THABO MOFUTSANYANA DISTRICT MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2022

Index

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

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act

General Information

Legal form of entity	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)
Nature of business and principal activities	Local Government: Municipal Finance Management Act (Act no.56 of 2003) Local Government: Municipal Systems Act (Act 32 of 2000) Local Government: Municipal Structures Act (Act 117 of 1998) Constitution of the Republic of south Africa (Act 108 of 1998) Division of Revenue Act (Act 1 of 2007)
Mayoral committee	
Executive Mayor	Cllr. AC Msibi Cllr. MJ Vilakazi (Former Exec Mayor) Cllr. TJ Mokoena (Speaker) Cllr. MS Maduna (Former Speaker) Cllr. LU Makhalema (Chief Whip) Cllr. SJ Mbiwe (Former Chief Whip) Cllr. ES Chabeli (MPAC Chairperson) Cllr. MM Twala (Former MPAC Chairperson) Cllr. SM Visagie (MMC - LED & Tourism) Cllr. TN Masiteng (MMC - Corporate Services) Cllr. TI Mkhwanazi (Former MMC - Corporate Services) Cllr. A Fume (MMC - IDP & PMS Services) Cllr. TJ Tshabalala (Former MMC - IDP & PMS Services) Cllr. TJ Mahlambi (MMC - Infrastructure Services) Cllr. KJ Tsoene (Former MMC - Infrastructural Services) Cllr. MJ Vilakazi (MMC - Community Services) Cllr. JM Radebe (Former MMC - Community Services) Cllr. SM Mosia (MMC - Financial Services) Cllr. MB Mamba (Former MMC - Financial Services) Cllr. ND Mofokeng (Former MMC - Municipal Health and Disaster Services)
Councillors	Cllr. MD Marais Cllr. S Mkhwanazi (Term ended 08 Nov 2021) Cllr. PP Khanye (Term ended 08 Nov 2021) Cllr. MA Maleka (Term ended 08 Nov 2021) Cllr. TB Jakobo (Term ended 08 Nov 2021) Cllr. MC Ndlebe (Term ended 08 Nov 2021) Cllr. MM Hlakane (Term ended 08 Nov 2021) Cllr. DL Taetsane (Term ended 08 Nov 2021) Cllr. VR Mohala (Term ended 08 Nov 2021) Cllr. ME Sempe (Term ended 08 Nov 2021) Cllr. BM Sani (Term ended 08 Nov 2021) Cllr. BE Meya (Term ended 08 Nov 2021) Cllr. PG Makae (Term ended 08 Nov 2021) Cllr. MJ Lebesa Cllr. AM Oates Cllr. LG Nhlapo (Term ended 08 Nov 2021) Cllr. MC Botha (Term ended 08 Nov 2021) Cllr. SE Tshabalala (Term ended 08 Nov 2021) Cllr. MM Mokhele (Term ended 08 Nov 2021) Cllr. MB Hlatshwayo (Term ended 08 Nov 2021) Cllr. EN Gamede (Term ended 08 Nov 2021) Cllr. MW Dlamini (Term ended 08 Nov 2021) Cllr. M Motsoeneng (Term ended 08 Nov 2021)

General Information

Cllr. MS Mkhwanazi
Cllr. HD Dlamini
Cllr. TP Motlokoa (Term ended 08 Nov 2021)
Cllr. MA Mosia (Term ended 08 Nov 2021)
Cllr. MJ Mokoena
Cllr. TJ Motsoane (Elected to council 08 Nov 2021)
Cllr. T Mosia (Elected to council 08 Nov 2021)
Cllr. TJ Motaung (Elected to council 08 Nov 2021)
Cllr. LG Mokoakoe (Elected to council 08 Nov 2021)
Cllr. BAS Campbell-Cloete (Elected to council 08 Nov 2021)
Cllr. PA Mothijoa (Elected to council 08 Nov 2021)
Cllr. VB Makhanya (Elected to council 08 Nov 2021)
Cllr. LF Miya (Elected to council 08 Nov 2021)
Cllr. TP Motsoane (Elected to council 08 Nov 2021)
Cllr. MJ Mphafi (Elected to council 08 Nov 2021)
Cllr. LE Mohanoe (Elected to council 08 Nov 2021)
Cllr. SL Rakoloti (Elected to council 08 Nov 2021)
Cllr. MV Molwelwe (Elected to council 08 Nov 2021)
Cllr. AM Nhlapo (Elected to council 08 Nov 2021)
Cllr. MB Bohlale (Elected to council 08 Nov 2021)
Cllr. J Twala (Elected to council 08 Nov 2021)
Cllr. ML Nchocho (Elected to council 08 Nov 2021)
Cllr. C Kalamer (Elected to council 08 Nov 2021)

General Information

Grading of local authority	Grade 11
Accounting Officer	Ms. TPM Lebenya (Appointed 01 December 2017)
Chief Financial Officer	Ms. NL Gqoli (Appointed 01 February 2018)
Registered office	1 Mampoi Street Old Parliament Building Witsieshoek South Africa 9870
Postal address	Private Bag X810 Witsieshoek South Africa 9870
Bankers	ABSA NEDBANK
Auditors	Auditor General of South Africa (AGSA)
Attorneys	Sibeko Attorneys Inc.
Website:	www.tmdm.gov.za

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

I have reviewed the municipality’s cash flow forecast for the year to 30 June 2023 and, in the light of this review and the current financial position, I am satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the government grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the government of the republic has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although I am primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

I certify that the salaries, allowances and benefits of councillors as disclosed in note 19 to these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998 and the Minister of Provincial and Local Government’s determination in accordance with the Act

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 7.

