Centlec (SOC) Ltd
(Registration number 2003/011612/30)
Financial statements
for the year ended 30 June 2022

Auditor-General of South Africa
These financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

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. MS Sekoboto
Acting Chief Finance Officer (CFO)	Mr. SK Zziwa
Directors	Mr. KM Moroka (Chairperson) Me. R Tsiki
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. Raynard & Associates Inc. Rampai Attorneys 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)

Contents

The reports and statements set out below comprise the financial statements presented to the Council:

Contents

Abbreviations used:

NERSA	National Energy Regulator of South Africa
IFRS	International Financial Reporting Standards
GRAP	Generally Recognised Accounting Practice
VAT	Value Added Tax
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
mSCOA	Municipal Standard Chart of Accounts
NDR	Non Distributable Reserve
SDBIP	Service Delivery and Budget Implementation Plan
MFMA	Municipal Finance Management Act
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
NRV	Net Realisable Value
SOC	State Owned Company
SALGA	South African Local Government Association
AGSA	Auditor-General of South Africa
NCR	National Cabinet Representative
DOE	Department of Energy

Corporate Governance Report

The Board & Administrative Governance

Introduction to Governance

For the period under review the Board experienced several turbulent challenges that have rendered its existence as dysfunctional.

This has compromised the principals of good corporate governance such as having a macro- organizational structure in place, which provides for separation of duties and responsibilities between the board and administrators.

The parent municipality's National Cabinet representative (NCR) took task of providing oversight over the operations of the Municipal entity following their appointment by the Minister of Finance on 26 April 2022 that placed Mangaung Metropolitan Municipality under a Financial Recovery Plan Intervention. The Municipal entity operated for most of the financial year without a fully constituted and functional board. This followed the resignation of several of the Board members.

Board Governance

1. Board of Directors

Following the turbulence experienced the Board was unable to satisfactorily execute its mandate as provided for in the Board of Directors' charter. This was at the expense of providing the right leadership, strategic oversight, and control environment to produce and sustain the delivery of value to the municipal entity's shareholder.

To that effect only a limited number of Board meeting were held for both ordinary and special meetings as reported on below:

Type of Meeting	Date	Venue
Special	27 July 2021	Virtual meeting
Special	01 September 2021	Virtual meeting
Special	12 November 2021	Virtual meeting
Ordinary	26 November 2021	Virtual meeting
Special	30 November 2021	Virtual meeting
Special	12 January 2022	Virtual meeting

2. Board Committees

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

2.1 Audit & Risk Committee

N.S. Ntingane	Interim chairperson
M.R. Tsupa	Member
T. Malakoane	Member

2.2. Finance Committee

T. Mazibuko	Chairperson
K.M. Moroka	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee

2.3. Human Resources & Remuneration Committee

T. Manye	Chairperson
R. Tsiki	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee
EM: Human Resources	Invitee

2.4. Remuneration Committee

T. Mazibuko	Chairperson
R. Tsiki	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee

2.4. Social Responsibility & Ethics Committee

K.M. Moroka	Chairperson
T. Manye	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee

2.5. Information Technology Governance Committee

Y. Skwintshi	Chairperson
T. Ngubeni	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee
EM: Engineering (Retail)	Invitee
EM: Engineering (Wires)	Invitee

2.6. Engineering Committee

T. Ngubeni	Chairperson
T. Manye	Member
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	1	20 August 2021
Engineering	1	23 August 2021
HR & Remuneration	2	20 August 2021 10 January 2022
Social Responsibility & Ethics	1	10 September 2021
Finance	2	24 August 2021 17 January 2022
Audit & Risk	8	19 August 2021 31 August 2021 11 November 2021 29 November 2021 30 November 2021 18 January 2022 24 May 2022 21 June 2022

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 NCR that is mandated to the tasks of the Board 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, but in this instance the NCR, 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 was 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 NCR 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 NCR to meet these responsibilities, they 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 NCR 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 NCR have reviewed the municipal entity's cash flow forecast for the year to 30 June 2023 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 municipal entity has neither the intention nor the need to liquidate or curtail materially the scale of the municipal entity.

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

The financial statements set out on page 9, which have been prepared on the going concern basis, were approved by the NCR on 31 August 2022 and were signed on its behalf by:

Me. Gugu Malaza (National Cabinet Representative)

Audit and Risk Committee Report

We are pleased to present our report for the financial year ended 30 June 2022.

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 have been monitored by the audit and risk committee and reported to the board on a quarterly basis.

Fraud risk assessments and information technology risk assessments 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 2022 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 require a room for improvement. Management should strive to improve the risk management processes within the entity to reach a risk maturity level.

Review and evaluation of the annual financial statements

The audit and risk committee has:

- Reviewed and discussed the annual financial statements of the entity to be included in the annual report, with the Auditor-General and management.
- Reviewed the Auditor-General's management letters and management's response thereto;
- Reviewed and discussed the report and audit opinion of the Auditor-General with the Auditor-General and management;
- Reviewed changes in accounting policies and practices; and
- Reviewed significant adjustments resulting from the audit.

These financial statements were prepared in accordance with the South African Standards of Generally Recognized Accounting Practice and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No 56 of 2003).

Performance measurement

The Committee has reviewed and considered the in-year performance reports and performance results reported by management. Considerable improvements were noted in the effectiveness of the processes. However, the entity experienced challenges with the reliability of the information and the quality of information reported.

The Audit and Risk Committee had also advised management to allocate additional resources to drive and monitor the process for planning, monitoring, and reporting of predetermined objectives have been allocated.

Auditor-General of South Africa

The audit and risk committee engaged in the conclusion and audit opinion of the external auditors (AGSA) on the annual financial statements of the entity, and it is in concurrence with the audit opinion presented to the committee.

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.

Advocate NS Ntingane (Interim - Chairperson of the Audit Committee)

Date: 30 Nov 2022.

Director's Report

The directors and NCR submit their report for the year ended 30 June 2022.

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 726 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: Kopanong 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 2022.

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 area and operates principally in South Africa.

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.

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:

- Total assets (R 8 469 546 145) exceed total liabilities (R 4 074 902 853).

- The municipal entity has an accumulated surplus and other reserves of R 4 394 643 292.

The following analysis illustrates material uncertainties that may affect the going concern assumption:

- Current liabilities (R 1 032 234 748) exceed current assets (R 795 846 562).

- The municipal entity incurred a deficit of R 189 513 089 for the current financial year.

Management has reviewed the municipal entity's cash flow forecast for the year ended 30 June 2022. The municipal entity reported a trading deficit of R 189 513 089 which is mainly attributed to the debt impairment and the interest on the shareholders and intercompany loans. The entity is currently converting most of the rotational meters to prepaid meters which is likely to significantly reduce the accounts subject to debt impairment.

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

The entity's revenue showed an increase for the current financial year which' trend is projected to continue into the next financial year.

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 would like to draw attention to the fact that 2 of the board members have resigned subsequent to financial year end. The chairman of the board mr. KM Moroka resigned on 28 October 2022 and me. RL Tsiki resigned on 29 October 2022.

Except for the above mentioned, the directors are not aware of any other 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.

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).

Director's Report

5. Share capital / contributed capital

There were no changes in the 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. Dividends or similar distributions paid or received

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

8. Directors

At year end 30 June 2022 the current board of Directors consists of two (2) non-executive directors and two (2) executive directors. The current board of directors were appointed with effect from 1 November 2020.

Four (4) non-executive directors resigned as directors of the municipal entity on the dates as set out below.

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

Name	Changes
Mr. KM Moroka (Chairperson)	Reappointed 01 November 2020
T Ngubeni	Resigned Monday, 23 May 2022
Y Skwintshi	Resigned Friday, 20 May 2022
R Tsiki	
T Mazibuko	Resigned Saturday, 21 May 2022
T Manye	Resigned Wednesday, 19 January 2022

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 its activities. As part of this commitment, the directors supports 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 2002. 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

Despite the challenges experienced, the Board strived to:

- 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.

. Corporate governance (continued)

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 entity, and the directors will determine the remuneration within the above-mentioned limits.

Board meetings

The directors have met on 6 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 interim chairperson of the audit committee is Advocate Neo Ntingane. The committee met 8 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 department and all internal audit related functions were performed using internal capacity and resources during the current financial year. 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. 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 2022, 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

Statement of Financial Position as at 30 June 2022

	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	12 255 939	15 821 036
Consumer receivables from exchange transactions	4	509 308 358	549 391 486
Inventories	5	125 051 279	96 586 572
Other financial assets	6	273 713	275 470
Other receivables from exchange transactions	7	148 957 273	113 343 267
		795 846 562	**775 417 831**
Non-Current Assets			
Property, plant and equipment	8	6 235 018 998	6 324 672 319
Intangible assets	9	95 603 203	95 231 127
Other financial assets	6	299 757	573 470
Deferred tax	10	1 342 777 625	1 288 903 893
		7 673 699 583	**7 709 380 809**
Total Assets		**8 469 546 145**	**8 484 798 640**
Liabilities			
Current Liabilities			
Consumer deposits	11	130 373 809	127 042 880
Long service awards	13	2 489 000	1 831 000
Other financial liabilities	14	6 604 149	6 654 710
Payables from exchange transactions	15	670 805 221	523 027 309
VAT liability	16	219 974 323	171 324 199
Finance lease obligation	12	1 988 246	1 813 226
		1 032 234 748	**831 693 324**
Non-Current Liabilities			
Loans from shareholders	17	803 609 369	803 609 369
Other financial liabilities	14	854 289 021	853 593 866
Finance lease obligation	12	1 511 179	3 499 425
Deferred tax	10	1 358 071 535	1 383 924 798
Long service awards	13	25 187 001	23 818 001
		3 042 668 105	**3 068 445 459**
Total Liabilities		**4 074 902 853**	**3 900 138 783**
Net Assets		**4 394 643 292**	**4 584 659 857**
Share capital / contributed capital	18	100	100
Reserves			
Revaluation reserve	19	4 093 407 231	4 093 910 707
Other NDR	20	60 000 000	60 000 000
Accumulated surplus		241 235 961	430 749 050
Total Net Assets		**4 394 643 292**	**4 584 659 857**

* See Note 39

Statement of Financial Performance

	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	21	2 811 920 976	2 605 154 620
Agency services		5 942 316	6 444 060
Other income	22	122 720 123	97 246 459
Interest income	23	25 298 863	23 759 586
Inventories reversal		1 237 155	348 677
Total revenue from exchange transactions		**2 967 119 433**	**2 732 953 402**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	24	24 753 070	43 760 976
Unclaimed money forfeits	25	3 818 377	7 726 878
Total revenue from non-exchange transactions		**28 571 447**	**51 487 854**
Total revenue		**2 995 690 880**	**2 784 441 256**
Expenditure			
Employee related costs	26	425 602 018	400 712 626
Depreciation and amortisation	27	233 439 517	227 780 859
Impairment loss/ (reversal of impairments)	28	(292 904)	3 119 608
Finance costs	29	219 620 177	205 825 942
Contributions to /(Reversal of) debt impairment provision	30	77 201 367	18 759 156
Bulk purchases	31	2 061 862 827	1 780 067 168
Loss on disposal of assets and liabilities		9 253 888	2 026 439
General Expenses	32	238 244 074	182 238 840
Total expenditure		**3 264 930 964**	**2 820 530 638**
Deficit before taxation		**(269 240 084)**	**(36 089 382)**
Taxation	33	79 726 995	22 361 088
Deficit for the year		**(189 513 089)**	**(13 728 294)**

