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Your Ref: M Kganaga	Our Ref: 12/1/9/4/2
Room 201, Bram Fischer Building	Date: 20 May 2023

**THE SPEAKER OF COUNCIL  
 MARYKE DAVIES**

Mangaung Metropolitan Municipality

**RESPONSE TO RULE 38 QUESTION: SUBMITTED BY CLR M KGANAGA D.A  
 COUNCILLOR**

**DEBT IMPAIRMENT CENTLEC (SOC) Ltd AFS AND CONSOLIDATED AFS  
 PROVISIONS, CENTLEC ADJUSTMENT BUDGET & CENTLEC BOARD.**

Your E-mail dated 29 April 2022 regarding the matter mentioned above refers.

**Debt Impairment.**

*“During Council meeting dated 20 April 2022 Ms Gadija Brown MEC for Finance in the Free State province indicated that the Free State Provincial government has made payment arrangements with the Mangaung Metro Municipality and has the fullest intention on paying back all the monies owed to the municipality. In that same council meeting the Minister of Cooperative Governance and Traditional Affairs also made a remark about the provincial debt to the municipality being settled and full consequences to be made applicable for non-payment.”*

Comment: No such arrangement has yet been made in writing with Centlec

*“In lieu of above, there are no accounting standards or treasury directive for the impairment strategy by Centlec or Mangaung, the impairment as per Note 42 has an adverse consequence on the financial liability of the entity and the provincial government has made provisions to pay back the debt”.*

Comment:

**Accounting standard: GRAP 104**

Debt impairment provision was made in line with GRAP104 as per Auditor General of South Africa recommendations based off of Standards of Generally Recognised Accounting Practice (GRAP) 104. Please refer to attached AGSA finding.

GRAP 104 states the following with regards to Impairment and uncollectibility of financial assets:

Paragraph - 46: All financial assets measured at amortized cost, or cost, are subject to an impairment review in accordance with paragraphs .57 to .64.

Paragraph - 57: An entity shall 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. If any such evidence exists, the entity shall apply paragraphs .61 to .63 (for financial assets carried at amortized cost) and paragraph .64 (for financial assets carried at cost) to determine the amount of any impairment loss.

Paragraph - 58: A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment, since it may have been the combined effect of several events that did so. Losses expected as a result of future events, no matter how likely, are not recognized. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- (a) significant financial difficulty of the issuer or obligor.
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - (i) adverse changes in the payment status of borrowers in the group (e.g. an increased
  - (ii) number of delayed payments);
  - (iii) or national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, or adverse changes in market conditions that affect the borrowers in the group).

### **Credit Control & Debt Collection Policy**

#### **Section 8 - Accounts and billing states the following:**

- (i) The entity shall provide all consumers with a monthly consolidated account for electricity services rendered, which account shall be generated on a monthly basis in cycles of approximately thirty (30) days.
- (ii) All accounts rendered by the entity shall be payable on the due date. Account balances which remain unpaid after 30 days from the delivery date of the account shall attract interest on arrears, irrespective of the reasons for non-payment. Interest will be charged from the first working day of the month following the month in which the account becomes payable.

During the planning phase of the audit, it was identified that management does not impair government and municipal debt. However, through the analysis of the debtors' data the auditors identified that there is objective evidence that indicates that government and municipal debts should be impaired. 93% of government debt (548 514 652) is in arrears for more than 90 days while 57 % (334 372 424) is due for more than 360 days, and

therefore the following indicators of impairment that have been provided in paragraph 58 of GRAP 104 exist:

1. Significant financial difficulty of the obligor: 57% is due for more than 360 days which is long overdue since the service was provided and indicates financial difficulty at the Departments and municipalities as they cannot settle their accounts within 30 days as required by the legislation.
2. A breach of contract, such as a default or delinquency in interest or principal payments: In terms of the policy of Centlec all debtors should pay their accounts within 30 days, there has been a breach of contract as 93% of debtors have been in arrears for more than 90 days.
3. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - (i) adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or
  - (ii) national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, or adverse changes in market conditions that affect the borrowers in the group).

There is an increased number of delayed payments in government debt as their debts keep accumulating over the years. Furthermore, many government entities already have strained cash flow and COVID-19 continues to have a significant negative impact on their revenues and requiring additional expenditure and expanded services to deal with the challenges of COVID-19.

Based on the above, Centlec should recognize impairment on government debtors as GRAP 104 does not distinguish between government debtors and non-government debtors. In addition to this all debtors are required to pay their accounts by the policy.

**Recommendation:**

**All debt impairment journals from Mangaung and Centlec to be reversed.**

Comment:

Debt impairment testing happens annually at year end. If the government debt still meets the criteria for debt impairment methodology which is developed in line with the Standards of GRAP 104 it will unfortunately still have to be impaired. If actual written and agreed upon arrangements exist at year end for government debt, this debt will be excluded from the impairment testing as per the impairment methodology and it will not be impaired resulting in the reversal of the impairment raised in the prior year.

**2. Adjustment Budget**

**A. Why has Centlec not submitted and adjustment budgets and how did an “illegal” unapproved budget find itself on SLOAR?**

Centlec did submit an adjustment budget to MMM on the 20 January 2022 as per the MFMA requirements. Please see attached proof of submission of adjustment budget to MMM within prescribed deadline dates.

**B. Why the non-compliance in all Centlec financial documentations?**

Management is not aware of the pervasive non-compliance in respect of the financial statements. The only issue raised by the AGSA was in respect of material corrections which are normal part of the audit process and were permissible to be corrected. If they were pervasive AGSA would not have allowed the corrections made before final audit report.

**C. Why is Centlec not reported in the monthly section 71 Meetings?**

Centlec submits all section 87 reports on a monthly basis to MMM within prescribed deadline dates. These section 87 reports are consolidated with MMM financial data to form the section 71 monthly required reports. Please see attached proof of submission of monthly section 87 reports. The matter should be raised with MMM for a better understanding.

**D. Is Centlec currently trading with an unapproved budget as per council resolution 31 March 2022?**

The answer was provided in “A” above.

**E. If so on D, how did the entity and its management get to a point of trading with “illegal” or unapproved budgets?**

The answer was provided in “A” above.

**CENTLEC BOARD**

**Questions**

**A. Why is the board not sitting?**

Currently CENTLEC does not have a board. All board members have since resigned and recruitment process is in underway.

**B. Whom is Centlec Management reporting to?**

Management is reporting to the acting Executive Mayor and working closely with management of the municipality led by the Acting City Manager.

**C. How long has the current Chairperson of Centlec Board been a member of the board and what other interest does he have in the parent company/municipality?**

The former Chairperson served CENTLEC 16 years and to my knowledge, he did not have any interest in the municipality except that his law firm is amongst those panel of Attorneys that were appointed to assist the municipality with legal matters.

Yours Sincerely,



**MS NGAKA DUMALISILE**  
**ACTING CITY MANAGER**