets at fair value

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 1

Agribel Limited (Senwes Beleggings)	67,123	52,710
Senwes Limited	106,650	99,540
	173,773	152,250

7. Payables from exchange transactions

Trade payables	1,076,763,899	875,285,683
Payments received in advanced	13,589,782	10,849,343
Accrued leave pay	24,906,753	20,477,158
Accrued bonus	4,845,897	4,381,526
Other creditors	2,809,524	2,484,066
Retentions	5,376,686	4,187,655
	1,128,292,541	917,665,431

8. Consumer deposits

Electricity and water	3,908,782	3,906,596
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Consumer deposits are raised when a services account is opened and is refunded to the consumer after the account is closed

There are no guarantees held for electricity and water deposits.

Nala Local Municipality

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9. Employee benefit obligations

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

Carrying value		
Opening balance	(45,986,000)	(44,811,000)
Benefits paid	1,273,038	1,282,069
Current service cost	(1,938,000)	(1,752,000)
Interest cost	(6,084,000)	(5,453,000)
Actuarial gain/(loss)	5,465,962	4,747,931
	(47,269,000)	(45,986,000)
Non-current liabilities	(40,535,000)	(39,902,000)
Current liabilities	(6,734,000)	(6,084,000)
	(47,269,000)	(45,986,000)

One ZAQ Consultants and Actuaries has been appointed to perform the actuarial valuation of Nala Local Municipality's post-employment medical aid benefits liability as at 30 June 2023 for the purpose of reporting under the Statement of Generally Recognised Accounting Practice 25 (GRAP 25) of the Accounting Standards Board (ASB) Directive 5.

The valuation was performed by Julian van der Spuy, B.Comm (CERA) (FIA) in his capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQ Actuaries (Pty) Ltd.

The previous year's actuarial valuation was also conducted by ZAQ Actuaries and the valuation was performed by Julian van der Spuy, B.Comm (CERA) (FIA) in his capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQ Actuaries (Pty) Ltd.

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

Opening balance	(45,986,000)	(44,811,000)
Contributions by plan participants	1,415,472	1,282,069
Net movement recognised in the statement of financial performance	(2,698,472)	(2,457,069)
	(47,269,000)	(45,986,000)

Net movement recognised in the statement of financial performance

Current service cost	(1,938,000)	(1,752,000)
Interest cost	(6,084,000)	(5,453,000)
Actuarial (gains) losses	5,323,528	4,747,931
	(2,698,472)	(2,457,069)

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9. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

In estimating the liability for post-employment medical aid benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

APN 301 states that the assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Please note that the valuation is only an estimate of the cost of providing post-employment medical aid benefits. The actual cost to the Municipality will be dependent on future levels of assumed variables such as medical aid inflation. The impact of deviations between actual experience and the assumptions made can be found in the Sensitivity Analysis section of this document.

Financial variables:

The two most important financial variables used in the valuation are the discount rate and the medical aid inflation rate. The following values have been assumed for these variables:

Actual return on plan assets	Yield curve	Yield curve
Discount rates used	Difference between nominal and yield curves	Difference between nominal and yield curves
Expected rate of return on assets	CPI + 1%	CPI + 1%
Expected rate of return on reimbursement rights	Yield curve based	Yield curve based

Discount rate:

We used the nominal and real zero curves as at 30 June 2023 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Medical aid inflation:

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average retirement age:

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The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Notes to the Annual Financial Statements

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

9. Employee benefit obligations (continued)

Normal retirement age:

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality rates:

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and dependants:

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

Withdrawal:

As at the valuation date, the medical aid liability of the municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. Therefore no assets was considered as part of the valuation.

A table setting out the assumed rates of withdrawal from service is set out below:

Age band:	Withdrawal rate males:	Withdrawal rate females:
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60+	0%	0%

Current (In service) members:

The table below provides a summary of details for current employees:

	Male	Female	Total
Number of active employees	178	93	271
Subsidy weighted average age	49.5	47.4	48.9
Subsidy weighted average past service	15.6	14.3	15.2
Average monthly subsidy payable during retirement	R2 540	R2 130	R2 400

Continuation members:

The table below provides a summary of details for continuation members:

	Male	Female	Total
Number on continuation members	9	14	23
Subsidy weighted average age	81.6	73.5	77.1
Average monthly subsidy	R5 430	R4 260	R4 720

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Notes to the Annual Financial Statements

9. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	9,529,000	7,086,000
Effect on defined benefit obligation	54,325,000	41,431,000

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

	2023	2022	2021	2020	2019
Defined benefit obligation	(47,269,000)	(45,986,000)	(44,811,000)	(7,157,000)	(7,241,000)
Surplus (deficit)	1,938,000	1,175,000	37,654,000	(84,000)	(1,664,000)

Defined contribution plan asset

As at the valuation date, the medical aid liability of the municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. Therefore no assets was considered as part of the valuation.

10. Inventories

Inventories (stock in transit)	(179,172)	-
Consumables	4,269,193	3,732,716
Water for distribution	40,646	38,174
	4,130,667	3,770,890

Inventories recognised as an expense during the year	6,765,453	2,719,792
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Inventory pledged as security

No inventory was pledged as security for any liabilities during the current financial year.

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

11. Receivables from exchange transactions

Consumer debtors	591,970,106	466,822,347
Other receivables	14,832,852	14,506,024
Recoverable fruitless and wasteful expenditure	959,632	959,632
Overpayment to councillors	1,460,266	1,460,266
Less: Provision for bad debts on consumer debtors	(456,336,835)	(375,189,280)
Less: Provision for bad debts on other receivables	(632,889)	(554,110)
	152,253,132	108,004,879

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

11. Receivables from exchange transactions (continued)

Consumer debtor ageing

	2023	2022
Current (not past due)	24,846,188	19,676,313
1 month past due	19,076,481	13,096,823
2 months past due	16,167,747	10,687,329
3 months and more	581,632,096	462,829,733
	641,722,512	506,290,198

Ageing of consumer debtors per customer classification:

2023	Gross debtors	Impairment provision	Net debtors
Electricity	26,730,112	(10,833,559)	15,896,553
Water	159,975,707	(123,584,935)	36,390,772
Sewerage	91,007,086	(75,063,329)	15,943,757
Refuse	83,073,321	(69,661,427)	13,411,894
Other	231,183,880	(177,193,585)	53,990,699
	591,970,106	(456,336,835)	135,633,675

2022	Gross debtors	Impairment provision	Net debtors
Electricity	28,879,891	(9,777,342)	19,102,549
Water	122,384,195	(96,866,879)	25,517,316
Sewerage	71,062,446	(64,126,620)	6,935,826
Refuse	68,790,497	(61,534,594)	7,255,903
Other	175,705,318	(142,883,845)	32,821,877
	466,822,347	(375,189,280)	91,633,471

Consumer debtor industries

2023	Gross debtors	Impairment provision	Net debtors
Households	493,555,636	(424,709,983)	68,846,057
Industrial and commercial	55,161,587	(30,125,336)	25,036,251
National and provincial government	11,888,144	-	11,888,144
Other	31,364,739	(1,501,516)	29,863,223
	591,970,106	(456,336,835)	135,633,675

2022	Gross debtors	Impairment provision	Net debtors
Households	376,460,773	(348,624,375)	27,836,802
Industrial and commercial	50,318,350	(25,327,190)	24,991,160
National and provincial government	11,321,140	-	11,321,140
Other	28,722,084	(1,237,715)	27,484,369
	466,822,347	(375,189,280)	91,633,471

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(375,189,280)	(605,842,173)
Provision for impairment	(81,147,555)	230,652,893
	(456,336,835)	(375,189,280)

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

11. Receivables from exchange transactions (continued)

Trade and other receivables pledged as security

None of the receivables from exchange transactions was pledged as security by the municipality during the financial year.

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

12. Receivables from non-exchange transactions

Fines	258,277	135,922
Consumer debtors - Rates	49,882,071	39,467,852
Less: Provision for bad debts on consumer debtors	(39,218,192)	(30,183,680)
	10,922,156	9,420,094

Non-exchange ageing

	2023	2022
Current (not past due)	1,955,754	1,458,470
1 month past due	1,660,260	1,385,608
2 months past due	1,558,522	1,327,040
3 months and more	63,768,118	55,621,148
	68,942,654	59,792,266

Non exchange services

2023	Gross debtors	Impairment provision	Net debtors
Property rates	49,882,071	(39,218,192)	10,663,879
	49,882,071	(39,218,192)	10,663,879

2022	Gross debtors	Impairment provision	Net debtors
Property rates	39,467,852	(30,183,680)	9,284,172
	39,467,852	(30,183,680)	9,284,172

Non exchange industries

2023	Gross debtors	Impairment provision	Net debtors
Households	39,530,059	(36,803,416)	2,726,643
Industrial and commercial	3,029,607	(2,403,571)	626,036
National and provincial government	7,058,035	-	7,058,035
Other	264,370	(11,205)	253,165
	49,882,071	(39,218,192)	10,663,879

2022	Gross debtors	Impairment provision	Net debtors
Households	30,267,182	(28,117,673)	2,149,509
Industrial and commercial	2,676,887	(2,059,252)	617,635
National and provincial government	6,144,595	-	6,144,595
Other	379,188	(6,755)	372,433
	39,467,852	(30,183,680)	9,284,172

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Notes to the Annual Financial Statements

12. Property, plant and equipment (continued)

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(30,183,680)	(47,169,413)
Provision for impairment	(9,034,512)	16,985,733
	(39,218,192)	(30,183,680)

Statutory receivables general information

Transactions arising from statute

Property Rates

Property rates receivables are statutory receivables and arise from the property taxes levied on property owners, this is done in accordance to the Municipal Property Rates Act No 6 of 2004. Property rates receivables are dealt with using Nala Local Municipality Credit Control and Debt Management Policy.

Traffic fines

Traffic fines are statutory receivables and arise from fines issued due to traffic infringements committed by motorists, this is done in accordance with the Criminal Procedure Act No 501 of 1977. No interest is charged on the receivables that arise from traffic fines. Traffic fines receivables is disclosed at fair value using the historical collection rate ratios to determine the future collection rate, this assumes the two ratios will be similar.

