Centlec (SOC) Ltd
(Registration number 2003/011612/30)
Financial statements
for the year ended 30 June 2020

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	State Owned Company
Nature of business and principal activities	The principal activity of the municipal entity is the distribution of electricity to industries, businesses and households mainly in the Mangaung and Southern Free state area
Chief Executive Officer (CEO)	Mr. NA Mgoqi
Chief Finance Officer (CFO)	Mr. MM Matsimela
Directors	Mr. N Mokhesi (Chairperson) Me. DC Myeni (Deputy Chairperson) Mr. KM Moroka Mr. CAK Choeu
Registered office	30 Rhodes Avenue Oranjesig Bloemfontein Free State 9301
Postal address	Private Bag X14 Brandhof Bloemfontein 9324
Controlling entity	Mangaung Metropolitan Municipality incorporated in South Africa
Bankers	ABSA
Auditors	Auditor-General of South Africa
Company Secretary	Mr. T Malgas
Company registration number	2003/011612/30
Tax reference number	9487328156
Attorneys	Bokwa Attorneys Malebogo Maeyane Attorneys Phatsoane Henney Inc. SMO Seobe Attorneys Inc. Tshangana Attorneys
Enabling Legislation	Local Government: Municipal Finance Management Act (Act 56 of 2003) Local Government: Municipal Systems Act (Act 32 of 2000) Local Government: Municipal Structures Act (Act 117 of 1998) Division of Revenue Act (Act 1 of 2019) Companies Act (Act 71 of 2008)

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The following supplementary information does not form part of the financial statements and is unaudited:

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Abbreviations

NERSA	National Energy Regulator of South Africa
IFRS	International Financial Reporting Standards
VAT	Value Added Tax
GRAP	Generally Recognised Accounting Practice
NDR	Non Distributable Reserve
SDBIP	Service Delivery and Budget Implementation Plan
IAS	International Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
EM	Executive Manager
MFMA	Municipal Finance Management Act
NRV	Net Realisable Value
SOC	State Owned Company
SALGA	South African Local Government Association
AGSA	Auditor-General of South Africa

Corporate Governance Report

The Board & Administrative Governance

Introduction to Governance

The board sees and understands governance as a fundamental requisite in stewardship responsibilities.

To this end, the board is therefore committed to maintain the highest standards of governance. The company has a macro-organisational structure in place, which provides for separation of duties and responsibilities between the board and administrators.

In the course of rendering services to the community, it is therefore important to do so within the parameters of the law, and this can be achieved by connecting corporate governance with legislative risk management as a guideline.

Board Governance

1. Board of Directors

The board strives to provide the right leadership, strategic oversight and control environment to produce and sustain the delivery of value to the company's shareholder. The board applies integrity, principles of good governance and accountability throughout its activities and each director brings independence of character and judgment to the role.

All of the members of the board are individually and collectively aware of their responsibilities to the company's stakeholders and the board keeps its performance and core governance principles under regular review.

The board held both ordinary and special meetings during the period under review as follows in which a number of decisions were taken:

Type of Meeting	Date	Venue
Ordinary	14 August 2019	Centlec (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein
Special	30 August 2019	Centlec (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein
Ordinary	05 December 2019	Centlec (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein
Ordinary	13 March 2020	Centlec (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein
Ordinary	15 June 2020	Virtual meeting

2. Board Committees

The board had the following committees during the period under review.

2.1 Audit & Risk Committee

N.P. Lubanga	Chairperson
M.R. Tsupa	Member
T. Malakoane	Member
N.S. Ntingane	Member

2.2. Finance Committee

N. Mokhesi	Chairperson
K.M. Moroka	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee

2.3. Human Resources & Remuneration Committee

C. Choeu	Chairperson
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee
EM: Engineering (Retail)	Invitee
EM: Human Resources	Invitee

2.4. Social Responsibility & Ethics Committee

K.M. Moroka	Chairperson
N. Mokhesi	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee
EM: Human Resources	Invitee

2.5. Information Technology Governance Committee

C. Choeu	Chairperson
Chief Executive Officer	Member
Chief Financial Officer	Invitee
Company Secretary	Invitee
EM: Engineering (Retail)	Invitee
EM: Engineering (Wires)	Invitee

2.6. Engineering Committee

D. Myeni	Chairperson
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee
EM: Engineering (Retail)	Invitee
EM: Engineering (Wires)	Invitee

The respective committees held meetings as follows during the period under review:

Committee	**No. of Meetings**	**Dates of meetings**
IT Governance	3	02 August 2019
		04 November 2019
		03 March 2020
Engineering	3	06 August 2019
		11 November 2019
		27 February 2020
HR & Remuneration	4	02 August 2019
		11 September 2019
		04 November 2019
		03 March 2020
Social Responsibility & Ethics	1	22 November 2019
Finance	3	05 August 2019
		07 November 2019
		09 March 2020
Audit & Risk	5	31 July 2019
		29 August 2019
		01 November 2019
		28 November 2019
		28 February 2020

Risk Management

The MFMA requires that the municipal entity develops and maintain an effective, efficient and transparent system of financial and risk management and internal control; and an internal audit unit operating in accordance with any prescribed norms and standards.

The municipal entity manages its risk management through the internal audit unit. The internal audit unit is therefore mainly responsible for the review of the implementation of effective risk management as a key element of good governance and rigorous performance management. Risk management is an integral part of corporate, business planning and service delivery.

During the period under review, corporate and operational risk assessments were performed for all areas within the municipal entity.

Director's Responsibilities and Approval

The directors are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the financial statements fairly present the state of affairs of the municipal entity 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 financial statements and were given unrestricted access to all financial records and related data.

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

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the municipal entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set 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 municipal entity and all employees are required to maintain the highest ethical standards in ensuring the municipal entity’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipal entity is on identifying, assessing, managing and monitoring all known forms of risk across the municipal entity. While operating risk cannot be fully eliminated, the municipal entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are 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 financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The directors have reviewed the municipal entity’s cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, they are satisfied that the municipal entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the directors are primarily responsible for the financial affairs of the entity, they are supported by the entity's external auditors.

The financial statements set out on pages 17 to 123, which have been prepared on the going concern basis, were approved by the directors on 30 October 2020 and were signed on its behalf by:

Mr. KM Moroka
Chairperson of the Board of Directors

Audit and Risk Committee Report

We are pleased to present our report for the financial year ended 30 June 2020.

Audit and Risk Committee members and attendance

The purpose of this report is to communicate to the Board and Parent Municipality the audit and risk committee's progress to date in carrying out its responsibilities in terms of section 166 of the Municipality Finance Management Act, 2003 (Act No.56 of 2003, as amended) MFMA.

The MFMA obliges every municipality to establish an independent audit committee, which advises the municipal council, political office bearers, accounting officer and management staff of municipality as well as the accounting officer and management staff of the municipality entity, on matters relating to internal financial controls and internal audits, risk management, accounting policies, the adequacy, reliability and accuracy of financial reporting and information, performance management, effective governance, compliance with the MFMA, and any other applicable legislation, and any other issues referred to it by the entity. The audit committee is governed by formal terms of reference (charter) which are reviewed and approved by the Board annually. The committee is pleased to present its report for the financial year ended 30 June 2020.

Audit and Risk Committee members and attendance

The committee was established in accordance with section 166 (2) of the MFMA.

The council of the parent municipality approved the appointment of a standalone audit committee for the municipal entity for a period of four (4) years with effect from 1 October 2017 until 31 October 2021. The audit and risk committee comprises of the five (5) following members:

N.P. Lubanga (Chairperson)
M.R. Tsupa
T. Malakoane
N.S. Ntingane
E.T. Tsoaeli

It was so unfortunate that the entity lost one of its audit committee members during the period under review through death. Mr. E.T. Tsoaeli lost his life during the financial year under review. The committee and the entity were saddened by the passing of Mr. Tsoaeli and may his soul continue to rest in eternal peace.

In terms of section 166(4) (b) of the MFMA, the audit committee must meet as often as is required to perform its functions, but at least four times a year. During the financial year ended 30 June 2020, the audit and risk committee met five (5) times. The table below shows the attendance of these meetings:

Member	2019/07/31	2019/08/29	2019/11/01	2019/11/28	2020/02/28	2019/05/15
N.P. Lubanga (Chairperson)	Yes	Yes	Yes	Yes	Yes	Yes
M.R. Tsupa	Yes	Yes	Yes	No	Yes	Yes
T. Malakoane	No	No	No	Yes	No	Yes
N.S. Ntingane	Yes	Yes	Yes	No	Yes	Yes
E.T. Tsoaeli	No	No	No	No	No	No

All members of the audit and risk committee were independent, with no interest in the management or conduct of the business of the municipality and its entities.

Audit and Risk Committee responsibility

The audit and risk committee reports that it has complied with its responsibilities arising from section 166(2) (a) of the MFMA in terms of its defined responsibilities as an advisory body to the municipal entity and a sub-committee of the Board.

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

Audit and Risk Committee Report

Performance Management

Part of the responsibilities of the audit committee includes the review of performance management. The audit and risk committee has in terms of the performance of the entity performed the following:

- Review and comment on compliance with statutory requirements and performance management best practices and standards.
- Review and comment on the relevance of the indicators to ensure that they are measurable and relate to services performed.
- Review of the quarterly performance reports submitted by management.
- Review of the quarterly internal audit report on performance information.

The audit and risk committee has not been satisfied with the consistency, accuracy and validity of the reported quarterly performance information. Reported actual achieved targets on quarterly performance information reports by management were found to be without the portfolio of evidence or supporting documentation to satisfy the validity of the reported performance information. Effective performance management systems within the entity needs to be developed to ensure integrity, accuracy and validity of the non-financial/ performance information reported by the entity.

Internal audit

The accounting officer is obliged, in terms of section 165 of the MFMA, to ensure that the entity has an internal audit unit under the control and direction of the audit committee. The entity has established the internal audit unit, which is co-sourced with PricewaterhouseCoopers (PwC) during the period under review.

The audit and risk committee approved the three-year strategic internal audit plan for the year ending 2019-2022 and annual operational internal audit plan for the year ending 30 June 2020.

The following internal audit reviews were performed by the internal audit unit during the period under review:

Ad hoc Follow-up on Pre-determined Objectives Q1 – Q4 of 2018/2019	Review of KPIs for 18/19 and 19/20 SDBIPs
Performance Information Quarter 1-4 (2019/20)	Record management and compliance with POPI Act internal audit
Debtors internal audit	ICT vulnerability testing
Customer service internal audit - (Quality of services)	Fleet management
Salaries review *(ad hoc)*	Cursory review of the Annual Financial Statements for the period ending 30 June 2020
Financial year-end stock count Internal Audit	Review of risk management processes and maturity levels (2019/20)
External Audit continuous follow up review for financial year 2018-19	Internal Audit continuous follow up review for financial year 2018-19

Of the internal audit reviews performed by the internal audit function during the period under review, two hundred and six (206) controls were tested. 8% of these controls were found to be inadequate, 21% of these controls were found to be ineffective, 34% of these controls required room for improvement and only 37% of these controls were found to the effective.

The overall conclusion of on control environment of the entity is satisfactory.

Audit and Risk Committee Report

The audit and risk committee is satisfied that the internal audit function maintains an effective internal quality assurance and programme that covers all aspects of the internal audit activity.

Risk Management

The audit and risk committee is responsible for the oversight of the risk management function.

Centlec (SOC) Ltd has a risk management strategy and framework in place that was approved by the board. The entity has performed the strategic risk assessment during the period under review. Top ten (10) strategic risks of the entity has been monitored by the audit and risk committee and reported to the board on a quarterly basis.

Fraud risk assessments and information technology risk assessment are amongst the risk assessments which were performed by the entity and monitored by the audit committee on a quarterly basis.

A risk management implementation plan for the period ending 30 June 2020 which outlines the risk management activities to be performed by the risk management function was developed and approved by the audit and risk committee.

The progress status on the execution of the risk management implementation plan was reported to the audit and risk on a quarterly basis.

The committee is of the opinion that the risk management activities of the entity still requires a room for improvement. Management should strive to improve the risk management processes within the entity to reach a risk maturity level.

Evaluation of the annual financial statements

The audit and risk committee has reviewed the draft annual financial statements prior submission to the external auditors on the 31 October 2020 and has focused on the following:

- Compliance with accounting standards and legal requirements.
- Quality and acceptability of, and any changes in, accounting policies and practices.
- Clarity and completeness of disclosures and whether disclosures made have been set properly in context.
- Significant financial reporting judgments and estimates contained in the annual financial statements.

The audit and risk committee is satisfied that the annual financial statements have been prepared in accordance with GRAP and MFMA requirements.

External auditor’s report

The audit and risk committee has met with the AGSA to discuss the conclusion and audit opinion on the annual financial statements of the entity. The committee concurs with the audit opinion.

The external audit function is performed by the Auditor General South Africa which is independent of the entity. The committee met with the external auditors during the year under review to ensure that there were no unresolved issues.

N.P. Lubanga (Chairperson of the Audit Committee)

Date: ______________________

Director's Report

The directors submit their report for the year ended 30 June 2020.

1. General information and nature of activities

The municipal entity, which is a state owned company, is incorporated and domiciled in South Africa and provides electricity retail, distribution and electrification services.

The municipal entity operates primarily in the Free State Province and employs 678 people. The address of the municipal entity's registered office is 30 Rhodes Avenue, Oranjesig, Bloemfontein, 9301.

The municipal entity is wholly owned by Mangaung Metropolitan Municipality, which is the sole parent municipality of the municipal entity and is domiciled in the Free State Province of South Africa. The address of the parent municipality is C/o Nelson Mandela Drive and Markgraaf Street, Bram Fischer Building, Bloemfontein, 9300.

The municipal entity is one of two state owned electricity companies in South Africa and the only one in the Free State Province.

Other than the area of jurisdiction of Mangaung Metropolitan Municipality, the municipal entity also distributes electricity to the following local municipalities of: Kopanong Local Municipality, Mantsopa Local Municipality and Mohokare Local Municipality.

The municipal entity interacts with its customers and clients through a combination of physical and electronic channels, offering a comprehensive range of electricity services (from pre-paid electricity sales and billing through conventional metering, to electricity infrastructure development and bulk connections).

The financial statements set out fully the financial position, results of operations and cash flows of the municipal entity for the reporting period ended 30 June 2020.

Main business and operations

The principal activity of the municipal entity is the distribution of electricity to industries, businesses and households mainly in the Mangaung and Southern Free State areas.

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

The municipal entity is continuously engaging with the relevant stakeholders in looking at their electricity rates spectrum and the results of this engagement is expected to have a positive effect on the municipal entity's profitability.

2. Going concern

The 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 following analysis supports the going concern assumption:

- Current assets (R 1 087 612 457) exceed current liabilities (R 819 582 577)

- Total assets (R 8 835 185 707) exceed total liabilities (R 3 965 123 338).

- The municipal entity has an accumulated surplus and other reserves of R 712 803 939.

Management has reviewed the municipal entity's cash flow forecast for the year to 30 June 2021. The municipal entity reported a trading deficit of R 52 773 086 mainly due to the negative impact arising out of the COVID-19 lockdown regulations which resulted in an abnormal increase in the debt impairment. Other contributing factors include the interest expense on the shareholder's - and intercompany loans.

The municipal entity and the parent municipality have continued with the resolution to defer the current liabilities related to the deemed sale of business agreement and the intercompany loans.

Director's Report

Discussions with the parent municipality to revise the entire sale of business agreement are still ongoing. Upon resolution of the new revised agreement it is expected to minimise the impact that the shareholder loan, capital redemption and interest charged on the intercompany related loans will have on the municipal entity's operations.

The municipal entity has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipal entity has implemented a system to enhance its revenue collection and cash flow by improving on the debt recoverability processes.

The revenue protection unit's effort to curb meter tampering/bypassing is likely to improve revenue collection.

Other supplementary considerations include the fact that the 2020/21 financial year's first quarter payment records of the consumer debtors have shown a significant improvement.

The entity still has the capacity and ability to continue with providing the services it is mandated to at the approved rates and will thus generate revenue from services in the future.

3. Subsequent events

The directors are not aware of any matter or circumstance arising since the end of the financial year that would have an impact on the financial statements.

4. Accounting policies

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board and in accordance with section 122(3) of the Municipal Finance Management Act, (Act No. 56 of 2003).

5. Share capital / contributed capital

There were no changes in the total authorised or issued share capital of the municipal entity during the year under review.

The entire shareholding of the municipal entity is held by Mangaung Metropolitan Municipality.

Unissued ordinary shares are under the control of Mangaung Metropolitan Municipality.

Authorised:

The authorised share capital of the company consists of 1 000 ordinary value shares of R1 each.

Issued:

The total issued share capital of the company of R100 consists of 100 ordinary value shares of R1 each.

6. Non-current assets

There were no major changes in the physical nature of non-current assets of the municipal entity during the year.

7. Directors

The current board of Directors consists of five (4) non-executive directors and two (2) executive directors. The current board of directors were appointed with effect from 1 July 2016.

The directors of the municipal entity during the year and to the date of this report are as follows:

Mr. N Mokhesi (Chairperson)	Reappointed 01 July 2016
Me. DC Myeni (Deputy Chairperson)	Appointed 01 July 2016
Mr. KM Moroka	Reappointed 01 July 2016
Mr. CAK Choeu	Appointed 01 July 2016

8. Dividends

No dividends were declared or paid to the shareholder during the year.

9. Company secretary

The secretary of the municipal entity is Mr. T Malgas.

His contact details are as follows:

Business address:

30 Rhodes Avenue
Oranjesig
Bloemfontein
South Africa
9300

10. Member and executive managers' emoluments

Directors' and officers' personal financial interests in contracts

In terms of the supply chain management policy of the municipal entity, directors and the municipal entity's officers are prohibited from entering into commercial transactions with the municipal entity.

Directors are required to disclose any business interest which they may have elsewhere.

The register of declaration of interest is available in the office of the Company Secretary for inspection.

Consistent with the Supply Chain Management Policy of the municipal entity, except for the remuneration to the executive managers and Board of Directors, none of the directors or officers entered into any commercial transaction with the municipal entity during the period under review.