The annual financial statements set out on pages 8 to 76, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2022.

TPM Lebenya

Municipal Manager

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2022. We submit this report in line with the provision of section 166(2) of the Municipal Finance Management Act for Council's consideration.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year seven meetings were held.

Name of member	Number of meetings attended
Mr GA Ntsala (Chairperson)	8
Ms MS Khetha (Member)	8
Mr TS Morare (Member)	8
Ms MV Ntipe	7

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

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

Evaluation of annual financial statements

The audit committee has:

- reviewed the high level of unaudited annual financial statements to be included in the annual report, with management and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

Chairperson of the Audit Committee

Date:

Report of the Auditor General

To the Provincial Legislature of THABO MOFUTSANYANA DISTRICT MUNICIPALITY
1. To the Council of THABO MOFUTSANYANA DISTRCIT MUNICIPALITY

Auditor General of South Africa (AGSA)

30 November 2022

Accounting Officer's Report

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

1. Review of activities

Main business and operations

The municipality is engaged in rendering support to the local municipalities within the district and operates principally in South Africa.

2. Going concern

We draw attention to the fact that at 30 June 2022, the municipality had a surplus of R 28 736 449 and that the municipality's total assets exceed its total liabilities by R 49 257 477. These conditions and events do not cast doubt on the municipality's ability to continue as a going concern.

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

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

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

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is:

Name	Appointed
TPM Lebenya	01 December 2017

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021
Assets			
Current Assets			
Receivables from exchange transactions	4	6 505 052	4 938 558
Receivables from non-exchange transactions	5	55 893	2 156 134
Cash and cash equivalents	6	46 903 362	32 956 597
		53 464 307	**40 051 289**
Non-Current Assets			
Property, plant and equipment	7	21 489 946	10 083 427
Intangible assets	8	235 548	493 673
		21 725 494	**10 577 100**
Total Assets		**75 189 801**	**50 628 389**
Liabilities			
Current Liabilities			
Payables from exchange transactions	9	14 468 324	18 297 767
Unspent conditional grants and receipts	10	-	910 202
Employee benefit obligation	11	906 000	864 389
		15 374 324	**20 072 358**
Non-Current Liabilities			
Employee benefit obligation	11	10 558 000	10 251 000
Total Liabilities		**25 932 324**	**30 323 358**
Net Assets		**49 257 477**	**20 305 031**

* See Note 41 & 38

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021
Revenue			
Revenue from exchange transactions			
Commission income (Agency services (CETA))	22	1 816 325	2 213 571
Recoveries (Gains on debt impairment provision adjustment)	4	-	114 877
Sundry income	15	475 414	253 336
Interest received - investments	13	2 373 665	1 782 959
Gain on disposal of assets		-	63 458
Total revenue from exchange transactions		**4 665 404**	**4 428 201**
Revenue from non-exchange transactions			
Taxation revenue			
Service in kind revenue	14	5 750 872	5 298 479
Transfer revenue			
Government grants and subsidies	12	151 484 918	142 080 726
Donations (PPE Kestel lab)		15 779 813	-
Total revenue from non-exchange transactions		**173 015 603**	**147 379 205**
Total revenue	34	**177 681 007**	**151 807 406**
Expenditure			
Employee related costs	19	(86 330 579)	(85 661 972)
Remuneration of councillors	19	(9 586 781)	(11 681 264)
Depreciation and amortisation	16	(3 882 720)	(3 287 892)
Finance costs	17	(1 205 000)	(1 088 000)
Contracted services	33	(4 205 177)	(2 628 164)
Loss on disposal of assets	7	(1 193 472)	-
Operational Expenses	18	(43 328 829)	(38 159 572)
Total expenditure		**(149 732 558)**	**(142 506 864)**
Surplus for the year from continuing operations		**27 948 449**	**9 300 542**
Actuarial gains/(losses)		788 000	(864 000)
Surplus for the year		**28 736 449**	**8 436 542**

* See Note 41 & 38

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2020 as restated	**11 713 252**	**11 713 252**
Changes in net assets		
Surplus / (Deficit) for the year	8 436 542	8 436 542
Prior period errors	155 237	155 237
Total changes	8 591 779	8 591 779
Restated* Balance at 01 July 2021	**20 305 031**	**20 305 031**
Changes in net assets		
Surplus / (Deficit) for the year	28 736 449	28 736 449
Prior period errors	127 499	127 499
Other changes	88 498	88 498
Total changes	28 952 446	28 952 446
Balance at 30 June 2022	**49 257 477**	**49 257 477**

Note(s)