13. VAT receivable

VAT	<u>136,251,770</u>	<u>114,541,318</u>
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Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	(8,725,699)	725,410
Short-term deposits	20,950,760	23,351,626
	12,225,061	24,077,036

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

The municipality has a guarantee arrangement to the value of R39 800 with Eskom which expires on 31 December 2025.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2023	30 June 2022	30 June 2021	30 June 2023	30 June 2022	30 June 2021
FNB - Current Account - 62025990765	966,576	1,195,650	1,103,573	(8,725,699)	725,410	(806,423)
FNB - Money Market - 6226222521	4,312,376	2,824,080	13,340,950	4,312,376	2,824,080	13,340,950
FNB - Mone Market - 62002839506	16,202,405	12,628,912	10,316,670	16,202,330	12,628,837	10,316,595
FNB - Money Market - 62373464503	436,054	7,898,709	36,428,553	436,054	7,898,709	36,428,554
Total	21,917,411	24,547,351	61,189,746	12,225,061	24,077,036	59,279,676

Difference between bank statement and cashbook 2023

	Bank statement	Cashbook	Difference
FNB - Current account - 62025990765	966,576	(8,725,699)	9,692,275
FNB - Money market - 62002839506	16,202,405	16,202,330	75
	17,168,981	7,476,631	9,692,350

Difference between bank statement and cashbook 2022

	Bank statement	Cashbook	Difference
FNB - Current account - 62025990765	1,195,650	725,410	470,240
FNB - Money market - 62002839506	12,628,912	12,628,837	75
	13,824,562	13,354,247	470,315

The difference amounting to R470,240 is as a result of unallocated deposits of R1,557,249 and outstanding deposits of R(1,087,009).

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Notes to the Annual Financial Statements

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Unspent grants	2,351,107	2,074,992
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Movement during the year

Balance at the beginning of the year	2,072,430	3,709,721
Additions during the year	198,430,735	183,613,579
Income recognition during the year	(195,864,058)	(180,898,755)
National Treasury offset	(2,288,000)	(2,639,000)
Deferred Revenue	-	(1,710,553)

2,351,107	2,074,992
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See note 23 for reconciliation of grants from National/Provincial Government.

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16. Provisions

Reconciliation of provisions

	Opening Balance	Current Service Cost	Paid during the year	Interest Cost	Actuarial Loss/(Gain)	Change in Estimate	Total
Environmental rehabilitation	36,520,812	-	-	4,714,836	-	2,404,857	43,640,505
Long Service Bonus Awards	10,811,000	911,000	(586,734)	1,237,000	(1,406,266)	-	10,966,000
	47,331,812	911,000	(586,734)	5,951,836	(1,406,266)	2,404,857	54,606,505

Reconciliation of provisions - 2022

	Opening Balance	Current Service Cost	Paid during the year	Interest Cost	Actuarial Loss/(Gain)	Change in Estimate	Total
Environmental rehabilitation	26,369,976	-	-	3,221,093	-	6,929,743	36,520,812
Long Service Bonus Awards	11,072,000	896,000	(730,861)	1,184,000	(1,610,139)	-	10,811,000
	37,441,976	896,000	(730,861)	4,405,093	(1,610,139)	6,929,743	47,331,812

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Notes to the Annual Financial Statements

16. Provisions (continued)

Environmental rehabilitation provision

The municipality engages in waste disposal operations for residential and businesses within the following areas:

- Bothaville
- Wesselsbron

In terms of licensing refuse sites, the municipality will incur licensing and rehabilitation costs to restore the sites at the end of its useful life. The landfill sites are not licensed and the municipality could incur penalties for not being licensed.

In terms of GRAP 19, provisions should be evaluated at each year-end to reflect the best estimate at that date of the provision.

Financial assumptions used:

- The Weighted Average Cost of Capital (WACC) was used to discount future costs of rehabilitating the landfill sites, such costs include construction costs and professional services. The WACC was calculated by using the Government Bond Yield Rate (12.310%) and adjusted using landfill specific risks. The WACC was calculated at 12.91%;
- Given the small population size and the large landfill area available, the calculations show that the site has beyond 20 years of airspace remaining. An RUL of 20 years is considered the maximum realistic RUL given that predicting future closure requirements (particularly in terms of legislation and compliance therewith) beyond this time frame is impractical. Indeed, new generation waste management licences typically have validity periods not exceeding 20 years, with extension only possible where sites are managed to the requisite standard. The RUL has been considered as 20 years for the baseline year (2022). The current remaining RUL is the baseline assessment with a 1 year reduction, which is 19 years.;
- The discount rate used is 12.91% for a 19-year period since the anticipated closure of the site is in 2042 (based on the information);

Long service awards provision

ZAQ Consultants and Actuaries has been appointed to perform an actuarial valuation of Nala Municipality's long service bonus awards liability at 30 June 2023 for the purpose of reporting under the Statement of Generally Recognised Accounting Practice 25 (GRAP 25) of the Accounting Standards Board (ASB) Directive 5, which is based on the International Accounting Standard 19 (IAS 19).

The valuation was performed by Julian van der Spuy, B.Comm (CERA) (FIA), in his capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (PTY) Ltd.

A previous actuarial valuation was performed by ZAQ Actuaries (Pty) Ltd as at 30 June 2022 to disclose on the long service bonus awards in the financial statements.

Nala Local Municipality

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Notes to the Annual Financial Statements

16. Provisions (continued)

Key assumptions used

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below:

Financial Variables

The two most important financial variables used in the valuation is the discount rate and salary inflation. The following assumptions were made for these variables:

Financial variable assumed	2023 Valuation	2022 Valuation
Discount rate	Yield curve	Yield curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	Difference between nominal and real yield curve
Normal salary increase rate	CPI + 1%	CPI + 1%
Net effective discount rate	Yield curve based	Yield curve based

Discount rate:

We use the nominal and real zero curves as at 30 June 2023 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Normal salary inflation rate:

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2023 of 5.4%. The next salary increase was assumed to take place on 01 July 2024.

In addition to the normal salary inflation rate, the following promotional salary increased were assumed:

Age band	Promotional increase
20 - 24	5%
25 - 29	4%
30 - 34	3%
35 - 39	2%
40 - 44	1%
45 and over	0%

Average retirement age:

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for illhealth and early retirements.

Normal retirement age:

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

16. Provisions (continued)

Mortality rates:

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal decrements:

A table setting out the assumed rates of withdrawal from service is set out below:

Age band	Withdrawal rate males	Withdrawal rate females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60+	0%	0%

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

16. Provisions (continued)

Membership Data

The information below is based on the membership data received from the municipality.

Eligible male employees:

Age band	Number of employees	Average annual salary	Salary weighted average past service (years)	Average accrued liability
20 - 29	2	R121 941	3.28	R5 794
30 - 39	50	R193 251	7.88	R21 476
40 - 49	127	R225 090	11.01	R28 562
50 - 59	112	R252 588	17.44	R29 282
60 +	44	R245 115	19.71	R3 651
Total	335	R231 546	14.15	R24 337

Eligible female employees:

Age band	Number of employees	Average annual salary	Salary weighted average past service (years)	Average accrued liability
20 - 29	1	R399 524	1.58	R6 241
30 - 39	33	R240 254	6.32	R19 869
40 - 49	41	R251 385	13.21	R32 681
50 - 59	35	R237 169	14.18	R23 024
60 +	9	R197 804	21.24	R582
Total	119	R241 310	11.92	R23 638

Total eligible employees:

Age band	Number of employees	Average annual salary	Salary weighted average past service (years)	Average accrued liability
20 - 29	3	R214 468	2.22	R5 943
30 - 39	83	R211 939	7.18	R20 837
40 - 49	168	R231 508	11.60	R29 567
50 - 59	147	R248 917	16.70	R27 792
60 +	53	R237 082	19.93	R3 130
Total	454	R235 147	13.49	R24 154

Valuation of Assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability.

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

17. Revenue

Service charges	202,524,578	176,533,656
Rental of facilities	497,883	649,078
Interest received - Interest received - exchange receivables	43,554,637	24,161,840
Interest received - non exchange receivables	1,904	-
Other income	3,447,056	2,340,485
Interest received - investment	2,951,910	1,769,267
Other income	14,889	12,059
Property rates	26,427,254	24,156,963
Interest received - non exchange receivables	3,670,110	2,042,781
Government grants & subsidies	195,864,058	182,606,134
Fines	386,850	128,501
	479,341,129	414,400,764

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	202,524,578	176,533,656
Rental of facilities	497,883	649,078
Interest received - exchange receivables	43,554,637	24,161,840
Discount received	1,904	-
Other income	3,447,056	2,340,485
Interest received - investment	2,951,910	1,769,267
Dividends or similar distributions received	14,889	12,059
	252,992,857	205,466,385

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	26,427,254	24,156,963
Interest received - non exchange receivables	3,670,110	2,042,781

Transfer revenue

Government grants & subsidies	195,864,058	182,606,134
Fines	386,850	128,501

226,348,272 **208,934,379**

18. Service charges

Sale of electricity	96,331,809	93,575,989
Sale of water	58,310,231	50,781,615
Sewerage and sanitation charges	29,416,179	20,109,698
Refuse removal	18,466,359	12,066,354
	202,524,578	176,533,656

Excluded from the above service charges is income forgone to the amount of R40 625 626 (2021: R54 548 528).

The municipality has challenges

19. Fines, Penalties and Forfeits

Municipal Traffic Fines	386,850	128,501
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Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

20. Other income

Admin fees	18,585	30,261
Advertisement	435	600
Burial income	657,440	687,378
Cemeteries	494,139	636,693
Connection Fees	104,643	109,183
Fees earned	543,345	441,221
Insurance claims received	-	227,470
Levies	117,835	134,365
Meter tampering/testing	650	-
Stock adjustment	1,490,104	50,875
Valuation certificates	19,880	22,439
	3,447,056	2,340,485

21. Investment revenue

Dividend revenue		
Other financial assets	14,889	12,059
Interest revenue		
Bank: Investment	2,951,910	1,769,267
	2,966,799	1,781,326

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

22. Property rates

Rates levied

Property rates	31,161,238	41,318,775
Less: Income forgone	(4,733,984)	(17,161,812)
	26,427,254	24,156,963

Valuations

Residential	2,088,537,880	2,088,537,880
Commercial	197,409,000	197,409,000
State	156,232,000	156,232,000
Municipal	92,552,600	92,552,600
Agriculture	2,749,643,000	2,749,643,000
Other	94,747,700	94,747,700
	5,379,122,180	5,379,122,180

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The first R80 000 of the rateable value of the residential property are exempted from taxes. A 100% rebate is granted to churches, public benefit organisations and municipal property. Furthermore a rebate of 50% is granted to farms, 60% to sectional title properties within agricultural land and 40% to other sectional title properties.