Furthermore, the directors had no interest in any third party or company responsible for managing any of the business activities of the municipal entity.

Directors' and prescribed officers' emoluments

The upper limits of the salary, allowances and other benefits of the Directors, Prescribed Officers and Executive Managers were determined by the parent municipality. Directors, Prescribed Officers and Executive Managers emoluments are disclosed in the notes to the Annual Financial Statements.

11. Corporate governance

General

The directors are committed to business integrity, transparency and professionalism in all their activities. As part of this commitment, the directors support the highest standards of corporate governance and the ongoing development of best practice.

The municipal entity confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2009. The directors discuss the responsibilities of management in this respect at board meetings and monitor the municipal entity's compliance with the code on a three monthly basis.

Board of directors

The board:
- retains full control over the municipal entity, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipal entity;
- is of a unitary structure comprising:
  - non-executive directors, all of whom are independent directors as defined in the Code; and
  - executive directors.
- has established a board directorship continuity programme.

Chairperson and chief executive

The Chairperson is a non-executive and independent director (as defined by the Code).

The roles of Chairperson and Chief Executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Remuneration

The upper limits of the remuneration of the Chief Executive Officer and the Chief Financial Officer, who are the only two executive directors of the municipal entity, are determined by the parent municipality, and the directors will determine the remuneration within the above mentioned limits.

Board meetings

The directors have met on 5 separate occasions during the financial year. The directors schedule to meet at least 4 times per annum.

Non-executive directors have access to all members of management of the municipal entity.

Audit and risk committee

The chairperson of the audit committee is Me. NP Lubanga (non-executive director). The committee met 5 times during the financial year to review matters necessary to fulfil its role.

In terms of Section 166 of the Municipal Finance Management Act, Mangaung Metropolitan Municipality, as a parent municipality, must appoint members of the Audit Committee. Notwithstanding that non-executive directors appointed by the parent municipality constituted the municipal entities' Audit Committees, National Treasury policy requires that parent municipalities should appoint further members of the municipal entity's audit committees who are not directors of the municipal entity onto the audit committee. Mangaung Metropolitan Municipality, as a parent municipality, was satisfied that the Audit Committee of the municipal entity then, constituted by the non-executive directors was properly constituted to fulfil its role and advise the board of its responsibilities as provided in Section 166 of the Municipal Finance Management Act.

Internal audit

The municipal entity has appointed its own internal audit function with assistance from PricewaterhouseCoopers Inc who continued to perform this function from the previous year while the municipal entity is still developing its internal capacity. This is in compliance with the Municipal Finance Management Act, Section 62(c)(i) & 165, 2003.

12. Controlling entity

The municipal entity's controlling entity is Mangaung Metropolitan Municipality incorporated in South Africa. The municipal entity is wholly owned by Mangaung Metropolitan Municipality.

13. Bankers

ABSA Limited

14. Auditors

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

Company Secretary's Certification

Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act

In accordance with the provisions of the Companies Act 71 of 2008, Mr. T Malgas , the Company Secretary of Centlec State Owned Company Ltd, hereby certify that:

In respect of the reporting period ended 30 June 2020, the Company has lodged with the Commissioner of the Companies and Intellectual Property Commission (CIPC), all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date.

Mr. T Malgas
Company Secretary of Centlec (SOC) Ltd

Statement of Financial Position as at 30 June 2020

	Note(s)	2020 R	2019 Restated* R
Assets			
Current Assets			
Cash and cash equivalents	3	32 393 432	13 555 909
Consumer receivables from exchange transactions	4	868 551 495	768 845 276
Inventories	5	107 776 047	87 367 937
Other financial assets	6	275 470	275 470
Other receivables from exchange transactions	7	78 616 013	68 347 660
		1 087 612 457	**938 392 252**
Non-Current Assets			
Property, plant and equipment	8	6 426 341 628	3 851 456 597
Intangible assets	9	95 877 923	81 062 108
Other financial assets	6	848 941	3 914 593
Deferred tax	10	1 224 504 758	454 432 719
		7 747 573 250	**4 390 866 017**
Total Assets		**8 835 185 707**	**5 329 258 269**
Liabilities			
Current Liabilities			
Consumer deposits	11	128 776 174	115 053 108
Long service awards	12	3 271 000	1 569 000
Loans from shareholders	16	-	267 869 789
Other financial liabilities	13	6 697 009	6 697 009
Payables from exchange transactions	14	545 496 554	486 354 528
VAT liability	15	135 341 840	100 994 946
		819 582 577	**978 538 380**
Non-Current Liabilities			
Loans from shareholders	16	803 609 369	803 609 369
Other financial liabilities	13	911 545 405	575 198 943
Deferred tax	10	1 412 657 987	667 591 871
Long service awards	12	17 728 000	18 713 000
		3 145 540 761	**2 065 113 183**
Total Liabilities		**3 965 123 338**	**3 043 651 563**
Net Assets		**4 870 062 369**	**2 285 606 706**
Share capital / contributed capital	17	100	100
Reserves			
Revaluation reserve	18	4 097 258 330	1 460 029 577
Other NDR	19	60 000 000	60 000 000
Accumulated surplus		712 803 939	765 577 029
Total Net Assets		**4 870 062 369**	**2 285 606 706**

* See Note 38

Statement of Financial Performance

	Note(s)	2020 R	2019 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	20	2 503 722 302	2 337 016 619
Agency services		5 566 565	8 195 007
Other income	21	91 355 350	98 446 800
Interest income	22	28 343 399	29 950 537
Inventories reversal		1 787 308	1 112 666
Total revenue from exchange transactions		**2 630 774 924**	**2 474 721 629**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	23	22 608 696	13 434 783
Public contributions & donations		6 183 336	1 497 768
Total revenue from non-exchange transactions		**28 792 032**	**14 932 551**
Total revenue	24	**2 659 566 956**	**2 489 654 180**
Expenditure			
Employee related costs	25	371 163 806	347 899 955
Depreciation and amortisation	26	150 230 778	135 046 229
Impairment loss/ (reversal of impairments)	27	(3 285 450)	752 191
Finance costs	28	259 228 846	233 349 576
(Reversal of) / Contributions to debt impairment provision	29	77 674 615	(52 954 729)
Bulk purchases	30	1 692 794 873	1 519 656 103
Loss on disposal of assets and liabilities		9 647 299	3 313 614
General expenses	31	179 891 198	256 732 568
Total expenditure		**2 737 345 965**	**2 443 795 507**
(Deficit) surplus before taxation		**(77 779 009)**	**45 858 673**
Taxation	32	25 005 923	(10 825 121)
(Deficit) surplus for the year		**(52 773 086)**	**35 033 552**

* See Note 38

Statement of Changes in Net Assets

	Share capital / contributed capital	Revaluation reserve	Other NDR	Total reserves	Accumulated surplus	Total net assets
	R	R	R	R	R	R
Opening balance as previously reported	100	1 460 130 406	60 000 000	1 520 130 406	720 299 694	2 240 430 200
Adjustments						
Prior year adjustments	-	-	-	-	10 243 783	10 243 783
Balance at 01 July 2018 as restated*	**100**	**1 460 130 406**	**60 000 000**	**1 520 130 406**	**730 543 477**	**2 250 673 983**
Changes in net assets						
Impairment losses on revalued capital assets	-	(100 829)	-	(100 829)	-	(100 829)
Net income (losses) recognised directly in net assets	-	(100 829)	-	(100 829)	-	(100 829)
Surplus/(Deficit) for the year	-	-	-	-	35 033 552	35 033 552
Total recognised income and expenses for the year	-	(100 829)	-	(100 829)	35 033 552	34 932 723
Total changes	-	(100 829)	-	(100 829)	35 033 552	34 932 723
Opening balance as previously reported	100	1 460 029 577	60 000 000	1 520 029 577	755 147 312	2 275 176 989
Adjustments						
Prior year adjustments	-	-	-	-	10 429 713	10 429 713
Restated* Balance at 01 July 2019 as restated*	**100**	**1 460 029 577**	**60 000 000**	**1 520 029 577**	**765 577 025**	**2 285 606 702**
Changes in net assets						
Surplus for the year	-	-	-	-	(52 773 086)	(52 773 086)
Revaluation of land, buildings and infrastructure assets	-	2 637 228 753	-	2 637 228 753	-	2 637 228 753
Total changes	-	2 637 228 753	-	2 637 228 753	(52 773 086)	2 584 455 667
Balance at 30 June 2020	**100**	**4 097 258 330**	**60 000 000**	**4 157 258 330**	**712 803 939**	**4 870 062 369**
Note(s)	17	18	19			

* See Note 38

Cash Flow Statement

	Note(s)	2020 R	2019 Restated* R
Cash flows from operating activities			
Receipts			
Sale of goods and services		2 412 995 030	2 313 662 142
Grants, public contributions and donations		28 792 032	14 932 551
Interest income		28 343 399	29 950 537
		2 470 130 461	2 358 545 230
Payments			
Employee costs		(370 446 806)	(347 429 955)
Suppliers		(2 026 801 472)	(1 885 734 837)
Finance costs		(17 443 293)	(9 336 073)
		(2 414 691 571)	(2 242 500 865)
Net cash flows from operating activities	33	**55 438 890**	**116 044 365**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(93 903 593)	(167 271 079)
Proceeds from sale of property, plant and equipment	8	-	1 876 249
Purchase of intangible assets	9	(14 240 099)	(11 028 060)
Investments		-	53 265 198
(Purchase of)/Proceeds from sale of financial assets		3 065 652	651 648
Net cash flows from investing activities		**(105 078 040)**	**(122 506 044)**
Cash flows from financing activities			
Proceeds from/(Repayment of) other financial liabilities		68 476 673	(61 329 080)
Finance lease payments		-	(121 322)
Net cash flows from financing activities		**68 476 673**	**(61 450 402)**
Net increase/(decrease) in cash and cash equivalents		**18 837 523**	**(67 912 081)**
Cash and cash equivalents at the beginning of the year		13 555 909	81 467 990
Cash and cash equivalents at the end of the year	3	**32 393 432**	**13 555 909**

* See Note 38

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	2 684 816 554	-	**2 684 816 554**	2 503 722 302	**(181 094 252)**	Note 47
Agency services	6 166 564	-	**6 166 564**	5 566 565	**(599 999)**	Note 47
Other income	81 952 805	-	**81 952 805**	91 355 350	**9 402 545**	Note 47
Interest income	21 619 768	-	**21 619 768**	28 343 399	**6 723 631**	Note 47
Total revenue from exchange transactions	**2 794 555 691**	**-**	**2 794 555 691**	**2 628 987 616**	**(165 568 075)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	26 000 000	-	**26 000 000**	22 608 696	**(3 391 304)**	Note 47
Public contributions and donations	-	-	**-**	6 183 336	**6 183 336**	Note 47
Total revenue from non-exchange transactions	**26 000 000**	**-**	**26 000 000**	**28 792 032**	**2 792 032**	
Total revenue	**2 820 555 691**	**-**	**2 820 555 691**	**2 657 779 648**	**(162 776 043)**	
Expenditure						
Employee related costs	(346 947 351)	-	**(346 947 351)**	(371 163 806)	**(24 216 455)**	Note 47
Depreciation and amortisation	(70 887 428)	-	**(70 887 428)**	(150 230 778)	**(79 343 350)**	Note 47
Impairment loss/ Reversal of impairments	-	-	**-**	3 285 450	**3 285 450**	Note 47
Finance costs	(120 054 163)	-	**(120 054 163)**	(259 228 846)	**(139 174 683)**	Note 47
Debt impairment	(8 888 718)	-	**(8 888 718)**	(77 674 615)	**(68 785 897)**	Note 47
Bulk purchases	(1 558 102 961)	-	**(1 558 102 961)**	(1 692 794 873)	**(134 691 912)**	Note 47
General expenses	(150 689 901)	-	**(150 689 901)**	(179 891 198)	**(29 201 297)**	Note 47
Total expenditure	**(2 255 570 522)**	**-**	**(2 255 570 522)**	**(2 727 698 666)**	**(472 128 144)**	
Operating deficit	**564 985 169**	**-**	**564 985 169**	**(69 919 018)**	**(634 904 187)**	
Gain/Loss on disposal of assets and liabilities	344 360	-	**344 360**	(9 647 299)	**(9 991 659)**	Note 47
Inventories losses/gains	-	-	**-**	1 787 308	**1 787 308**	Note 47
	344 360	**-**	**344 360**	**(7 859 991)**	**(8 204 351)**	
Deficit before taxation	**565 329 529**	**-**	**565 329 529**	**(77 779 009)**	**(643 108 538)**	
Taxation	-	-	**-**	(25 005 923)	**(25 005 923)**	
Actual Amount on Comparable Basis	**565 329 529**	**-**	**565 329 529**	**(52 773 086)**	**(618 102 615)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Cash and cash equivalents	121 867 477	-	**121 867 477**	32 393 432	**(89 474 045)**	Note 47
Consumer receivables from exchange transactions	747 005 277	-	**747 005 277**	868 551 495	**121 546 218**	Note 47
Inventories	89 760 001	-	**89 760 001**	107 776 047	**18 016 046**	Note 47
Other receivables from exchange transactions	-	-	-	78 616 013	**78 616 013**	Note 47
	958 632 755	**-**	**958 632 755**	**1 087 336 987**	**128 704 232**	
Non-Current Assets						
Property, plant and equipment	4 020 091 989	-	**4 020 091 989**	6 426 341 628	**2 406 249 639**	Note 47
Intangible assets	82 523 634	-	**82 523 634**	95 877 923	**13 354 289**	Note 47
Other financial assets	-	-	-	1 124 411	**1 124 411**	Note 47
Deferred tax	243 138 942	-	**243 138 942**	1 224 504 758	**981 365 816**	Note 47
	4 345 754 565	**-**	**4 345 754 565**	**7 747 848 720**	**3 402 094 155**	
Total Assets	**5 304 387 320**	**-**	**5 304 387 320**	**8 835 185 707**	**3 530 798 387**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	548 983 714	-	**548 983 714**	545 496 554	**(3 487 160)**	Note 47
VAT liability	-	-	-	135 341 840	**135 341 840**	Note 47
Consumer deposits	96 293 584	-	**96 293 584**	128 776 174	**32 482 590**	Note 47
	645 277 298	**-**	**645 277 298**	**809 614 568**	**164 337 270**	
Non-Current Liabilities						
Loans from shareholders	-	-	-	803 609 369	**803 609 369**	Note 47
Other non-current financial liabilities	-	-	-	918 242 414	**918 242 414**	Note 47
Deferred tax	623 775 810	-	**623 775 810**	1 412 657 987	**788 882 177**	Note 47
Long service awards	23 212 879	-	**23 212 879**	20 999 000	**(2 213 879)**	Note 47
	646 988 689	**-**	**646 988 689**	**3 155 508 770**	**2 508 520 081**	
Total Liabilities	**1 292 265 987**	**-**	**1 292 265 987**	**3 965 123 338**	**2 672 857 351**	
Net Assets	**4 012 121 333**	**-**	**4 012 121 333**	**4 870 062 369**	**857 941 036**	
Net Assets						
Net Assets Attributable to Controlling Entity						
Share capital	1 714 784 887	-	**1 714 784 887**	100	**(1 714 784 787)**	Note 47

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Reserves						
Revaluation reserve	1 008 773 783	-	**1 008 773 783**	4 097 258 330	**3 088 484 547**	Note 47
Other NDR	60 000 000	-	**60 000 000**	60 000 000	**-**	Note 47
Accumulated surplus	1 228 562 663	-	**1 228 562 663**	712 803 939	**(515 758 724)**	Note 47
Total Net Assets	**4 012 121 333**	**-**	**4 012 121 333**	**4 870 062 369**	**857 941 036**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	2 668 619 215	-	**2 668 619 215**	2 412 995 030	**(255 624 185)**	
Grants, forfeits, public contributions and donations	37 008 079	-	**37 008 079**	28 792 032	**(8 216 047)**	
Interest income	20 971 175	-	**20 971 175**	28 343 399	**7 372 224**	
	2 726 598 469	**-**	**2 726 598 469**	**2 470 130 461**	**(256 468 008)**	
Payments						
Suppliers and employee costs	(2 385 811 604)	-	**(2 385 811 604)**	(2 397 248 278)	**(11 436 674)**	
Finance costs	(3 680 058)	-	**(3 680 058)**	(17 443 293)	**(13 763 235)**	
	(2 389 491 662)	**-**	**(2 389 491 662)**	**(2 414 691 571)**	**(25 199 909)**	
Net cash flows from operating activities	**337 106 807**	**-**	**337 106 807**	**55 438 890**	**(281 667 917)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(205 871 689)	-	**(205 871 689)**	(93 903 593)	**111 968 096**	
Proceeds from sale of property, plant and equipment	334 029	-	**334 029**	-	**(334 029)**	
Purchase of intangible assets	-	-	**-**	(14 240 099)	**(14 240 099)**	
(Purchase of)/Proceeds from sale of financial assets	-	-	**-**	3 065 652	**3 065 652**	
Net cash flows from investing activities	**(205 537 660)**	**-**	**(205 537 660)**	**(105 078 040)**	**100 459 620**	
Cash flows from financing activities						
Proceeds from / (Repayment of) other financial liabilities	(120 000 000)	-	**(120 000 000)**	68 476 673	**188 476 673**	
Net movement on other financial liabilities	(5 106 478)	-	**(5 106 478)**	-	**5 106 478**	
Net cash flows from financing activities	**(125 106 478)**	**-**	**(125 106 478)**	**68 476 673**	**193 583 151**	
Net increase/(decrease) in cash and cash equivalents	6 462 669	-	**6 462 669**	18 837 523	**12 374 854**	
Cash and cash equivalents at the beginning of the year	115 404 809	-	**115 404 809**	13 555 909	**(101 848 900)**	
Cash and cash equivalents at the end of the year	**121 867 478**	**-**	**121 867 478**	**32 393 432**	**(89 474 046)**	