* See Note 41 & 38

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021
Cash flows from operating activities			
Receipts			
Grants		151 484 918	140 990 928
Interest income		2 170 065	1 782 959
Other receipts		475 414	2 466 907
Cash receipts from receivables		58 333	289 240
		154 188 730	145 530 034
Payments			
Employee costs		(94 830 023)	(94 992 382)
Suppliers		(44 243 574)	(42 196 613)
Finance costs		-	(1 088 000)
Benefits paid relating to long service awards		(690 389)	(122 997)
		(139 763 986)	(138 399 992)
Net cash flows from operating activities	20	**14 424 744**	**7 130 042**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(444 773)	(802 812)
Proceeds from sale of asset		-	141 261
Net cash flows from investing activities		**(444 773)**	**(661 551)**
Cash flows from financing activities			
Employee benefit obligation payments		-	(104 615)
Net increase/(decrease) in cash and cash equivalents		**13 979 971**	**6 363 876**
Cash and cash equivalents at the beginning of the year		32 923 391	26 559 515
Cash and cash equivalents at the end of the year	6	**46 903 362**	**32 923 391**

* See Note 41 & 38

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	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						
Agency services (CETA)	996 715	1 577 762	**2 574 477**	1 816 325	**(758 152)**	37.1
Sundry income	3 000	-	**3 000**	475 414	**472 414**	37.2
Interest received - investment	1 418 505	558 359	**1 976 864**	2 373 665	**396 801**	37.3
Total revenue from exchange transactions	**2 418 220**	**2 136 121**	**4 554 341**	**4 665 404**	**111 063**	
Revenue from non-exchange transactions						
Other revenue						
Non cash reserves (Depreciation)	3 064 160	868 846	**3 933 006**	-	**(3 933 006)**	37.4
Cash backed reserves	-	7 200 245	**7 200 245**	-	**(7 200 245)**	37.5
Capital replacement reserve	-	3 500 000	**3 500 000**	-	**(3 500 000)**	37.6
Service in kind revenue	5 073 843	-	**5 073 843**	5 750 872	**677 029**	37.7
Transfer revenue						
Government grants & subsidies	144 672 000	13 000 000	**157 672 000**	151 484 918	**(6 187 082)**	37.8
Waste Management Grant (Kestel Lab)	-	-	**-**	15 779 813	**15 779 813**	37.9
Total revenue from non-exchange transactions	**152 810 003**	**24 569 091**	**177 379 094**	**173 015 603**	**(4 363 491)**	
Total revenue	**155 228 223**	**26 705 212**	**181 933 435**	**177 681 007**	**(4 252 428)**	
Expenditure						
Employee related costs	(88 877 359)	(4 221 073)	**(93 098 432)**	(86 330 579)	**6 767 853**	37.10
Remuneration of councillors	(12 528 387)	1 870 378	**(10 658 009)**	(9 586 781)	**1 071 228**	37.11
Depreciation and amortisation	(3 064 220)	(868 787)	**(3 933 007)**	(3 882 720)	**50 287**	37.12
Finance costs	-	-	**-**	(1 205 000)	**(1 205 000)**	37.13
Lease rentals on operating lease	-	(850 000)	**(850 000)**	-	**850 000**	37.14
Contracted Services	(7 458 000)	(759 000)	**(8 217 000)**	(4 205 177)	**4 011 823**	37.15
Operational Expenses	(39 673 904)	(16 658 815)	**(56 332 719)**	(43 328 829)	**13 003 890**	37.16
Total expenditure	**(151 601 870)**	**(21 487 297)**	**(173 089 167)**	**(148 539 086)**	**24 550 081**	
Operating surplus	**3 626 353**	**5 217 915**	**8 844 268**	**29 141 921**	**20 297 653**	
Gain on disposal of assets	-	-	**-**	(1 193 472)	**(1 193 472)**	
(Deficit) / Surplus	**3 626 353**	**5 217 915**	**8 844 268**	**27 948 449**	**19 104 181**	
Surplus for the year from continuing operations	**3 626 353**	**5 217 915**	**8 844 268**	**27 948 449**	**19 104 181**	
Actuarial gains/(losses)	-	-	**-**	788 000	**788 000**	37.17
	3 626 353	**5 217 915**	**8 844 268**	**28 736 449**	**19 892 181**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Receivables from exchange transactions	1 944 000	(78 000)	**1 866 000**	6 505 052	**4 639 052**	37.18
Receivables from non-exchange transactions	1 105 000	250 000	**1 355 000**	55 893	**(1 299 107)**	37.19
Cash and cash equivalents	4 697 000	1 700 000	**6 397 000**	46 903 362	**40 506 362**	37.20
	7 746 000	**1 872 000**	**9 618 000**	**53 464 307**	**43 846 307**	
Non-Current Assets						
Property, plant and equipment	3 636 000	3 644 000	**7 280 000**	21 489 946	**14 209 946**	37.21
Intangible assets	600 000	180 000	**780 000**	235 548	**(544 452)**	37.22
	4 236 000	**3 824 000**	**8 060 000**	**21 725 494**	**13 665 494**	
Total Assets	**11 982 000**	**5 696 000**	**17 678 000**	**75 189 801**	**57 511 801**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	6 525 000	(1 000 000)	**5 525 000**	14 468 324	**8 943 324**	37.23
Employee benefit obligation	-	-	**-**	906 000	**906 000**	37.24
	6 525 000	**(1 000 000)**	**5 525 000**	**15 374 324**	**9 849 324**	
Non-Current Liabilities						
Employee benefit obligation	8 442 000	(380 000)	**8 062 000**	10 558 000	**2 496 000**	37.25
Total Liabilities	**14 967 000**	**(1 380 000)**	**13 587 000**	**25 932 324**	**12 345 324**	
Net Assets	**(2 985 000)**	**7 076 000**	**4 091 000**	**49 257 477**	**45 166 477**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	(2 985 000)	7 076 000	**4 091 000**	49 257 477	**45 166 477**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	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						
Grants	144 672 000	13 000 000	**157 672 000**	151 484 918	**(6 187 082)**	
Interest income	1 419 000	557 000	**1 976 000**	1 816 325	**(159 675)**	
Other receipts	9 138 000	13 147 000	**22 285 000**	475 414	**(21 809 586)**	
Cash receipts from receivables	-	-	**-**	2 005 100	**2 005 100**	
	155 229 000	**26 704 000**	**181 933 000**	**155 781 757**	**(26 151 243)**	
Payments						
Employee costs	(148 538 000)	(20 618 000)	**(169 156 000)**	(95 346 726)	**73 809 274**	
Suppliers	-	-	**-**	(43 974 632)	**(43 974 632)**	
Finance costs	-	-	**-**	(1 205 000)	**(1 205 000)**	
Benefits paid relating to long service awards	-	-	**-**	(812 000)	**(812 000)**	
	(148 538 000)	**(20 618 000)**	**(169 156 000)**	**(141 338 358)**	**27 817 642**	
Net cash flows from operating activities	**6 691 000**	**6 086 000**	**12 777 000**	**14 443 399**	**1 666 399**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(3 626 000)	(5 154 000)	**(8 780 000)**	(463 428)	**8 316 572**	
Net increase/(decrease) in cash and cash equivalents	3 065 000	932 000	**3 997 000**	13 979 971	**9 982 971**	
Cash and cash equivalents at the beginning of the year	-	32 957 000	**32 957 000**	32 923 391	**(33 609)**	
Cash and cash equivalents at the end of the year	**3 065 000**	**33 889 000**	**36 954 000**	**46 903 362**	**9 949 362**	