Rates are levied on a monthly basis and interest is levied on outstanding capital amounts:

Rates tariffs	2023	2022
Residential	0.01060000	0.01000000
Business	0.02120000	0.02000000
Industrial	0.02120000	0.01999000
Municipal	0.01060000	0.01000000
Government	0.03180000	0.02999000
Agricultural	0.00260000	0.00250000
Multi purpose : Business	0.02120000	0.01999000
Multi purpose: Residential	0.01590000	0.01499000
Multi purpose: Guesthouses	0.01590000	0.01499000
Multi purpose: Agricultural	0.00260000	0.00250000
Non permitted use	0.04240000	0.03998000
Public benefit organisations	0.00260000	0.00250000
Education	0.03180000	0.02999000
Guesthouses	0.01590000	0.01499000
Creches	0.01590000	0.01499000
Public workshop	0.00260000	0.00250000
PSI	0.00260000	0.00250000
Vacant	0.04240000	0.03998000

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

23. Government grants & subsidies

Operating grants

Equitable share	144,920,000	132,571,000
Municipal Infrastructure Grant	1,164,632	1,557,850
Financial Management Grant	3,002,345	3,100,000
Extended Public Works Grant	1,398,000	925,000
Local Government Sector Education and Training Authority Grant (LG SETA)	43,173	275,579
	150,528,150	138,429,429

Capital grants

Municipal Infrastructure Grant	27,869,597	30,357,284
Energy Efficiency Demand Side Management (EEDSM)	4,000,000	2,296,387
VAT on capital expenses	4,180,441	-
Water Services Infrastructure Grant (WSIG)	9,285,870	11,523,034
	45,335,908	44,176,705
	195,864,058	182,606,134

Integrated National Electrification Grant (INEP) - Capital

Balance unspent at beginning of year	156,022	156,022
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Conditions still to be met - remain liabilities (see note 15).

The grant is used to fund the electrification of new townships establishments.

Municipal Infrastructure Grant - Capital

Balance unspent at beginning of year	(124,808)	1,097,109
Current-year receipts	32,274,368	29,599,150
Conditions met - transferred to revenue	(27,240,044)	(25,384,577)
Income recognition - VAT	(4,086,008)	(3,785,187)
National Treasury offset	-	(469,000)
Deferred revenue	-	(1,182,303)
	823,508	(124,808)

The grant is used to fund the infrastructure projects / capital projects of the municipality.

National Treasury has added an amount of R0 (2021: R469 000) that is receivable by the municipality and deducted R469 000 from the equitable share due to the municipality accelerated spending of MIG monies for the 2022/23 financial period.

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

23. Receivables from exchange transactions (continued)

Financial Management Grant (FMG) - Operating

Current-year receipts	3,100,000	3,100,000
Conditions met - transferred to revenue	(3,002,345)	(3,100,000)
	<u>97,655</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 15).

The grant is used to assist in the payment of the financial system expenses of the municipality and the improvement of the financial systems.

Extended Public Works Program Grant (EPWP) - Operating

Balance unspent at beginning of year	85,000	10,270
Current-year receipts	1,398,000	1,010,000
Conditions met - transferred to revenue	(1,398,000)	(925,000)
National treasury offset	(85,000)	(10,270)
	<u>-</u>	<u>85,000</u>

The grant is used to fund social uplifting projects.

Municipal Infrastructure Grant (MIG) - Operational

Current-year receipts	1,164,632	1,557,850
Conditions met - transferred to revenue	(1,164,632)	(1,557,850)
	<u>-</u>	<u>-</u>

The grant is used to fund the project management unit of the municipality.

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

23. Receivables from exchange transactions (continued)

Energy Efficiency and Demand Site Management Grant (EEDSM) - Capital

Balance unspent at beginning of year	2,200,438	-
Current-year receipts	4,000,000	4,500,000
Conditions met - transferred to revenue	(3,478,261)	(2,043,136)
Income recognition - VAT	(521,739)	(256,426)
National treasury offset	(2,203,000)	-
	(2,562)	2,200,438

The grant is used to fund the implementation of the retrofit "Energy Efficient Lighting Technologies" in the municipal buildings, street and traffic lighting infrastructure and the efficient technologies in the water treatment and pump stations.

Additional text

Water Services Infrastructure Grant (WSIG) - Capital

Balance unspent at beginning of year	(528,250)	2,159,730
Current-year receipts	11,528,000	11,000,000
Conditions met - transferred to revenue	(8,074,670)	(9,496,315)
Income recognition - VAT	(1,211,200)	(1,503,685)
National treasury offset	-	(2,159,730)
Deferred income	-	(528,250)
	1,713,880	(528,250)

The grant is used to fund projects whose purpose is to provide water and sanitation services and reduce backlogs.

Municipal Support Program Grant - Capital

Balance unspent at beginning of year	284,028	284,028
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Conditions still to be met - remain liabilities (see note 15).

Municipal Support Programme to provide technical support to municipalities. Grant will be utilised to install pre-paid electricity meters.

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

24. Employee related costs

Acting allowances	3,661,028	3,332,201
Basic	107,543,977	98,318,087
Bonus	8,791,057	7,537,318
Defined contribution plans	1,938,000	1,752,000
Employee benefits - costs	911,000	896,000
Housing subsidies	373,878	584,862
Leave pay provision charge	4,429,595	260,107
Medical aid - company contributions	9,321,606	9,017,065
Night shift allowance	144,642	138,550
Overtime payments	17,661,838	17,851,685
Pension	18,864,136	17,059,174
SDL	1,417,515	1,301,021
Travel, motor car, accommodation, subsistence and other allowances	19,490,492	16,255,664
UIF	889,477	911,310
WCA	1,058,150	909,211
	196,496,391	176,124,255

Remuneration of Municipal Manager - Lehloenya SJ

Annual Remuneration	656,566	-
Car Allowance	448,426	-
Subsistence allowance	500	-
	1,105,492	-

SJ Lehloenya was appointed as Municipal Manager on 1 July 2022.

Remuneration of Chief Finance Officer - Busakwe S

Annual Remuneration	699,602	953,463
Car Allowance	124,174	180,000
Leave payout	245,213	-
	1,068,989	1,133,463

S Busakwe's contract as the Chief Finance Officer ended on 31 August 2022 and acted on secondment until 6 December 2022.

Remuneration of Executive Corporate Services - Molupe BP

Annual Remuneration	650,788	802,689
Car Allowance	248,085	330,780
Reimbursable allowance	23,201	10,488
Leave payout	115,225	-
	1,037,299	1,143,957

Remuneration of Acting Municipal Manager - Radebe NE

Annual Remuneration	-	329,311
	-	329,311

NE Radebe was seconded from CoGTA and was appointed as Acting Municipal Manager on 1 March 2020. The annual remuneration paid is the difference between the acting position and the remuneration received from CoGTA.

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

24. Employee related costs (continued)

Remuneration of Executive Infrastructure and Technical Services - Mokotedi IJ

Annual Remuneration	952,797	941,463
Car Allowance	212,321	192,000
Reimbursive allowance	43,009	-
Subsistence allowance	1,100	-
	<u>1,209,227</u>	<u>1,133,463</u>

IJ Mokotedi was appointed as the director for Infrastructure and Technical Services on 1 February 2021.

Remuneration of acting Director of Community Services - Majoe T

Annual Remuneration	<u>79,281</u>	<u>304,883</u>
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T Majoe was appointed as the acting director of Community Services on 25 May 2021 until 30 June 2022.

Remuneration of acting Chief Financial Officer - Lekitlane MF

Annual Remuneration	<u>14,914</u>	<u>-</u>
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Remuneration of acting Director of Community Services - Modisadife PS

Annual Remuneration	<u>89,235</u>	<u>-</u>
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Nala Local Municipality

(Registration number FS185)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

25. Remuneration of councillors

Councillors remuneration	6,349,185	5,784,984
Travel and subsistence allowance	2,154,586	1,940,558
Cellphone allowance	979,200	960,623
SDL	59,825	29,729
	9,542,796	8,715,894

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

2023	Salary	Travel & subsistence	Cellphone allowance	SDL	Total
Mayor - MN Mashiya	683,478	227,825	40,800	6,393	958,496
Speaker - NE Ntlebi	546,827	182,308	40,800	5,115	775,050
Chairperson - MW Mothibi	277,669	92,200	40,800	2,778	413,447
Exco - PW Mafojane	286,102	103,144	40,800	2,692	432,738
Exco - ZM Moshane	286,102	98,839	40,800	2,866	428,607
Exco - DC Ross	286,102	95,368	40,800	2,676	424,946
Exco - MS Sekhejane	286,102	95,368	40,800	2,676	424,946
Councillor - MC Barnard	217,459	80,261	40,800	2,041	340,561
Councillor - BH Mkhondwani	217,459	72,149	40,800	2,034	332,442
Councillor - PL Mpholo	217,459	72,149	40,800	2,034	332,442
Councillor - P van Wyk	217,459	72,149	40,800	2,034	332,442
Councillor - D Reed	217,459	72,149	40,800	2,034	332,442
Councillor - MS Mothebe	217,459	74,423	40,800	2,039	334,721
Councillor - AM Makunye	217,459	74,269	40,800	2,035	334,563
Councillor - JS Tau	217,459	72,149	40,800	2,034	332,442
Councillor - ER Mokoloko-Tau	217,459	72,449	40,800	2,037	332,745
Councillor - IS Mokotedi	217,459	77,230	40,800	2,044	337,533
Councillor - RJ Ntaopane	217,459	72,149	40,800	2,034	332,442
Councillor - PD Swartbooi	217,459	77,736	40,800	2,042	338,037
Councillor - PE Mahoko	217,459	76,124	40,800	2,042	336,425
Councillor - EP Sai	217,459	72,149	40,800	2,034	332,442
Councillor - MM Molutsi	217,459	77,701	40,800	2,043	338,003
Councillor - D Botha	217,459	72,149	40,800	2,034	332,442
Councillor - MW Velembo	217,459	72,149	40,800	2,034	332,442
	6,349,185	2,154,586	979,200	59,825	9,542,796

26. Depreciation and amortisation

Property, plant and equipment	28,272,356	35,454,055
Investment property	56,617	58,234
Intangible assets	67,145	83,950
	28,396,118	35,596,239

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

27. Impairment loss

Impairments

Property, plant and equipment 11,748,436 5,849,919

Assets are depreciated on a estimated useful life based on the type of asset.