* See Note 39

Statement of Changes in Net Assets

	Share capital / contributed capital	Revaluation reserve	Other NDR	Total reserves	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	100	4 097 258 330	60 000 000	4 157 258 330	446 683 370	4 603 941 800
Adjustments						
Prior year adjustments	-	-	-	-	(2 206 026)	(2 206 026)
Balance at 01 July 2020 as restated*	**100**	**4 097 258 330**	**60 000 000**	**4 157 258 330**	**444 477 344**	**4 601 735 774**
Changes in net assets						
Surplus for the year	-	-	-	-	(13 728 294)	(13 728 294)
Disposals	-	(3 347 623)	-	(3 347 623)	-	(3 347 623)
Total changes	-	(3 347 623)	-	(3 347 623)	(13 728 294)	(17 075 917)
Opening balance as previously reported	100	4 093 910 707	60 000 000	4 153 910 707	422 419 796	4 576 330 603
Adjustments						
Prior year adjustments	-	-	-	-	8 329 254	8 329 254
Restated* Balance at 01 July 2021 as restated*	**100**	**4 093 910 707**	**60 000 000**	**4 153 910 707**	**430 749 050**	**4 584 659 857**
Changes in net assets						
Surplus for the year	-	-	-	-	(189 513 089)	(189 513 089)
Disposals	-	(503 476)	-	(503 476)	-	(503 476)
Total changes	-	(503 476)	-	(503 476)	(189 513 089)	(190 016 565)
Balance at 30 June 2022	**100**	**4 093 407 231**	**60 000 000**	**4 153 407 231**	**241 235 961**	**4 394 643 292**
Note(s)	18	19	20			

* See Note 39

Cash Flow Statement

	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		2 867 851 170	2 635 549 622
Grants, public contributions and donations		28 571 447	51 487 854
Interest income		25 298 863	23 759 585
		2 921 721 480	2 710 797 061
Payments			
Employee costs		(423 575 018)	(396 062 625)
Suppliers		(2 336 759 033)	(2 132 071 120)
Finance costs		(9 675 187)	(11 863 144)
		(2 770 009 238)	(2 539 996 889)
Net cash flows from operating activities	34	**151 712 242**	**170 800 172**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(140 558 164)	(120 088 441)
Proceeds from sale of property, plant and equipment	8	2 042 250	-
Purchase of other intangible assets	9	(15 452 437)	(9 017 612)
(Purchase of)/Proceeds from sale of financial assets		275 470	275 471
Net cash flows from investing activities		**(153 692 881)**	**(128 830 582)**
Cash flows from financing activities			
Proceeds from/(Repayment of) other financial liabilities		644 594	(57 993 838)
Finance lease payments		(2 229 052)	(662 229)
Net cash flows from financing activities		**(1 584 458)**	**(58 656 067)**
Net increase/(decrease) in cash and cash equivalents		**(3 565 097)**	**(16 686 477)**
Cash and cash equivalents at the beginning of the year		15 821 036	32 507 513
Cash and cash equivalents at the end of the year	3	**12 255 939**	**15 821 036**

* See Note 39

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
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	3 157 614 418	-	**3 157 614 418**	2 811 920 976	**(345 693 442)**	Note 48
Agency services	6 830 703	-	**6 830 703**	5 942 316	**(888 387)**	Note 48
Other income	26 229 196	-	**26 229 196**	122 720 123	**96 490 927**	Note 48
Interest income	25 818 387	-	**25 818 387**	25 298 863	**(519 524)**	Note 48
Total revenue from exchange transactions	**3 216 492 704**	**-**	**3 216 492 704**	**2 965 882 278**	**(250 610 426)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	28 466 030	-	**28 466 030**	24 753 070	**(3 712 960)**	Note 48
Unclaimed Money Forfeits	-	-	**-**	3 818 377	**3 818 377**	Note 48
Total revenue from non-exchange transactions	**28 466 030**	**-**	**28 466 030**	**28 571 447**	**105 417**	
Total revenue	**3 244 958 734**	**-**	**3 244 958 734**	**2 994 453 725**	**(250 505 009)**	
Expenditure						
Employee related costs	(380 684 329)	-	**(380 684 329)**	(425 602 018)	**(44 917 689)**	Note 48
Depreciation and amortisation	(72 756 276)	-	**(72 756 276)**	(233 439 517)	**(160 683 241)**	Note 48
Impairment loss/ Reversal of impairments	-	-	**-**	292 904	**292 904**	Note 48
Finance costs	(120 058 864)	-	**(120 058 864)**	(219 620 177)	**(99 561 313)**	Note 48
Debt impairment	(10 358 299)	-	**(10 358 299)**	(77 201 367)	**(66 843 068)**	Note 48
Bulk purchases	(2 002 152 946)	-	**(2 002 152 946)**	(2 061 862 827)	**(59 709 881)**	Note 48
General expenses	(336 642 580)	-	**(336 642 580)**	(238 244 074)	**98 398 506**	Note 48
Total expenditure	**(2 922 653 294)**	**-**	**(2 922 653 294)**	**(3 255 677 076)**	**(333 023 782)**	
Operating deficit	**322 305 440**	-	**322 305 440**	**(261 223 351)**	**(583 528 791)**	
Loss on disposal of assets and liabilities	-	-	**-**	(9 253 888)	**(9 253 888)**	Note 48
Inventories losses/write-downs	(115 042)	-	**(115 042)**	1 237 155	**1 352 197**	Note 48
	(115 042)	**-**	**(115 042)**	**(8 016 733)**	**(7 901 691)**	
Deficit before taxation	**322 190 398**	-	**322 190 398**	**(269 240 084)**	**(591 430 482)**	
Taxation	-	-	**-**	(79 726 995)	**(79 726 995)**	
Actual Amount on Comparable Basis	**322 190 398**	**-**	**322 190 398**	**(189 513 089)**	**(511 703 487)**	

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
Statement of Financial Position						
Assets						
Current Assets						
Inventories	130 790 890	-	**130 790 890**	125 051 279	**(5 739 611)**	Note 48
Other receivables from exchange transactions	-	-	-	148 957 273	**148 957 273**	Note 48
Consumer receivables from exchange transactions	924 326 036	-	**924 326 036**	509 308 358	**(415 017 678)**	Note 48
Cash and cash equivalents	88 750 770	-	**88 750 770**	12 255 939	**(76 494 831)**	Note 48
	1 143 867 696	-	**1 143 867 696**	**795 572 849**	**(348 294 847)**	
Non-Current Assets						
Property, plant and equipment	7 026 384 829	-	**7 026 384 829**	6 235 018 998	**(791 365 831)**	Note 48
Intangible assets	102 393 384	-	**102 393 384**	95 603 203	**(6 790 181)**	Note 48
Other financial assets	-	-	-	573 470	**573 470**	Note 48
Deferred tax	1 296 241 996	-	**1 296 241 996**	1 342 777 625	**46 535 629**	Note 48
	8 425 020 209	-	**8 425 020 209**	**7 673 973 296**	**(751 046 913)**	
Total Assets	**9 568 887 905**	-	**9 568 887 905**	**8 469 546 145**	**(1 099 341 760)**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	714 792 235	-	**714 792 235**	670 805 221	**(43 987 014)**	Note 48
VAT liability	-	-	-	219 974 323	**219 974 323**	Note 48
Consumer deposits	124 230 290	-	**124 230 290**	130 373 809	**6 143 519**	Note 48
	839 022 525	-	**839 022 525**	**1 021 153 353**	**182 130 828**	
Non-Current Liabilities						
Loans from shareholders	-	-	-	803 609 369	**803 609 369**	Note 48
Other non-current financial liabilities	-	-	-	860 893 170	**860 893 170**	Note 48
Finance lease obligation	-	-	-	3 499 425	**3 499 425**	Note 48
Deferred tax	1 628 688 414	-	**1 628 688 414**	1 358 071 535	**(270 616 879)**	Note 48
Long service awards	25 252 015	-	**25 252 015**	27 676 001	**2 423 986**	Note 48
	1 653 940 429	-	**1 653 940 429**	**3 053 749 500**	**1 399 809 071**	
Total Liabilities	**2 492 962 954**	-	**2 492 962 954**	**4 074 902 853**	**1 581 939 899**	
Net Assets	**7 075 924 951**	-	**7 075 924 951**	**4 394 643 292**	**(2 681 281 659)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Share capital	1 714 784 887	-	**1 714 784 887**	100	**(1 714 784 787)**	Note 48

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
Reserves						
Revaluation reserve	3 703 342 854	-	**3 703 342 854**	4 093 407 231	**390 064 377**	Note 48
Other NDR	60 000 000	-	**60 000 000**	60 000 000	**-**	
Accumulated surplus	1 597 797 210	-	**1 597 797 210**	241 235 961	**(1 356 561 249)**	
Total Net Assets	**7 075 924 951**	**-**	**7 075 924 951**	**4 394 643 292**	**(2 681 281 659)**	

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
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	2 853 231 859	-	**2 853 231 859**	2 867 851 170	**14 619 311**	
Grants, forfeits, public contributions and donations	33 466 030	-	**33 466 030**	28 571 447	**(4 894 583)**	
Interest income	29 307 681	-	**29 307 681**	25 298 863	**(4 008 818)**	
	2 916 005 570	-	**2 916 005 570**	**2 921 721 480**	**5 715 910**	
Payments						
Suppliers and employee costs	(2 680 406 459)	-	**(2 680 406 459)**	(2 760 334 051)	**(79 927 592)**	
Finance costs	(58 864)	-	**(58 864)**	(9 675 187)	**(9 616 323)**	
	(2 680 465 323)	-	**(2 680 465 323)**	**(2 770 009 238)**	**(89 543 915)**	
Net cash flows from operating activities	**235 540 247**	-	**235 540 247**	**151 712 242**	**(83 828 005)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(211 219 271)	-	**(211 219 271)**	(140 558 164)	**70 661 107**	
Proceeds from the sale of property, plant and equipment	-	-	-	2 042 250	**2 042 250**	
Purchase of intangible assets	-	-	-	(15 452 437)	**(15 452 437)**	
(Purchase of)/Proceeds from sale of financial assets	-	-	-	275 470	**275 470**	
Net cash flows from investing activities	**(211 219 271)**	-	**(211 219 271)**	**(153 692 881)**	**57 526 390**	
Cash flows from financing activities						
Reduction of share capital or buy back of shares	-	-	-	-	-	
Proceeds from / (Repayment of) other financial liabilities	(120 000 000)	-	**(120 000 000)**	644 594	**120 644 594**	
Finance lease payments	-	-	-	(2 229 052)	**(2 229 052)**	
Net cash flows from financing activities	**(120 000 000)**	-	**(120 000 000)**	**(1 584 458)**	**118 415 542**	
Net increase/(decrease) in cash and cash equivalents	(95 679 024)	-	**(95 679 024)**	(3 565 097)	**92 113 927**	
Cash and cash equivalents at the beginning of the year	75 101 513	-	**75 101 513**	15 821 036	**(59 280 477)**	
Cash and cash equivalents at the end of the year	**(20 577 511)**	-	**(20 577 511)**	**12 255 939**	**32 833 450**	