Appropriation Statement - Unaudited

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2020											
Financial Performance											
Service charges	2 684 816 554	-	2 684 816 554	-		2 684 816 554	2 503 722 302		(181 094 252)	93 %	93 %
Investment revenue	21 619 768	-	21 619 768	-		21 619 768	28 343 399		6 723 631	131 %	131 %
Other own revenue	38 463 729	50 000 000	88 463 729	-		88 463 729	98 709 223		10 245 494	112 %	257 %
Total revenue (excluding capital transfers and contributions)	**2 744 900 051**	**50 000 000**	**2 794 900 051**	**-**		**2 794 900 051**	**2 630 774 924**		**(164 125 127)**	**94 %**	**96 %**
Employee costs	(346 450 287)	(497 064)	(346 947 351)	-	-	(346 947 351)	(371 163 806)	-	(24 216 455)	107 %	107 %
Debt impairment	(8 888 718)	-	(8 888 718)			(8 888 718)	(77 674 615)	-	(68 785 897)	874 %	874 %
Depreciation and asset impairment	(104 948 807)	34 061 379	(70 887 428)			(70 887 428)	(146 945 328)	-	(76 057 900)	207 %	140 %
Finance charges	(54 163)	-	(54 163)	-	-	(54 163)	(259 228 846)	-	(259 174 683)	478 609 %	478 609 %
Materials and bulk purchases	(1 741 212 274)	183 109 313	(1 558 102 961)	-	-	(1 558 102 961)	(1 692 794 873)	-	(134 691 912)	109 %	97 %
Other expenditure	(303 389 054)	152 699 153	(150 689 901)	-	-	(150 689 901)	(189 538 497)	-	(38 848 596)	126 %	62 %
Total expenditure	**(2 504 943 303)**	**369 372 781**	**(2 135 570 522)**	**-**	**-**	**(2 135 570 522)**	**(2 737 345 965)**	**-**	**(601 775 443)**	**128 %**	**109 %**
Surplus/(Deficit)	**239 956 748**	**419 372 781**	**659 329 529**	**-**		**659 329 529**	**(106 571 041)**		**(765 900 570)**	**(16)%**	**(44)%**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	26 000 000	-	26 000 000	-		26 000 000	22 608 696		(3 391 304)	87 %	87 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	6 183 336		6 183 336	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**265 956 748**	**419 372 781**	**685 329 529**	**-**		**685 329 529**	**(77 779 009)**		**(763 108 538)**	**(11)%**	**(29)%**
Taxation	-	-	-	-		-	(25 005 923)		(25 005 923)	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	**265 956 748**	**419 372 781**	**685 329 529**	**-**		**685 329 529**	**(52 773 086)**		**(738 102 615)**	**(8)%**	**(20)%**
Capital expenditure and funds sources											
Total capital expenditure	145 638 821	(26 480 000)	119 158 821	-		119 158 821	116 135 721		(3 023 100)	97 %	80 %
Sources of capital funds											
Transfers recognised - capital	26 000 000	-	26 000 000	-		26 000 000	23 964 187		(2 035 813)	92 %	92 %
Public contributions and donations	11 408 079	-	11 408 079	-		11 408 079	15 761 512		4 353 433	138 %	138 %
Internally generated funds	108 230 742	(26 480 000)	81 750 742	-		81 750 742	76 410 022		(5 340 720)	93 %	71 %
Total sources of capital funds	**145 638 821**	**(26 480 000)**	**119 158 821**	**-**		**119 158 821**	**116 135 721**		**(3 023 100)**	**97 %**	**80 %**

Accounting Policies

1. Presentation of Financial Statements

The 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 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.

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 are disclosed below.

Centlec (SOC) Ltd ("the municipal entity") is a municipal entity wholly owned by Mangaung Metropolitan Municipality.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These financial statements are presented in South African Rand and the amounts are rounded off to the nearest Rand. The South African Rand is the functional currency of the municipal entity.

1.2 Going concern assumption

The 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 following analysis supports the going concern assumption:

- Current assets (R 1 087 612 457) exceed current liabilities (R 819 582 577)

- Total assets (R 8 835 185 707) exceed total liabilities (R 3 965 123 338).

- The municipal entity has an accumulated surplus and other reserves of R 712 803 939.

Management has reviewed the municipal entity's cash flow forecast for the year to 30 June 2021. The municipal entity reported a trading deficit of R 52 773 086 mainly due to the negative impact arising out of the COVID-19 lockdown regulations which resulted in an abnormal increase in the debt impairment. Other contributing factors include the interest expense on the shareholder's - and intercompany loans.

The municipal entity and the parent municipality have continued with the resolution to defer the current liabilities related to the deemed sale of business agreement and the intercompany loans.
Discussions with the parent municipality to revise the entire sale of business agreement are still ongoing. Upon resolution of the new revised agreement it is expected to minimise the impact that the shareholder loan, capital redemption and interest charged on the intercompany related loans will have on the municipal entity's operations.

The municipal entity has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipal entity has implemented a system to enhance its revenue collection and cash flow by improving on the debt recoverability processes.

Other supplementary considerations include the fact that the 2020/21 financial year's first quarter payment records of the consumer debtors have shown a significant improvement.

The entity still has the capacity and ability to continue with providing the services it is mandated to at the approved rates and will thus generate revenue from services in the future.

1.3 Significant judgments and sources of estimation uncertainty

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

Trade receivables and/or loans and receivables

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

The impairment for trade receivables and loans is considered first for individually significant trade receivables and loans and then calculated on a portfolio basis for the remaining balance, including those individually significant trade receivables and loans for which no indicators of impairment exist. For amounts due to the municipal entity, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment

For trade receivables and loans 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 receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the trade receivables and loans.

Allowance for slow moving, damaged and obsolete inventory items

An allowance for inventory to write inventory down to the lower of cost or net realisable value. An assessment is made of the net realisable value, or current replacement cost where applicable, of inventory at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value, or current replacement cost where applicable, is subsequently provided if needed. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus or deficit.

Impairment testing of non-financial assets

The recoverable (service) 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 assumptions (i.e. collectibility or physical condition) may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets:
The municipal entity 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. They are significantly affected by a number of factors, together with economic factors such as inflation and interest.

Value in use of non-cash generating assets:
The municipal entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in the notes to the financial statements.

1.3 Significant judgments and sources of estimation uncertainty (continued)

Taxation

Judgment is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The municipal entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The municipal entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the municipal entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the municipal entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable surplus will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expense

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to net assets; or

- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

1.3 Significant judgments and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment and other assets

The municipal entity’s management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipal entity.

Post retirement benefits

The present value of the post retirement obligation and other long-term obligations 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 and other long-term obligations.

The municipal entity 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 municipal entity considers the market yields at the reporting date on government 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 or long-term obligation. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipal entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Notes to the financial statements.

Effective interest rate

The municipal entity uses the prime interest rate to discount future cash flows.

1.4 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 municipal entity; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

1.4 Property, plant and equipment (continued)

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipal 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.

Subsequent measurement:

Cost model

Motor vehicles and office equipment are carried at cost less accumulated depreciation and any impairment losses.

Revaluation model

Land, buildings, plant and machinery and infrastructure assets are carried at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of asset.

The revaluation surplus relating to an asset will be realised over time by transferring some or the whole of the surplus to accumulated surplus or deficit by way of:

- When the asset is derecognised: transferring the portion, when the asset to which the surplus relates to, is disposed.

An impairment loss on a non-revalued asset is recognised in surplus or deficit. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset.

Depreciation

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

1.4 Property, plant and equipment (continued)

Depreciation is calculated over the depreciable amount, which is the cost or revaluation amount of an asset less its residual value.

Depreciation commences when an asset is available for use and ceases when the asset is derecognised.

Depreciation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	
• Office buildings		40 years
• Training centres		40 years
• Fixtures & fittings		3 years
Motor vehicles	Straight line	
• Trucks and light delivery vehicles		5-7 years
• Ordinary motor vehicles		5-7 years
• Motor cycles		3 years
Office equipment	Straight line	
• Computer hardware		5 years
• Computer machines		3-5 years
• Air conditioners		5-7 years
• Chairs		7-10 years
• Tables and desks		7-10 years
• Cabinets and cupboards		7-10 years
• Access control systems		5 years
• Security systems		5 years
• Household refuse bins		5 years
• Bulk refuse containers		10 years
• Fire hoses		5 years
• Other fire-fighting equipment		15 years
• Emergency lights		5 years
Leased assets	Straight line	
• Printing machines		3 years
Infrastructure	Straight line	
• Generation		50 years
• HV Transformers		40 years
• HV Substation Equipment		45 years
• HV Lines		40 years
• HV Cables		45 years
• Buildings		50 years
• MV Transformers		40 years
• MV Switchgear		45years
• MV Lines		50 years
• MV Cables		50 years
• MV Switching Station		45 years
• OH Line Equipment		40 years
• Service Connections		45 years
• LV Distribution Boxes		50 years
• LV Lines		45 years
• LV Cables		50 years
• Meters Consumer Credit		20 years
• Meters Consumer Prepaid		15 years

1.4 Property, plant and equipment (continued)

• Meter Consumer Electronic	15 years
• Meters Consumer Smart	15 years
• Load Control	15 years
• Protection	20 years
• Electrical Information Systems	7 years
• IT Equipment	5 years
• MV Batteries	20 years
• Security fencing	3 years
• Street lights	45 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 municipal entity assesses at each reporting date whether there is any indication that the municipal entity 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 municipal entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

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

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The municipal entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 8).

The municipal entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 8).

1.5 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance. The municipal entity has classified computer software & licenses and servitudes as 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 municipal 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 entity 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.

1.5 Intangible assets (continued)

Initial recognition

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 municipal entity; and
- the cost or fair value of the asset can be measured reliably.

The municipal entity 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.

Intangible assets are initially recognised at cost.

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Servitudes are classified as intangible assets. Servitudes are rights that are not amortised as they have an indefinite useful life.

Subsequent measuring

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

Servitudes are subsequently measured in accordance with the revaluation model.

Other intangible assets that are acquired by the municipal entity and have finite useful lives are initially recognised at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Where an intangible asset is acquired at no cost, or for a nominal cost, the cost is deemed to be its fair value as at the date of acquisition.

Servitudes created through the exercise of legislation are not recognised as intangible assets and any costs incurred to register these servitudes are expensed. However, servitudes that are created through an agreement (contract) are recognised as intangible assets.

Subsequent expenditure

Expenditure on intangible assets shall be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. All other expenditure, including expenditure on internally generated goodwill and customer lists, is recognised in surplus or deficit as incurred.

Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Servitudes are not amortised as their nature are similar to that of land rights, which is not a depreciable item. Servitudes are rights that are not amortised as they have an indefinite useful life.

1.5 Intangible assets (continued)

Amortisation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Item	**Useful life**
Computer software & licenses	1-5 years
Servitudes	Indefinite

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. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Intangible assets are derecognised on disposal or when no future economic benefits or services potential are expected from its use or disposal. The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in the Statement of Financial Performance when the asset is derecognised.

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

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

1.6 Commitments

The term ‘commitments’ is not defined in any of the standards but may be referred to as the intention to commit to an outflow from the municipal entity of resources embodying economic benefits.

Generally, a commitment arises when a decision is made to incur a liability e.g. a purchase contract. Such a decision is evidenced by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

The municipal entity may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the entity has contracted for expenditure but no work has started and no payments have been made.

The notes to the financial statements must disclose the nature and amount of each material individual expenditure commitment and each material class of capital expenditure commitment as well as non-cancelable operating leases contracted for at the reporting date. Commitments for the supply of inventories, where a liability under a contract has not yet been recognised, do not require disclosure as a commitment.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation is disclosed in a note to the financial statements, if both the following criteria are met:
- contracts should be non-cancelable or only cancelable 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 municipal entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.7 Financial instruments

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

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.

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 -liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or -liability (or group of financial assets or -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 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, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

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

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

1.7 Financial instruments (continued)

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.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- 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 in accordance with paragraph 17 of GRAP 104; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.7 Financial instruments (continued)

Classification

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

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

The municipal 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
Consumer deposits	Financial liability measured at amortised cost
Loans from shareholders	Financial liability measured at amortised cost
Other current liabilities	Financial liability measured at amortised cost
Other non-current liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

Initial recognition

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

The municipal entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipal entity measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or a liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipal entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipal entity analyses a concessionary loan into its component parts and accounts for each component separately. The municipal entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipal entity 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.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipal entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal operating considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipal entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Short-term receivables and payables are not discounted where the initial credit period granted or received consistent with terms is used in the public sector, either through established practices or legislation.

Reclassification

The municipal entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipal entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipal entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the municipal entity reclassifies the instrument from cost to fair value.

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.

The impact of the fair value gains or losses is taken into account in the calculation of current and deferred taxation.

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

1.7 Financial instruments (continued)

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

For amounts due to the municipal entity, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

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.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

1.7 Financial instruments (continued)

Derecognition

Financial assets

The municipal entity derecognises financial assets using trade date accounting.

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

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

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

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

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

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipal entity has retained substantially all the risks and rewards of ownership of the transferred asset, the municipal entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipal entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

An exchange between an existing borrower and lender of debt instruments with 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.

1.7 Financial instruments (continued)

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 Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at amortised cost. Fair value approximates the carrying amount. However, where the asset is not readily convertible into cash amounts for a period exceeding three months these are treated as investments.

1.8 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to or recovered from the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable surplus will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Current tax and deferred taxes are recognised in net assets if the tax relates to items that are credited or recognised, in the same or a different period, to net assets.

1.8 Tax (continued)

Value added tax (VAT)

The municipal entity is registered with the South African Revenue Services (SARS) for VAT on the payments/cash basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991) and accounts for VAT on this basis. The municipal entity is liable to account for VAT at the standard rate of 15% in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipal entity accounts for VAT on a monthly basis.

1.9 Leases

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 municipal entity assesses the classification of each element separately.

Operating leases - municipal entity as lessee

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

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

1.10 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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.

1.11 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.

Designation

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

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

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

Identification

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

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

Irrespective of whether there is any indication of impairment, the municipal entity also test 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.

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 municipal entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipal entity applies the appropriate discount rate to those future cash flows.

Where it is not practical to determine the fair value less costs to sell, the municipal entity uses the value in use.

1.11 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipal entity:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the municipal entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipal entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipal entity 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.

1.11 Impairment of cash-generating assets (continued)

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 municipal entity 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 municipal entity 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 municipal 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.

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.

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipal entity 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 municipal entity 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. This increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Redesignation

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

1.12 Impairment of non-cash-generating assets

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

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

Designation

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

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

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

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

Identification

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

The municipal entity 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 municipal entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipal 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

Where it is not practical to determine the fair value less costs to sell, the municipal entity uses the 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 municipal entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned 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.

1.12 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.

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

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipal entity 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 municipal entity assess 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 municipal entity estimates the recoverable service amount of that asset.

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

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

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

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

Redesignation

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

1.13 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of a municipal entity after deducting all of its liabilities.

1.14 Employee benefits

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

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

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

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

Short-term employee benefits

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

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

When an employee has rendered service to the municipal entity during a reporting period, the municipal entity recognise 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 municipal entity recognise 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 municipal entity measure the expected cost of accumulating compensated absences as the additional amount that the municipal entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipal entity recognise the expected cost of bonus, incentive and performance related payments when the municipal 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 municipal entity has no realistic alternative but to make the payments.

1.14 Employee benefits (continued)

Other long-term employee benefits

For long service awards the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries.

Actuarial gains and losses are recognised in the statement of financial performance in the period that they occur.

Gains or losses on the curtailment or settlement of long service awards are recognised when the municipal entity is demonstrably committed to curtailment or settlement.

The amount recognised in the statement of financial position represents the present value of the long service award obligation minus the fair value of plan assets, if any.

Actuarial assumptions are included in the note of long service awards.

The municipal 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.

1.15 Provisions and contingencies

Provisions are recognised when:
- the municipal entity 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.

Reimbursements

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

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

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

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

1.15 Provisions and contingencies (continued)

Provisions are not recognised for future operating deficits.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the board.

A contingent liability is:
- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the board; or
- a present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
- the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

1.16 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 entity 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, volume rebates and VAT.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipal entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipal entity 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 municipal entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.16 Revenue from exchange transactions (continued)

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 municipal entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Service charges

Service charges relating to distribution of electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made on a monthly basis when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is raised based on the average monthly consumption. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters are read. These adjustments are recognised as revenue in the invoicing period. Estimates of consumption between meter readings are based on historical information.

Pre-paid electricity

Pre-paid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August). The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the previous financial years' months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

Interest, royalties and dividends

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

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

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

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

1.17 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipal entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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.

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipal entity and the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant.

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 municipal entity 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 municipal entity.

When, as a result of a non-exchange transaction, the municipal entity 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.

1.17 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipal entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipal entity assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipal entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed program may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipal entity;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.18 Service charges

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.19 Investment income

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

1.20 Borrowing costs

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

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

1.21 Comparative figures

When the presentation or classification of an item in the financial statements are amended, comparative amounts are reclassified.

1.22 Fruitless and wasteful expenditure

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

1.22 Fruitless and wasteful expenditure (continued)

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. Detailed disclosure have been made in the notes to the financial statements as required by MFMA.

1.23 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 municipal entity's supply chain management policy. 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.

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

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

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

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

1.24 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised when revalued buildings and infrastructure is disposed off or impaired, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.25 Budget information

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

The approved budget covers the fiscal period from 2019-07-01 to 2020-06-30.

The 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.

Comparative information is not required.

1.26 Related parties

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

1.26 Related parties (continued)

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

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

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

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

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

The municipal entity 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 municipal entity 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 municipal entity is exempt from the disclosures in accordance with the above, the municipal entity 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 financial statements.

1.27 Events after reporting date

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

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

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

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

1.28 Accumulated surplus

The municipal entity’s surplus/deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipal entity. Any surpluses and 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 when retrospective adjustments are made.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2019

The entity has adopted the standard for the first time in the 2019/2020 financial statements.

The impact of the standard is not material.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

The entity has adopted the standard for the first time in the 2019/2020 financial statements.