Verification of these assets is performed annually and an assessment of the assets is done to verify that the book value of the assets still reflects the fair value less cost to sell. The impairment loss recognised on property, plant and equipment was driven by the results of conditional assessments derived from physical assets verification data.

28. Finance costs

Employee benefit obligations	7,321,000	6,637,000
Provisions	4,714,836	3,221,093
Trade and other payables	48,190,194	24,583,194
	60,226,030	34,441,287

29. Auditors' remuneration

Fees	5,579,051	5,246,287
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30. Debt impairment and bad debt written off

Debt impairment	86,104,096	99,301,022
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31. General expenses

Accommodation	468,857	55,992
Accounts delivery cost	838,500	402,000
Administration fees	16,551	13,836
Advertising	394,864	573,143
Audit committee	47,638	-
Auditors remuneration	5,579,051	5,246,287
Bank charges	640,072	679,409
Cashier shortages	(309)	1,719
Conferences and seminars	87,781	102,443
Consulting and professional fees	-	1,411
Consumables	6,773,095	2,719,792
Electricity	3,884,046	3,533,446
Refreshments	1,718	8,013
Fuel and oil	3,350,001	2,685,713
Hire of equipment	3,742,723	5,584,755
Insurance	761,226	602,060
License fees	1,644,525	1,835,594
Membership fees	1,884,498	1,847,418
Postage and courier	663,210	1,204,351
Printing and stationery	856,069	927,305
Project workers	1,883,715	1,009,935
Telephone and fax	1,543,456	1,565,598
Venue expenses	403,486	341,462
	35,464,773	30,941,682

Nala Local Municipality

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

32. Bulk purchases

Electricity - Eskom	107,986,553	106,676,187
Water	62,323,140	59,153,312
	170,309,693	165,829,499

Refer to note 47 for detail regarding the distribution losses.

33. Contracted services

Outsourced Services

Catering Services	80,294	48,454
Meter Management	3,019,670	4,116,081

Consultants and Professional Services

Business and Advisory	11,840,177	9,237,880
Legal Services	7,856,540	2,646,386

Contractors

Other contractors	429,076	-
	23,225,757	16,048,801

34. Cash generated from operations

Surplus/(deficit)	(201,753,981)	(190,744,737)
Adjustments for:		
Depreciation and amortisation	28,396,118	35,596,239
Loss on property, plant and equipment	46,753,783	12,675,773
Fair value adjustments	(21,523)	(17,532)
Impairment loss assets	11,748,436	5,849,919
Impairment loss receivables	86,104,096	99,301,022
Movements in provisions and employee benefits	12,865,937	8,843,087
Actuarial gains and loss	(6,729,794)	(6,358,071)
Changes in working capital:		
Inventories	(359,777)	(901,424)
Receivables from exchange transactions	(121,231,843)	(95,695,636)
Receivables from non-exchange transactions	(10,622,568)	20,297,930
Payables from exchange transactions	210,627,110	140,119,467
VAT	(21,710,452)	(26,786,711)
Consumer deposits	2,186	314,979
Unspent conditional grants	276,115	(1,634,729)
	34,343,843	859,576

35. Fair value adjustments

Other financial assets		
• Other financial assets (Held for trading)	21,523	17,532

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36. Financial instruments disclosure

Categories of financial instruments

2023

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	141,289,673	141,289,673
Receivables from non-exchange transactions	-	10,922,156	10,922,156
Cash and cash equivalents	-	12,225,061	12,225,061
Other financial assets	173,773	-	173,773
	173,773	164,436,890	164,610,663

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	1,127,461,000	1,127,461,000
Consumer deposits	3,908,782	3,908,782
	1,131,369,782	1,131,369,782

2022

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	103,054,838	103,054,838
Receivables from non-exchange transactions	-	9,420,094	9,420,094
Cash and cash equivalents	-	24,077,036	24,077,036
Other financial assets	152,250	-	152,250
	152,250	136,551,968	136,704,218

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	917,665,432	917,665,432
Consumer deposits	3,906,596	3,906,596
	921,572,028	921,572,028

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37. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	23,754,833	18,045,475
• Investment property	-	118,977
	23,754,833	18,164,452

Total capital commitments

Already contracted for but not provided for	23,754,833	18,164,452
---------------------------------------------	------------	------------

This committed expenditure relates to property, plant and equipment and will be financed by existing cash resources and MIG grant funds.

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38. Contingencies

The municipality had the following contingent liabilities for the current financial year:

Nala vs Eskom - Eskom is suing for payment of arrear account, Nala intends to file counter claim/summons for debatement and reduction of account	-	350,000
Nala vs Eskom - Application for access to information and action to debate and reduce current arrear account	-	350,000
SAMWU obo Thulu Majoe & 4 other vs Nala - Contempt of court application of the labour court	-	500,000
Maximum profit recovery vs Nala - Urgent application to stay the execution of warrant against the municipality	-	150,000
Civil claim for payment of damages allegedly suffered by the plaintiffs - Plaintiff details: Memmeng Elizabeth Lesenyeho, Mabodutu Josephine Nyaku, Mohau Nyaku and Kami Nyaku	3,249,000	1,421,400
KO Tsekie - a civil claim of R19 million regarding damage to property and financial losses incurred as a result thereof.	-	5,525,000
Nala vs Eskom - Dealt with National SALGA in order to enforce a Section 76 service level agreement against Eskom as well as a counter claim, and this matter will most probably be dealt with either withdrawn by Eskom.	-	750,000
Star Choice And J Buthelezi - amount claimed for more than R11 million outstanding, apparently for services rendered during 2010	350,000	425,000
Maleholo Nolo Elsie Dikoko obo Mabate Divid Moraba vs Nala – Claim against the Municipality for injury of a child	-	1,556,000
Mohau Molutsi Civil Works Pty Ltd and 2 others vs Nala Local Municipality and 4 others	400,000	-
Buti Piet Molupe vs Nala Local Municipality claims of damages on breach of contract of employment	2,545,768	-
Thulo Majoe vs Nala Local Municipality, unfair labour practice - adjusted salaries paid according to incorrect Task Grade of the employer.	476,687	-
Thulo Majoe vs Nala Local Municipality, unfair suspension	856,289	-
Thulo Majoe vs Nala Local Municipality, unfair labour practice: promotion/protected promotion	500,000	-
Thulo Majoe vs Nala Local Municipality, urgent application to set aside the refusal of legal representation by the disciplinary hearing chairperson	300,000	-
	8,677,744	11,027,400

Unlicensed landfill site:

The municipality has two active landfill sites. It has been identified that the landfill sites situated in Bothaville and Wesselsbron are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). In accordance with section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) a person convicted of an offence referred to in section 67(1)(a), (9) or (h) is liable to a fine not exceeding R10 million or to imprisonment for a period not exceeding 10 years, or both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made.

Employee migration:

The municipality undertook a process in the year under review, to migrate its employees to a new payroll grading system. Due process dictates that after the migration each employee be given the opportunity to review the end results and choose whether to accept or appeal the outcome of the migration. At year end there were employees that opted to appeal the outcome. There is a possibility that the process will have a financial impact on the municipality but the amount cannot be reliably estimated.

Eskom:

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38. Contingencies (continued)

Eskom has a payment agreement with Nala Local Municipality to recover the area balances as agreed, the interest will be charged according to the payment agreement, the interest in the annual financial statements is currently disclosed according to the invoices and statements received from Eskom.

Although there is a standing payment arrangement since 2017, the payment agreement date, we are not certain of:

- The amount of interest that will be charged by Eskom, since the matter dates back to 2017 and we are uncertain of the balance they will use to charge interest; and
- If Eskom will charge interest since this has not occurred in numerous years.

39. Related parties

Relationships

Accounting Officer

Members of key management

Councillors of the municipality

Mr SJ Lehloenya

Refer to employee cost note

Refer to councillor's remuneration note

No transactions were concluded with related parties during the current financial year.

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40. Prior-year adjustments

Property, plant and equipment: During the physical verification there were assets identified that were not part of the assets disclosed. Cost increased by R3,919,887 and accumulated depreciation by R915,148, accumulated surplus by R3,004,739. Depreciation for the year for these assets is R76,401.

Trade receivables: A full assessment of the municipality's debtors books was performed and debt that was considered irrecoverable was written off. All the debt written off met the criteria of irrecoverable as per the municipality's credit control policy and some had prescribed as per the Prescription Act 68 of 1969. The total amount written off was R360,479,655. The interest reversed on the indigent accounts was incorrectly done, the correction of the interest resulted in interest receivables being increased by R1,372,282 and interest increasing by the same amount. Indigent subsidies allocated to some indigent accounts were duplicated, the reversal of the duplication resulted in receivables increasing by R2,703,966, VAT receivables reducing by R348,296, income forgone - service charges reducing by R2,321,948 and income forgone - property rates reducing by R33,722. Interest amounting to R1,322 was reversed as the consumer's payment was allocated to the incorrect account. A court case in which the municipality attempted to recover the money on a specific consumer account was settled and resulted in the additional charges on the consumer's account to be reversed, receivables reduced by R16,484,724, VAT receivables by R1,323,897, interest from receivables reduced by R5,704,424 and service charges by R9,456,404. Recalculation of impairment provision after the adjustments above resulted in the impairment provision balance increasing decreasing by R348,307,629, VAT receivable by R36,478,069 and debt impairment by the net amount of R311,829,561.