The accounting policies on page 16 to 43 and the notes on pages 44 to 74 form an integral part of the annual financial statements.

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

1.1 Presentation currency

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

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Significant judgements include:

Receivables

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

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. 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.

Property, plant and equipment

As described in accounting policies 1.3 and 1.4, the municipality depreciates / amortises its property, plant and equipment and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation.

Management considered the impact of technology, availability of capital funding, service requirement and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgemental as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Provision for long service awards

The present value of the provision for long service awards depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumption used in determining the net cost/(income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of the provision for long service awards.

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

Other key assumptions for the provision for long service awards are based on current market conditions.

Impairment of receivables

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that they are impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

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

(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(d) it is probable that the borrower will enter sequestration or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(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 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).

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and standby equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

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

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

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

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

Item	Depreciation method	Maximum useful life
Buildings	Straight line	30 years
Furniture and fixtures	Straight line	21 years
Motor vehicles	Straight line	5 - 11 years
IT equipment	Straight line	16 years
Machinery and equipment	Straight line	14 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate

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

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

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

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.

1.3 Property, plant and equipment (continued)

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

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

1.4 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

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 asset or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

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

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	**Useful life**
Computer software, other	3 - 6 years

Accounting Policies

1.4 Intangible assets (continued)

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

1.5 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 collectability.

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

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

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

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

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 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.

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.

Accounting Policies

1.5 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 entity had not acquired, issued or disposed of the financial instrument.

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

Class	Category
Operating lease liability	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at amortised cost.

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

Gains and losses

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

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

Impairment and collectability of financial assets

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

Financial assets measured at amortised cost:

1.5 Financial instruments (continued)

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 or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting 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.

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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 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 recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

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

Accounting Policies

1.5 Financial instruments (continued)

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the 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 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 an 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 an 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 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.

1.5 Financial instruments (continued)

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default of delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expense in surplus of deficit.

Payables from exchange transactions

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, 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.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

1.6 Statutory receivables

Identification

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

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

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

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

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

1.6 Statutory receivables (continued)

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Derecognition

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

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

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

1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates commercial return.

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

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

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

Accounting Policies

1.7 Impairment of cash-generating assets (continued)

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

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

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

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

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

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follows:

Identification

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

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

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

Value in use

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

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

Accounting Policies

1.7 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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.

1.8 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Accounting Policies

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

Useful life is either:

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

Identification

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

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

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

Recognition and measurement (Individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Accounting Policies

1.9 Employee benefits

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

Termination benefits are employee benefits payable as a result of either:
- an entity’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

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

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

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

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 cell phone) 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 entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The 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 entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

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

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

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

Accounting Policies

1.9 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.9 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

Post retirement obligations - medical aid

The municipality provides post-retirement health care benefits upon retirement to some retirees.

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

Accounting Policies

1.9 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

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

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

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

Accounting Policies

1.10 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

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

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

Provisions are not recognised for future operating surplus.

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

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 23.

Accounting Policies

1.10 Provisions and contingencies (continued)

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

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.11 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Accounting Policies

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest received

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

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

Interest is recognised, 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.

Accounting by principals and agents

Municipality has an arrangement with CETA where the municipality is responsible for paying learner stipends, CETA has signed agreements with learners and municipality is entitled to administrations and rural allowance fees.