The impact of the standard is not material.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Notes to the Financial Statements

2. New standards and interpretations (continued)

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is for years beginning on or after 01 April 2019

The entity has adopted the interpretation for the first time in the 2019/2020 financial statements.

The impact of the interpretation is not material.

GRAP 108: Statutory Receivables

The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is for years beginning on or after 01 April 2019

The entity has adopted the standard for the first time in the 2019/2020 financial statements.

The impact of the standard is not material.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that 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. As a minimum, the following are regarded as related parties of the reporting entity:

Notes to the Financial Statements

2. New standards and interpretations (continued)

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that 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.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2019.

The entity has adopted the standard for the first time in the 2019/2020 financial statements.

The adoption of this standard has not had a material impact on the results of the entity, but has resulted in more disclosure than would have previously been provided in the financial statements.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2019.

The entity has adopted the standard for the first time in the 2019/2020 financial statements.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The impact of the amendment is not material.

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2019.

The entity has adopted the standard for the first time in the 2019/2020 financial statements.

The impact of the amendment is not material.

GRAP 106 (as amended 2016): Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The subsequent amendments to the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control resulted from changes made to IFRS 3 on Business Combinations (IFRS 3) as a result of the IASB's amendments on Annual Improvements to IFRSs 2010 – 2012 Cycle issued in December 2013.

The most significant changes to the Standard are:

- IASB amendments: To require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting period.

The effective date of the standard is for years beginning on or after 01 April 2019.

The entity has adopted the standard for the first time in the 2019/2020 financial statements.

The impact of the standard is not material.

Notes to the Financial Statements

2. New standards and interpretations (continued)

2.2 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2020 or later periods:

GRAP 104 (amended): Financial Instruments

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

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

The most significant changes to the Standard affect:
- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

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

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

The entity is unable to reliably estimate the impact of the standard on the financial statements.

Guideline: Guideline on the Application of Materiality to Financial Statements

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

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

The Guideline is encouraged to be used by entities.

The Guideline does not have an effective date as it is non-mandatory. GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors already requires consideration of materiality. The Guideline merely provides guidance on how to consider materiality.

It is unlikely that the standard will have a material impact on the entity's financial statements.

Notes to the Financial Statements

2. New standards and interpretations (continued)

Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards

Objective of this directive: The board has approved the application of International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board (IASB®) for public entities (hereafter referred to as "an entity") that meet the criteria to apply IFRS Standards as outlined in the Directive on The Selection of an Appropriate Reporting Framework by Public Entities (Directive 12).

Entities that apply IFRS Standards and operate in the public sector may need to formulate an accounting policy in the absence of an IFRS Standard that specifically applies to a transaction, other event or condition (hereafter referred to as "formulating an accounting policy") using other sources. When formulating an accounting policy in the absence of an IFRS Standard, the entity needs to consider its users and their information needs. Users of financial statements prepared using the IFRS Standards are interested in information on the return on their investments, and/or the return of their investments, and to make decisions about providing resources to the entity.

The objective of this Directive is to explain when, and in what circumstances, an entity may consider the principles in a Standard of GRAP when formulating such an accounting policy.

It covers: Scope, Formulating an accounting policy in the absence of a specific IFRS® Standard, and Basis for conclusions.

The effective date of the Directive is 01 April 2021.

It is unlikely that the standard will have a material impact on the entity's financial statements.

GRAP 1 (amended): Presentation of Financial Statements

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

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:

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

Statement of financial position and statement of financial performance

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

Notes structure

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

Disclosure of accounting policies

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

An entity applies judgment based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after 01 April 2020.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The entity expects to adopt the interpretation for the first time in the 2020/2021 financial statements.

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

IGRAP 20: Accounting for Adjustments to Revenue

As per the background to this Interpretation of the Standards of GRAP, there are a number of legislative and regulatory processes that govern how entities levy, charge or calculate revenue, in the public sector. Adjustments to revenue already recognised in terms of legislation or similar means arise from the completion of an internal review process within the entity, and/or the outcome of an external appeal or objection process undertaken in terms of legislation or similar means. Adjustments to revenue include any refunds that become payable as a result of the completion of a review, appeal or objection process. The adjustments to revenue already recognised following the outcome of a review, appeal or objection process can either result in a change in an accounting estimate, or a correction of an error.

As per the scope, this Interpretation of the Standards of GRAP clarifies the accounting for adjustments to exchange and non-exchange revenue charged in terms of legislation or similar means, and interest and penalties that arise from revenue already recognised as a result of the completion of a review, appeal or objection process. Changes to the measurement of receivables and payables, other than those changes arising from applying this Interpretation, are dealt with in accordance with the applicable Standards of GRAP. The principles in this Interpretation may be applied, by analogy, to the accounting for adjustments to exchange or non-exchange revenue that arises from contractual arrangements where the fact patterns are similar to those in the Interpretation.

The interpretation sets out the issues and relating consensus with accounting for adjustments to revenue.

The effective date of the interpretation is for years beginning on or after 01 April 2020.

The entity expects to adopt the interpretation for the first time in the 2020/2021 financial statements.

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

GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB’s Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the standard is for years beginning on or after 01 April 2020.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The entity expects to adopt the standard for the first time in the 2020/2021 financial statements.

It is unlikely that the standard will have a material impact on the entity's financial statements.

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The entity expects to adopt the standard for the first time in the 2020/2021 financial statements.

It is unlikely that the standard will have a material impact on the entity's financial statements.

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

An entity applies judgment based on past experience and current facts and circumstances.

The effective date of the amendment is for years beginning on or after 01 April 2020.

The entity expects to adopt the interpretation for the first time in the 2020/2021 financial statements.

It is unlikely that the standard will have a material impact on the entity's financial statements.

Directive 7 (revised): The Application of Deemed Cost

This Directive was originally issued by the Accounting Standards Board (the Board) in December 2009. Since then, it has been amended by:

- Consequential amendments when the following Standards of GRAP were amended to clarify some of the principles:
  - GRAP 105 Transfer of Functions Between Entities Under Common Control
  - GRAP 107 Mergers
- Consequential amendments arising from GRAP 110 *Living and Non-living Resources* issued in December 2017.

Notes to the Financial Statements

2. New standards and interpretations (continued)

- Consequential amendments arising from the following Standards of GRAP in May 2018:
  - GRAP 34 *Separate Financial Statements*
  - GRAP 35 *Consolidated Financial Statements*
  - GRAP 36 *Investments in Associates and Joint Ventures*
  - GRAP 37 *Joint Arrangements*
  - GRAP 38 *Disclosure of Interests in Other Entities*

The effective date of this Directive coincides with the effective dates of the applicable Standards of GRAP, as determined by the Minister of Finance. If an entity has assets that it previously could not recognise and/or measure in accordance with the Standards of GRAP on their initial adoption on the transfer date or the merger date because information about the acquisition cost of the assets was not available, an entity applies this Directive to those assets. The fair value of those assets is determined at the date of adopting the Standards of GRAP on the transfer date or the merger date in accordance with the Directive's Appendix paragraph A3.

The effective date of this revised directive is for years beginning on or after 01 April 2020.

The entity expects to adopt the directive for the first time in the 2020/2021 financial statements.

It is unlikely that the standard will have a material impact on the entity's financial statements.

GRAP 18 (as amended 2016): Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2020

The entity expects to adopt the standard for the first time in the 2020/2021 financial statements.

It is unlikely that the standard will have a material impact on the entity's financial statements.

2. New standards and interpretations (continued)

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2020 or later periods but are not relevant to its operations:

Guideline: Guideline on Accounting for Landfill Sites

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

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

The effective date of the guideline is for years beginning on or after 01 April 2020.

The entity does not envisage the adoption of the guideline until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's financial statements.

Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges

The objective of the Directive is to prescribe the transitional provisions for the adoption of Standards of GRAP by CET colleges. Standards of GRAP set out the recognition, measurement, presentation and disclosure requirements for financial reporting in the public sector. As a result, the Directive should be read in conjunction with the applicable Standards of GRAP.

The Directive prescribes the transitional provisions to be applied by CET colleges established in terms of the Continuing Education and Training Act, Act No. 16 of 2006 (as amended).

The effective date of the directive is for years beginning on or after 01 April 2020.

The entity does not envisage the adoption of the directive until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's financial statements.

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;

2. New standards and interpretations (continued)

- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's financial statements.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgments and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's financial statements.

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's financial statements.

GRAP 37: Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2020

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the standard will have a material impact on the entity's financial statements.

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government's housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is for years beginning on or after 01 April 2019.

The entity does not envisage the adoption of the guideline until such time as it becomes applicable to the entity's operations.

It is unlikely that the guideline will have a material impact on the entity's financial statements.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The entity does not envisage the adoption of the interpretation until such time as it becomes applicable to the entity's operations.

It is unlikely that the interpretation will have a material impact on the entity's financial statements.

Notes to the Financial Statements

2. New standards and interpretations (continued)

IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:
- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:
- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

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

The entity does not envisage the adoption of the interpretation until such time as it becomes applicable to the entity's operations.

It is unlikely that the interpretation will have a material impact on the entity's financial statements.

IGRAP 11: Consolidation – Special purpose entities

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity (‘SPE’) may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called ‘autopilot’). The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties (‘capital providers’) may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits or service potential of the SPE’s activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE’s activities, even though it may own little or none of the SPE’s net assets.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The Standard of GRAP on Consolidated and Separate Financial Statements requires the consolidation of entities that are controlled by the reporting entity. However, the Standard of GRAP does not provide explicit guidance on the consolidation of SPEs. The issue is under what circumstances an entity should consolidate an SPE. This interpretation of the Standards of GRAP does not apply to post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.

A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of the Standard of GRAP on Consolidated and Separate Financial Statements and this Interpretation of the Standards of GRAP may mean that the entity should consolidate the SPE. This Interpretation of the Standards of GRAP does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

The entity does not envisage the adoption of the interpretation until such time as it becomes applicable to the entity's operations.

It is unlikely that the interpretation will have a material impact on the entity's financial statements.

IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures

Paragraph .54 in the Standard of GRAP on Interests in Joint Ventures refers to both contributions and sales between a venturer and a joint venture as follows: ‘When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction’. In addition, paragraph 31 in the Standard of GRAP on Interests in Joint Ventures says that ‘a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest’. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities (‘JCEs’).

Contributions to a JCE are transfers of assets by venturers in exchange for an interest in the net asset in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE (‘additional consideration’).

The issues are:

- when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit;
- how additional consideration should be accounted for by the venturer; and
- how any unrealised gain or loss should be presented in the consolidated

This Interpretation of the Standards of GRAP deals with the venturer’s accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

The entity does not envisage the adoption of the interpretation until such time as it becomes applicable to the entity's operations

It is unlikely that the interpretation will have a material impact on the entity's financial statements.

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of ‘minority interest’ has been amended to ‘non-controlling interest’, and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of the amendment is for years beginning on or after 01 April 2019.

The entity does not envisage the adoption of the amendment until such time as it becomes applicable to the entity's operations.

It is unlikely that the amendment will have a material impact on the entity's financial statements.

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of the standard is for years beginning on or after 01 April 2019.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the amendment will have a material impact on the entity's financial statements.

GRAP 8 (as revised 2010): Interests in Joint Ventures

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

The effective date of the standard is for years beginning on or after 01 April 2019.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

It is unlikely that the amendment will have a material impact on the entity's financial statements.

Notes to the Financial Statements

	2020 R	2019 R

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	32 388 424	13 403 965
Short-term deposits	5 008	151 944
	32 393 432	**13 555 909**

Short-term deposits consist of:

ABSA - 1 Day call account	5 008	151 944

Short-term deposits consist of the following short-term investment with ABSA. The details and interest earned on this investment is set out below:

- ABSA 1 Day call account with varying interest rates between 0.00% and 6.70% depending on the amount invested and the change in the prime interest rate.

The municipal entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
ABSA Bank - Cheque account - 4058833582	7 339 445	5 807 147	67 092 738	12 217 477	10 081 227	74 971 033
ABSA Bank - Cheque account - 4055133721	65 118	733	12 597	65 118	733	12 597
ABSA Bank - Cheque account - 4054065339	508 858	59 655	292 339	505 129	64 395	300 339
ABSA Bank - Cheque account - 470001402	28 037 946	5 497 729	3 598 112	21 868 526	5 498 154	3 605 869
ABSA Bank - Cheque account - 4054530924	815	(19 612)	3 619	(325)	(19 551)	3 619
ABSA Bank - Cheque account - 4078209583	905 890	43 229	92 981	(2 044 416)	(664 145)	(426 626)
ABSA Bank - Cheque account - 4080522070	66 316	1 806	78 579	(399 124)	(1 526 429)	84 674
ABSA Bank - Cheque account - 4080521896	128 543	1 504	77 894	128 543	1 504	77 894
ABSA Bank - Cheque account - 9326102088	60 816	3 337	208 912	47 496	(31 923)	208 913
Total	**37 113 747**	**11 395 528**	**71 457 771**	**32 388 424**	**13 403 965**	**78 838 312**

Notes to the Financial Statements

	2020 R	2019 R

4. Consumer receivables from exchange transactions

	2020 R	2019 R
Gross balances		
Electricity	1 125 310 833	947 929 998
Less: Allowance for impairment		
Electricity	(256 759 338)	(179 084 722)
Net balance		
Electricity	868 551 495	768 845 276
Electricity		
Current (0 -30 days)	315 011 235	116 185 981
31 - 60 days	25 055 231	27 472 048
61 - 90 days	26 163 572	19 131 568
90+ days	594 016 642	624 094 919
Meter reading estimate at year end (Consumption across year end)	165 099 316	165 064 827
Discounting	(35 163)	(1 229 163)
Transferred to non-current receivables	-	(2 790 182)
	1 125 310 833	**947 929 998**

Summary of debtors by customer classification

	2020 R	2019 R
Residential and sundry		
Current (0 -30 days)	8 987 539	9 660 509
31 - 60 days	1 506 814	1 399 018
61 - 90 days	1 106 688	964 030
90+ days	132 818 348	134 001 063
	144 419 389	**146 024 620**
Business/Commercial and municipal		
Current (0 -30 days)	78 392 941	84 902 672
31 - 60 days	14 972 970	10 910 905
61 - 90 days	15 156 959	3 398 094
90+ days	131 489 674	95 077 995
	240 012 544	**194 289 666**
Government		
Current (0 -30 days)	227 630 754	21 622 799
31 - 60 days	8 575 447	15 162 124
61 - 90 days	9 899 925	14 769 443
90+ days	329 708 620	395 015 861
	575 814 746	**446 570 227**

Notes to the Financial Statements

	2020 R	2019 R

4. Consumer receivables from exchange transactions (continued)

Total

	2020 R	2019 R
Current (0 -30 days)	315 011 235	116 185 981
31 - 60 days	25 055 231	27 472 048
61 - 90 days	26 163 572	19 131 568
90+ days	594 016 642	624 094 919
Meter reading estimate at year end (Consumption across year end)	165 099 316	165 064 827
Discounting	(35 163)	(1 229 163)
Transferred to non-current receivables	-	(2 790 182)
	1 125 310 833	947 929 998
Less: Provision for debt impairment	(256 759 338)	(179 084 722)
	868 551 495	**768 845 276**

Less: Provision for debt impairment

	2020 R	2019 R
Provision for debt impairment	(256 759 338)	(179 084 722)

Reconciliation of allowance for impairment

	2020 R	2019 R
Balance at beginning of the year	(179 084 722)	(232 785 202)
Debt impairment written off against allowance	-	745 751
Reversal/(Contributions) of allowance	(77 674 616)	52 954 729
	(256 759 338)	**(179 084 722)**

Consumer receivables pledged as security

No consumer receivables were pledged as security in the current or prior financial period.

Fair value of consumer receivables

Consumer receivables are reflected net of the provision for doubtful debt and the effect of discounting. The interest rate used in discounting is the prime rate at period end adjusted for CPI applicable to the public sector.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2020, R 694 953 743 (2019: R 607 792 601) were past due but not impaired. Government debt is not considered for impairment which results in consumer debtors past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

	2020 R	2019 R
Current (0 -30 days)	305 121 665	114 633 116
31 - 60 days	17 205 924	25 945 440
61 - 90 days	14 886 159	17 580 068
90+ days	357 739 995	449 633 977
	694 953 743	**607 792 601**

	2020 R	2019 R

4. Consumer receivables from exchange transactions (continued)

Consumer debtors impaired

As of 30 June 2020, consumer debtors of R 256 759 338 (2019: R 179 084 722) were impaired and provided for.

The ageing of these loans is as follows:

	2020 R	2019 R
Current (0 -30 days)	9 565 138	1 552 865
31 - 60 days	7 569 458	1 526 608
61 - 90 days	10 819 686	1 551 500
90+ days	228 805 056	174 453 749
	256 759 338	**179 084 722**

The municipal entity enters into settlement agreements with debtors whose accounts are long overdue and these agreements carry no interest. The balance that is settled over a period longer than 12 months is deemed to constitute a financing arrangement and is accounted for at the net present value of the future cash flows. The accounts which are due for more than 12 months are disclosed as non-current receivables.

The creation and release of provision for impaired receivables have been included in expenses in the statement of financial performance. Unwinding of discount is included in the notes to the statement of financial performance. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of consumer receivable mentioned above. The municipal entity does not hold any collateral as security.

Fair value of the consumer debtors approximates the carrying value at year end.

5. Inventories

	2020 R	2019 R
Raw materials, components	110 121 195	88 792 053
	110 121 195	88 792 053
NRV adjustment	(2 345 148)	(1 424 116)
	107 776 047	**87 367 937**

An assessment of the net realisable value against cost was performed and inventory was written down.

Inventories that were recognised as stores issues during the year amounted to R55 269 714 (2019: R51 249 457), of which a portion was capitalised.

Inventory pledged as security

No inventory was pledged as security.