Payables from exchange transactions: As part of performing creditor reconciliations amounts, invoices that were not initially captured were captured. Total invoices captured amounted to R2,094,157, which resulted in the increase of general expenditure by R1,876,691, contracted services by R16,044, employee related costs - third parties R85,226. Interest incurred due to these invoices not being captured/paid was R11,745.

Unspent conditional grants and receipts: National treasury withheld an amount of R2,288,000 from the municipality's equitable share from the EEDSM and EPWP grant from the prior year. The funds were previously reported as utilised but national treasury did not recognise the expenditure submitted. Therefore unspent grants was increased by R2,288,000 and the revenue from the said grants reduced by the same amount.

Prior period adjustments made to the Statement of Financial Performance have been addressed in the paragraphs above as they were affected along with the adjustments of the Statement of Financial Position.

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

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Notes to the Annual Financial Statements

40. Prior-year adjustments (continued)

Statement of financial position

2022

	Note	As previously reported	Correction of error	Restated
Current Assets				
Inventory		3,770,890	-	3,770,890
Trade receivables from exchange transactions		129,793,709	(21,788,830)	108,004,879
Receivables from non-exchange transactions		14,276,850	(4,856,756)	9,420,094
VAT receivable		111,242,935	3,298,383	114,541,318
Cash and cash equivalents		24,077,036	-	24,077,036
Non-Current Assets				
Investment property		600,261,324	(5,661,355)	594,599,969
Property, plant and equipment		1,158,637,212	8,589,691	1,167,226,903
Other financial assets		152,250	-	152,250
Intangible assets		335,497	-	335,497
Current liabilities				
Payables from exchange transactions		(917,586,406)	(79,025)	(917,665,431)
Employee benefit obligation		(6,084,000)	-	(6,084,000)
Consumer deposits		(3,906,596)	-	(3,906,596)
Unspent conditional grants and receipts		213,008	(2,288,000)	(2,074,992)
Non-Current liabilities				
Employee benefit obligation		(39,902,000)	-	(39,902,000)
Provisions		(47,331,812)	-	(47,331,812)
Net Assets				
Accumulated surplus		(1,027,949,897)	-	(1,027,949,897)
		-	(22,785,892)	(22,785,892)

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Notes to the Annual Financial Statements

40. Prior-year adjustments (continued)

Statement of financial performance

2022

	Note	As previously reported	Correction of error	Restated
Revenue from exchange transactions		183,679,606	(7,145,950)	176,533,656
Service charges		649,078	-	649,078
Rental income		2,365,878	(25,393)	2,340,485
Other income		28,146,571	(3,984,731)	24,161,840
Interest received - exchange transactions		1,769,267	-	1,769,267
Interest received - investment		12,059	-	12,059
Dividends received				
Revenue from non-exchange transactions				
Property rates		24,123,240	33,723	24,156,963
Government grants & subsidies		184,894,134	(2,288,000)	182,606,134
Interest received - non exchange receivables		2,391,514	(348,733)	2,042,781
Fines, Penalties and Forfeits		128,501	-	128,501
Expenditure		-	-	-
Employee related costs		(175,554,143)	(570,112)	(176,124,255)
Remuneration of councillors		(8,715,894)		(8,715,894)
Depreciation and amortisation		(35,519,838)	(76,401)	(35,596,239)
Finance costs		(34,429,543)	(11,744)	(34,441,287)
Debt impairment		(89,445,564)	(9,855,458)	(99,301,022)
Bulk purchases		(165,829,499)	-	(165,829,499)
Contracted services		(16,032,757)	(16,044)	(16,048,801)
Repairs & maintenance		(25,996,733)	-	(25,996,733)
General expenses		(29,439,895)	(1,501,787)	(30,941,682)
Fair value adjustments		17,532	-	-
Loss on disposal of assets		(12,675,773)	-	(12,675,773)
Actuarial gain		6,358,071	-	6,358,071
Impairment loss		5,849,919	-	5,849,919
Surplus for the year		(153,254,269)	(25,790,630)	(179,062,431)

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Notes to the Annual Financial Statements

40. Prior-year adjustments (continued)

Cash flow statement

2022

	Note	As previously reported	Correction of error
Cash flow from operating activities			
Taxation	14,898,960	29,555,933	-
Sale of goods and services	104,056,360	(21,930,302)	-
Grants	180,971,405	-	-
Interest income	32,307,352	(4,333,464)	27,973,888
Dividends or similar distributions received	12,059	-	12,059
Other receipts	2,242,033	(25,393)	2,216,640
Employee costs	(182,881,287)	(800,036)	(183,681,323)
Suppliers	(101,037,451)	377,312	(100,660,139)
Finance costs	(24,571,450)	(1,195,744)	(25,767,194)
Other cash item	(23,488,328)	(3,298,383)	(26,786,711)
	2,509,653	(1,650,077)	859,576
Cash flow from investing activities			
Purchase of property, plant and equipment	(38,308,693)	1,650,077	(36,658,616)
Proceeds from sale of property, plant and equipment	596,400	-	596,400
	(37,712,293)	1,650,077	(36,062,216)

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41. Risk management

Financial risk management

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

Liquidity risk

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

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

As at 30 June 2023	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	1,128,292,541	-	-	-
Consumer deposits	3,908,782	-	-	-
	1,132,201,323	-	-	-

As at 30 June 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	917,665,431	-	-	-
Consumer deposits	3,906,596	-	-	-
	921,572,027	-	-	-

Credit risk

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

Receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

Consumer balances outstanding for more than three months are reviewed for impairment and provided for as bad debts as applicable.

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

Financial instrument	2023	2022
Cash and cash equivalents	12,225,061	24,077,036
Receivables from exchange transactions	152,253,132	108,004,879
Receivables from non-exchange transactions	10,922,156	9,420,094
Other financial assets	173,773	152,250

Interest rate risk

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

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42. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus of 803,410,025 and that the municipality's total liabilities exceed its assets by 803,410,025.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality as the current and liquidity ratio state it will not be able to pay their short term liabilities as they come due unless funds are received to increase the current assets of the municipality. The solvency ratio of the municipality did increase as other long term liabilities were settled during the year.

Despite the material uncertainties which cast a significant doubt on the municipality's ability to continue as a going concern, the municipality will continue to have the power to levy rates in the following financial period. The municipality is also likely to receive continued government funding, as has been disclosed in the Division of Revenue Act of 2023, as there are no current indications that government funding will be withheld from the municipality for any reason.

Ratio:	2023	2022
Solvency ratio	49.67%	42.09%

43. Unauthorised expenditure

Opening balance as previously reported	406,474,334	289,786,166
Add: Unauthorised expenditure - current	-	116,688,168
Closing balance	406,474,334	406,474,334

44. Fruitless and wasteful expenditure

Opening balance as previously reported	65,231,826	40,665,390
Add: Fruitless and wasteful expenditure identified - current	47,870,909	24,566,436
Closing balance	113,102,735	65,231,826

Fruitless and wasteful expenditure is presented exclusive of VAT.

Interest is charged on arrear accounts by creditors due to the fact that late payments are made to creditors.

45. Irregular expenditure

Opening balance as previously reported	189,389,270	182,823,232
Add: Irregular expenditure - current	11,839,769	6,566,038
Closing balance	201,229,039	189,389,270

Irregular expenditure is presented exclusive of VAT.

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46. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	1,879,823	1,635,558
Amount paid - current year	(1,879,823)	(1,635,558)
	-	-
Audit fees		
Opening balance	998,571	1,883,076
Current year subscription / fee	6,860,820	6,048,016
Amount paid - current year	(7,859,391)	(6,932,521)
	-	998,571
PAYE and UIF		
Opening balance	13,419	2,731
Current year subscription / fee	29,146,196	25,474,251
Amount paid - current year	(29,146,196)	(25,463,563)
	13,419	13,419
Pension and Medical Aid Deductions		
Opening balance	125,547	25,567
Current year subscription / fee	45,687,775	41,560,611
Amount paid - current year	(45,662,915)	(41,667,581)
Prior period adjustments	-	206,950
	150,407	125,547
VAT		
VAT receivable	136,251,770	114,541,318

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

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

Councillors' arrear consumer accounts

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

30 June 2023	Outstanding less than 90 days	Outstanding more than 90 days	Total
Barnard MC	986	-	986
Mafojane PW	2,582	5,937	8,519
Makunye AM	1,055	-	1,055
Mashiya MN	1,115	-	1,115
Mkhondwani BH	13,711	330,986	344,697
Mokotedi IS	3,855	76,062	79,917
Moshane ZM	1,397	-	1,397
Ntaopane RJ	10,607	118,944	129,551
Ntlebi NE	233	-	233
Reed D	1,162	-	1,162
Ross DC	11,685	4,258	15,943
Sai E	2,332	22,998	25,330
Sekhejane MS	7,087	35,722	42,809
Swartbooi PD	2,645	40,477	43,122
Tau E	4,009	93,684	97,693
	-	-	-
	64,461	729,068	793,529

30 June 2022	Outstanding less than 90 days	Outstanding more than 90 days	Total
Khathi SM	1,354	3,981	5,335
Leburu PK	1,126	3,842	4,968
Makhoee NE	999	2,249	3,248
Makunye AM	755	-	755
Marumule MS	1,207	2,240	3,447
Masencamp BA	626	-	626
Mashiya MN	654	-	654
Mogoje TA	37,421	78,792	116,213
Mohloare TA	2,374	3,698	6,072
Mokete XE	1,540	3,249	4,789
Moshane Z	575	-	575
Mkhondwani BH	7,817	344,229	352,046
Sai E	6,985	28,225	35,210
Mokotedi IS	4,752	88,681	93,433
Tau JS	1,451	18,976	20,427
Molutsi MM	1,620	126	1,746
Mothebe MS	1,487	759	2,246
Sekhejane MS	3,397	31,415	34,812
Mothibi MW	725	-	725
Ntlebi NE	1,800	37,274	39,074
Van Wyk P	952	642	1,594
Mafojane PW	1,256	2,986	4,242
Tau E	3,054	94,523	97,577
Mabaso KM	1,368	1,865	3,233
Swartbooi PD	2,343	65,935	68,278
Mahoko PE	960	3,249	4,209

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Notes to the Annual Financial Statements	3,728	146,841	150,569
Figures in Rand		2023	2022

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Figures in Rand	2023	2022	
46. Additional disclosure in terms of Municipal Finance Management Act (continued)			
Mtombeni J	3,468	1,846	5,314
Ngece M	926	1,793	2,719
Ntseki ML	2,133	2,908	5,041
Reed D	1,112	-	1,112
Setheni SE	1,020	2,017	3,037
Tau RT	1,710	3,051	4,761
	102,695	975,392	1,078,087

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 be provided 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/she records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The following expenses relate to deviations that the accounting officer approved:

Incident		
Emergencies	920,340	-
Other	129,278	-
	1,049,618	-

Non-compliance with the Municipal Finance Management Act

The municipality did not always pay employee's third party deduction(s) to benefit funds on time due to cash-flow constraints.