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
2022											
Financial Performance											
Service charges	3 157 614 418	-	3 157 614 418	-		3 157 614 418	2 811 920 976		(345 693 442)	89 %	89 %
Investment revenue	25 733 387	85 000	25 818 387	-		25 818 387	25 298 863		(519 524)	98 %	98 %
Other own revenue	32 473 899	586 000	33 059 899	-		33 059 899	133 717 971		100 658 072	404 %	412 %
Total revenue (excluding capital transfers and contributions)	**3 215 821 704**	**671 000**	**3 216 492 704**	**-**		**3 216 492 704**	**2 970 937 810**		**(245 554 894)**	**92 %**	**92 %**
Employee costs	(381 771 353)	-	(381 771 353)	-	-	(381 771 353)	(425 602 018)	-	(43 830 665)	111 %	111 %
Debt impairment	(10 358 299)	-	(10 358 299)			(10 358 299)	(77 201 367)	-	(66 843 068)	745 %	745 %
Depreciation and asset impairment	(73 461 276)	705 000	(72 756 276)			(72 756 276)	(233 146 613)	-	(160 390 337)	320 %	317 %
Finance charges	(58 864)	-	(58 864)	-	-	(58 864)	(219 620 177)	-	(219 561 313)	373 098 %	373 098 %
Materials and bulk purchases	(2 002 152 946)	-	(2 002 152 946)	-	-	(2 002 152 946)	(2 061 862 827)	-	(59 709 881)	103 %	103 %
Other expenditure	(237 689 902)	(97 980 696)	(335 670 598)	-	-	(335 670 598)	(247 497 962)	-	88 172 636	74 %	104 %
Total expenditure	**(2 705 492 640)**	**(97 275 696)**	**(2 802 768 336)**	**-**	**-**	**(2 802 768 336)**	**(3 264 930 964)**	**-**	**(462 162 628)**	**116 %**	**121 %**
Surplus/(Deficit)	**510 329 064**	**(96 604 696)**	**413 724 368**	**-**		**413 724 368**	**(293 993 154)**		**(707 717 522)**	**(71)%**	**(58)%**

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
Transfers recognised - capital	20 466 030	8 000 000	28 466 030	-		28 466 030	24 753 070		(3 712 960)	87 %	121 %
Surplus (Deficit) after capital transfers and contributions	**530 795 094**	**(88 604 696)**	**442 190 398**	**-**		**442 190 398**	**(269 240 084)**		**(711 430 482)**	**(61)%**	**(51)%**
Taxation	-	-	-	-		-	(79 726 995)		(79 726 995)	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	**530 795 094**	**(88 604 696)**	**442 190 398**	**-**		**442 190 398**	**(189 513 089)**		**(631 703 487)**	**(43)%**	**(36)%**
Capital expenditure and funds sources											
Total capital expenditure	217 751 825	40 700 000	258 451 825	-		258 451 825	154 174 821		(104 277 004)	60 %	71 %
Sources of capital funds											
Transfers recognised - capital	20 466 030	8 000 000	28 466 030	-		28 466 030	25 211 072		(3 254 958)	89 %	123 %
Public contributions and donations	13 000 000	-	13 000 000	-		13 000 000	10 355 079		(2 644 921)	80 %	80 %
Internally generated funds	184 285 795	32 700 000	216 985 795	-		216 985 795	118 608 670		(98 377 125)	55 %	64 %
Total sources of capital funds	**217 751 825**	**40 700 000**	**258 451 825**	**-**		**258 451 825**	**154 174 821**		**(104 277 004)**	**60 %**	**71 %**

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.

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

A summary of the significant accounting policies are disclosed below.

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

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

1.3 Significant judgements 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 judgements 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 judgements include:

Trade receivables / Held to maturity investments 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 judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans 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.

1.3 Significant judgements and sources of estimation uncertainty (continued)

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.

Taxation

Judgement 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.

1.3 Significant judgements and sources of estimation uncertainty (continued)

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.

Effective interest rate

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

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.

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.

1.3 Significant judgements and sources of estimation uncertainty (continued)

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.

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 of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

1.4 Property, plant and equipment (continued)

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

Revaluation model

Land, buildings and infrastructure assets is carried at revalued amount, 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.

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:

Accounting Policies

1.4 Property, plant and equipment (continued)

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
• GPS		3-10 years
• Vacuum cleaner		3-10 years
• Digital multi meter		5-10 years
• Microwave oven		3-10 years
• Router		3-10 years
• Computer CPU		3-10 years
• Power supply unit		3-10 years
• Chain saw		5-10 years
• Transformer testing equipment		5-10 years
• Measuring wheel		5-10 years
• Insulator tester		5-10 years
• Drilling machine grinder		5-10 years
• Jojo tank		5-10 years
• Wallbox 4U 19		3-10 years
Leased assets	Straight-line	
• Printing machines		3 years

1.4 Property, plant and equipment (continued)

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		45 years
• 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
• 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).

1.4 Property, plant and equipment (continued)

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

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.

Accounting Policies

1.5 Intangible assets (continued)

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.

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	Depreciation method	Average useful life
Computer software & licenses	Straight-line	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 financial 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.

1.7 Financial instruments (continued)

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.

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.

1.7 Financial instruments (continued)

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

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 from exchange transactions	Financial asset measured at amortised cost
Other 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
Finance lease obligation	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.

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.

1.7 Financial instruments (continued)

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.

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.

Accounting Policies

1.7 Financial instruments (continued)

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.

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.

1.7 Financial instruments (continued)

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.

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 or deficit.

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

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the 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 (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 and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits 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.

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 entity assesses the classification of each element separately.

Accounting Policies

1.9 Leases (continued)

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease or where no interest rate implicit in the lease is available, the rate used is the municipal entity's incremental borrowing rate.

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

Any contingent rents are expensed in the period in which they are incurred.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Operating leases - lessee

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

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.

1.10 Inventories (continued)

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

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

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

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

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

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

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

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

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

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

Redesignation

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

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

1.14 Employee benefits (continued)

A constructive obligation is an obligation that derives from an 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 entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipal entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

The entity recognises the expected cost of bonus, incentive and performance related payments when the 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 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 surplus (deficit).

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 37.

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.

1.16 Revenue from exchange transactions (continued)

Interest

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

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

No interest is charged on overdue government debtors.

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 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 entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme 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 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 a accrual basis and presented by functional classification linked to performance outcome objectives.

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

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.

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

1.26 Related parties (continued)

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 those family members who may be expected to influence, or be influenced by that person 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 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 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 2022 or later periods:

GRAP 25 (as revised): Employee Benefits

Background

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

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

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

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

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

Key amendments to GRAP 25

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

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

The effective date of these revisions have not yet been set.

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

The adoption of this revisions 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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction

Background

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

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

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

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

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

The effective date of these revisions have not yet been set.

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

The adoption of this revisions 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.

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 entity expects to adopt the guideline for the first time when the Minister sets the effective date for it.

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 104 (as revised): 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 revisions is 1 April 2025.

The entity expects to adopt the revisions for the first time in the 2025/2026 financial statements.

The adoption of this revision is not expected to impact on the results of the entity, but may have an impact on measurement and can result in more disclosure than is currently provided in the financial statements.

iGRAP 21: The Effect of Past Decisions on Materiality

Background

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

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

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

iGRAP 21 addresses the following two issues:
- Do past decisions about materiality affect subsequent reporting periods?
- Is applying an alternative accounting treatment a departure from the Standards of GRAP or an error?

The effective date of these interpretation is 01 April 2023.

The entity expects to adopt the interpretation for the first time in the 2023/2024 financial statements.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The adoption of this interpretation 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 2020: Improvements to the standards of GRAP 2020

Every three years, the Accounting Standards Board undertakes periodic revisions of the Standards of GRAP, in line with best practice internationally among standard setters.

Improvements to Standards of GRAP are aimed at aligning the Standards of GRAP with international best practice, to maintain the quality and to improve the relevance of the Standards of GRAP.

Amendments include,

GRAP 5 – Borrowing Costs

- For general borrowings, borrowing costs eligible for capitalisation determined by applying a capitalisation rate
  - Clarify that borrowings made specifically for purposes of obtaining a qualifying asset are excluded until substantially all the activities necessary to prepare asset for intended use or sale are complete

GRAP 13 – Leases

- Operating leases & Sale and leaseback transactions are currently assessed for impairment in accordance with GRAP 26
- Clarify that these arrangements may also be assessed in accordance with GRAP 21

GRAP 16 – Investment Property

- Clarify that GRAP 21 may be applied to assess investment property for impairment
- Include heading "Classification of property as investment property" (par 6 and 7) & delete existing headings
- Investment property under construction (within scope of GRAP 16)
  - Added heading "Guidance on initially measuring self-constructed investment property at fair value"
  - Added clarification that investment property is measured at fair value at earliest of:
    - completion of construction or development; or
    - when fair value becomes reliably measurable
- Clarify requirements on transfers to and from Investment property
  - Change in use involves an assessment on whether:
    - property meets, or ceases to meet definition of investment property and
    - evidence exists that a change in use has occurred
  - List of examples of a change in use is regarded as non-exhaustive

GRAP 17 – Property, Plant and Equipment

- Delete example indicating that quarries and land used for landfill may be depreciated in certain instances
  - Land has an unlimited useful life and cannot be consumed through its use

GRAP 20 – Related Party Disclosures

- Clarify that entity, or any member of a group of which it is part, providing management services to reporting entity (or controlling entity of reporting entity) is a related party
  - Disclose amounts incurred by the entity for the provision of management services that are provided by a separate management entity
  - If an entity obtains management services from another entity ("the management entity") the entity is not required to apply the requirements in paragraph .35 to the remuneration paid or payable by the management entity to the management entity's employees or those charged with governance of the entity in accordance with legislation, in instances where they are required to perform such functions
  - Management services are services where employees of management entity perform functions as "management" as defined

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 24 – Presentation of Budget Information in Financial Statements
- Terminology amended
  - Primary financial statements amended to "financial statements" or "face of the financial statements"

GRAP 31 – Intangible Assets
- Extend requirement to consider whether reassessing useful life of intangible asset as finite rather as indefinite indicates that asset may be impaired
  - Both under cost model or revaluation model

GRAP 32 – Service Concession Arrangements: Grantor
- Clarify disclosure requirement for service concession assets
  - Disclose carrying amount of each material service concession asset recognised at the reporting date

GRAP 37 – Joint Arrangements
- Application guidance clarified
  - When party obtains joint control in a joint operation where activity of joint operation constitutes a function (GRAP 105 or GRAP 106), previous held interest in joint operation is not remeasured

GRAP 106 – Transfer of Functions Between Entities Not Under Common Control
- When party obtains control of joint operation and entity had rights to assets, or obligations to liabilities before acquisition date, it comprises an acquisition received in stages
  - Apply the requirements for an acquisition achieved in stages, including remeasuring previously held interest in joint operation

Directive 7 – The Application of Deemed Cost
- Clarify that bearer plants within scope of Directive

The effective date of these improvements is 01 April 2023.