Notes to the Financial Statements

	2020 R	2019 R

6. Other financial assets

At amortised cost		
Kopanong Local Municipality	729 576	909 504
The capital funding provided to Kopanong Local Municipality is repayable in monthly installments based on the estimated useful life of the capital asset. The capital advances bears interest at 10%		
Mohokare Local Municipality	394 835	490 377
The capital funding provided to Mohokare Local Municipality is repayable in monthly installments based on the estimated useful life of the capital asset. The capital advances bears interest at 10%		
Consumer debtors - Arrangements	-	2 790 182
Consumer debtors with arrangements which stretches over a period longer than 12 months.		
	1 124 411	**4 190 063**
Non-current assets		
Loans and receivables	848 941	3 914 593
Current assets		
Loans and receivables	275 470	275 470

Financial assets at fair value

Renegotiated terms

None of the financial assets that are fully performing have been renegotiated in the last year.

Fair value of the other financial assets approximates the carrying value at year end.

Financial assets pledged as security

None of the financial assets were pledged as security for any financial liabilities and no securities are held for any of the financial assets.

7. Other receivables from exchange transactions

Deposits	1 032 338	1 006 367
Kopanong Local Municipality	14 256 305	15 540 615
Mohokare Local Municipality	41 029 182	36 173 210
Other receivables	1 810 282	3 982 161
DOE Grant - Southern Free State Towns	4 737 728	4 737 728
Receipt reversal	734 887	1 043 416
Vendors	15 015 291	5 864 163
	78 616 013	**68 347 660**

Other receivables pledged as security

No other receivables from exchange transactions were pledged as security for overdraft facilities of the municipal entity.

7. Other receivables from exchange transactions (continued)

Fair value of other receivables

The creation and release of provision for impaired receivables have been included in expenses in surplus or deficit.

Unwinding of discount is included in interest received in surplus or deficit. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipal entity does not hold any collateral as security.

Fair value of other receivables approximates the carrying value at year end.

Notes to the Financial Statements

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8. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	9 331 312	-	9 331 312	9 859 500	-	9 859 500
Buildings	105 948 517	(12 079 848)	93 868 669	87 573 926	(9 342 043)	78 231 883
Motor vehicles	96 706 204	(76 727 150)	19 979 054	97 041 966	(71 019 612)	26 022 354
Office equipment	69 287 047	(40 370 667)	28 916 380	65 941 743	(34 157 517)	31 784 226
Infrastructure	7 137 564 718	(863 318 505)	6 274 246 213	4 440 974 211	(735 484 968)	3 705 489 243
Leased assets	969 283	(969 283)	-	969 283	(899 892)	69 391
Total	**7 419 807 081**	**(993 465 453)**	**6 426 341 628**	**4 702 360 629**	**(850 904 032)**	**3 851 456 597**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Capital work in progress	Revaluations	Depreciation	Impairment loss	Total
Land	9 859 500	-	-	-	(528 188)	-	-	9 331 312
Buildings	78 231 883	1 728 503	-	-	16 646 088	(2 737 805)	-	93 868 669
Infrastructure	3 705 489 243	97 067 017	(9 005 685)	(10 817 923)	2 621 110 854	(125 239 089)	(4 358 204)	6 274 246 213
Motor vehicles	26 022 354	-	(75 489)	-	-	(5 965 922)	(1 889)	19 979 054
Office equipment	31 784 226	5 925 987	(566 123)	-	-	(8 006 878)	(220 832)	28 916 380
Leased Assets	69 391	-	-	-	-	(69 391)	-	-
	3 851 456 597	**104 721 507**	**(9 647 297)**	**(10 817 923)**	**2 637 228 754**	**(142 019 085)**	**(4 580 925)**	**6 426 341 628**

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Capital work in progress	Revaluations	Depreciation	Impairment loss	Total
Land	9 859 500	-	-	-	-	-	-	9 859 500
Buildings	79 489 687	1 270 825	(26 038)	-	-	(2 502 591)	-	78 231 883
Infrastructure	3 664 230 291	174 326 829	(118 239)	(24 944 662)	(100 828)	(107 904 148)	-	3 705 489 243
Motor vehicles	30 823 382	1 622 256	(537 688)	-	-	(5 881 994)	(3 602)	26 022 354
Office equipment	24 950 474	14 995 837	(976 734)	-	-	(7 183 456)	(1 895)	31 784 226
Leased Assets	189 304	-	-	-	-	(119 913)	-	69 391
	3 809 542 638	**192 215 747**	**(1 658 699)**	**(24 944 662)**	**(100 828)**	**(123 592 102)**	**(5 497)**	**3 851 456 597**

Property, plant and equipment pledged as security

No property, plant and equipment are pledged as security

Notes to the Financial Statements

	2020 R	2019 R

8. Property, plant and equipment (continued)

Revaluations

The effective date of the revaluations for land and buildings was year end 30 June 2020. Revaluations for land and buildings were performed by the independent valuers, Mr. Theunis Hendrik Myburgh & Mr. Raymond Taylor, professional valuers in terms of the Valuers' Act (Act 23 of 1982) of Equity Valuers. Equity Valuers are not connected to the municipal entity.

The effective date of the revaluations for the infrastructure assets was year end 30 June 2020. Revaluations for infrastructure assets was performed by the independent valuers, Mr Marius Koch (B Eng Civil, BSC ITM (Information Technology) and Mrs. Anré Swart (Pr.Eng, GCC, MBA), Engineering Council of South Africa (ECSA) (Reg.no 20110016) from EMS Solutions (Pty) Ltd. EMS Solutions (Pty) Ltd is not connected to the municipal entity.

The valuations were performed using the depreciated replacement costs method.

Unit rates are obtained for each asset through quotation. Unit rates are adjusted with the following factors:

- Preliminary & General (P & G’s)

- Contingencies

- Engineering fees

- Location factor

The depreciated replacement costs are calculated by taking into account the estimated useful life and the condition of the asset.

Depreciated replacement costs = (Current Replacement Cost – Residual Value) x (Remaining Useful Life / Estimated Useful life) + Residual Value.

Restrictions on title

	2020 R	2019 R
Carrying value of assets not yet legally transferred from Mangaung Metropolitan Municipality to Centlec (SOC) Ltd in accordance with the Sale of Business agreement:		
The intention of the sale of business agreement was to sell the land and buildings to the municipal entity for operational usage. The municipal entity has been using the land and buildings for operational usage since inception, 1 July 2005, but as at year end 30 June 2020 the land and buildings have not yet been legally transferred from Mangaung Metropolitan Municipality to the municipal entity.	94 832 285	77 723 173
	94 832 285	**77 723 173**

Notes to the Financial Statements

	2020 R	2019 R

8. Property, plant and equipment (continued)

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment		
Buildings	8 442 664	8 442 664
Infrastructure	173 423 348	184 241 270
	181 866 012	**192 683 934**

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Buildings	8 442 664	8 442 664
The project to convert the old power station into offices was halted due to financial constraints, there was no indication of impairment at year end and therefore the work in progress value was not adjusted.		
Botshabelo substation and 132kv line project	98 327 336	98 327 336
The commissioning of the projects have been delayed as Eskom needs to do the necessary connections. This should take place in early 2020/2021.		
	106 770 000	**106 770 000**

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Total
Opening balance	184 241 270	184 241 270
Additions/capital expenditure	88 344 038	88 469 737
Transferred to completed items	(97 067 018)	(97 219 901)
Transferred to operating expenditure	(2 094 944)	(2 094 944)
	173 423 346	**173 396 162**

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Total
Opening balance	209 185 932	209 185 932
Additions/capital expenditure	62 366 187	62 366 187
Transferred to completed items	(87 310 849)	(87 310 849)
	184 241 270	**184 241 270**

	2020 R	2019 R

8. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	34 294 101	52 256 695
General expenses	13 361 050	11 536 471
	47 655 151	**63 793 166**

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 municipal entity.

Notes to the Financial Statements

Figures in Rand

9. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and licenses	55 609 005	(37 973 648)	17 635 357	41 555 187	(29 713 168)	11 842 019
Servitudes	69 406 369	8 836 197	78 242 566	85 020 874	(15 800 785)	69 220 089
Total	**125 015 374**	**(29 137 451)**	**95 877 923**	**126 576 061**	**(45 513 953)**	**81 062 108**

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Work in progress	Amortisation	Impairment loss	Impairment reversal	Total
Computer software and licenses	11 842 019	14 053 819	-	(8 211 692)	(48 789)	-	17 635 357
Servitudes	69 220 089	-	186 280	-	-	8 836 197	78 242 566
	81 062 108	**14 053 819**	**186 280**	**(8 211 692)**	**(48 789)**	**8 836 197**	**95 877 923**

Notes to the Financial Statements

Figures in Rand

9. Intangible assets (continued)

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Work in progress	Disposals	Amortisation	Total
Computer software and licenses	15 874 408	10 952 902	-	(3 531 164)	(11 454 127)	11 842 019
Servitudes	69 144 931	-	75 158	-	-	69 220 089
	85 019 339	**10 952 902**	**75 158**	**(3 531 164)**	**(11 454 127)**	**81 062 108**

Pledged as security

No intangible assets are 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 municipal entity.

Intangible assets in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of Intangible assets

Servitudes	186 280	75 158

Notes to the Financial Statements

	2020 R	2019 R

10. Deferred tax

Deferred tax liability

Opening balance	(667 591 871)	(575 253 899)
Property, plant and equipment	(745 017 301)	(92 326 529)
Taxable temporary differences	(48 815)	(11 443)
Total deferred tax liability	**(1 412 657 987)**	**(667 591 871)**

Deferred tax asset

Opening balance	454 432 719	372 919 868
Taxable temporary differences	19 370 003	(9 006 334)
Tax losses available for set off against future taxable income	750 702 036	90 519 185
Total deferred tax asset	**1 224 504 758**	**454 432 719**

Deferred tax liability	(1 412 657 987)	(667 591 871)
Deferred tax asset	1 224 504 758	454 432 719
Total net deferred tax liability	**(188 153 229)**	**(213 159 152)**

Reconciliation of deferred tax asset \ (liability)

At beginning of year	(213 159 152)	(202 334 031)
Depreciable assets	(745 017 301)	(92 326 529)
Finance lease	-	824
Provisions	19 321 188	(9 018 601)
Assessed loss	750 702 036	90 519 185
	(188 153 229)	**(213 159 152)**

Recognition of deferred tax asset

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

- the utilisation of the deferred tax asset is dependent on future taxable surpluses in excess of the surpluses arising from the reversal of existing taxable temporary differences; and
- the entity has suffered a deficit in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

The deferred tax asset arose as a result of the municipal entity not having been subject to income tax in the past. However in the 2014/15 financial year the municipal entity had to account for income tax which resulted in the wear and tear allowances being in excess of the available surplus. The municipal entity has the ability to generate profit in the foreseeable future against which temporary differences will be utilised.

Deferred tax assumptions

As at 30 June 2016 no guidance was received from SARS on the transition from a tax exempt entity to a taxable entity. Due to this, uncertainties in the calculation of the municipal entity's taxation exist and will continue to exist going forward until a pronunciation is made by SARS on the municipal entity's tax calculation. In the absence of a pronunciation from SARS and the fact that the municipal entity is no longer tax exempt, the municipal entity had to make certain key assumptions relating to income- and deferred tax to be able to account for tax. These assumptions are set out as follows:

Notes to the Financial Statements

	2020	2019
	R	R

10. Deferred tax (continued)

Infrastructure assets

The base cost for the electrical infrastructure assets of the municipal entity was determined by using the audited infrastructure fixed asset register. The tax exemption for the municipal entity was no longer applicable as at the 1 July 2014, on this date the municipal entity embarked on an exercise to determine the base cost for each of the Infrastructure assets. The closing balance for the 2013/2014 financial year was deemed as the most accurate value to be used as the base cost and carrying values for tax purposes moving forward. Up until 1 July 2014 management had never claimed any wear & tear on infrastructure assets. The base cost was therefore the deemed cost as at 1 July 2014.

Infrastructure assets of the municipal entity are all carried on the revaluation model as per General Recognised Accounting Standards 17 - Property plant and equipment. There is no General Recognised Accounting Standards standard applicable to taxation, therefore the municipal entity referred to the international accounting standards (IAS) for further guidance, which is IAS 12: Income taxation. Through inspection of the income tax act and the practice notes it was noted that there was no clear guidance regarding the write off periods for electrical infrastructure assets. Due to this Section 12D of the income tax action was deemed as the best alternative to use to determine the write off periods for most of the electrical infrastructure assets. Section 12D was applied to the following electrical infrastructure assets: High Voltage conductors, Medium Voltage conductors, Low Voltage conductors and the Streetlights. All other categories of infrastructure assets could operate independent of transmission lines and Section 12D would not be applicable to these assets.

As per the Income Tax Act, 1962 (Act 58 of 1962) the kind of information that could be useful in determining the expected useful life of an asset/write off period include:

- Independent engineering information;

- The taxpayer’s own past experience with similar assets;

Based on the above and due to insufficient guidance in the Income Tax Act, 1962 (Act 58 of 1962) the option of best professional judgment in determining an accurate write off period for the Infrastructure assets was used as follows:

- For all the distribution lines and cables a 5% write off period was used

- For all other infrastructure assets a 5 year write off period was adopted as the assets have been in operation for some time and as per the engineering information they cannot fall within Section 12D of the Income Tax Act, 1962 (Act 58 of 1962) .

Section 12 of the Income Tax Act, 1962 (Act 58 of 1962) was applied therefore no apportionment of the wear and tear was done. The wear and tear of assets is the amount that the South African Receiver of Revenue considers an appropriate write off timeframe for each asset. The wear and tear was calculated as follows:

- The depreciated replacement cost was taken per asset and any addition for the year was added and this value was multiplied by 20%

- When an asset is disposed of during the financial year wear and tear is still calculated for that asset and an inspection for a possible recoupment is done.

Non-Infrastructure assets

All assets other than infrastructure assets were written off by making use of Practice note 19.

Debt impairment

The provision for debt impairment is limited as a tax deduction to the extent that the originating revenue was taxable. Since the municipal entity was tax exempt for a period the revenue recognised and subsequently impaired during this period could not fully be included as a tax deduction. Due to this only the movement in the debt impairment for the year when the municipal entity first became taxable was used in calculating the tax.

Notes to the Financial Statements

	2020 R	2019 R

11. Consumer deposits

	2020	2019
Electricity	128 776 174	115 053 108

Guarantees in lieu of vendor deposits amounted to R 2 153 891 (2019: R 2 103 891).

Guarantees un lieu of consumer deposits amounted to R 39 164 721 (2019: R 37 859 074).

Fair value approximates the carrying value of the vendor deposits.

12. Long service awards

Reconciliation of long service awards - 2020

	Opening Balance	Actuarial (gains)/losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long service award	20 282 000	(2 095 649)	(1 548 351)	2 392 000	1 969 000	20 999 000

Reconciliation of long service awards - 2019

	Opening Balance	Actuarial (gains)/losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long service award	19 812 000	(2 398 178)	(1 343 822)	2 232 000	1 980 000	20 282 000

	2020	2019
Non-current liabilities	17 728 000	18 713 000
Current liabilities	3 271 000	1 569 000
Present value of long service awards obligation	**20 999 000**	**20 282 000**

The long service awards liability arises from the municipal entity being a party to the Collective Agreement on Conditions of Service for the Free State Division of SALGBC . This agreement is effective from 1 July 2010.

The long service awards plan is a defined benefit plan. At year end 648 (2019 - 664) employees were eligible for long service bonuses.

The current service cost for the ensuing year is estimated to be R 2 392 000 (2019 - R 2 232 000) whereas the interest-cost for the next year is estimated to be R 1 969 000 (2019 - R 1 980 000).

As at the valuation date, the long service award liability of the organisation was unfunded, i.e. no dedicated assets have been set aside to meet this liability. Therefore no assets were valued as part of the valuation.

Valuation Method

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date

	2020 R	2019 R

12. Long service awards (continued)

The key assumptions utilised by management in determining the long service awards liability are listed below:

Discount rate	Yield Curve	Yield Curve
Normal salary increase rate	CPI + 1%	CPI + 1%
Net effective discount rate	Yield Curve Based	Yield Curve Based
Mortality	SA 85-90 mortality tables	SA 85-90 mortality tables
Normal retirement age	65	65
Average retirement age	63	63
Consumer price inflation (CPI)	Difference between nominal and real yield curve	Difference between nominal and real yield curve

Total expense recognised in the statement of financial performance under the line item employee related costs:

Current service cost	2 392 000	2 232 000
Interest cost	1 969 000	1 980 000
Actuarial (gains) / losses	(2 095 649)	(2 398 178)
	2 265 351	**1 813 822**

Present value of long service award obligation:

Present value of long service award as at 30 June 2020	(20 999 000)
Present value of long service award as at 30 June 2019	(20 282 000)
Present value of long service award as at 30 June 2018	(19 812 000)
Present value of long service award as at 30 June 2017	(15 453 000)
Present value of long service award as at 30 June 2016	(6 889 000)
Present value of long service award as at 30 June 2015	(3 871 000)
Present value of long service award as at 30 June 2014	(3 029 000)
Present value of long service award as at 30 June 2013	(2 915 000)
Present value of long service award as at 30 June 2012	(695 000)

Financial variables

The two most important financial variables used in our valuation are the discount rate and salary inflation/increase.

Discount rate:

GRAP 25 defines the determination of the discount rate assumption to be used as follows:

“The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.”

In accordance with the above, the nominal and real zero curves as at 29 June 2020 supplied by the JSE was used to determine the discounted rates and CPI assumptions at each relevant time period.

Notes to the Financial Statements

	2020 R	2019 R

12. Long service awards (continued)

The net effective discount rate:.

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/increase rate:

The underlying future rate of consumer price index inflation (CPI inflation) was derived 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 2020 of 6.25%. The next salary increase was assumed to take place on 01 July 2021.

Interest cost:

The interest cost represents the accrual of interest on the accrued defined benefit obligation, allowing for benefit payments, over the corresponding year. This arises because the long service benefits are one year closer to payment.

Current service cost:

The current service cost reflects the additional liability that is expected to accrue in respect of in members' service over the corresponding year.

Actuarial gain:

The main reasons for the actuarial gain can be attributed to the following factors:

1. Changes in economic variables - We used the nominal and real zero curves as at 30 June 2020 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. As a result, the interest rates, bond yields and inflation figures changed. This resulted in a decrease in liability of around R 1,578,000.