Creditors were not paid within 30 days as per the requirements of the MFMA due to cash-flow constraints and resulted in fruitless and wasteful expenditure being incurred in certain instances.

The municipality incurred irregular expenditure as a result of non-compliance with the relevant legislation governing procurement.

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47. Distribution Losses		
Electricity - Rand		
Sold	103,087,707	108,097,255
Purchased	107,986,553	106,676,187
Electricity - Units		
Sold	54,454,450	61,177,449
Purchased	67,650,502	75,177,800
Electricity - Tariffs		
Sold	1.89	1.77
Purchased	1.60	1.42
Electricity - Losses		
Units	13,196,052	14,000,351
Rand value	21,064,089	19,866,292
Percentage	19.51 %	18.62 %
Water - Rand		
Sold	59,486,793	52,604,031
Purchased	62,693,983	66,811,031
Water - Units		
Sold	2,575,221	2,604,475
Purchased	4,679,100	4,778,110
Water - Tariffs		
Sold	23.10	21.05
Purchased	13.40	11.88
Water - Losses		
Units	2,103,879	2,173,635
Rand value	28,189,294	25,830,205
Percentage	44.96 %	45.49 %

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48. Segment information

General information

Identification of segments

The definition of segments as in the accounting policy 1.25 will be used to identify segments.

The municipality is organised and reports to management on the basis of five functional directorates.

The directorates are:

- Council and executive;
- Finance;
- Corporate services;
- Community services, and;
- Technical services

Those five directorates work together to provide services delivered to residents by the municipality. Revenue or expenditure for the directorates are not regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance, only one budget and integrated development plan is submitted for the municipality and not per directorate, and there isn't separate financial information for each directorate. Therefore, by the definition of a segment, the municipality as a whole is a segment and will be reported as such. The information of the statement of financial position and statement of financial performance represents the information of the municipality as one segment.

The executive, finance and corporate services directorates are the governance and administration units of the municipality. However, they are not reportable segments. Their results are reported as non-reportable segments to reconcile the results of the reportable segments to the total revenue and expenses of the municipality for the year under review.

The goods and services delivered by Nala Local Municipality as a segment are, mainly;

Water supply
Sewage collection and disposal
Refuse removal
Electricity supply
Roads and storm water drainage
Street lighting
Parks and recreation

The implication of management only identifying one segment is that there will not be an aggregation of segments and the assessment of whether there are segments that meet the criteria of aggregation of the segments will not be necessary. The reconciliations of segment revenue will not be necessary as the one segment will be equal to the amounts as per the statement of financial performance.

There are different towns that fall within the jurisdiction of Nala Local Municipality, mainly, Bothaville, Wesselsbron, Monyakeng and Kgotsong. Management does not monitor financial performance geographically and does not have reliable separate financial information for geographical areas in the municipal area and can, therefore, not reliably report on the geographical financial performance.

Measurement of segment assets and liabilities

A measure of assets and liabilities for each reportable segment has not been presented as these amounts are not regularly provided to management.

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2022

49. Budget differences

Material differences between budget and actual amounts

Amounts where the variance is 10% or R10,000 are considered trivial and do not need an explanation.

Service charges: The variance is below 10% and is considered trivial.

Rental of facilities and equipment:

Interest received: This is a result of an increase with the trade debtors.

Other income: The variance is due to prepaid electricity that was incorrectly accounted for under other income. It was then reclassified to service charges.

Interest received from investments: Management had more money in the bank accounts than anticipated, which resulted in more interest received from the bank.

Dividends received: The dividends received are based on decision by management of the relevant entities whether to declare the dividends or not and cannot be estimated precisely. The variance is trivial as it is below R10,000.

Property rates: Not all the votes linked to property rates were included in the budgeting, this is due to human error.

Fines, penalties and forfeits: The variance is due to the fact that the municipality has started recognising revenue based on the traffic fines issued and not on a payment basis as it was done in the past, the revenue is recognised at year end using the traffic fines register. When the budget is performed the amount in the relevant vote is less as it's just payments in there.

Government grants and subsidies: The variance is below 10% and is considered trivial.

Employee related costs: The variance is due to provisions made at year end which are not budgeted for, such as Post Employment Medical Aid and long service awards bonus.

Finance costs: The finance cost variance is due to the increase of the employee benefit obligation provision and the landfill sites provision, which are higher than the previous years and are obtained from the reports done after year end. Also contributing to the variance is an increase in creditors balances in the municipality's books.

Bulk purchases: Management did not budget for the water portion of bulk purchases, just the electricity.

Contracted services: The variance on contracted services is due to the reduction of the municipality's dependency on service providers.

Repairs and maintenance: Management did not budget for repairs and maintenance in the current financial period.

General expenses: Management had planned to reduce expenditure incurred for the general expenses, the variance is due to an increase of general expenses as they anticipated as the expenses are mainly incurred as the need arises.

Fair value adjustments on other financial assets: Management did not include this in the budget because the value became only known after year-end with the valuation of the shares in Senwes.

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49. Budget differences (continued)

Actuarial gains or losses: Management did not include this in the budget because the value became only known after year-end with the valuation received from the Actuaries.

Remuneration of councillors: The variance is below 10% and is considered trivial.

Depreciation and amortisation: The reduction is as a result of a combination of impairment loss, assets written off and a review of the useful life of assets.

Debt impairment: The debt impairment was driven by the write-off of debtors in the prior year, affecting the movement of the current year and is assessed at year end.

Impairment loss: Management did not include impairment loss in the budget as the information for impairment loss is obtained after year end from the physical verification.

Gain/(loss) on sale of property, plant and equipment: Management did not budget for gain or loss on property, plant and equipment in the current financial period.

CHAPTER 6 – AUDITOR GENERAL AUDIT FINDINGS

COMPONENT A: AUDITOR-GENERAL OPINION OF FINANCIAL STATEMENTS 2022/2023

6.1 AUDITOR GENERAL REPORTS 2022/23

The Constitution S188 (1) (b) states that the functions of the Auditor-General includes the auditing and reporting on the accounts, financial statements and financial management of all municipalities. MSA section 45 states that the results of performance measurement must be audited annually by the Auditor-General.

In terms of section 20 of the Public Audit Act, 25 of 2004 (PAA), the Auditor-General must in respect of each audit performed in respect of the auditee, in this case Nala Local Municipality, prepare a report on the audit. With the above background in mind, this chapter outlines the final Auditor-General's Report in respect of the audit of the financial year under review (i.e 2022/23 financial year).

This chapter further provides an overview of means to deal with the Auditor-General's findings with specific focus on the following:

- a) Matters raised during the year under review year's audit (2022/23);

Report of the auditor-general to the Free State Provincial Legislature and the council on the Nala Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Nala Local Municipality set out on pages 76 to 168, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Nala Local Municipality as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (Dora).

Basis for qualified of opinion

Property plant and equipment

3. The municipality did not account for land included in the property, plant and equipment in note 4 to the financial statements in accordance with GRAP 17, *Property, Plant and Equipment* and iGRAP 18, *Recognition and Derecognition of Land*, as the municipal council wrote off land assets that were still under the ownership of the municipality. Consequently, this resulted in an understatement of land included in property, plant and equipment by R8 million (2022: R8 million), and an overstatement of gains/(loss) on property, plant and equipment recognised by R8 million (2022: R8 million). Additionally, there was an impact on the deficit for the year and accumulated surplus.
4. In addition, the municipality did not account for the impairment of land included in property, plant and equipment in accordance with GRAP 21, *Impairment of non-cash generating assets* and GRAP 26, *Impairment of cash-generating assets*, as they did not correctly calculate the impairment of land assets that were illegally occupied. Consequently, this resulted in an overstatement of land included in property, plant and equipment by R6 million and an understatement of impairment loss by the same amount. Additionally, there was an impact on the deficit for the year and accumulated surplus
5. The municipality also did not correctly account for the infrastructure assets included in property, plant and equipment in note 4 to the financial statements in accordance with GRAP 1, *Presentation of the Financial Statements*, as the municipality capitalised gravel roads in the previous financial years that did not meet the definition of an asset. Consequently, this resulted in an overstatement of infrastructure assets included in property, plant and equipment by R10

million (2022: R10 million). Additionally, there was an impact on the deficit for the year and accumulated surplus.

6. I was unable to obtain sufficient appropriate audit evidence that the property, plant and equipment were properly accounted for, as the municipality could not provide adequate supporting evidence to confirm that the useful lives of the various classes of assets were assessed annually. In addition, they could not provide adequate supporting evidence to confirm the residual values included for various asset classes in the asset register. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment stated at R1 114 million (2022: R1 143 million) in note 4 and depreciation and amortisation stated at R58 million (2022: R46 million) in note 26 to the financial statements.
7. The municipality did not account for the property, plant and equipment in accordance with GRAP 1, *Presentation of Financial Statements* and GRAP 17, *Property plant and equipment*, as the municipality expensed repairs and maintenance that should have been capitalised. Consequently, this resulted in an understatement of property, plant and equipment by R14 million and an overstatement of repairs and maintenance by R14 million. Additionally, there was an impact on the deficit for the year and accumulated surplus.