The municipality does not determine the significant terms and conditions of the contract, as CETA identifies the beneficiaries of the programme, and identifies how much should be paid by each beneficiary

Significant terms and conditions of the arrangements did not change during the reporting period

(a) A description of any resources (including the carrying value and description of any assets recognised) that are held on behalf of a principal, but recognised in the agent's own financial statements. Such disclosure shall include:

(i) the remittance of any resources during the period, as well as the expected timing of remittance of any remaining resources to the principal; and

(ii) risks that are transferred from the principal to the agent (if any), including risks flowing to the entity as a result of its custodianship over the resources held on behalf of a principal;

(b)The aggregate amount of revenue that the entity recognises as compensation for the transactions carried out on behalf of the principal; and

(c) a description of any liabilities incurred on behalf of a principal that have been recognised by the entity, as well as any corresponding rights of reimbursement that have been recognised as assets.

Accounting Policies

1.12 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

1.12 Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate of 15% effective from 1 April 2018 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 municipality accounts for VAT on a monthly basis.

Services in-kind

Except for financial guarantee contracts, the municipality recognises services in-kind that are significant to its operations and/or service delivery objectives as assets and recognises the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

The municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind includes services provided by individuals but also includes right of to use of an asset, without charge, but may be subject to stipulations

For the recognition criteria of the services in-kind to be recognised, refer to the section on assets. These assets are, however, immediately consumed and a transaction of equal value is also recognised to reflect the consumption of the service. In many cases the entity will recognise an expense for the consumption of the service

To the extent that the service in-kind is significant to the operations and/or service delivery objectives of the recipient of such a service in-kind and it meets the criteria for recognition, although there maybe uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the service.

Basis on which the fair value has been measured has considered fact that the service in kind is received from Department of Public Works and the department does not have to comply with GRAP they are on Cash payments basis and have only valued the buildings in 2013 financial period with the inclusion that yearly escalations are between 7,5% to 8,5%

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

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

1.13 Investment income

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

1.14 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.

Accounting Policies

1.15 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether an municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit..

The municipality has an arrangement with CETA where the municipality is responsible for paying learner stipends, CETA has signed agreements with learners and municipality is entitled to administrations and rural allowance fees.t

The municipality does not determine the significant terms and conditions of the contract, as CETA identifies the beneficiaries of the programme, and identifies how much should be paid by each beneficiary

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

(a) A description of any resources (including the carrying value and description of any assets recognised) that are held on behalf of a principal, but recognised in the agent's own financial statements. Such disclosure shall include

(i) the remittance of any resources during the period, as well as the expected timing of remittance of any remaining resources to the principal; and

(ii) risks that are transferred from the principal to the agent (if any), including risks flowing to the entity as a result of its custodianship over the resources held on behalf of a principal

(b)The aggregate amount of revenue that the entity recognises as compensation for the transactions carried out on behalf of the principal; and

(c) a description of any liabilities incurred on behalf of a principal that have been recognised by the entity, as well as any corresponding rights of reimbursement that have been recognised as assets.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Accounting Policies

1.15 Accounting by principals and agents (continued)

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.16 Comparative figures

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

1.17 Unauthorised expenditure

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

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

1.18 Fruitless and wasteful expenditure

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

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

1.19 Irregular expenditure

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

(a) this Act; or
(b) which has not been condoned in terms of section 170;
(c) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of Municipality Systems Act, and which has not been condoned in terms of the Act;
(d) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No.20 of 1998); or
(e) expenditure incurred by a municipality or municipal entity in contravention of , or that is not in accordance with a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-laws but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure

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

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

Accounting Policies

1.19 Irregular expenditure (continued)

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

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

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

1.20 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the municipality’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

Estimates in the financial statements include but are not limited to the following:
- Depreciation
- Bad debts,
- Long service awards

1.21 Segment information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board. The jurisdiction of Thabo Mofutsanyana District Municipality comprises of the following local municipalities:

- Maluti-A-Phofung Local Municipality
- Dihlabeng Local Municipality
- Setsoto Local Municipality
- Mantsopa Local Municipality
- Nketoana Local Municipality
- Phumelela Local Municipality

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.22 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.23 Budget information

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives. Deviations between budget and actual amounts are regarded as material differences when more than 10% deviation exists. Refer to Note 39 for all material differences explained.

The approved budget covers the fiscal period from 2021/07/01 to 2022/06/30. The financial statements are prepared on the accrual basis of accounting, and the budget is prepared on the accrual basis. A comparison with the budgeted amounts for the reporting period has been included in the Statement of comparison of budget and actual amounts.

The annual budget figures have been prepared in accordance with the GRAP standard. The amounts are scheduled as a separate additional financial statement, called the Statement of comparison of budget and actual amounts.

Explanatory comment is provided in the notes to the annual financial statements giving reasons for significant individual variances between budgeted and actual amounts. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan. The budget is approved on accrual basis.

The Statement of comparison of budget and actual amounts has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

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

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

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

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, Municipal Manager, executive directors and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.25 Events after reporting date

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

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

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

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

Accounting Policies

1.26 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality, 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 municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

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

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability.

Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.27 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 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. An 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 and each material class of capital expenditure commitment as well as non-cancellable 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.