The entity expects to adopt the improvements for the first time in the 2023/2024 financial statements.

The adoption of this improvements 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 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 to the Financial Statements

2. New standards and interpretations (continued)

Notes structure

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

Disclosure of accounting policies

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

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

The effective date of this amendment is for years beginning on or after 01 April 2023.

The entity expects to adopt the amendment for the first time in the 2023/24 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.

Notes to the Financial Statements

	2022	2021

3. Cash and cash equivalents

Cash and cash equivalents consist of:

	2022	2021
Bank balances	11 482 871	15 812 101
Short-term deposits	773 068	8 935
	12 255 939	**15 821 036**

Short-term deposits consist of:

	2022	2021
ABSA - 1 Day call account	773 068	8 935

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 2022	30 June 2021	30 June 2020	30 June 2022	30 June 2021	30 June 2020
ABSA Bank - Cheque account - 4058833582	694 130	14 244 652	7 339 445	13 821 551	19 079 605	12 331 558
ABSA Bank - Cheque account - 4055133721	7 785	2 184	65 118	(2 215)	2 183	65 118
ABSA Bank - Cheque account - 4054065339	16 772	17 711	508 858	(16 524)	(15 526)	505 129
ABSA Bank - Cheque account - 470001402	4 538 094	3 678 568	28 037 946	(1 946 261)	(2 491 747)	21 868 526
ABSA Bank - Cheque account - 4054530924	258	(282)	815	(882)	(1 422)	(325)
ABSA Bank - Cheque account - 4078209583	93 919	126 423	905 890	(345 125)	(715 953)	(2 044 416)
ABSA Bank - Cheque account - 4080522070	377	3 684	66 316	378	11 049	(399 124)
ABSA Bank - Cheque account - 4080521896	685	656	128 543	685	656	128 543
ABSA Bank - Cheque account - 9326102088	1 168	98	60 816	(28 736)	(56 744)	47 496
ABSA Bank - 1 Day call account - 9280674256	773 068	8 935	5 008	773 068	8 935	5 008
Total	**6 126 256**	**18 082 629**	**37 118 755**	**12 255 939**	**15 821 036**	**32 507 513**

Notes to the Financial Statements

4. Consumer receivables from exchange transactions

	2022	2021
Gross balances		
Electricity	1 198 323 096	1 161 266 207
Less: Provision for impairment		
Electricity	(689 014 738)	(611 874 721)
Net balance		
Electricity	509 308 358	549 391 486
Electricity		
Current (0 -30 days)	133 558 993	134 296 956
31 - 60 days	205 405 772	27 717 628
61 - 90 days	17 301 819	23 062 385
90+ days	649 361 505	783 976 577
Meter reading estimate at year end (Consumption across year end)	192 772 313	192 217 513
Discounting	(77 306)	(4 852)
Provision for debt impairment	(689 014 738)	(611 874 721)
	509 308 358	**549 391 486**

Summary of debtors by customer classification

	2022	2021
Residential and sundry		
Current (0 -30 days)	9 431 228	11 217 663
31 - 60 days	929 700	1 471 178
61 - 90 days	1 612 573	1 066 046
90+ days	124 865 321	126 628 942
	136 838 822	**140 383 829**
Business/Commercial and municipal		
Current (0 -30 days)	104 611 766	104 414 047
31 - 60 days	13 334 297	15 179 747
61 - 90 days	6 718 464	11 626 830
90+ days	110 708 941	108 832 984
	235 373 468	**240 053 608**
Government		
Current (0 -30 days)	19 515 999	18 665 245
31 - 60 days	191 141 775	11 066 703
61 - 90 days	8 970 783	10 369 509
90+ days	413 787 242	548 514 652
	633 415 799	**588 616 109**

Notes to the Financial Statements

	2022	2021

4. Consumer receivables from exchange transactions (continued)

Total

Current (0 -30 days)	133 558 993	134 296 956
31 - 60 days	205 405 772	27 717 628
61 - 90 days	17 301 819	23 062 385
90+ days	649 361 505	783 976 577
Meter reading estimate at year end (Consumption across year end)	192 772 313	192 217 513
Discounting	(77 306)	(4 852)
	1 198 323 096	1 161 266 207
Less: Provision for debt impairment	(689 014 738)	(611 874 721)
	509 308 358	**549 391 486**

Reconciliation of allowance for impairment

Balance at beginning of the year	(611 874 721)	(593 765 222)
Contributions to allowance	(77 201 367)	(18 759 156)
Debt impairment written off against allowance	61 350	649 657
	(689 014 738)	**(611 874 721)**

Consumer receivables pledged as security

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

Fair value of consumer debtors

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 2022, R 316 613 351 (2021: R 549 391 486) were past due but not impaired.

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

Current (0 -30 days)	122 300 727	125 870 338
31 - 60 days	132 583 612	21 153 461
61 - 90 days	9 733 131	15 779 308
90+ days	51 995 881	386 588 379
	316 613 351	**549 391 486**

	2022	2021

4. Consumer receivables from exchange transactions (continued)

Consumer debtors impaired

As of 30 June 2022, consumer debtors of R 689 014 738 (2021: R 611 874 721) were impaired and provided for.

The ageing of these loans is as follows:

	2022	2021
Current (0 -30 days)	11 258 266	8 426 618
31 - 60 days	72 822 160	6 564 167
61 - 90 days	7 568 688	7 283 077
90+ days	597 365 624	589 600 859
	689 014 738	**611 874 721**

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.

5. Inventories

	2022	2021
Raw materials, components	126 083 117	97 964 030
	126 083 117	97 964 030
Inventories (write-downs)	(1 031 838)	(1 377 458)
	125 051 279	**96 586 572**

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 R62 323 191 (2021: R64 340 213), of which a portion was capitalised.

Inventory pledged as security

No inventory was pledged as security.

Notes to the Financial Statements

	2022	2021

6. Other financial assets

	2022	2021
At amortised cost		
Kopanong Local Municipality	369 719	549 647
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	203 751	299 293
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%		
	573 470	**848 940**
Non-current assets		
At amortised cost	299 757	573 470
Current assets		
At amortised cost	273 713	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

	2022	2021
Deposits	1 075 818	1 055 996
Kopanong Local Municipality	26 034 149	23 401 865
Mohokare Local Municipality	70 469 240	53 039 920
Other receivables	23 445 996	11 286 092
DOE Grant - Southern Free State Towns	4 737 728	4 737 728
Receipt reversal	454 600	451 044
Vendors	22 739 742	19 370 622
	148 957 273	**113 343 267**

Trade and other receivables pledged as security

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

Credit quality of trade and other receivables

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

	2022	2021

7. Other receivables from exchange transactions (continued)

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

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 other receivable mentioned above. The municipal entity does not hold any collateral as security.

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

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2022, R 4 737 728 (2021: R 4 737 728) were past due but not impaired.

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

	2022	2021
Current (0 -30 days)	-	-
31 - 60 days	-	-
61 - 90 days	-	-
90+ days	4 737 728	4 737 728
	4 737 728	**4 737 728**

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	9 331 313	-	9 331 313	9 331 313	-	9 331 313
Buildings	107 979 292	(19 207 809)	88 771 483	106 143 510	(15 641 798)	90 501 712
Motor vehicles	118 155 273	(83 472 127)	34 683 146	96 585 895	(80 842 298)	15 743 597
Office equipment	73 599 690	(52 769 515)	20 830 175	71 121 352	(47 184 740)	23 936 612
Infrastructure	7 348 668 154	(1 270 573 118)	6 078 095 036	7 249 715 957	(1 069 801 201)	6 179 914 756
Leased assets	6 789 345	(3 481 500)	3 307 845	6 789 345	(1 545 016)	5 244 329
Total	**7 664 523 067**	**(1 429 504 069)**	**6 235 018 998**	**7 539 687 372**	**(1 215 015 053)**	**6 324 672 319**

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Capital work in progress	Revaluations	Depreciation	Impairment loss	Total
Land	9 331 313	-	-	-	-	-	-	9 331 313
Buildings	90 501 712	-	-	1 835 782	-	(3 566 011)	-	88 771 483
Infrastructure	6 179 914 756	181 672 025	(7 778 166)	(71 510 327)	(287 814)	(203 653 082)	(262 356)	6 078 095 036
Motor vehicles	15 743 597	25 967 740	(239 318)	-	-	(6 782 997)	(5 876)	34 683 146
Office equipment	23 936 612	2 592 943	(73 044)	-	-	(5 624 667)	(1 669)	20 830 175
Leased Assets	5 244 329	-	-	-	-	(1 936 484)	-	3 307 845
	6 324 672 319	**210 232 708**	**(8 090 528)**	**(69 674 545)**	**(287 814)**	**(221 563 241)**	**(269 901)**	**6 235 018 998**

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Capital work in progress	Revaluations	Depreciation	Impairment loss	Impairment reversal	Total
Land	9 331 313	-	-	-	-	-	-	-	9 331 313
Buildings	93 868 669	194 994	-	-	-	(3 561 951)	-	-	90 501 712
Infrastructure	6 274 246 213	28 739 453	(1 970 514)	89 234 769	(3 347 623)	(202 885 674)	(4 101 868)	-	6 179 914 756
Motor vehicles	19 979 054	-	(6 110)	-	-	(4 229 131)	(216)	-	15 743 597
Office equipment	28 916 380	1 919 228	(49 819)	-	-	(6 863 963)	-	14 786	23 936 612
Leased Assets	-	5 820 061	-	-	-	(575 732)	-	-	5 244 329
	6 426 341 629	**36 673 736**	**(2 026 443)**	**89 234 769**	**(3 347 623)**	**(218 116 451)**	**(4 102 084)**	**14 786**	**6 324 672 319**

Prior period reclassification

While preparing the fixed asset register for the current financial year, it was identified that R 17 452 585 was incorrectly recognised as work in progress at the end of the 2021 financial year instead of additions. This error does not result in any change to the infrastructure closing balance in the prior year, however a reclassification had to to be done in the prior year between capital work in progress and additions of the infrastructure line item to the value of R 17 452 585.