Investment property

8. The municipality did not account for investment properties in accordance with GRAP 16, *Investment Property* and iGRAP 18, *Recognition and Derecognition of Land* as the municipal council wrote off land assets that were still under the ownership of the municipality. Consequently, this resulted in an understatement of investment property by R40 million and an overstatement of the gain/(loss) on property, plant and equipment recognised by the same amount. In addition, the municipality did not account for investment properties in accordance with GRAP 21, *Impairment of non-cash generating assets* as the municipality did not correctly calculate the impairment of the properties illegally occupied. Consequently, I was unable to confirm the full extent of the misstatement to investment property stated at R558 million in note 3 and impairment loss stated at R12 million in note 27, as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and accumulated surplus.

Receivables from exchange transactions

9. The municipality did not account for receivables from exchange transactions in accordance with GRAP 104, *Financial Instruments*, as some of the debtors recorded in the debtor's age analysis could not be verified. Consequently, this resulted in an overstatement of receivables from exchange transactions by R88 million. There were also casting errors identified in the receivables from exchange transaction sub-notes disclosed in note 11 to the financial statements of R15 million. In addition, the municipality did not correctly calculate the provision for bad debts on consumer debtors included in the receivables from exchange transactions in note 11 to the financial statements due to incorrect collection rates used. Consequently, I was unable to determine the full extent of the misstatement to the receivables from exchange transactions stated at R137 million in note 11 to the financial statements. Additionally, there was an impact on the debt impairment expense, deficit for the year, and accumulated surplus.

Receivables from non-exchange transactions

10. The municipality did not account for the provision for bad debts on consumer debtors – rates included in receivables from non-exchange transactions in note 12 to the financial statements in accordance with GRAP 108, *Statutory Receivables*, as the municipality did not correctly calculate the provision due to incorrect collection rates used. Consequently, I was unable to determine the full extent of the misstatements to the receivables from non-exchange transactions stated at R51 million (2022: R39 million) in note 12, and debt impairment stated at R86 million (2022: R99 million) in note 30 to the financial statements as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and accumulated surplus.

Payables from exchange transactions

11. I was unable to obtain sufficient appropriate audit evidence for trade payables included in the payables from exchange transactions in note 4 to the financial statements, due to the status of the accounting records. I was unable to confirm the trade payables by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to trade payables included in the payables from exchange transactions, stated at R1 077 million in note 7 and risk management disclosure in note 41 in the financial statements.

Service charges

12. The municipality did not account for the sale of electricity and water included in service charges in note 18 to the financial statements in accordance with GRAP 9, *Revenue from exchange transactions*. This was due to some water meters not being billed during the financial year while electricity on commercial properties were billed at tariffs that differed from the approved tariff policy. Differences were also identified between the billing reports and the auditor's recalculations for the sale of electricity. Furthermore, the municipality did not read meters regularly, which resulted in unreliable electricity and water billings due to estimates not calculated on the consumer's previous actual consumption. In addition, the municipality incorrectly recorded indigent subsidies for deceased consumers. Consequently, this resulted in an understatement of service charges by R25 million and an understatement of receivables from exchange transactions by the same amount. Additionally, there was an impact on the deficit for the year and accumulated surplus.

Employee related costs

13. The municipality did not account for employee related costs in accordance with GRAP 1, *Presentation of Financial Statements*, as the municipality implemented employee salary adjustments that was not in accordance with the collective agreements determined by the South African Local Government Bargaining Council. Consequently, I was unable to determine the full extent of the overstatement to employee related costs as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and accumulated surplus.
14. I was also unable to obtain sufficient appropriate audit evidence for pension included in employee related costs in note 24 to the financial statements due to the status of the accounting records. I was unable to confirm the pension included in employee related costs by alternative means. Consequently, I was unable to determine whether any further adjustments

were necessary to the pension included in the employee related costs stated at R19 million in note 24 to the financial statements.

Bulk purchases

15. The municipality did not account for bulk water purchases in accordance with GRAP 1, *Presentation of financial statements*, as material differences were identified between the quantities recorded in the invoices and the meter reading reports. Consequently, I was unable to determine the full impact on bulk water purchases as it was impracticable to do so. Additionally, there was an impact on the deficit for the year and accumulated surplus.
16. I was also unable to obtain sufficient appropriate audit evidence for bulk purchases, due to the status of the accounting records. I was unable to confirm the bulk purchases by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to bulk purchases, stated at R170 million in note 32 to the financial statements.

Irregular expenditure

17. The municipality did not disclose all instances of irregular expenditure incurred in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality made payments in contravention of the supply chain management (SCM) requirements and made employee related costs payments that contravened legislation, which was not disclosed. I was unable to determine the full extent of the irregular expenditure stated at R201 229 039 in note 45 to the financial statements, as it was impracticable to do so.

Prior-year adjustments

18. I was unable to obtain sufficient appropriate audit evidence for the prior-year adjustments disclosed in note 40 to the financial statements due to the status of the accounting records. I was unable to confirm the prior-year adjustments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the prior-year adjustments disclosed in note 40 to the financial statements.

Segment information

16. The municipality did not disclose segment information in accordance with GRAP 18, *Segment Reporting* as the municipality did not disclose appropriate segments in note 48 to the financial statements. I was unable to determine the full extent of the omission in this auditor's report as it was impracticable to do so.

Distribution losses

17. The municipality did not account for distribution losses in accordance with GRAP 1, *Presentation of financial statements*, as material differences were identified between the loss amounts disclosed in the financial statements and the auditor's re-calculations. Consequently, this resulted in overstatement of distribution losses disclosed of R13 million.
18. I was also unable to obtain sufficient appropriate audit evidence for distribution losses due to the status of the accounting records. I was unable to confirm the distribution losses by alternative means. Consequently, I was unable to determine whether any further adjustments

were necessary to the distribution losses stated at R49 million in note 47 to the financial statements.

Context for opinion

19. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of financial statements section of my report.
20. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
21. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

22. I draw attention to the matter below. My opinion is not modified in respect of this matter
23. Note 42 to the financial statements indicates that the municipality's total liabilities exceeded its total assets by R751 million for the year ended 30 June 2023, as of that date, the municipality owed Eskom R722 million (2022: R571 million) and water board R300 million (2022: R261 million), which was long overdue. These events or conditions along with other matters as set forth in note 42, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

24. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material uncertainty relating to claims against the municipality

25. With reference to note 38 to the financial statements, the municipality is the defendant in a number of lawsuits. The municipality is opposing the claims. The ultimate outcome of these matters could not be determined and no provision for any liability that may result, has been made in the financial statements.

Fruitless and wasteful expenditure

26. As disclosed in note 44 to the financial statements, fruitless and wasteful expenditure of R48 million (2022: R25 million) was incurred, due to interest and penalties on accounts that were not paid timeously.

Unauthorised expenditure

27. As disclosed in note 43 to the financial statements, the municipality incurred unauthorised expenditure of R102 million (2022: R117 million), due to overspending of the budget.

Other matter

28. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

29. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

30. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

31. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

32. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

33. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

34. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected objective presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

35. I selected the following objective presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected an objective that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Objective	Page numbers	Purpose
Basic service delivery	XXX	To ensure 100% of formal settlements in the municipal area have access to basic services by 2030.

36. I evaluated the reported performance information for the selected objective against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipalities' planning and delivery on its mandate and objectives.

37. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance

38. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

39. The material findings on the reported performance information for the selected objective are as follows:

Basic service delivery

950 households in Khalinkomo and Vergenog have access to potable water by end of June 2023

40. The planned target for this indicator was to register the project under MIG for the 2022-23 financial year. However, the target was not specific in that it was not indicated how it would be measured or when it should be delivered. Consequently, the information might be less useful for measuring performance. I could also not determine how the planned indicator would be measured and what evidence would be needed to support the achievement, as adequate supporting evidence was not provided for auditing. This was due to the lack of measurement definitions and processes. In addition, adequate processes had not been established to consistently measure and reliably report on this indicator. Consequently, I could not confirm the

reliability of the reported achievement. Lastly, a comparison of the performance of the year under review and that of the previous year was not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals.

Potholes repair by 30th June 2023

41. The indicator was included in the approved service delivery and budget implementation plan and integrated development plan but then not clearly defined during planning processes. It was also not determined how the related target would be measured and what evidence would be needed to support the achievement. Consequently, the information might be less useful for measuring performance. Consequently, I could not confirm the reliability of the reported achievement. In addition, adequate processes had not been established to consistently measure and reliably report on this indicator. Lastly, a comparison of the performance of the year under review and that of the previous year was not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals.

Replacement of old electricity cables in Wesselsbron by end of June 2023

42. I could not determine how the planned indicator would be measured and what evidence would be needed to support the achievement, as adequate supporting evidence was not provided for auditing. This was due to a lack of measurement definitions and processes. I could also not determine if the target is linked to this indicator, as adequate supporting evidence was not provided for auditing. Consequently, I could not confirm the reliability of the reported achievement. A comparison of the performance of the year under review and that of the previous year was not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals. A measure of planned for 2023/24 FY was reported to improve the performance against the planned target. I could not determine if the measure was correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measure was reliable.

Replacement of LV distribution poles in Wesselsbron by end of June 2023

43. A comparison of the planned and actual performance of the year under review and that of the previous year was not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals. A measure of to be complete in the next FY 2023/2024 was reported to improve the performance against the planned target. I could not determine if the measure was correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measure was reliable.

Various indicators

44. The indicators listed below were included in the approved service delivery and budget implementation plan and integrated development plan but then not clearly defined during planning processes. It was also not determined how the related targets would be measured and what evidence would be needed to support the achievements. Consequently, the information might be less useful for measuring performance. There was also no link between the indicator and the planned targets listed below. Consequently, I could not confirm the reliability of the reported achievements. In addition, a comparison of the performance of the year under review and that of the previous year was not included in the annual performance report. This would

make it difficult to track the achievement of service delivery goals. The measures taken to improve performance against the targets listed below were not reported in the annual performance report. This would make it difficult for users to determine what actions will be taken to improve service delivery.