2. Membership and other experience changes - Over the past financial year, membership and other demographic changes was different to what was assumed in the previous valuation. This, along with some other smaller factors, resulted in a decrease in liability of around R517,649.

Sensitivity analysis:

In order to illustrate the sensitivity of the results to changes in certain key variables, the liabilities have been recalculated using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates;
- 1% increase/decrease in the normal salary cost inflation

Withdrawal rate:

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the municipal entity. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the municipal entity in the form of benefits will reduce and vice versa. The effect of higher and lower withdrawal rates have been illustrated by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

Notes to the Financial Statements

	2020	2019
	R	R

12. Long service awards (continued)

Withdrawal rate	-20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total Accrued Liability	22 100 000	20 999 000	20 001 000
Current Service Cost	2 414 000	2 255 000	2 114 000
Interest Cost	2 679 000	2 534 000	2 404 000
	27 193 000	**25 788 000**	**24 519 000**

Normal salary inflation:

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees. The effect of a 1% p.a. change in the normal salary inflation assumption was tested. The effect is as follows:

Normal salary inflation	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total Accrued Liability	19 765 000	20 999 000	22 349 000
Current Service Cost	2 110 000	2 255 000	2 415 000
Interest Cost	2 374 000	2 534 000	2 709 000
	24 249 000	**25 788 000**	**27 473 000**

13. Other financial liabilities

At amortised cost	2020 R	2019 R
Capital Advances Mangaung Metropolitan Municipality The capital funding provided to the municipal entity is repayable in monthly installments based on the estimated useful life of the capital asset as initially determined by Mangaung Metropolitan Municipality. The capital funding provided to the municipal entity will bear interest annually at the interest rate equal to the prime lending rate on the first day of each financial year and shall thereafter be fixed for the entire financial year. The prime interest rate at 1 July 2019 was 10.25% (2018/19: 10%)	67 700 656	74 397 665
Intercompany loan The repayment terms of the intercompany loan was amended to be payable at the end of June 2022. The intercompany loan bears interest annually at the interest rate equal to the prime lending rate on the first day of each financial year calculated on the average of the opening balance and closing balance of the loan. The prime interest rate at 1 July 2019 was 10.25% (2018/19: 10%)	850 541 758	507 498 287
	918 242 414	**581 895 952**
Total other financial liabilities	**918 242 414**	**581 895 952**

There were no defaults on the financial liability during the reporting period.

Non-current liabilities		
At amortised cost	911 545 405	575 198 943

Current liabilities		
At amortised cost	6 697 009	6 697 009

Notes to the Financial Statements

	2020 R	2019 R

14. Payables from exchange transactions

Accrued bonus	8 439 819	8 047 915
Accrued leave pay	36 024 307	31 374 286
Deferred revenue	18 201 411	13 037 709
Electricity connections	13 607 092	12 781 371
Mantsopa Local Municipality	2 659 168	2 665 081
Operating expense accrual	15 271 652	26 751 544
Retention creditors	818 538	1 291 656
Salary control	3 551 908	5 947 900
Trade payables	390 358 933	319 785 113
Unallocated consumer and vendor payments received in advance	56 563 726	64 671 953
	545 496 554	**486 354 528**

15. VAT liability

VAT liability	135 341 840	100 994 946

16. Loans to (from) shareholders

Mangaung Metropolitan Municipality	(803 609 369)	(1 071 479 158)

The loans are unsecured and bears interest at the lower of 15% of the revenue (sale of electricity and pre-paid electricity) of the municipal entity for the previous financial year or the interest rate on the loan for the financial year ended 30 June 2011 adjusted annually for the CPI applicable to the Public Finance Sector.

Installments of R267 867 789 are payable every five (5) years with the initial payment on 30 June 2015.

There were no defaults on the shareholders loan during the reporting period.

Non-current liabilities	(803 609 369)	(803 609 369)
Current liabilities	-	(267 869 789)
	(803 609 369)	**(1 071 479 158)**

17. Share capital / contributed capital

Authorised

1000 Ordinary shares of par value of R1	1 000	1 000

Issued

100 Ordinary shares	100	100

18. Revaluation reserve

Revaluation surplus beginning of period	1 460 029 577	1 460 130 406
Movements in the reserve for the year	2 637 228 753	(100 829)
	4 097 258 330	**1 460 029 577**

	2020 R	2019 R

19. Other NDR

In accordance with the terms of the NERSA (National Energy Regulator of South Africa) agreement it was agreed that R60 000 000 is to be held as a non-distributable reserve.

	2020 R	2019 R
Non-distributable reserve beginning of period	60 000 000	60 000 000
Movements in the reserve for the year	-	-
Closing balance	**60 000 000**	**60 000 000**

20. Service charges

	2020 R	2019 R
Free services recoverable	17 762 839	15 703 133
Sale of electricity	1 528 629 017	1 462 886 317
Sale of pre-paid electricity	957 330 446	858 427 169
	2 503 722 302	**2 337 016 619**

21. Other income

	2020 R	2019 R
Advertisement	46 750	-
Credit control fees	5 463 290	8 925 800
Fines & reconnection income	2 777 793	5 060 191
Insurance claim recovery	415 142	1 358 316
New connections	9 949 952	20 415 044
Sale of clearance certificates	614 189	588 341
Sale of tender documents	12 026	21 774
Street lighting	72 070 304	61 661 787
Training income	5 904	415 547
	91 355 350	**98 446 800**

22. Interest Income

Interest revenue

	2020 R	2019 R
Interest on ABSA current account	2 354 213	3 430 317
Interest on loans and other receivables from exchange transactions	139 988	167 535
Interest on consumer receivables from exchange transactions	25 239 164	25 446 813
Interest on bank investments	584 064	837 008
Interest received - Eskom deposit	25 970	68 864
	28 343 399	**29 950 537**

Short-term deposits consists of an ABSA 1 Day call account with varying interest rates between 0.00% and 6.45% depending on the amount invested and the change in the prime interest rate

	2020 R	2019 R

23. Government grants & subsidies

Capital grants

National electrification programme grant	-	13 434 783
Urban settlements development grant	22 608 696	-
	22 608 696	**13 434 783**

National Electrification Programme

Current-year receipts	-	13 434 783
Conditions met - transferred to revenue	-	(13 434 783)
	-	**-**

The purpose of the grant is to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure.

The conditions were met and the grant was transferred to revenue.

Urban Settlements Development Grant

Current-year receipts	22 608 696	-
Conditions met - transferred to revenue	(22 608 696)	-
	-	-

The purpose of the grant is to upgrade informal settlements, either by creating formal housing or by upgrading services to informal settlements.

The conditions were met and the grant was transferred to revenue.

24. Revenue

Service charges	2 503 722 302	2 337 016 619
Agency services	5 566 565	8 195 007
Inventories reversal	1 787 308	1 112 666
Other income	91 355 350	98 446 800
Interest received	28 343 399	29 950 537
Government grants & subsidies	22 608 696	13 434 783
Public contributions & donations	6 183 336	1 497 768
	2 659 566 956	**2 489 654 180**

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

Service charges	2 503 722 302	2 337 016 619
Interest income	5 566 565	8 195 007
Other income	91 355 350	98 446 800
Interest income	28 343 399	29 950 537
	2 628 987 616	**2 473 608 963**

	2020 R	2019 R

24. Revenue (continued)

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

Transfer revenue		
Government grants & subsidies	22 608 696	13 434 783
Public contributions & donations	6 183 336	1 497 768
	28 792 032	**14 932 551**

25. Employee related costs

Basic salary and wages	237 750 941	217 967 767
Bargaining council	76 158	73 841
Housing benefits and allowances	1 345 315	1 129 334
Leave pay provision charge	4 650 014	9 594 396
Long-service awards	2 265 351	1 813 822
Medical aid - company contributions	21 186 349	18 558 136
Overtime payments	42 065 447	41 508 125
Pension and provident fund contributions	35 942 279	33 108 634
Travel, motor car, accommodation, subsistence and other allowances	24 662 575	22 905 895
UIF	1 219 377	1 240 005
	371 163 806	**347 899 955**

Remuneration of Chief Executive Officer - Mr. AN Mgoqi

Annual remuneration	2 044 716	2 046 767
Travel, motor car, accommodation, subsistence and other allowances	24 294	24 160
Contributions to UIF, medical and pension funds	65 701	65 696
	2 134 711	**2 136 623**

Remuneration of Chief Financial Officer - Mr. MM Matsimela

Annual remuneration	1 430 637	666 813
Travel, motor car, accommodation, subsistence and other allowances	99 566	49 200
Contributions to UIF, medical and pension funds	16 371	8 021
Acting allowance	-	1 752
	1 546 574	**725 786**

During the 2017 financial year the board decided to suspend the then Chief Financial Officer, Mr. TJ Ramulondi. Mr. MM Matsimela was appointed as the Acting Chief Financial Officer and was subsequently appointed as the permanent Chief Financial Officer during January 2019.

	2020 R	2019 R

25. Employee related costs (continued)

Remuneration of Executive Manager: Compliance and Performance - Me. NA Leteno

Annual remuneration	963 613	495 082
Travel, motor car, accommodation, subsistence and other allowances	254 400	87 200
Contributions to UIF, medical and pension funds	13 061	6 608
Acting allowance	-	83 192
	1 231 074	**672 082**

Me. PN Mbobo was appointed as Acting Executive Manager: Compliance and Performance from December 2017 until December 2018

During January 2019 Me. NA Leteno was appointed as the Executive Manager: Compliance and Performance.

Remuneration of Company Secretary - Mr. T Malgas

Annual remuneration	1 311 956	206 591
Travel, motor car, accommodation, subsistence and other allowances	143 121	2 400
Contributions to UIF, medical and pension funds	33 241	2 405
	1 488 318	**211 396**

The municipal entity used the services of Phatshoane Henney Inc for company secretarial services until May 2019 when Mr. T Malgas was appointed as the new Company Secretary.

Remuneration of Executive Manager: Retail - Mr. SS Mokoena

Annual remuneration	1 002 613	531 082
Travel, motor car, accommodation, subsistence and other allowances	215 400	51 200
Contributions to UIF, medical and pension funds	13 139	6 680
Acting allowance	-	39 485
	1 231 152	**628 447**

Me. MJ Lenka was appointed as Acting Executive Manager: Retail until December 2018.

During January 2019 Mr. SS Mokoena was appointed as the the Executive Manager: Retail.

Remuneration of Executive Manager: Wires - Mr. MS Sekoboto

Annual remuneration	1 297 263	617 170
Travel, motor car, accommodation, subsistence and other allowances	132 294	66 000
Contributions to UIF, medical and pension funds	15 319	7 657
Acting allowance	-	35 694
	1 444 876	**726 521**

Mr. XG Faku was appointed as the acting Executive Manager: Wires from April 2018 to December 2018. During January 2019 Mr. MS Sekoboto was appointed as the Executive Manager: Wires.

	2020 R	2019 R

25. Employee related costs (continued)

Remuneration of Executive Manager: Human Resources - Me. S Molefe

Annual remuneration	1 359 973	1 294 732
Travel, motor car, accommodation, subsistence and other allowances	197 251	194 400
Contributions to UIF, medical and pension funds	16 423	16 421
	1 573 647	**1 505 553**

Remuneration of non-executive directors

Annual remuneration	597 228	406 169
Contributions to UIF, medical and pension funds	11 300	7 801
	608 528	**413 970**

Refer to note 42 for details of the remuneration per person.

26. Depreciation and amortisation

Property, plant and equipment	142 019 086	123 592 102
Intangible assets	8 211 692	11 454 127
	150 230 778	**135 046 229**

27. Impairment loss / (reversal of impairments)

Impairments		
Property, plant and equipment The recoverable amount of the asset was assessed at the end of the financial year and it was found to be less than the carrying amount of the asset and an impairment loss was raised.	4 629 715	5 497
Inventories An assessment of the net realisable value against cost was performed and inventory was written down.	921 032	746 694
	5 550 747	**752 191**
Reversal of impairments		
Intangible assets - Servitudes The recoverable amount of the servitudes was assessed at the end of the financial year by comparing the servitudes value against the updated municipal property valuation roll. The nett recoverable amount was found to be more than the carrying amount of the asset and an impairment reversal was raised.	(8 836 197)	-
Total impairment losses (recognised) reversed	**(3 285 450)**	**752 191**

	2020 R	2019 R

28. Finance costs

	2020 R	2019 R
Capital advances Mangaung Metropolitan Municipality	7 625 761	8 109 467
Finance leases	-	4 354
Interest on intercompany loan	62 582 404	50 934 642
Shareholders loan	171 577 388	164 965 040
Trade and other payables	17 443 293	9 336 073
	259 228 846	**233 349 576**

29. (Reversal of) / Contributions to debt impairment provision

	2020 R	2019 R
(Reversal of) / Contributions to debt impairment provision	77 674 615	(52 954 729)

30. Bulk purchases

	2020 R	2019 R
Electricity - Eskom	1 692 794 873	1 519 656 103

Notes to the Financial Statements

31. General expenses

	2020 R	2019 R
Advertising & marketing	738 350	1 913 679
Auditors remuneration	5 981 519	6 371 263
Bank charges	1 463 439	1 703 166
Bursaries	247 273	141 553
Cleaning	839 442	815 138
Commission paid	53 807 642	102 812 607
Conferences and delegations	284 852	258 257
Consulting and professional fees	22 856 704	13 974 299
Contractors fees	536 988	2 985 548
Credit control fees	15 186	166 003
Entertainment	120 527	173 807
Fuel and oil	7 642 862	7 987 521
Fumigation	2 659 860	-
Insurance	4 665 783	4 677 481
Internal audit fee	1 705 890	5 370 388
Lease rentals on operating lease	690 369	630 677
Legal costs	1 423 537	2 736 339
Legal settlements	10 000	610 000
License fees	439 906	3 174 891
Meter reading	5 447 444	7 760 951
Other expenses	101 982	148 406
Postage and courier	-	1 848
Printing and stationery	2 530 874	2 584 881
Protective clothing	1 461 269	1 295 224
Rented office buildings utilities - Water	179 133	108 883
Repairs and maintenance	47 655 151	63 793 166
Security services	869 960	5 483 762
Skills development levy	3 046 173	2 843 634
Staff welfare	11 704	1 199
Stores and materials	771 825	815 945
Subscriptions and membership fees	70 532	125 800
Telephone and fax	3 734 525	9 310 527
Training	2 724 342	1 218 985
Travelling	741 106	561 392
Workman's compensation	4 415 049	4 175 348
	179 891 198	**256 732 568**

Notes to the Financial Statements

	2020 R	2019 R

32. Taxation

Major components of the tax (income) expense

	2020 R	2019 R
Current		
Local income tax - current period	-	-
Deferred		
Originating and reversing temporary differences	725 696 113	101 344 306
Assessed loss used	396 476 621	305 957 436
Assessed loss raised	(1 147 178 657)	(396 476 621)
	(25 005 923)	**10 825 121**

Reconciliation of the tax expense

Reconciliation between accounting surplus and tax expense.

	2020 R	2019 R
Accounting (deficit) surplus	(77 779 009)	45 858 673
Tax at the applicable tax rate of 28% (2019: 28%)	(21 778 123)	12 840 428
Tax effect of adjustments on taxable income		
Non-taxable income	(6 330 435)	(3 761 739)
Non-deductible expenses	3 102 635	1 746 432
	(25 005 923)	**10 825 121**

33. Net cash flows from operating activities

	2020 R	2019 R
(Deficit) surplus	(52 773 086)	35 033 552
Adjustments for:		
Depreciation and amortisation	150 230 778	135 046 229
(Gain)/Loss on sale of assets and liabilities	9 647 299	3 313 614
Finance costs - Finance leases	-	4 354
Impairment	(3 285 450)	752 191
Debt impairment	77 674 615	(52 954 729)
Movements in long service awards	717 000	470 000
Annual charge for deferred tax	(25 005 923)	10 825 121
Changes in working capital:		
Inventories	(21 329 142)	14 099 711
Other receivables from exchange transactions	(10 268 353)	(547 756)
Consumer receivables from exchange transactions	(177 380 834)	(129 448 528)
Payables from exchange transactions	59 142 026	70 538 994
VAT receivable / payable	34 346 894	28 329 560
Consumer deposits	13 723 066	582 052
	55 438 890	**116 044 365**

34. Auditors' remuneration

	2020 R	2019 R
Audit fees	5 981 519	6 371 263

Notes to the Financial Statements

	2020 R	2019 R
35. Commitments		
Authorised capital expenditure		
Approved and contracted for		
• Property, plant and equipment- infrastructure	36 842 421	44 781 644
Total capital commitments		
Approved and contracted for	36 842 421	44 781 644
This expenditure will be financed from		
• Government grants	-	13 434 783
• Own resources	36 842 421	31 346 861
	36 842 421	**44 781 644**
Authorised operational expenditure		
Approved and contracted for		
• Contracted services	12 754 413	24 816 953
Total operational commitments		
Approved and contracted for	12 754 413	24 816 953
Total commitments		
Total commitments		
Authorised capital expenditure	36 842 421	44 781 644
Authorised operational expenditure	12 754 413	24 816 953
	49 596 834	**69 598 597**

This committed expenditure relates to Infrastructure and operational expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc. All commitments include VAT.

Operating leases - as lessee (expense)

	2020 R	2019 R
Minimum lease payments due		
- within one year	759 406	690 369

The municipal entity leases a building situated in Botshabelo from Free State Development Corporation (FDC) for an indefinite period which can be terminated by way of a 3 month cancellation clause. Management agreed to rent from FDC for the next financial year at the end of which management will re-assess the likelihood of extending the lease further. The lease rental is escalated annually on 1 December by 10%.

	2020 R	2019 R

36. Contingencies

The municipal entity is being sued for the following pending claims. All the claims are being contested based on legal advice. The certainty and the timing of the outflow of these liabilities are uncertain. The possibility for reimbursements relating to these liabilities are uncertain.