Figures in Rand	2022	2021

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

GRAP 104 (amended): Financial Instruments

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

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

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

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

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

GRAP 103 (as amended 2016): Heritage Assets

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

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

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

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

3. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2022	Financial assets at amortised cost	Total
Receivables	6 562 967	6 562 967
Cash and cash equivalents	46 903 362	46 903 362
	53 466 329	**53 466 329**

2021	Financial assets at amortised cost	Total
Receivables	7 096 713	7 096 713
Cash and cash equivalents	32 956 597	32 956 597
	40 053 310	**40 053 310**

4. Receivables from exchange transactions

Sundry debtors	2 557 817	1 135 400
VAT Receivables	4 336 780	4 192 703
Suspense account - unidentified payment	304 143	304 143
Impairment provision	(693 688)	(693 688)
	6 505 052	**4 938 558**

Credit quality of trade and other receivables

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Receivables from exchange and non-exchange transactions impaired

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:

- The impairment of receivables is based on the continuous reassessment debtor accounts to identify doubtful accounts on basis of persistent default on payment of the accounts and the probability of payment.

As of 30 June 2022, R 3, 526, 919 (2021: R 3, 526 ,919) receivables from exchange and non-exchange transactions were impaired and provided for.

The ageing of these receivables from exchange and non-exchange transactions is as follows:

Receivables past due but not impaired		
From exchange transactions	2 168 272	735 855
From non-exchange transactions	55 893	2 124 633
VAT receivable	4 338 802	4 236 225
	6 562 967	**7 096 713**

Receivables age listing (After impairment)

2022	**Current**	**30 Days**	**60 days**	**90 days**	**120+ days**	**Total**
Receivables from exchange transactions	203 600	-	-	-	1 964 672	2 168 272

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

4. Receivables from exchange transactions (continued)

Receivables from non-exchange transactions	-	-	-	-	55 893	55 893
VAT Receivable	-	-	-	-	4 336 781	4 336 781
Subtotal	203 600	-	-	-	6 357 346	6 560 946
	203 600	**-**	**-**	**-**	**6 357 346**	**6 560 946**

Receivables past due and impairment provided for

	2022	2021
Receivables from exchange transactions	693 688	389 545
Receivables from non-exchange transactions	2 833 231	3 148 110
Impairment provided for receivables from exchange transactions	(693 688)	(389 545)
Impairment provided for receivables from non-exchange transactions	(2 833 231)	(3 148 110)
	-	**-**

Receivables impairment age list

2021	Current	30 days	60 days	90 days	120+	Total
Receivables from exchange transactions	105 417	-	-	-	588 271	693 688
Receivables from non-exchange transactions	-	-	-	-	2 833 231	2 833 231
Subtotal	105 417	-	-	-	3 421 502	3 526 919
	105 417	**-**	**-**	**-**	**3 421 502**	**3 526 919**

Gross receivables

	2022	2021
0 to 3 months	203 600	105 417
Over 6 months	9 884 264	10 388 694
	10 087 864	**10 494 111**

Reconciliation of impairment of receivables from exchange and non-exchange transactions

	2022	2021
Opening balance	3 526 919	3 641 796
Impairment provision adjustment	-	(114 877)
	3 526 919	**3 526 919**

5. Receivables from non-exchange transactions

	2022	2021
Unsolicited debit orders	3 000	79 241
Government grants and subsidies (EEDSM)	-	2 000 000
Overpayment to Municipal Officials	29 814	29 814
Seconded councillors salaries over payment	1 784 288	1 784 288
Councillors over payment	696 033	696 033
Municipal Manager overpayment	375 989	399 989
Impairment	(2 833 231)	(2 833 231)
	55 893	**2 156 134**

6. Cash and cash equivalents

Cash and cash equivalents consist of:

	2022	2021
Bank balances	13 651 947	1 767 473
Short-term deposits	33 251 415	31 189 124
	46 903 362	**32 956 597**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2022	Bank statement balances 30 June 2021	Bank statement balances 30 June 2020	Cash book balances 30 June 2022	Cash book balances 30 June 2021	Cash book balances 30 June 2020
ABSA BANK - Cheque Account - 770-150-841	13 651 947	1 767 473	9 948 632	13 651 947	1 767 473	9 948 632
ABSA BANK - Fixed Deposit - 207-523-7209	-	-	42 810	-	-	42 810
ABSA BANK - Liquidity Plus - 932-530-0160	63	-	34 688	63	-	34 688
ABSA BANK - Fixed Deposit - 409-474-0923	3 185 318	3 068 236	2 962 671	3 185 318	3 068 236	2 962 671
ABSA BANK - Fixed Deposit - 935-501-3452	17 025 866	1 505 126	8 309 779	17 025 866	1 505 126	8 309 779
ABSA BANK - Fixed Deposit - 935-762-5891	6 789 401	5 755 068	5 260 935	6 789 401	5 775 068	5 260 935
NEDBANK - FIXED DEPOSIT - 3788-1151-676/000002	6 250 767	20 840 694	-	6 250 767	20 840 694	-
Total	**46 903 362**	**32 936 597**	**26 559 515**	**46 903 362**	**32 956 597**	**26 559 515**