No	Performance indicator	Planned target	Reported achievement
1	Compliance with the blue drop water quality accreditation system	4	1
2	Compliance with green drop standards	4	1

Various indicators

45. The indicators listed below were included in the approved service delivery and budget implementation plan and integrated development plan but then not clearly defined during planning processes. It was also not determined how the related targets would be measured and what evidence would be needed to support the achievements. Consequently, the information might be less useful for measuring performance. Adequate processes had also not been established to consistently measure and reliably report on this indicator. Consequently, I could not confirm the reliability of the reported achievements listed below. In addition, there was no link between the indicators listed below and the planned targets. Lastly, a comparison of the performance of the year under review and that of the previous year was not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals.

No	Performance indicator	Planned target	Reported achievement
1	Waterborne Sewer reticulation network 950 households in Khalinkomo and Vergenog by 2023	1	The project has been registered with MIG
2	Regraveling of roads (41 km) by end of June 2023 5,25 km in Bothaville 3,5 km in Meyerhof 6 km in Bothaville Industrial 8.5 km in Kgotsong 12 km in Wesselsbron and Wesselsbron Industrial 5,7 km in Monyakeng	20 km	20 km

Various indicators

46. Adequate processes have not been established for the indicators listed below to consistently measure and reliability report on this indicator. In addition, a comparison of the performance of the year under review and that of the previous year was not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals. The measures taken to improve performance against the target listed below were not reported in the annual performance report. This would make it difficult for users to determine what actions will be taken to improve service delivery. Consequently, I could not confirm the reliability of the reported achievements listed below. Measures were reported to improve the performance against the targets listed below. I could not determine if the measures were

correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measures were reliable.

No	Performance indicator	Planned target	Reported achievement
1	Kgotsong: Upgrading of outfall sewer pipeline: Phase 2	3 km	2,52 km
2	Construction of 1,33km paved road and stormwater channel: Boneni Street by end of June 2023.	1,33 km	0,23 km

Various indicators

47. Adequate processes had not been established to consistently measure and reliably report on the indicators listed below. Consequently, I could not confirm the reliability of the reported achievements listed below. A comparison of the performance of the year under review and that of the previous year was also not included in the annual performance report. This would make it difficult to track the achievement of service delivery goals.

No	Performance indicator	Planned target	Reported achievement
1	Kgotsong: Construction of sub-soil drainage system in two rooms section by end of June 2023	2,5 km	2,5 km
2	Bothaville: Cleaning of storm water channels and catch pits by end of June 2023	20 km	20 km
3	Construction of 2 new multipurpose sport courts in Kgotsong	2 new multi purpose sports complex by end of June 2023	2
4	Installation of 160 new electricity meter boxes Wesselsbron Ext. 12 and 13 by end of June 2023.	160	160

Various indicators

48. I could not determine how the planned indicator would be measured and what evidence would be needed to support the achievement, as adequate supporting evidence was not provided for auditing. This was due to a lack of measurement definitions and processes. Adequate processes had also not been established to consistently measure and reliably report on this indicator. Consequently, I could not confirm the reliability of the reported achievements against the targets listed below. Adequate supporting evidence was not provided to clearly explain how the indicator would contribute to achieving planned objectives and strategic goals. It would thus be difficult to track the municipality's achievement of service delivery goals. In addition, a comparison of the planned and actual performance was not included in the annual performance report. This would make it difficult to track the achievement of service delivery

goals. Measures were reported to improve the performance against the targets listed below. I could not determine if the measures were correct, as adequate supporting evidence was not provided for auditing. Consequently, I could not determine whether the reported measures were reliable.

No	Performance indicator	Planned target	Reported achievement
1	Refurbishment and fencing of Kgotsong main sub-station by end of June 2023	Target not specified in the APR	Not Achieved
2	Refurbishment and fencing of Bothaville Goldfields Lamoon-Doring sub-stations by end of June 2023	Target not specified in the APR	Not Achieved
3	Refurbishment of electrical network in Meyerhof by end of June 2023	Target not specified in the APR	Not Achieved

Achievement of planned targets

49. The annual performance report includes information on reported achievements against planned targets and provides measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

Material misstatements

50. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

51. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipalities' compliance with legislation.

52. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

53. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

54. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements and annual report

55. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
56. The annual financial statements were not submitted to the Auditor-General for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
57. The annual financial statements were not submitted to the Auditor-General within two months after the end of the financial year and a written explanation setting out the reasons for the failure was not tabled in council, as required by section 133(1)(a) of the MFMA.
58. The council failed to adopt an oversight report containing the council's comments on the 2021-2022 annual report, as required by section 129(1) of the MFMA.

Expenditure management

59. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
60. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.
61. Reasonable steps were not taken to prevent unauthorised expenditure of R102 million as disclosed in note 43 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the approved budget.
62. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R48 million as disclosed in note 44 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by interest charged on long outstanding creditor balances.

Asset management

63. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
64. Capital assets were permanently disposed of that were needed to provide the minimum level of basic municipal service, in contravention of section 14(1) of the MFMA.

65. Capital assets were disposed of without the municipal council having, in a meeting open to the public, considered the fair market value of the assets and the economic and community value to be received in exchange for the assets as required by section 14(2)(b) of the MFMA.

Revenue management

66. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

67. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Strategic planning and performance management

68. The integrated development plan (IDP) did not reflect the key performance indicators and targets and a financial plan, as required by sections 26(i) and (h) of the Municipal Systems Act 32 of 2000 (MSA) and Municipal Planning and Performance Management regulation 2(1)(e) and 2(3)(a).

69. The service delivery and budget implementation plan (SDBIP) for the year under review did not include the service delivery targets and performance indicators for each quarter, as required by section 1 of the MFMA.

70. Performance targets were not set for each of the key performance indicators (KPIs) for the financial year, as required by section 41(1)(b) of the MSA and Municipal Planning and Performance Management regulation 12(1).

71. A performance management system was not established, as required by section 38(a) of the MSA.

Human resource management

72. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.

73. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Procurement and contract management

74. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c). A similar non-compliance was also reported in the prior year.

75. Contracts were awarded through competitive bidding processes that were not adjudicated by the bid adjudication committee as required by SCM regulation 29(1)(a) and (b). This non-compliance was identified in the procurement processes for the following key projects:

- Kgotsong: Construction of 1,33 km paved road,
- Upgrade of outfall sewer phase 2,

- High water table 2 room section and
 - Sebotsa and Monnamoncho 1,2 km paved road
76. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. This non-compliance was identified in the procurement process for the following key project:
- Lele & Tshidi Construction - Water Tanker Hire
77. Tenders which failed to achieve the minimum qualifying score for functionality legislative requirements were not disqualified as unacceptable tender in accordance with 2017 preferential procurement regulation 5(6) (PPR). This non-compliance was identified in the procurement processes for the following key projects:
- Kgotsong (KGT): Construction of 1,33 km paved road
 - KGT High water table 2 room section,
 - Kgotsong /Bothaville: Replacement of AC water pipelines and
 - KGT: Sebotsa and Monnamoncho 1,2 km paved road.
78. Some of the quotations were accepted from bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). A similar non-compliance was also reported in the prior year.
79. Quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the Preferential Procurement Policy Framework Act and 2017 PPR 11 and/or 2022 PPR 4(4) and 5(4).
80. Some of the construction contract was awarded to contractors that were not registered with the CIDB in accordance with section 18(1) of the Construction Industry Development Act 38 of 2000 (CIDB) and CIDB regulations 17 and 25(7A). This non-compliance was identified in the procurement process for the following key project:
- Kgotsong: Construction of 1,33 km paved road
81. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM regulation 5.
82. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA.
83. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA.

Consequences management

84. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
85. Irregular expenditure incurred by the municipality were not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
86. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information in the annual report

87. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and the selected objectives presented in the annual performance report that have been specifically reported on in this auditor's report.
88. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
89. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
90. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

91. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
92. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
93. The accounting officer did not exercise adequate oversight of the financial statements and the annual performance report before submitting them for audit as material misstatements to the financial statements and annual performance report submitted for audit.

94. Management did not exercise oversight responsibility regarding financial reporting, compliance and related internal controls to ensure that compliance requirements are met in order to prevent irregular and fruitless and wasteful expenditure because of an insufficient understanding of SCM laws and regulations and formulating a compliance-driven internal control environment.
95. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process of performance management systems and processes. There were no internally documented procedures that guide management on the facilitation of effective performance monitoring, evaluation and corrective action.
96. There are no systems in place to ensure that the municipal council ensures that the investigations of confirmed irregular, fruitless and wasteful expenditure are performed independently and objectively in order to produce effective outcomes that will inform appropriate disciplinary measures for the transgressors as non-compliance findings were identified on consequence management.
97. The municipality did not have documented and approved internal policies and procedures to address planning, implementation, monitoring and reporting processes and events pertaining to performance management and reporting.
98. Senior management did not have a proper record management system to maintain information and support the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information. This extended to expenditure management where there was no proper record.
99. Management and the accounting officer did not implement and monitor effective action plans to ensure that all material prior-year audit misstatements and compliance findings were remediated appropriately. We identified material misstatements to the financial statements submitted for audit as well as restatements to the prior-year financial results. The financial reporting controls were not adhered to, to ensure the reporting of GRAP-compliant financial information that is based on accurate and complete financial records.
100. Controls over daily and monthly processing and reconciling of transactions were not adequately implemented by management due to the findings raised on bulk purchases and distribution losses.
101. Management did not ensure that the classification and allocation of the Biq system general ledger accounts support accurate disclosures for receivables from exchange and non-exchange transactions in the financial statements as no critical review of the nature of trail balance accounts was performed beforehand.
102. Internal audit was not effective during the year, as there was no formal communication between internal audit and audit committee during the year.

103. The audit committee did not monitor compliance with legislation as misstatements and non-compliance above were noted. They also did not provide guidance on rectifying internal control deficiencies as prior year issues re-occurred during the current year and there was no approved methodology for internal audit.

AUDITOR - GENERAL

Bloemfontein

7 December 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

1. The annexure includes the following:
 - The auditor-general's responsibility for the audit
 - The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

2. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected objectives and on the municipality's compliance with selected requirements in key legislation.

Financial statements

3. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
 - conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause municipality to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

4. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
5. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraphs (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a) Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a) Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b) Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c) Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43 Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b) Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a) Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J (1), 96(b)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8) Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2) Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)