Contingent liabilities

Litigations of Centlec (SOC) Ltd vs RR Burger - Litigation against Centlec (SOC) Ltd relating to fines levied on tampering of electricity.	50 000	50 000
Litigations of Centlec (SOC) Ltd vs RPS Engineering - Litigation against Centlec (SOC) Ltd relating to payments.	7 000 000	7 000 000
Litigations of Centlec (SOC) Ltd vs Jimmy Roos School and one other - Litigation relating to damages caused by fire.	1 300 000	-
Litigation of Centlec (SOC) Ltd vs Van Niekerk - Litigation relating to damages suffered due to Centlec employees negligence.	-	200 000
Litigations of Centlec (SOC) Ltd vs Pudumo - Litigation relating to repayment of an amount paid by the plaintiff in respect of a quotation for tampering	-	50 000
Litigations of Centlec (SOC) Ltd vs Makola - Litigation relating to repayment of an amount paid by the plaintiff in respect of a quotation for tampering	50 000	50 000
Litigations of Centlec (SOC) Ltd vs Vuyani Security Services - Litigation against Centlec (SOC) Ltd contesting the service provider contract termination by Centlec (SOC) Ltd due to alleged non-service delivery by Vuyani Security Services.	-	750 000
L Masepole and 3 others vs Centlec (SOC) Ltd. Litigation relating to declaring the revocation of their promotion unlawful.	500 000	500 000
SAMWU OBO M N Zweni vs Centlec (SOC) Ltd litigation relates to unfair labour practice.	1 500 000	1 500 000
Litigations of Centlec (SOC) Ltd vs H Potgieter.	1 120 771	1 120 771
Litigations of Centlec (SOC) Ltd vs Van den Berg and 5 others - Litigation against Centlec (SOC) Ltd relating to a claim for damages suffered as a result of a veldt fire allegedly caused by Centlec (SOC) Ltd.	7 000 000	7 000 000
Litigations of Centlec (SOC) Ltd vs LP Mkhwane - Litigation relating to a claim for outstanding salaries since the finalisation of the arbitration hearing against Centlec (SOC) Ltd.	-	2 500 000
Litigations of Centlec (SOC) Ltd vs Roberts - Litigation relating to a rescission application and instruction to oppose the matter.	30 000	30 000
Litigations of Centlec (SOC) Ltd vs KM Moroole - Litigation relating to a summons for a motor vehicle accident.	100 000	100 000
Litigations of Centlec (SOC) Ltd vs Combrinck - Action instituted against Centlec and MMM due to improper disconnection.	50 000	50 000
Litigations of Centlec (SOC) Ltd vs T Gaba - Litigation relating to an unfair dismissal claim at the SALGBC.	-	250 000
Litigations of Centlec (SOC) Ltd vs T Matshepe - Litigation relating to an unfair dismissal claim at the SALGBC.	-	250 000
Litigations of Centlec (SOC) Ltd vs R Molatedi - Litigation relating to an urgent application on ex parte basis obtained against Centlec for reconnection of electricity meter premised on Spoliation.	-	40 000
Litigations of Centlec (SOC) Ltd vs Bluese Garments CC and Wilrand Trading CC - Litigation relating to Bluese Garments CC obtaining a Garnishee order against Centlec, for payment to be made by Centlec to Bluese in respect of the judgment obtained by Bluese against Wilrand Trading CC.	-	35 000
Litigations of Centlec (SOC) Ltd vs MJ Makofane - Litigation relating to restoration of electricity supply and damages.	50 000	50 000

	2020 R	2019 R

36. Contingencies (continued)

Litigations of Centlec (SOC) Ltd vs Wessels and Ikageng - Litigation relating to an issued summons against Centlec and Ikageng for alleged damage caused to Plaintiff's motor vehicle as a result of a trench dug in road by Ikageng, an independent service provider.	-	10 000
Litigations of Centlec (SOC) Ltd vs Copper Sunset Trading 443 (PTY) Ltd - Litigation relating to an urgent application brought against Centlec to restore electricity disconnected.	-	300 000
Litigations of Centlec (SOC) Ltd vs S Molefe - Litigation relating to labour dispute.	-	150 000
Litigations of Centlec (SOC) Ltd vs Mankhele - Litigation relating to pension fund claim documentation submission to SALA.	1 000 000	-
Litigations of Centlec (SOC) Ltd vs C Strydom - Litigation relating to electrical tampering.	130 000	-
Litigations of Centlec (SOC) Ltd vs Bonakele Daniel - Litigation relating to damages to electrical appliances.	60 000	-
	19 940 771	**21 985 771**

37. Change in estimate

Other assets

During the year, the municipal entity changed its accounting estimates with respect to other movable assets. In order to conform with the benchmark treatment of GRAP17, the municipal entity re-assessed the residual values, estimated useful lives and depreciation method of all other movable assets, which led to a change in the depreciation for the current year and is expected to affect future periods as well.

The aggregate effect of the changes in accounting estimate on the financial statements for the year ended 30 June 2020 is as follows:

Depreciation expense before remaining useful lives review	24 967 958
Future reduction in depreciation due to review	(2 619 465)
Depreciation expense after remaining useful lives review	**22 348 493**

	2020 R	2019 R

38. Prior period errors

The municipal entity corrected the following prior period errors retrospectively and restated comparative amounts In terms of GRAP 3 - Accounting policies, Changes in Estimates and Errors:

38.1. Prior period error - Payables from exchange transactions:

During the period under review it was noted that an accrual for legal settlements as a payable from exchange transaction as at 30 June 2019 was incorrectly duplicated. One of these duplication accruals was also incorrectly accrued for against legal costs. A correction was made and the comparative statements for the 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2020 R	2019 R
Statement of financial position		
Decrease in payables from exchange transactions - Operating expense accrual		610 000
Statement of financial performance		
Decrease in general expenditure		(610 000)

38.2. Prior period error - Inventories:

During the period under review it was noted that the 2017/18 financial year end stock adjustments were incorrectly allocated to the statement of financial position instead of the statement of financial performance. A correction was made and the comparative statements for the 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2020 R	2019 R
Statement of financial position		
Increase in inventories		2 465 490
Statement of financial performance		
Increase in opening accumulated surplus or deficit		(2 465 490)

38.3. Prior period error - Value added tax:

During the period under review it was noted that there was an error relating to the accounting system generated VAT journal. The accounting system software was updated during June & July 2018 and part of the upgrade was to allow the system to enhance the accounting for VAT on the cash basis. Unfortunately an error occurred with the first few times the system generated journal was generated resulting in duplicate transactions in the general ledger. A correction was made and the comparative statements for the 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2020 R	2019 R
Statement of financial position		
Decrease in VAT liability		2 761 719
Decrease in inventories		(2 761 719)

38.4. Prior period error - Intangible assets

During the period under review it was noted that prior period fair value adjustments relating to servitudes was not accounted for accurately due to outdated property valuation roll information. A correction was made and the comparative statements for the 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2020 R	2019 R
Statement of financial position		
Decrease in intangible assets - Servitudes		(15 800 785)
Statement of financial performance		
Decrease in opening accumulated surplus or deficit		15 800 785

	2020 R	2019 R

38. Prior period errors (continued)

38.5. Prior period error - Other receivables from exchange transactions:

During the period under review it was noted that pre-paid vendor sales relating to the 2018/19 and prior financial years was not accounted for accurately. A correction was made and the comparative statements for the 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in other receivables from exchange transactions - Vendors	1 011 084

Statement of financial performance	
Increase in service charges - Sale of pre-paid electricity	(238 870)
Increase in opening accumulated surplus or deficit	(772 214)

38.6. Prior period error - Payables from exchange transactions:

During the period under review approval was obtained from the board of directors to write off vendors with credit balances. Upon inspection of the vendors with credit balances it was noted that the credit balances originated from prior period transactions and should have been written off in the prior period. A correction was made and the comparative statements for the 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease in payables from exchange transactions	22 823 856

Statement of financial performance	
Increase in opening accumulated surplus or deficit	(22 823 856)

38.7. Prior period error - Impairment loss:

During the period under review it was noted that an impairment loss on property plant and equipment relating to the 2018/19 financial year was incorrectly classified as a loss on disposal of assets. A reclassification adjustment was made and the comparative statements for 2018/19 financial year have been restated. The effect of the restatement is summarised below:

Statement of financial performance	
Increase in impairment loss	5 497
Decrease in loss on disposal of assets and liabilities	(5 497)

38.8. Prior period error - Property, plant and equipment:

During the period under review it was noted that office equipment was incorrectly classified as part of motor vehicles during the 2018/19 financial year. A reclassification adjustment was made and the comparative statements for 2018/19 financial year have been restated. The effect of the restatement is summarised below:

Statement of financial position	
Property, plant and equipment - Motor vehicles	(2 177)
Property, plant and equipment - Office equipment	2 177

Notes to the Financial Statements

	2020 R	2019 R

38. Prior period errors (continued)

38.9. Prior period error - Taxation:

During the period under review restatements were made to the 2018/19 comparative figures resulting in a change to the deferred and income tax calculations. The calculation was adjusted and the comparative statements for 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2020	2019
Statement of financial position		
Decrease in deferred tax liability		79 240
Statement of financial performance		
Decrease in taxation		(79 240)

38.10. Prior period error - Payables from exchange transactions:

During the period under review it was noted that expenditure relating to the 2018/19 and 2017/18 financial years was incorrectly recorded during the 2019/20 financial year. The comparative statements for 2018/19 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2020	2019
Statement of financial position		
Increase in payables from exchange transactions		(872 942)
Decrease in VAT liability		113 773
Statement of financial performance		
Increase in general expenditure		742 175
Decrease in opening accumulated surplus or deficit		16 994

39. Events after the reporting date

The directors are not aware of any material matter or circumstances arising since the end of the financial year to the date of this report in respect of matters which would require adjustments to or disclosures in the financial statements.

40. Going concern

The 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 following analysis supports the going concern assumption:

- Current assets (R 1 087 612 457) exceed current liabilities (R 819 582 577)

- Total assets (R 8 835 185 707) exceed total liabilities (R 3 965 123 338).

- The municipal entity has an accumulated surplus and other reserves of R 712 803 939.

Management has reviewed the municipal entity's cash flow forecast for the year to 30 June 2021. The municipal entity reported a trading deficit of R 52 773 086 mainly due to the negative impact arising out of the COVID-19 lockdown regulations which resulted in an abnormal increase in the debt impairment. Other contributing factors include the interest expense on the shareholder's - and intercompany loans.

The municipal entity and the parent municipality have continued with the resolution to defer the current liabilities related to the deemed sale of business agreement and the intercompany loans.

Discussions with the parent municipality to revise the entire sale of business agreement are still ongoing. Upon resolution of the new revised agreement it is expected to minimise the impact that the shareholder loan, capital redemption and interest charged on the intercompany related loans will have on the municipal entity's operations.

The municipal entity has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipal entity has implemented a system to enhance its revenue collection and cash flow by improving on the debt recoverability processes.

The revenue protection unit's effort to curb meter tampering/bypassing is likely to improve revenue collection.

Other supplementary considerations include the fact that the 2020/21 financial year's first quarter payment records of the consumer debtors have shown a significant improvement.

The entity still has the capacity and ability to continue with providing the services it is mandated to at the approved rates and will thus generate revenue from services in the future.

Notes to the Financial Statements

	2020 R	2019 R

41. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- entities that are directly or indirectly controlled by the municipality;

- associates;

- joint ventures and management;

- key management personnel, and close members of the family of key management personnel;

- entities in which a substantial ownership interest is held, directly or indirectly, by key management personnel or entities over which such a person is able to exercise significant influence; and

- entities that control or exert significant influence over the municipality

Controlling entity

Mangaung Metropolitan Municipality is the sole shareholder of the municipal entity. The municipal entity was formed to take over all activities in respect of the supply of electricity.

Executive management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the municipal entity, directly or indirectly, including any director (whether executive or otherwise) of the municipal entity. The municipal entity's key management personnel includes the Chief Executive Officer, Chief Financial Officer, Company Secretary and Executive Managers.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or to be influenced by key management individuals, in their dealings with the group.

Related party balances

	2020 R	2019 R
Loan accounts - Owing (to) by related parties		
Mangaung Metropolitan Municipality - Advances	(67 700 656)	(74 397 665)
Mangaung Metropolitan Municipality - Shareholders loan	(803 609 368)	(1 071 479 158)
Mangaung Metropolitan Municipality - Intercompany loan balance	(850 541 759)	(507 497 129)
Mangaung Metropolitan Municipality - Consumer debtor balance *	74 337 559	-
Issued share capital		
Mangaung Metropolitan Municipality	100	100
Percentage of shares owned by Mangaung Metropolitan Municipality	100%	100%

Notes to the Financial Statements

	2020 R	2019 R

41. Related parties (continued)

Related party transactions

	2020 R	2019 R
Interest accrued to (accrued from) related parties		
Mangaung Metropolitan Municipality - Advances	7 625 761	8 109 467
Mangaung Metropolitan Municipality - Shareholder loan	171 577 388	164 965 040
Mangaung Metropolitan Municipality - Intercompany loan	62 582 404	50 934 642
Purchases from (sales to) related parties		
Mangaung Metropolitan Municipality - Amounts received on behalf of Mangaung Metropolitan Municipality (SOC) Ltd	-	30 054
Mangaung Metropolitan Municipality - Amounts received on behalf of Centlec (SOC) Ltd	(764)	-
Mangaung Metropolitan Municipality - Electricity charges - Municipal consumption & training	(64 641 355)	(59 714 564)
Mangaung Metropolitan Municipality - Reimbursable expenses - DOE & USDG grants	(22 608 696)	(15 450 000)
Mangaung Metropolitan Municipality - Reimbursable expenses - Free basic services	(17 762 839)	(15 704 140)
Mangaung Metropolitan Municipality - Shareholder loan capital redemption	267 869 789	-
Mangaung Metropolitan Municipality - Streetlight consumption	(72 070 304)	(70 911 055)
Mangaung Metropolitan Municipality - Capital advance redemption	6 697 009	6 697 009
Transfers made to (received from) related parties		
Mangaung Metropolitan Municipality - Cash transfers to Mangaung Metropolitan Municipality	70 000 000	112 276 877

The sale of business and service level agreement which govern the relationship between Mangaung Metropolitan Municipality and Centlec (SOC) Ltd were reviewed by Council. As a result the recoverability of certain intercompany loan balances and -receivables (included as part of the trade receivables) relating to revenue from streetlighting and electricity usage by Mangaung Metropolitan Municipality properties are also subject to review by Council.

* The parent municipality and municipal entity took the resolution that with effect from 1 July 2019 the Mangaung Metropolitan Municipality - Consumer debtor balance will not be set off against the intercompany loan accounts and will be disclosed separately.

	2020 R	2019 R
Compensation to directors and other key management		
Annual remuneration	9 410 773	5 858 238
Travel, motor car, accommodation, subsistence and other allowances	1 066 326	474 560
Contributions to UIF, medical and pension funds	184 557	121 287
Acting allowance	-	160 122
Directors fee	597 228	406 169
	11 258 884	**7 020 376**

42. Directors' emoluments

Non-executive

2020

	Directors' fees	Company contribution - UIF	Company contribution - SDL	Total
Mr. N Mokhesi (Chairperson)	242 892	1 785	2 429	247 106
Me. DC Myeni (Deputy Chairperson)	161 928	1 619	1 619	165 166
Mr. KM Moroka	96 204	962	962	98 128
Mr. CAK Choeu	96 204	962	962	98 128
	597 228	**5 328**	**5 972**	**608 528**

2019

	Directors' fees	Company contribution - UIF	Company contribution - SDL	Total
Mr. N Mokhesi (Chairperson)	121 446	892	1 214	123 552
Me. DC Myeni (Deputy Chairperson)	148 434	1 484	1 484	151 402
Mr. KM Moroka	48 102	481	481	49 064
Mr. CAK Choeu	48 102	481	481	49 064
Mr. MP Mohale	40 085	401	401	40 887
	406 169	**3 739**	**4 061**	**413 969**

Notes to the Financial Statements

	2020 R	2019 R

43. Fruitless and wasteful expenditure

	2020 R	2019 R
Opening balance	10 133 000	1 333 647
Expenditure incidents identified during the financial year	23 233 086	8 799 353
Closing balance	**33 366 086**	**10 133 000**

Expenditure identified in the current year include those listed below:

Incident	Disciplinary steps taken/criminal proceedings	
Interest incurred on late payment of ESKOM, TELKOM and AGSA accounts	The interest was incurred due to the cash flow challenges the entity was facing at the time. No official of the entity is liable and expense has been submitted to council for consideration of write off.	17 443 293
Additional costs relating to Elite distribution centre	The expenditure was incurred due to additional payments made to the service provider responsible for the construction of the Elite distribution centre. These additional costs relate to the reimbursement of the service provider for costs incurred due to unforeseen deviations from the original agreed upon construction plans. No official of the entity is liable and the expense has been submitted to council for consideration of write off.	5 789 793
		23 233 086

Analysis of fruitless and wasteful expenditure to be considered for write off by council are as follows:

Relating to prior years	10 133 000
Current year	23 233 086
	33 366 086

Notes to the Financial Statements

	2020 R	2019 R

44. Irregular expenditure

	2020 R	2019 R
Opening balance	188 805 229	176 320 491
Expenditure incidents identified during the financial year	311 230 313	12 484 738
Closing balance	**500 035 542**	**188 805 229**

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

Incident	Disciplinary steps taken/criminal proceedings	
Procurement in contravention with Supply Chain Management policy, Municipal Financial Management Act and Municipal Systems Act.	Preferential Procurement Regulations of 2011 was not fully complied with due to inadequate specifications. No disciplinary steps were taken as the inadequacies identified were as a result of technical interpretation of the Preferential Procurement Regulation of 2011. The full extent of irregular expenditure is still in the process of being fully determined. The expenditure has been submitted to council for consideration to be written off.	1 389 259
Non-compliance to Municipal Financial Management Act section 87(8) due to overspending of budget.	Overspending on items such as employee related costs, bulk purchases, finance costs and general expenses occurred during the financial year. No disciplinary steps were taken as the overspending is mainly attributed to - actual figures at year end including provision amounts such as leave-, bonus- and long service provisions which could not be budgeted for accurately due to their unpredictable nature. - an increase in un-anticipated factors such as overtime and acting allowances which could not be budgeted for - severe expenditure budget cuts during the adjustment budget resulting in under budgeting on bulk purchases and several general expenditure line items. The expenditure has been submitted to council for consideration of being written off.	309 841 054
Total 2019/20 irregular expenditure.		**311 230 313**

Analysis of expenditure to be considered for write off by council per age classification

	2020 R	2019 R
Current year	311 230 313	12 484 738
Prior years	188 805 229	176 320 491
	500 035 542	**188 805 229**

45. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2020 R	2019 R
Opening balance	139 994	391 933
Current year fee	5 841 525	6 119 325
Amount paid - current year	(5 841 525)	(5 979 331)
Amount paid - previous years	(139 994)	(391 933)
	-	**139 994**

	2020	2019
	R	R

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

Distribution losses

In the current year the energy losses were 8.04% (2019: 8.67%). These losses are the result off theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable.