Property, plant and equipment pledged as security

No property, plant and equipment are pledged as security

Assets subject to finance lease (Net carrying amount)

Office equipment	3 307 845	5 244 329

	2022	2021

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. André 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

	2022	2021
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 2022 the land and buildings have not yet been legally transferred from Mangaung Metropolitan Municipality to the municipal entity.	87 899 316	91 465 327

	2022	2021

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	10 278 446	8 442 664
Infrastructure	-	242 500 160
	10 278 446	**250 942 824**

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Buildings 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.	10 278 446	8 442 664
Botshabelo substation and 132kv line project The commissioning of the projects have been delayed as Eskom needs to do the necessary connections. This should take place in early 2021/2022.	-	98 327 336
Solar farm project The solar farm project has not as yet fully started, management is still in the process of evaluating whether this project will be initiated therefore the expense to date relating to the feasibility study will remain as work in progress until a final decision is taken on whether the solar farm project will continue or not.	591 000	591 000
	10 869 446	**107 361 000**

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Total
Opening balance	262 658 116	262 658 116
Additions/capital expenditure	109 848 994	109 848 994
Transferred to completed items	(181 359 321)	(181 359 321)
	191 147 789	**191 147 789**

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Total
Opening balance	173 423 346	173 423 346
Additions/capital expenditure	117 974 222	117 974 222
Transferred to completed items	(28 739 452)	(28 739 452)
	262 658 116	**262 658 116**

Notes to the Financial Statements

	2022	2021

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	70 063 882	50 418 987
General expenses	20 152 029	14 708 618
	90 215 911	**65 127 605**

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

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9. Intangible assets

	2022			2021		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, internally generated	59 924 168	(42 563 531)	17 360 637	64 626 618	(47 638 057)	16 988 561
Servitudes.	78 242 566	-	78 242 566	78 242 566	-	78 242 566
Total	**138 166 734**	**(42 563 531)**	**95 603 203**	**142 869 184**	**(47 638 057)**	**95 231 127**

Reconciliation of intangible assets - 2022

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software and licenses	16 988 561	15 452 437	(3 204 085)	(11 876 276)	17 360 637
Servitudes	78 242 566	-	-	-	78 242 566
	95 231 127	**15 452 437**	**(3 204 085)**	**(11 876 276)**	**95 603 203**

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Amortisation	Total
Computer software and licenses	17 635 357	9 017 612	(9 664 408)	16 988 561
Servitudes	78 242 566	-	-	78 242 566
	95 877 923	**9 017 612**	**(9 664 408)**	**95 231 127**

Notes to the Financial Statements

	2022	2021

9. Intangible assets (continued)

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.

10. Deferred tax

Deferred tax liability

Opening balance	(1 383 924 798)	(1 412 657 987)
Property, plant and equipment	26 220 989	28 204 347
Taxable temporary differences	(367 726)	528 842
Total deferred tax liability	**(1 358 071 535)**	**(1 383 924 798)**

Deferred tax asset

Opening balance	1 288 903 893	1 295 275 994
Taxable temporary differences	16 369 644	8 065 629
Tax losses available for set off against future taxable income	37 504 088	(14 437 730)
Total deferred tax asset	**1 342 777 625**	**1 288 903 893**

Deferred tax liability	(1 358 071 535)	(1 383 924 798)
Deferred tax asset	1 342 777 625	1 288 903 893
Total net deferred tax liability	**(15 293 910)**	**(95 020 905)**

Reconciliation of deferred tax asset \ (liability)

At beginning of year	(95 020 905)	(117 381 993)
Depreciable assets	26 220 989	28 204 347
Finance lease	34 513	19 130
Provisions	15 967 405	8 575 341
Assessed loss	37 504 088	(14 437 730)
	(15 293 910)	**(95 020 905)**

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.

10. Deferred tax (continued)

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:

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.

	2022	2021

10. Deferred tax (continued)

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.

11. Consumer deposits

	2022	2021
Electricity	130 373 809	127 042 880

Guarantees in lieu of vendor deposits amounted to R 11 118 891 (2021: R 12 168 891). During the current financial year it was identified that additional guarantees in lieu of vendor deposits to the value of R10 015 000 existed during the 2020-21 financial year but was not disclosed as part of the 2020-21 guarantees in lieu of vendor deposits disclosure. The comparative value for the 2020-21 financial year was adjusted from R2 153 891 to R12 168 891 to correct this prior period error.

Guarantees in lieu of consumer deposits amounted to R 38 011 705 (2021: R 37 329 195).

Fair value approximates the carrying value of the vendor deposits.

12. Finance lease obligation

	2022	2021
Minimum lease payments due		
- within one year	2 229 052	2 229 052
- in second to fifth year inclusive	1 566 823	3 795 876
	3 795 875	6 024 928
less: future finance charges	(296 450)	(712 276)
Present value of minimum lease payments	**3 499 425**	**5 312 652**
Present value of minimum lease payments due		
- within one year	1 988 246	1 813 226
- in second to fifth year inclusive	1 511 179	3 499 425
	3 499 425	**5 312 651**
Non-current liabilities	1 511 179	3 499 425
Current liabilities	1 988 246	1 813 226
	3 499 425	**5 312 651**

It is the municipal entity's policy to lease certain photo copier machines under finance leases. The average lease term is 3 years and the average effective borrowing rate was 9.25%. Initial lease payments varied between R6 442 and R8 647 per month and are subject to prime lending rates.

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Defaults and breaches

No default of the principal, interest, sinking fund or redemption terms of loans payable occurred during the 2021/22 financial year.

13. Long service awards

Reconciliation of long service awards - 2022

	Opening Balance	Actuarial (gains)/losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long service award	25 649 001	(1 599 102)	(1 741 898)	2 579 000	2 789 000	27 676 001

Reconciliation of long service awards - 2021

	Opening Balance	Actuarial (gains)/losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long service award	20 999 000	816 012	(955 011)	2 255 000	2 534 000	25 649 001

	2022	2021
Non-current liabilities	25 187 001	23 818 001
Current liabilities	2 489 000	1 831 000
	27 676 001	**25 649 001**

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 685 (2021 - 632) employees were eligible for long service bonuses.

The current service cost for the ensuing year is estimated to be R 2 838 000 (2022 - R 2 579 000) whereas the interest-cost for the next year is estimated to be R 3 239 000 (2022 - R 2 789 000).

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.

Long service awards liabilities

The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.

Long service benefits are awarded in the form of leave days and a percentage of salary. The awarded leave days have been converted into a percentage of the employee's annual salary. The conversion is based on a 250 working day year.

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. There was also allowed for mortality, retirements and withdrawals from service.

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable.

	2022	2021

13. 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	2 255 000	2 392 000
Interest cost	2 534 000	1 969 000
Actuarial (gains) / losses	816 012	(2 095 649)
	5 605 012	**2 265 351**

Present value of long service award obligation:

Present value of long service award as at 30 June 2022	(27 676 000)
Present value of long service award as at 30 June 2021	(25 649 001)
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)

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 30 June 2021 supplied by the JSE was used to determine the discounted rates and CPI assumptions at each relevant time period.

	2022	2021

13. 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. The 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 2022 of 6.25%. The next salary increase was assumed to take place on 01 July 2023.

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 loss:

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 2022 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 decrease in liability of around R 82,000.

2. Salary increases – the average salary increases were slightly lower than expected which caused the liability to decrease by R64 000.

3. Membership changes – although the number of members increased, the decrease in liability caused by the few members who left was much larger than the increase in the liability by the new members. This resulted in a decrease in liability of around R180 158.

4. Expected payments and other experience changes – Over the past financial year, the expected long service payments for members were different than assumed in the previous valuation. The expected payments to be made was R3 453 000 while only R1 741 898 was paid out in 2021. This largely contributes to the actuarial gain. This, along with some other smaller demographic changes that was assumed different than in the previous valuation, resulted in a decrease in liability of around R1 272 943.

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

	2022	2021

13. Long service awards (continued)

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 Organisation. If the actual rate of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Organisation 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:

Withdrawal rate	-20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total Accrued Liability	28 981 000	27 676 000	26 483 000
Current Service Cost	3 008 000	2 838 000	2 686 000
Interest Cost	3 404 000	3 239 000	3 089 000

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	26 132 000	27 676 000	29 366 000
Current Service Cost	2 669 000	2 838 000	3 025 000
Interest Cost	3 047 000	3 239 000	3 450 000

14. Other financial liabilities

At amortised cost	2022	2021
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 2021 was 7.00% (2020/21: 7.25%)	54 348 938	61 003 647
Intercompany loan The repayment terms of the intercompany loan was amended to be payable at the end of June 2024. 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 2021 was 7.00% (2020/21: 7.25%)	806 544 232	799 244 929
	860 893 170	**860 248 576**
Total other financial liabilities	**860 893 170**	**860 248 576**

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

Non-current liabilities		
At amortised cost	854 289 021	853 593 866

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	2022	2021

14. Other financial liabilities (continued)

Current liabilities		
At amortised cost	6 604 149	6 654 710

15. Payables from exchange transactions

Accrued bonus	10 120 563	8 994 715
Accrued leave pay	44 076 128	43 883 853
Deferred revenue	17 431 959	20 292 339
Electricity connections	18 666 875	22 006 417
Mantsopa Local Municipality	145 975	5 717 102
Operating expense accrual	4 435 279	4 820 553
Retention creditors	1 724 886	761 351
Salary control	6 364 353	5 308 799
Trade payables	519 902 277	351 862 935
Unallocated consumer and vendor payments received in advance	47 936 926	59 379 245
	670 805 221	**523 027 309**

16. VAT liability

VAT liability	219 974 323	171 324 199

17. Loans to (from) shareholders

Mangaung Metropolitan Municipality	(803 609 369)	(803 609 369)

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.

18. Share capital / contributed capital

Authorised		
1000 Ordinary shares of par value of R1	1 000	1 000
Issued		
100 Ordinary shares	100	100

19. Revaluation reserve

Revaluation surplus beginning of period	4 093 910 707	4 097 258 330
Movements in the reserve for the year	(503 476)	(3 347 623)
Closing balance	**4 093 407 231**	**4 093 910 707**

	2022	2021

20. 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.