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment

	2022			2021		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Buildings	14 340 768	(478 026)	13 862 742	-	-	-
Machinery and Equipment	3 563 033	(2 246 187)	1 316 846	3 370 265	(2 001 147)	1 369 118
Furniture and fixtures	4 459 689	(3 001 088)	1 458 601	4 925 976	(3 244 785)	1 681 191
Motor vehicles	4 282 474	(2 471 119)	1 811 355	4 277 282	(2 168 420)	2 108 862
IT equipment	12 424 516	(9 384 114)	3 040 402	14 700 456	(9 776 200)	4 924 256
Total	**39 070 480**	**(17 580 534)**	**21 489 946**	**27 273 979**	**(17 190 552)**	**10 083 427**

Reconciliation of property, plant and equipment - 2022

	Opening balance	**Additions**	**Additions through transfers**	**Disposals**	**Depreciation**	**Total**
Buildings	-	-	14 340 768	-	(478 026)	13 862 742
Machinery and Equipment	1 369 118	-	345 483	(152 714)	(245 041)	1 316 846
Furniture and fixtures	1 681 191	45 403	425 102	(200 790)	(492 305)	1 458 601
Motor vehicles	2 108 862	-	668 461	(210 568)	(755 400)	1 811 355
IT equipment	4 924 256	399 370	-	(629 397)	(1 653 827)	3 040 402
	10 083 427	**444 773**	**15 779 814**	**(1 193 469)**	**(3 624 599)**	**21 489 946**

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Depreciation	Total
Machinery and Equipment	1 578 017	118 880	-	(327 779)	1 369 118
Furniture and fixtures	1 618 926	413 473	-	(351 208)	1 681 191
Motor vehicles	2 910 091	-	(141 261)	(659 968)	2 108 862
IT equipment	6 387 747	270 459	-	(1 733 950)	4 924 256
	12 494 781	**802 812**	**(141 261)**	**(3 072 905)**	**10 083 427**

Pledged as security

Carrying value of assets pledged as security:

Buildings	-	-
No building is pledged as security		
Other Property, plant and Equipment	-	-
No Property, plant and Equipment is pledged as security		
	-	**-**

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		
Machinery and Equipment	170 432	113 000
Furniture & fixtures	-	17 960
Motor vehicles	100 034	75 486
	270 466	**206 446**

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

Notes to the Annual Financial Statements

8. Intangible assets

	2022			2021		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	5 041 208	(4 805 660)	235 548	5 041 208	(4 547 535)	493 673

Reconciliation of intangible assets - 2022

	Opening balance	Amortisation	Total
Computer software	493 673	(258 125)	235 548

Reconciliation of intangible assets - 2021

	Opening balance	Amortisation	Total
Computer software	708 660	(214 987)	493 673

Pledged as security

None of the assets were pledged as security:

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

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

9. Payables from exchange transactions

Trade payables	5 661 362	9 093 856
Accrued leave pay	7 112 178	7 670 859
Accrued bonus	1 494 651	1 332 919
UIF over deducted from employees	193 496	193 496
Councillors salaries under payments	6 637	6 637
	14 468 324	**18 297 767**

10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Rural Roads Assets Management System Grant	-	910 202

Movement during the year		
Balance at the beginning of the year	910 202	259 922
Additions during the year	23 306 000	9 574 000
Income recognition during the year	(23 306 000)	(8 923 720)
Deducted from equitable share grant	(910 202)	-
	-	**910 202**

The nature and extent of government grants and their conditions, restrictions and other contingencies attached to these government grants have to be fulfilled and hence recognised in the annual financial statements as conditional grants

See note 12 for reconciliation of grants from National/Provincial Government.

11. Employee benefit obligation

Reconciliation of employee benefit obligation - 2022

	Opening Balance	Additions	Total
Employee benefit obligation - current	864 389	41 611	906 000
Employee benefit obligation - non-current	10 251 000	307 000	10 558 000
	11 115 389	**348 611**	**11 464 000**

Reconciliation of employee benefit obligation - 2021

	Opening Balance	Additions	Total
Employee benefit obligation - current	260 000	604 389	864 389
Employee benefit obligation - non-current	8 627 000	1 624 000	10 251 000
	8 887 000	**2 228 389**	**11 115 389**

Long service awards

Valuation method

The Projected Unit Credit Method is used to determined the present value of the defined benefit obligation.

The defined benefit obligation

The defined benefit liability as disclosed below are represented by two different post-employment benefits. None of the benefits set out below are externally funded.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

11. Employee benefit obligation (continued)

Post-retirement medical aid plan Active members receive a fixed subsidy of 70% of medical aid contributions during the current working year, up to a specified maximum employer contribution. The spouse or adult dependant of an active member is entitled to a 70% subsidy of their contributions. This proportion of the subsidy will continue to be paid in the event of the principal member's death.

Continuation members receive a fixed subsidy of 70% of medical aid contributions during the current working year, up to a specified maximum employer contribution. The spouse or adult dependant of a continuation member is entitled to a 70% subsidy of their contributions.

Long service award

Long service awards are payable to qualifying in-service employees. The leave benefits are in accordance with paragraph 11 of the South African Local Government Bargaining Council (SALGBC) collective agreement on conditions of service for the Free State division of SALGBC.