	2020	2019
kWh - units	127 757 457	144 172 798
Rand value	138 776 833	138 097 200
Percentage	8,04%	8,67%

For the 2019/20 financial year the distribution losses amount to 8.04% (2019: 8.67%). The annual electricity distribution losses are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold.

Non-technical losses:

Non-technical losses are amongst others the result of administrative and technical errors, negligence, theft of electricity, tampering with meters and connections which form part of illegal consumption, faulty meters, etc. Non-technical losses amounted to 42 585 819 kWh - units (2019: 48 057 599 kWh - units) with a Rand value of R 46 258 944 (2019: R 46 032 400).

Technical losses:

Technical losses are the result of electricity losses while being distributed from the source of generation through the transmission and distribution network to the final consumer. The wires (copper or aluminium) being used to distribute electricity have certain resistance which resist the throughput of current, as a result there is a certain portion of electricity that is lost due to distribution. Technical losses amounted to 85 171 638 kWh - units (2019: 96 115 199 kWh - units) with a Rand value of R 92 517 889 (2019: R 92 064 800).

PAYE, UIF and SDL

	2020	2019
Opening balance	5 257 904	4 482 751
Payable for the current year	68 250 892	62 115 153
Amount paid - current year	(67 199 983)	(56 857 249)
Amount paid/refunded - previous years	(5 257 904)	(4 482 751)
	1 050 909	**5 257 904**

Pension and Medical Aid Deductions

	2020	2019
Opening balance	(31 947)	(75 347)
Payable for the current year	89 416 920	80 738 757
Amount paid - current year	(89 351 819)	(80 695 357)
Amount paid/refunded - previous years	31 947	-
	65 101	**(31 947)**

Notes to the Financial Statements

	2020 R	2019 R

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

Supply Chain Management Regulations

In terms of Section 36 of the Municipal Supply Chain Management Regulations any deviation from the supply chain management policy needs to be approved by the Accounting Officer and noted by the board of Directors.

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

For the period under review there were instances where goods and services were procured via a deviation from the normal Supply Chain Management Regulations.

The reasons for these deviations were documented and reported to the Accounting Officer, who considered them and subsequently approved the deviation from the normal Supply Chain Management Regulations.

Incident	Number of deviations 2020	Rand value 2020	Number of deviations 2019	Rand value 2019
Sole supplier	5	697 155	6	1 722 475
Urgent	-	-	21	177 422
Other	12	318 043	9	777 496
	17	**1 015 198**	**36**	**2 677 393**

VAT

	2020	2019
VAT payable	135 341 840	100 994 946

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

Notes to the Financial Statements

	2020	2019
	R	R

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding during the financial year ending 30 June 2020:

Councillor	July 2019	August 2019	September 2019	October 2019
MB Monanyane	66 222	65 015	65 309	64 098
E Snyman van Deventer	454	454	454	454
CSK Sechoaro	3 826	3 826	3 826	3 826
	70 502	**69 295**	**69 589**	**68 378**

Councillor	November 2019	December 2019	January 2020	February 2020
MB Monanyane	62 881	63 165	63 449	63 726
E Snyman van Deventer	454	454	454	454
CSK Sechoaro	3 826	3 826	3 826	3 826
	67 161	**67 445**	**67 729**	**68 006**

Councillor	March 2020	April 2020	May 2020	June 2020
MB Monanyane	64 003	64 254	64 480	64 693
E Snyman van Deventer	454	454	454	454
CSK Sechoaro	3 826	3 826	3 826	3 826
	68 283	**68 534**	**68 760**	**68 973**

46. Risk management

Financial risk management

This note presents information about the municipal entity's exposure to each of the financial risks below and the municipal entity's objectives, policies and procedures for measuring and managing financial risks. Further quantitive disclosures are included in the financial statements.

The board of directors has overall responsibility for the establishment and oversight of the municipal entity's risk management framework. The municipal entity's audit committee oversees the monitoring of compliance with the municipal entity's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the municipal entity. The audit committee is assisted in its oversight role by the municipal entity's internal audit function.

The municipal entity's exposure to risk is similar to that of the previous year. The municipal entity still faces the same risks as in the previous financial year with the exception of where the municipal entity experienced challenges arising from the COVID-19 lockdown.

The municipal entity monitors and manages the financial risks relating to operations through internal risk reviews which analyse exposures by degree and magnitude of risks. These risks include the following:

- liquidity risk;

- credit risk; and

- market risk (including interest rate risk).

The municipal entity seeks to minimise the effects of these risks in accordance with the municipal entity's policies approved by the board. The policies provide written principles on interest rate risk, credit risk, and in the investment of excess liquidity.

Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The municipal entity does not enter into or trade in financial instruments for speculative purposes.

Liquidity risk

Liquidity risk is the risk that the municipal entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The municipal entity's exposure to liquidity risk is as a result of the funds not being available to cover future commitments. The municipal entity manages liquidity risk through ongoing review of commitments.

The municipal entity has started replacing rotational meters with prepaid meters to improve the cash funds available.

The municipal entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The municipal entity has not defaulted on payables and lease commitment payments.

All of the municipal entity's financial assets have been reviewed for indicators of impairment. Certain receivables were found to be impaired and a provision has been recorded accordingly. The impaired receivables are mostly due from customers defaulting on service costs levied by the municipal entity.

The table below analyses the municipal entity's 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.

46. Risk management (continued)

2020	Less than 1 year	Between 1 and 2 years
Consumer deposits	128 776 174	-
Other financial liabilities	6 697 009	857 196 468
Payables from exchange transactions	545 496 554	-
	680 969 737	**857 196 468**

2019	Less than 1 year	Between 1 and 2 years
Consumer deposits	115 053 108	-
Loans from shareholders	267 869 789	-
Other financial liabilities	6 697 009	6 697 009
Payables from exchange transactions	486 354 528	-
	875 974 434	**6 697 009**

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The municipal entity utilizes a system where when debtors do not settle their account within 60 days a warning letter is issued after which the electricity supply will be cut until the account is settled. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Maximum exposure to credit risk: During the financial year under review there has been an abnormal increase in the provision for debt impairment. This is attributed to the impact of the lockdown regulations as a result of COVID-19. A number of consumer debtors were unable to settle their accounts on time during the COVID-19 lockdown period resulting in their accounts falling within the impairment methodology parameters. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the maximum exposure to credit risk without taking into account the value of any collateral obtained.

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

Financial instrument	2020	2019
Cash and cash equivalents	32 393 432	13 555 909
Consumer receivables from exchange transactions	868 551 495	768 845 276
Other financial assets	1 124 411	4 190 063
Other receivables from exchange transactions	78 616 013	68 347 660

These balances represent the maximum exposure to credit risk.

Notes to the Financial Statements

46. Risk management (continued)

Market risk

Market rate risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipal entity's revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

There has been no change, since the previous financial year to the municipal entity's exposure to market risks or the manner in which it manages and measures the risk.

Market risk consists of the following risks:

Foreign currency risk

The municipal entity does not enter into significant foreign currency transactions and has had very limited exposure to foreign currency risk.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipal entity's policy is to minimise interest rate cash flow risk exposures on long-term financing. Long term borrowings are therefore usually at fixed rates. The municipal entity's exposures to interest rates on financial assets and financial liabilities are detailed below:

At year-end, financial instruments exposed to interest rate risk due to being linked to prime interest rate were as follows:
- Call and notice deposits
- Current bank accounts
- Interest charged on consumer receivables from exchange transactions overdue

The municipal entity's interest rate risk arises from the above financial instruments being linked to the prime interest rate. The prime interest rate is used as a factor in calculating the interest received or interest charged on these financial instruments. Fluctuations in the prime interest rate during the year give rise to a possible interest rate risk affecting the entity.

Interest charged on the intercompany loans are calculated using the prime rate at the beginning of the financial year on a weighted average basis. Since this interest rate is only based on prime rate at one point during the financial year, fluctuations in prime during the year will not have a material effect on these loans.

Fair values

The municipal entity's financial instruments consist mainly of cash and cash equivalents, investments, trade receivables, trade payables and long term debt.

No financial asset was carried at an amount in excess of its fair value. The following methods and assumptions are used to determine the fair value of each class of financial instrument:

Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates fair value due to the relatively short-term maturity of these financial assets and financial liabilities

46. Risk management (continued)

Investments

Investments are carried at their original cost in the statement of financial position, except for those where the interest received are capitalised.

Receivables from exchange transactions

The carrying amount of trade receivables, net of provision for impairment (provision for bad debt) approximates fair value due to the relatively short-term maturity of these financial assets.

Trade payables

The carrying amount of trade payables approximates fair value due to the relatively short-term maturity of this financial liability.

Interest bearing loans

Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in surplus or deficit over the period of the borrowings on an effective interest basis. The fair value of interest bearing borrowings with variable interest rates approximates their carrying amounts.

Price risk

Price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. These changes are caused by factors specific to the individual financial instruments for its users or by factors affecting all similar financial instruments in the market. The municipal entity's financial instruments are affected by the whole sale price of electricity from ESKOM.

47. Budget differences

Variance Explanations

The budget is approved on an accrual basis by nature of classification. The budget and the accounting bases are both on the accrual basis. The financial statements are prepared using the nature of expenses in the statement of financial performance. The approved budget covers the fiscal period from 1 July 2019 to 30 June 2020.

Changes from approved budget to final budget are the result of reallocations and shifting within the budget.

Basis for material differences between budget and actual amounts

It is general practice to deem a 5% or higher deviation on operational revenue and expenditure versus the final budget as material and for capital expenditure the percentage deviation is 5% or higher.

Explanations for material variances relating to the Statement of Financial Performance is set out as follows:

1. Service charges - The variance is mainly attributed to the impact of the lock down during which the KWH units sold dropped sales dropped as compared to the prior year. The KWH units sold for 2019/20 were 1 462 049 490 units as compared to 1 510 191 674 units sold in the 2018/19 financial year. Other factors include the changes in the customers' consumption pattern as alternative cheaper sources of energy are becoming a norm in the country.

2. Agency services - The variance is partly due to the reduced level of engagement on the Southern Free State municipalities activities during the COVID-19 lock down period.

3. Other Income - The variance is mainly due to the revision of the number of street lights and streetlight lumineers that are used as a basis to calculate the street light consumption revenue following the 2019/20 assets verification.

4. Interest income received - During the budget preparation process there was an expectation that there was going to be a strict implementation of the credit control processes, thus there was likely to be a drop in the interest on the consumer receivables. However due to the impact of the COVID-19 lock down, the credit control processes were not effectively implemented and a number of customers accounts that were in arrears accumulated interest as there were no or slow payments during the lock down period.

5. Government grants & subsidies - The variance is due to the fact that the amount budgeted for included VAT while the actual amount recognized for the grant revenue excludes VAT.

6. Public contributions and donations - The reason for the variance is the that no budget was provided for privately funded projects completed and handed over to the municipal entity during the current financial year as the timing and amount of the handover is uncertain and not under the municipal entities' control.

7. Personnel related costs - The variance can be attributed to un-anticipated acting allowances that were paid during the year as posts became vacant. Other factors include overtime, provisions and allowances which are variable in nature.

8. Depreciation and amortisation - The variance is mainly due to the underestimation of the depreciation and amortisation values which are influenced by condition assessment of individual assets at year end.

9. Impairment loss/ Reversal of impairments - No budget is provided for impairment losses of this nature as they are unpredictable in nature since there is no pattern of such disasters in the history of the entity.

10. Finance costs - The variance is due to interest on the shareholder's loan and intercompany loan with Mangaung Metropolitan Municipality which was not budgeted for as it was assumed during the budget process that the sale of the business agreement was to be revised. Other factors include the interest charged by ESKOM due to the late settlement of bulk purchases bill due to the impact of COVID-19 lock down

11. Debt impairment - The budget was prepared based on the prior debt impairment reversal and prior to the COVID-19 lockdown. As a result of the COVID-19 lock down, many of the customers were unable to pay their accounts in time. This resulted in an increase in the long outstanding debt which in turn resulted in a larger debt impairment provision than budgeted for.

47. Budget differences (continued)

12. Bulk purchases - The variance is attributed to an under provision for the bulk purchases budget during the adjustment budget process.

13. General Expenses - The variance is attributed to under provision on some of the individual line items in the general expenses category.

14. Loss on disposal of assets and liabilities - As a result of the asset verification and revaluation process undertaken during the year, more assets were identified as due for disposal than initially anticipated during the budget preparation

Explanations for material variances relating to the Statement of Financial Position is set out as follows:

Current assets

The municipal entity does not budget for current portions of long term assets. The current portion as reflected on the face of the statement of financial position is budgeted for as part of the non-current assets.

1. Inventories - A large volume of high value items were received towards the end of the year resulting in a larger actual balance for inventory than initially budgeted for. Furthermore, the operations of the municipal entity was also impacted by the COVID-19 lockdown resulting in a slower turnover time for inventory items.

2. Other receivables from exchange transactions - The unpredictable nature of the various line items that make up the total balance makes it impossible to prepare a reasonable budget.

3. Consumer debtors - The variance is mainly attributed to the effect of the COVID-19 lockdown when the credit control measures could not be implemented. A number of customers' accounts went into arrears during this period.

4. Cash and cash equivalents - The variance is mainly attributed to the fact that there was a proposal to revise the sale of the business agreement between the municipal entity and the parent municipality (MMM). This would have resulted in better cash flow for the municipal entity linked to the shareholder's loan and the intercompany loan. As this revision did not materialize the cash reserves budget for, were not realized.

Non-Current Assets

1. Property, plant and equipment - The variance is mainly attributed to the revaluation of infrastructure assets resulting in a large increase in the asset value. The actual revaluation amount was larger than initially budgeted for.

2. Intangible assets - The variance is mainly due to the lower than anticipated amortization value in the current year compared to the prior year. There was also an increase in the assessed values of the land on which the servitudes are held that was only confirmed during the current year assets verification and revaluation process.

3. Deferred Tax - The variance is mainly attributed to the larger than anticipated taxable loss resulting in a large temporary tax difference.

Current Liabilities

The municipal entity does not budget for current portions of long term liabilities. The current portion as reflected on the face of the statement of financial position is budgeted for as port of the non-current liability.

1. Payables from exchange transactions - The variance is within acceptable levels.

2. Consumer deposits - The municipal entity's budgets assumption were that customers on rotational meters were to be converted to prepaid meters which could have resulted in a reduction in the consumer deposit. This assumption was affected by the COVID-19 lockdown.

47. Budget differences (continued)

Non-Current Liabilities

1. Loans from shareholders - The budget was prepared on the basis that the sale of business agreement was to be replaced with a new settlement agreement, thus no budget was made for the loan balance.

2. Other financial liabilities - The budget was prepared on the basis that the sale of business agreement was to be replaced with a new settlement agreement, thus no budget was made for the loan balance.

3. Deferred tax - The variance is mainly attributed to a larger than anticipated asset revaluation resulting in a large temporary tax difference.

4. Long service awards - The variance is attributed to the drop in the number of staff that qualify for the long service award in the current year from 664 to 648 employees. Other factors include the variance in the key assumptions used in determining the long service award such as the discount rates and the CPI.

Share Capital

1. Share capital - At the time the budget was finalised it was assumed that the sale of business agreement was to be revised and the debt converted to equity. This did not materialise and the confirmation only came after year end.

2. Revaluation reserve - The variance is mainly attributed to the revaluation of infrastructure assets resulting in a large increase in the asset value. The actual revaluation amount was larger than initially budgeted for.

48. Inter-departmental consumption

	2020	2019
Inter-departmental consumption	2 689 278	1 045 009

The inter-departmental consumption is based on units consumed as per the meter records.

49. Non-compliance with Municipal Finance Management Act and other Legislation

Non-compliance with Municipal Finance Management Act

During the current financial year the following non-compliance issues were identified:

- **Non-compliance with MFMA sec 65(2)(e)**
  Money owing by the entity to the value R 72 575 576 was not paid within 30 days of receiving the relevant invoice or statement mainly due to lack of proper supporting documents and late submission of invoices by the suppliers

Non-compliance with the Companies Act

In terms of section 9 of the Companies Act 71 of 2008 the municipal entity must comply with all relevant provisions of the Act except where the municipal entity has obtained exemptions. This was not complied with in the following aspects:

- The municipal entity did not have the whistle-blowing mechanism during the period under review as required by Section 159 of the Act.
- The municipal entity did not finalise the code of conduct of ethics for the board of Directors that meets the provisions of Section 214 of the Act.

Non-compliance with King IV Code of Governance for South Africa, 2016

The King IV Report on Corporate Governance (2016) provides governance principles and best implementation practice guides. The municipal entity did not fully comply with the provisions of the code in the following aspects:

49. Non-compliance with Municipal Finance Management Act and other Legislation (continued)

- The Shareholder Compact was not signed by the speaker/representative of the Council.
- The evaluation of the board, its committees and the individual directors was not conducted as required by Par 2.22 of the code.

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2020

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act
										Yes/ No
Urban Settlements Development Grant	National Government	-	-	-	22 608 696	4 416 203	10 740 833	7 451 660	-	Yes
		-	-	-	22 608 696	4 416 203	10 740 833	7 451 660	-	

The purpose of the urban settlements development grant is to upgrade informal settlements, either by creating formal housing or by upgrading services to informal settlements.