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**

21. Service charges

Free services recoverable	22 919 129	19 615 510
Sale of electricity	1 608 172 563	1 556 259 365
Sale of pre-paid electricity	1 180 829 284	1 029 279 745
	2 811 920 976	**2 605 154 620**

22. Other income

Advertisement	-	23 115
Credit control fees	4 567 946	6 840 341
Fines & reconnection income	5 394 474	3 791 191
New connections	20 088 781	7 080 600
Sale of clearance certificates	703 108	781 215
Street lighting	91 172 917	78 338 714
Training income	574 764	373 756
Transaction handling fees	218 133	17 527
	122 720 123	**97 246 459**

23. Interest Income

Interest revenue

Interest on ABSA current account	483 989	540 472
Interest on loans and other receivables from exchange transactions	84 894	112 441
Interest on consumer receivables from exchange transactions	24 410 025	22 985 879
Interest on bank investments	300 133	97 136
Interest received - Eskom deposit	19 822	23 658
	25 298 863	**23 759 586**

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

	2022	2021

24. Government grants & subsidies

Capital grants

Urban settlements development grant	24 753 070	43 760 976

Urban Settlements Development Grant

Current-year receipts	24 753 070	43 760 976
Conditions met - transferred to revenue	(24 753 070)	(43 760 976)
	-	-

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.

25. Unclaimed Money Forfeits

Unclaimed Money Forfeits	3 818 377	7 726 878

During the current financial year unclaimed monies older than 3 years was recognised as revenue.

26. Employee related costs

Basic salary and wages	268 804 981	247 982 144
Bargaining council	86 808	79 487
Housing benefits and allowances	1 594 335	1 499 058
Leave pay provision charge	816 568	8 196 701
Long-service awards	3 768 899	5 605 013
Medical aid - company contributions	24 408 519	22 412 263
Overtime payments	51 665 326	47 094 347
Pension and provident fund contributions	41 608 251	38 109 031
SDL	3 489 467	3 201 810
Travel, motor car, accommodation, subsistence and other allowances	27 875 231	25 312 702
UIF	1 483 633	1 220 070
	425 602 018	**400 712 626**

Remuneration of Chief Executive Officer - Mr. MS Sekoboto

Annual Remuneration	2 222 971	1 111 630
Travel, motor car, accommodation, subsistence and other allowances	144 000	72 000
Contributions to UIF, Medical and Pension Funds	25 679	12 696
Acting allowance	-	159 837
	2 392 650	**1 356 163**

During January 2021 Mr. MS Sekoboto was appointed as the Chief Executive Officer after acting in the position since July 2020.

Notes to the Financial Statements

	2022	2021

26. Employee related costs (continued)

Remuneration of Chief Financial Officer - Acting Mr. SK Zziwa

Annual Remuneration	955 840	1 066 095
Travel, motor car, accommodation, subsistence and other allowances	3 600	73 800
Contributions to UIF, Medical and Pension Funds	10 433	13 359
Acting allowance	120 037	30 010
	1 089 910	**1 183 264**

Mr. MM. Matsimela resigned as Chief Financial Officer during March 2021. Mr. SK Zziwa was appointed as acting Chief Financial Officer for the remainder of the 2020-21 financial year.

Me. H. Nkomo was appointed as the Chief Financial Officer during July 2021 but was subsequently suspended and dismissed due to irregularities in the appointment process. Mr. SK Zziwa was subsequently appointed as acting Chief Financial Officer.

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

Annual Remuneration	981 078	981 395
Travel, motor car, accommodation, subsistence and other allowances	254 400	254 400
Contributions to UIF, medical and pension funds	14 124	14 344
	1 249 602	**1 250 139**

Remuneration of Company Secretary - Mr. T Malgas

Annual Remuneration	1 338 753	1 339 070
Travel, motor car, accommodation, subsistence and other allowances	152 400	152 400
Contributions to UIF, medical and pension funds	16 885	17 217
	1 508 038	**1 508 687**

Remuneration of Executive Manager: Retail - Mr. SS Mokoena

Annual Remuneration	904 278	931 895
Travel, motor car, accommodation, subsistence and other allowances	331 362	303 900
Contributions to UIF, Medical and Pension Funds	13 970	14 245
	1 249 610	**1 250 040**

Notes to the Financial Statements

	2022	2021

26. Employee related costs (continued)

Remuneration of Executive Manager: Wires - Mr. LJ Mojaje

Annual Remuneration	1 450 498	-
Travel, motor car, accommodation, subsistence and other allowances	160 403	-
Contributions to UIF, medical and pension funds	18 050	-
Acting allowance	-	98 377
	1 628 951	**98 377**

During July 2020 Mr. MS Sekoboto, the Executive Manager: Wires at the time, was appointed as the acting Chief Executive Officer and subsequently appointed as the permanent Chief Executive Officer during January 2021. This resulted in Mr. P Mohapi and Mr. XG Faku being appointed as acting Executive Manager: Wires during the 2020/21 financial year in 3 month intervals.

During July 2021, Mr. LJ Mojaje was appointed as the Executive Manager: Wires.

Remuneration of Executive Manager: Human Resources - Me. SSC Tsoai

Annual Remuneration	1 450 498	-
Travel, motor car, accommodation, subsistence and other allowances	158 400	-
Contributions to UIF, medical and pension funds	18 050	-
Acting allowance	-	78 235
	1 626 948	**78 235**

Me. S Molefe's employment contract came to an end during June 2020. During July 2020 Me. M Molemela was appointed as acting Executive Manager: Human Resources. During January 2021 the Executive Manager: Human Resources responsibilities were temporarily taken over by the office of the Chief Executive Officer.

During July 2021, Me. SSC Tsoai was appointed as the Executive Manager: Human Resources.

Remuneration of non-executive directors

Annual Remuneration	-	392 671
Contributions to UIF, medical and pension funds	-	7 044
	-	**399 715**

Refer to note 43 for details of the remuneration per person.

27. Depreciation and amortisation

Property, plant and equipment	221 563 241	218 116 451
Intangible assets	11 876 276	9 664 408
	233 439 517	**227 780 859**

	2022	2021

28. Impairment loss

	2022	2021
Impairments		
Property, plant and equipment	52 716	4 087 298
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 based on asset condition and an impairment loss was raised.		
Inventories	(345 620)	(967 690)
An assessment of the net realisable value against cost was performed and inventory was written down.		
	(292 904)	**3 119 608**

29. Finance costs

	2022	2021
Capital advances Mangaung Metropolitan Municipality	4 270 255	4 908 298
Finance leases	415 826	154 818
Interest on intercompany loan	54 302 049	55 112 213
Interest on shareholders loan	150 956 860	133 787 468
Trade and other payables	9 675 187	11 863 145
	219 620 177	**205 825 942**

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

	2022	2021
Contributions to /(Reversal of) debt impairment provision	77 201 367	18 759 156

31. Bulk purchases

	2022	2021
Electricity - Eskom	2 061 862 827	1 780 067 168

Notes to the Financial Statements

32. General expenses

	2022	2021
Advertising & marketing	2 079 989	251 869
Auditors remuneration	6 120 820	6 284 386
Bank charges	1 869 968	1 768 234
Bursaries	547 081	347 681
Cleaning	70 036	155 289
Commission paid	54 103 632	48 088 511
Conferences and delegations	91 028	63 369
Consulting and professional fees	14 267 110	19 878 380
Credit control fees	51 640	146 174
Entertainment	25 701	35 640
Fuel and oil	10 990 156	5 623 237
Fumigation	1 011 542	28 706
Insurance	7 231 925	5 091 967
Internal audit fee	1 682 563	1 931 272
Lease rentals on operating lease	835 347	759 406
Legal costs	17 322 300	6 292 144
License fees	1 763 448	4 601 088
Meter reading	459 339	953 009
Other expenses	20 599	10 372
Postage and courier	2 491	-
Printing and stationery	2 396 531	1 645 961
Protective clothing	2 565 540	1 229 012
Rented office buildings utilities - Water	86 261	61 441
Repairs and maintenance	90 215 911	65 127 605
Security services	6 317 158	1 549 800
Staff welfare	2 000	52 443
Stores and materials	1 096 137	624 724
Subscriptions and membership fees	233 421	84 476
Telephone and fax	7 103 590	4 699 066
Training	2 206 502	185 942
Travelling	215 838	108 242
Workman's compensation	5 258 470	4 559 394
	238 244 074	**182 238 840**

	2022	2021

33. Taxation

Major components of the tax income

Current		
Local income tax - current period	-	-
Deferred		
Originating and reversing temporary differences	(42 222 907)	(36 798 818)
Assessed loss used	1 132 740 927	1 147 178 657
Assessed loss raised	(1 170 245 015)	(1 132 740 927)
	(79 726 995)	**(22 361 088)**

Reconciliation of the tax expense

Reconciliation between accounting surplus and tax expense.

Accounting deficit	(269 240 084)	(36 089 382)
Tax at the applicable tax rate of 28% (2021: 28%)	(75 387 224)	(12 437 218)
Tax effect of adjustments on taxable income		
Non-taxable income	(6 930 860)	(12 253 073)
Non-deductible expenses	2 591 089	2 329 203
	(79 726 995)	**(22 361 088)**

34. Net cash flows from operating activities

Deficit	(189 513 089)	(13 728 294)
Adjustments for:		
Depreciation and amortisation	233 439 517	227 780 859
Gain on sale of assets and liabilities	9 253 888	2 026 439
Finance costs - Finance leases	415 826	154 818
Impairment	(292 904)	3 119 608
Debt impairment	77 201 367	18 759 156
Movements in long service awards	2 027 000	4 650 001
Annual charge for deferred tax	(79 726 995)	(22 361 088)
Changes in working capital:		
Inventories	(28 119 087)	12 157 165
Other receivables from exchange transactions	(35 614 006)	(34 727 254)
Consumer receivables from exchange transactions	(37 118 239)	(38 568 263)
Payables from exchange transactions	147 777 911	(22 479 116)
VAT	48 650 124	35 749 435
Consumer deposits	3 330 929	(1 733 294)
	151 712 242	**170 800 172**

35. Auditors' remuneration

Audit fees	6 120 820	6 284 386

Notes to the Financial Statements

	2022	2021

36. Commitments

Authorised capital expenditure

Approved and contracted for		
• Property, plant and equipment- infrastructure	9 437 380	27 947 533
Total capital commitments		
Approved and contracted for	9 437 380	27 947 533

Authorised operational expenditure

Approved and contracted for		
• Contracted services	304 664	1 315 869
Total operational commitments		
Approved and contracted for	304 664	1 315 869

Total commitments

Total commitments		
Authorised capital expenditure	9 437 380	27 947 533
Authorised operational expenditure	304 664	1 315 869
	9 742 044	**29 263 402**

This committed expenditure relates to Infrastructure and operational expenditure and will be financed by available bank facilities, retained surplusesexisting cash resources, funds internally generated, etc.

All commitments include VAT.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	918 882	835 347

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%.

	2022	2021

37. 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

	2022	2021
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	13 135	80 000
Litigations of Centlec (SOC) Ltd vs H Potgieter relating to civil claim for past and future damages suffered.	50 000	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.	5 545 736	8 000 000
Litigations of Centlec (SOC) Ltd vs KM Moroole - Litigation relating to a summons for a motor vehicle accident.	57 208	100 000
Litigations of Centlec (SOC) Ltd vs MJ Makofane - Litigation relating to restoration of electricity supply and damages.	-	100 000
Litigations of Centlec (SOC) Ltd vs Mankhele - Litigation relating to pension fund claim documentation submission to SALA & legal costs.	-	62 951
Litigations of Centlec (SOC) Ltd vs Bonakele Daniel - Litigation relating to damages to electrical appliances.	-	48 000
Litigations of Centlec (SOC) Ltd vs Ramothello inc. - Litigation relating to claims. Summons were issued, pleas & counter-claim received.	-	184 000
Litigations of Centlec (SOC) Ltd vs Various Government Institutions - Litigation relating to IGR processes.	-	173 000
Litigations of Centlec (SOC) Ltd vs Impala restaurant Edenburg - Litigation relating to electricity disconnection being contested.	-	15 000
Litigations of Centlec (SOC) Ltd vs Woodland Hills Wildlife Estate (Pty) Ltd - Litigation relating to services to be rendered by Centlec (SOC) Ltd & associated legal costs.	-	150 000
Litigations of Centlec (SOC) Ltd vs KPM/CMAI/DOMANI Joint venture - Litigation relating to alleged services rendered to Centlec (SOC) Ltd.	1 494 460	2 000 000
Litigations of Centlec (SOC) Ltd vs Boompies kitchen - Litigation relating to alleged meter tampering and electricity disconnection.	-	200 000
Litigations of Centlec (SOC) Ltd vs Legends 8079 (PTY) Ltd - Litigation relating to a claim for goods allegedly delivered to Centlec (SOC) Ltd.	-	1 600 000
Litigations of Centlec (SOC) Ltd vs JC Nel - Labour dispute relating to unfair dismissal claim.	-	93 713
Litigations of Centlec (SOC) Ltd vs IMATU OBO MPJ Xaba & 2 others - Labour dispute relating to unfair labour practice claim.	-	23 669
Litigations of Centlec (SOC) Ltd vs IMATU OBO MPJ Xaba & 2 others - Section 74 labour dispute.	-	16 100
Litigations of Centlec (SOC) Ltd vs MS Moloabi - Labour dispute relating to unfair dismissal claim.	164 952	28 568
Litigations of Centlec (SOC) Ltd vs SAMWU OBO Z Williams - Labour dispute relating to unfair dismissal claim.	2 400 000	2 000 000
Litigations of Centlec (SOC) Ltd vs Combrinck - Action instituted against Centlec and MMM due to improper disconnection.	25 000	-
Litigations of Centlec (SOC) Ltd vs L Masepole and 3 others - Litigation relating to declaring the revocation of their promotion unlawful.	4 000 000	-
Litigations of Centlec (SOC) Ltd vs S Setai - Labour dispute.	25 000	-
Litigations of Centlec (SOC) Ltd vs Fezi Auditors & Consultants - Tender award dispute.	100 000	-
Litigations of Centlec (SOC) Ltd vs Devovox (Pty) Ltd - Dispute relating to unpaid invoices due.	50 000	-
Litigations of Centlec (SOC) Ltd vs Brigida Araujo Caldeira & 3 others - Claim against Centlec (SOC) Ltd for damages arising from motor vehicle accident.	10 122	-

	2022	2021
37. Contingencies (continued)		
Litigations of Centlec (SOC) Ltd vs Vuyani Security Services CC - Claim against Centlec (SOC) Ltd for alleged breach of contract for services rendered.	544 000	-
Litigations of Centlec (SOC) Ltd vs Van Niekerk - Claim against Centlec (SOC) Ltd for alleged damages suffered as a result of Centlec's alleged failure to maintain an electricity cable and to take adequate measures to cordon off the hazardous area.	126 001	-
	14 605 614	**15 995 772**

38. Change in estimate

Property, plant and equipment

During the year, the municipal entity changed its accounting estimates with respect to property, plant and equipment. In order to conform with the benchmark treatment of GRAP17, the residual values, estimated useful lives and depreciation method were reviewed at 30 June 2022. Adjustments to the useful lives affect the amount of 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 2022 is as follows

Depreciation expense before remaining useful lives review	28 763 865
Future decrease in depreciation due to review	(2 544 524)
Depreciation expense after remaining useful lives review	**26 219 341**

	2022	2021

39. 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:

39.1. Prior period error - Consumer receivables from exchange transactions:

During the period under review it was noted that consumer debt relating to a debt incentive scheme initiated in 2016 was not written off although the debt qualified for write off in terms of the incentive scheme. All debt qualifying for the incentive scheme write off was identified and corrected. A correction was made and the comparative statements for the 2020/21 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

Decrease in consumer receivables from exchange transactions	(1 963 232)
Increase in VAT liability	(232 923)
Increase in payables from exchange transactions - Mantsopa Local Municipality	(9 870)

Statement of financial performance

Decrease in opening accumulated surplus or deficit	2 206 025

39.2. Prior period error - Reclassification of SDL:

During the period under review it was noted that SDL was classified as part of general expenses however it should have been classified as part of employee related costs due to the nature of the expense. A correction was made and the comparative statements for the 2020/21 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial performance

Decrease in general expenses	(3 201 810)
Increase in employee related costs	3 201 810

39.3. Prior period error - Prepaid sales charged at the wrong tariff:

During the period under review it was noted that prepaid customers who were zoned as business were being charged residential tariffs for prepaid electricity purchases instead of business tariffs. A recalculation was performed to determine the correct value the customers should have been charged during the current and previous financial year. A debtor was raised in the prior financial year and an auxiliary will be implemented on the affected customers' meters to recover this receivable. A correction was made and the comparative statements for the 2020/21 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	9 578 642
Increase in VAT liability	(1 249 388)

Statement of financial performance

Increase in service charges - sale of pre-paid electricity	(8 329 254)

40. Events after the reporting date

The directors would like to draw attention to the fact that 2 of the board members have resigned subsequent to financial year end. The chairman of the board mr. KM Moroka resigned on 28 October 2022 and me. RL Tsiki resigned on 29 October 2022.

Except for the above mentioned, the directors are not aware of any other 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.

Notes to the Financial Statements

	2022	2021

41. 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:

- Total assets (R 8 469 546 145) exceed total liabilities (R 4 074 902 853).

- The municipal entity has an accumulated surplus and other reserves of R 4 394 643 292.

The following analysis illustrates material uncertainties that may affect the going concern assumption:

- Current liabilities (R 1 032 234 748) exceed current assets (R 795 846 562).

- The municipal entity incurred a deficit of R 189 513 089 for the current financial year.

Management has reviewed the municipal entity's cash flow forecast for the year ended 30 June 2022. The municipal entity reported a trading deficit of R 189 513 089 which is mainly attributed to the debt impairment and the interest on the shareholders and intercompany loans. The entity is currently converting most of the rotational meters to prepaid meters which is likely to significantly reduce the accounts subject to debt impairment.

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

The entity's revenue showed an increase for the current financial year which' trend is projected to continue into the next financial year.

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.

	2022	2021

42. 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

Loan accounts - Owing (to) by related parties

	2022	2021
Mangaung Metropolitan Municipality - Advances	(54 348 938)	(61 003 647)
Mangaung Metropolitan Municipality - Shareholders loan	(803 609 369)	(803 609 368)
Mangaung Metropolitan Municipality - Intercompany loan balance	(806 544 232)	(799 244 929)

Issued share capital

	2022	2021
Mangaung Metropolitan Municipality	100	100
Percentage of shares owned by Mangaung Metropolitan Municipality	100%	100%

Related party transactions

Interest paid to (received from) related parties

	2022	2021
Mangaung Metropolitan Municipality - Advances	4 270 255	4 908 298
Mangaung Metropolitan Municipality - Shareholder loan	150 956 860	133 787 468
Mangaung Metropolitan Municipality - Intercompany loan	54 302 049	55 112 213

	2022	2021

42. Related parties (continued)

Purchases from (sales to) related parties

Mangaung Metropolitan Municipality - Amounts received on behalf of Centlec (SOC) Ltd	(11 689)	-
Mangaung Metropolitan Municipality - Fuel issued to Mangaung Metropolitan Municipality (SOC) Ltd	(297 046)	-
Mangaung Metropolitan Municipality - Electricity charges - Municipal consumption & training	(83 663 961)	(38 541 672)
Mangaung Metropolitan Municipality - Reimbursable expenses - USDG grant	(24 753 070)	(43 760 976)
Mangaung Metropolitan Municipality - Reimbursable expenses - Free basic services	(22 919 129)	(19 615 510)
Mangaung Metropolitan Municipality - Streetlight consumption	(91 172 917)	(78 338 714)
Mangaung Metropolitan Municipality - Capital advance redemption	6 654 710	6 697 009

Transfers made to (received from) related parties

Mangaung Metropolitan Municipality - Cash transfers to Mangaung Metropolitan Municipality	-	6 200 000

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.

Compensation to directors and other key management

Annual remuneration	9 303 916	5 430 086
Travel, motor car, accommodation, subsistence and other allowances	1 204 566	856 500
Contributions to UIF, medical and pension funds	117 191	78 906
Acting allowance	120 037	366 458
Directors fee	-	392 671
	10 745 710	**7 124 621**

43. Directors' emoluments

Non-executive

2022

	Directors' fees	Company contribution - UIF	Company contribution - SDL	Total
Mr. KM Moroka (Chairperson)	-	-	-	-
T Ngubeni	-	-	-	-
Y Skwintshi	-	-	-	-
R Tsiki	-	-	-	-
T Mazibuko	-	-	-	-
T Manye	-	-	-	-
	-	-	-	-

2021

	Directors' fees	Company contribution - UIF	Company contribution - SDL	Total
Mr. KM Moroka	78 374	618	784	79 776
Me. DC Myeni (Deputy Chairperson)	67 470	554	675	68 699
Mr. N Mokhesi (Chairperson)	93 109	595	931	94 635
Mr. CAK Choeu	66 470	618	665	67 753
T Ngubeni	13 776	138	138	14 052
Y Skwintshi	18 368	149	183	18 700
R Tsiki	18 368	149	183	18 700
T Mazibuko	18 368	149	183	18 700
T Manye	18 368	149	183	18 700
	392 671	**3 119**	**3 925**	**399 715**

Notes to the Financial Statements

	2022	2021

44. Fruitless and wasteful expenditure

Opening balance as previously reported	45 284 387	33 366 086
Expenditure incidents identified during the financial year	9 675 187	11 918 301
Closing balance	**54 959 574**	**45 284 387**

Fruitless and wasteful expenditure is presented exclusive of VAT in instances where VAT is applicable.

Expenditure identified in the current year include those listed below:

Details of fruitless and wasteful expenditure

Incident	Disciplinary steps taken		
Interest incurred on late payment of ESKOM, TELKOM and Department of Labour 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.	9 675 187	11 863 145
Employee related costs incurred for an employee after his employment contract ended	An employee was paid remuneration after his fixed term contract had expired. No official of the entity is liable and expense has been submitted to council for consideration of write off.	-	55 156
		9 675 187	**11 918 301**

Analysis of fruitless and wasteful expenditure to be considered for write off by council are as follows:

Opening balance	45 284 387	33 366 086
Relating to prior year	-	-
Current year	9 675 187	11 918 301
	54 959 574	**45 284 387**

Notes to the Financial Statements

	2022	2021

45. Irregular expenditure

	2022	2021
Opening balance	719 174 299	500 035 542
Expenditure incidents identified during the financial year	195 620 781	219 138 757
Closing balance	**914 795 080**	**719 174 299**

Irregular expenditure is presented exclusive of VAT in instances where VAT is applicable.

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

Incident	Disciplinary steps taken	2022	2021
Expenditure in contravention with Supply Chain Management policy, Municipal Financial Management Act and Municipal Systems Act.	Expenditure incurred was more than the contractual amount agreed upon. Contravention of the MFMA requirements. The incident is currently being considered for investigation. The expenditure has been submitted to council for consideration to be written off.	816 117	450 118
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 irregular quotation rankings. The incident is currently being considered for investigation. The expenditure has been submitted to council for consideration to be written off.	290 968	221 078
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 irregular relating to panel based appointments. The incident is currently being considered for investigation. The expenditure has been submitted to council for consideration to be written off.	-	31 348 999
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 and finance costs 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 - expenditure budget cuts during the adjustment budget resulting in under budgeting on bulk purchases. The expenditure has been submitted to council for consideration of being written off.	194 513 696	187 118 562
Total irregular expenditure.		**195 620 781**	**219 138 757**

Analysis of expenditure to be considered for write off by council per age classification

	2022	2021
Current year	195 620 781	187 682 608
Prior years	719 174 299	531 491 691
	914 795 080	**719 174 299**

	2022	2021

46. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	5 464	-
Current year fee	6 120 820	6 284 386
Amount paid - current year	(5 695 878)	(6 278 922)
Amount paid - previous years	(5 464)	-
	424 942	**5 464**

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2022:

Councillor	July 2021	August 2021	September 2021	October 2021
JH Denner	2 163	2 163	2 163	2 163
JI Mokoena	40 527	40 527	40 527	40 527
LER Rasoeu	584	584	584	584
E Snyman van Deventer	454	454	454	454
	43 728	**43 728**	**43 728**	**43 728**

Councillor	November 2021	December 2021	January 2022	February 2022
JH Denner	2 163	2 163	2 163	2 174
JI Mokoena	40 527	40 527	40 527	40 527
LER Rasoeu	584	584	584	584
E Snyman van Deventer	454	454	454	454
	43 728	**43 728**	**43 728**	**43 739**

Councillor	March 2022	April 2022	May 2022	June 2022
JH Denner	2 185	2 196	2 208	2 220
JI Mokoena	40 527	40 527	40 527	40 527
LER Rasoeu	584	584	584	584
E Snyman van Deventer	454	454	14	14
	43 750	**43 761**	**43 333**	**43 345**

	2022	2021

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

Distribution losses

In the current year the energy losses were 10.96% (2021: 10.05%). 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.

	2022	2021
kWh - units	167 996 227	157 539 739
Rand value	241 915 025	182 694 562
Percentage	10,96%	10,05%

For the 2021/22 financial year the distribution losses amount to 10.96% (2021: 10.05%). 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 55 998 742 kWh - units (2021: 52 513 246 kWh - units) with a Rand value of R 80 638 342 (2021: R 60 898 187).

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 111 997 485 kWh - units (2021: 105 026 493 kWh - units) with a Rand value of R 161 276 683 (2021: R 121 796 375).

PAYE and UIF

	2022	2021
Opening balance	(39 014)	1 050 909
Payable for the current year	79 243 727	71 663 682
Amount paid - current year	(79 243 737)	(71 702 696)
Amount paid/refunded - previous years	-	(1 050 909)
	(39 024)	**(39 014)**

Pension and Medical Aid Deductions

	2022	2021
Opening balance	(39 103)	65 101
Payable for the current year	102 648 781	94 334 146
Amount paid - current year	(102 741 201)	(94 373 249)
Amount paid/refunded - previous years	39 103	(65 101)
	(92 420)	**(39 103)**

Notes to the Financial Statements

	2022	2021

46. 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 2022	Rand value 2022	Number of deviations 2021	Rand value 2021
Sole supplier	24	3 101 019	23	2 728 278
Urgent	2	314 897	4	3 224 936
Other	8	314 016	14	482 375
	34	**3 729 932**	**41**	**6 435 589**

In terms of Section 45 of the Municipal Supply Chain Management Regulations the municipal entity must disclose particulars of any award more than R 2 000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous 12 months.

For the period under review there were instances where the municpal entity made awards more than R 2 000 to a person who is a spouse, child or parent of a person in the service of the state as set out below:

Incident	Rand Value
NB Mechanicals The spouse of one of the directors, Shaun Barnes, is employed as an assistant librarian at the Department of Sports, Arts and Culture.	8 334 296
Ice-cloud SA/Mosima SA The spouse of one of the directors, Victor Motatung, is employed as a medical officer at the department of health.	-

VAT

	2022	2021
VAT payable	219 974 323	171 324 199

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

47. 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 and the NCR have 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. 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.

47. Risk management (continued)

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.

2022	**Less than 1 year**	**Between 1 and 2 years**
Consumer deposits	130 373 809	-
Finance lease obligation	1 988 246	1 511 179
Other financial liabilities	6 604 149	854 289 021
Payables from exchange transactions	670 805 221	-
	809 771 425	**855 800 200**

2021	**Less than 1 year**	**Between 1 and 2 years**
Consumer deposits	127 042 880	-
Finance lease obligation	1 813 226	3 499 425
Other financial liabilities	6 654 710	853 593 866
Payables from exchange transactions	523 027 309	-
	658 538 125	**857 093 291**

Notes to the Financial Statements

	2022	2021

47. Risk management (continued)

Credit risk

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

Financial instruments disclosure

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

Carrying amount of financial asset measured at amortised cost	2022	2021
Cash and cash equivalents	12 255 939	15 821 036
Consumer receivables from exchange transactions	509 308 358	549 391 486
Other financial assets	573 470	848 940
Other receivables from exchange transactions	148 957 273	113 343 267

Carrying amount of financial liability measured at amortised cost	2022	2021
Consumer deposits	130 373 809	127 042 880
Finance lease obligation	3 499 425	5 312 651
Loans from shareholders	803 609 369	803 609 369
Other current liabilities	6 604 149	6 654 710
Other non-current liabilities	854 289 021	853 593 866
Payables from exchange transactions	670 805 221	523 027 309

47. Risk management (continued)

Market risk

Interest 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

47. 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.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit.

	2022	2021

48. 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 2021 to 30 June 2022.

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 attributed partially to the impact of frequent loadshedding experienced during the year as well as customers considering alternative energy sources due to the escalating Electricity tariffs.

2. Agency services - The variance is attributed to the drop in the transaction values for the Southern Free State municipalities. The drop is due to the impact of loadshedding that reduced the volume of transactions linked to the SFS towns.

3. Other Income - A number of new connections that were not completed in the prior year were finalised during the current year resulting in extra amount being recognised as revenue. There was also an increase in the street light consumption as compared to the prior year due to the additions to street lights during the current year.

4. 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.

5. Unclaimed money forfeits - At the time of preparing the budget the unclaimed money forfeits were not accounted for as it requires a lapse of three years before the unknown funds are considered as revenue.

6. Employee related costs - The variance is due to several factors which include the Notch incremental dates, the overtime that was not planned as officials were on prolonged sick due the covid19.. The effect of officials promoted to higher positions is another contributing factor . All of these are not considered at the time of the budget preparation.

7. 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 and the revaluation of assets at the end of the prior financial year. Another factor is he cutting down of the entity's budget on consolidation as a result of the financial situation of MMM.

8. Impairment loss/ Reversal of impairments - This is linked to the inventory valuation process at year end that is not taken into account during the budget preparation process. Other items include the impairment of PPE whose recoverable amounts are not readily available at the time of budget preparation thus are not taken into account.

9. Finance costs - The variance is due to the concession reached between the entity and the parent municipality on how to deal with the impact of the Sale of business . The budget considered only R120 000 000 while the SOB refers to the full amount

10. Debt impairment - The variance is as a result of the unpredictable movement on the consumer debtors' accounts.

11. General Expenses - The underspending is linked to the impact of the suspension of the procurement process by the courts which delayed the appointment of some of the service providers.

12. Loss on disposal of assets and liabilities - The proceeds on disposal are unpredictable at the time of preparing the budget thus the cause for variance.

48. Budget differences (continued)

13. Inventories losses/write-downs - Unpredictable at the time of preparing the budget thus the reason for variance.

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. 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.

2. Consumer debtors - The impact of the debt impairment could not have been reliably predicted at the time of preparing the budget thus the reason for the variance.

3. Cash and cash equivalents - There was an anticipation that the government debt could have been settled at the time of preparing the budget which could have contributed to cash reserves at year end.

Non-Current Assets

1. Property, plant and equipment - The variance is attributed to the significant increase in the values that were moved from work in process to capitalisation resulting in increased depreciation.

2. Intangible assets - A number of licenses expired and were not renewed.

3. Other financial assets - The variance is attributed to the fact that no budget was prepared for this item as it is a book entry between the municipal entity and the Southern Free State towns receivable.

4. 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 - Some of the line items that make up the payable from exchange transaction such as the deferred revenue, electricity connections and unallocated deposit did not move in the same direction as projected in the budget.

2. VAT liability - VAT is not provided for in the budget process

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. Finance lease obligation - The variance is due to the fact that the expense was budgeted for as an operating lease and not in terms of a finance lease.

4. Deferred tax - The deferred tax final figure is influenced by the actual movements in the timing differences that cannot be reliably predicted.

48. Budget differences (continued)

5. Long service awards - The parameters used to arrive at the figure for long services are influenced by the actuarial records at the year end while the budget is based on the adjusted projections prior year.

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 from the prior year. The adjusted budget did not fully accommodate this increase.

3. Accumulated Surplus - This was impacted by the debt impairment for the previous and current years as well as the current year's trading deficit.

49. Inter-departmental consumption

	2022	2021
Inter-departmental consumption	1 455 930	1 171 647

The inter-departmental consumption is based on units consumed as per the meter records.

50. 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

- **Non-compliance with MFMA sec 65(2)(e)**
  Money owing by the entity to the value R 178 023 191 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:

- The evaluation of the board, its committees and the individual directors was not conducted as required by Par 2.22 of the code.

Non-compliance with the Board Charter:

The Board and Board Committees did not meet the meeting requirements for the 2021/22 financial year as set out per Par 7.2 of the charter.

Centlec (SOC) Ltd
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2022

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	-	-	6 471 922	18 281 148	3 233 429	8 753 171	4 385 437	8 381 033	Yes
		-	-	6 471 922	18 281 148	3 233 429	8 753 171	4 385 437	8 381 033	

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.