The amount recognised in the statement of financial position are as follows for 2022:

	Long-service leave benefits	Post-retirement health care benefits	Total
Balance as at 30 June 2022	(4 695 003)	(6 420 386)	(11 115 389)
Current service	(524 000)	(98 000)	(622 000)
Interest cost	(535 000)	(670 000)	(1 205 000)
Actuarial (loss) - experience variance	575 000	213 000	788 000
Benefits payments	373 000	319 000	692 000
	(4 806 003)	**(6 656 386)**	**(11 462 389)**

The amount recognised in the statement of financial position are as follows for 2021:

	Long-service leave benefits	Post-retirement health care benefits	Total
Balance as at 30 June 2021	(3 429 000)	(5 458 000)	(8 887 000)
Current service	(382 000)	(122 000)	(504 000)
Interest cost	(426 000)	(662 000)	(1 088 000)
Actuarial (loss) - experience variance	(581 000)	(283 000)	(864 000)
Benefits payments	122 997	104 614	227 611
	(4 695 003)	**(6 420 386)**	**(11 115 389)**

Notes to the Annual Financial Statements

11. Employee benefit obligation (continued)

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.”

The nominal and real zero curves as at 30 June 2022 supplied by the JSE were used to determine our discount rates and CPI assumptions at each relevant time period For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years.

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.

Membership Data
Key features of the membership data used in the valuation of post-retirement healthcare subsidy are summarised below:

Current employees	2022	2021
- Number of current employees		
Males	4	5
Females	1	1
- Average age of employees		
Males	61.8	61,7
Females	56.0	55,0
- Average years of past service		
Male	30,4	22,7
Female	23.7	22,7
- Average total monthly premium of Principal members (R)		
Male	R 5, 080	R 5,280
Female	R 2, 190	R 2,120
- Average total monthly premium of Adult dependants (R)		
Male	R -	R -
Female	R -	R -

Continuation members		
- Number of continuation members		
Male	2	1
Female	1	2
-Average age of continuation members		
Male	67,7	78,1
Female	84,0	69,0
- Actual percentage married		
Male	100%	100%
Female	0%	0%
- Average total monthly premium of Principal members (R)		
Male	R 6, 510	R 5,440
Female	R 4, 720	R 3,950
- Average total monthly premium of Adult dependants (R)		
Male	R -	R -
Female	R -	R -

Breakdown of Defined Benefit Obligation

11. Employee benefit obligation (continued)

The table below provides a breakdown of the defined benefit obligation between active and continuation members as at the current and previous valuation dates:

Breakdown of defined benefit obligation (R'000)	30 June 2022	30 June 2021	30 June 2020
Active members	4 225	4 693	3 887
Continuation members	2 358	1 654	1 571
	6 583	**6 347**	**5 458**

Post-retirement healthcare subsidy sensitivities

The value of the liabilities is particularly sensitive to the assumed rate of healthcare cost inflation. The table below sets out the sensitivity of the valuation result to a 1% increase and 1% decrease in the assumed healthcare cost of inflation assumption.

This is regarded as important management information. The GRAP 25 accounting standard also requires this sensitivity to be disclosed in the annual financial statement.

Healthcare cost inflation sensitivity (R'000)	1% decrease	Base	1% increase
Defined benefit obligation	(5 932)	(6 583)	(7 336)
Service cost (next financial year)	(639)	(771)	(861)
Interest cost (next financial year)	(105)	(119)	(135)
	(6 676)	**(7 473)**	**(8 332)**

Assumptions used

The economic assumptions for the 30 June 2022 valuation are shown in the table below, and compared to those used for the respective roll-back valuations.

Long service awards sensitivities (R'000)	1% decrease	Base	1% increase
Total accrued liability	(4 610)	(4 881)	(5 810)
Current service cost	(528)	(565)	(607)
Interest cost	(542)	(577)	(614)
	(5 680)	**(6 023)**	**(7 031)**

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.” .

*Statement of Financial Position (herein referred to as the “balance sheet”).

We use the nominal and real zero curves as at 30 June 2022 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years.

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

Normal Salary Inflation Rate

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

11. Employee benefit obligation (continued)

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2022 of 4.9%. The next salary increase was assumed to take place on 01 July 2023.

In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

Promotional Salary Increase Rates

Age Band	**2022 Promotional Increase %**	**2021 Promotional Increase %**
20 - 24	5	5
25 - 29	4	4
30 - 34	3	3
35 - 39	2	2
40 - 44	1	1
	-	-

Healthcare cost inflation

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

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

Demographic assumptions

This section contains the demographic assumptions used in the valuation. The mortality tables used have not been presented, as they are standard tables, which are widely used.

The demographic assumptions for the 30 June 2022 valuation and compared to those used for the previous valuations are shown in the tables below.

Summary of key demographic assumptions	30 June 2021 & 2022
Pre-retirement mortality	SA85-90 L rated down 1 year for males and females
Post-retirement mortality	PA(90) rated down 1 year for males and females plus 1% future mortality improvement from 2010
Withdrawal	See rationale for demographic assumption below
Expected retirement age	65 years for males and females
Percentage married for in-service members	See rationale for demographic assumption below

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

11. Employee benefit obligation (continued)

Spouse and principal member age difference	Males 5 years older than females
Employees' continuation percentage at retirement	90.00%
Percentage of widows continuing membership	10.00%

Rationale for demographic assumptions

For many of the demographic assumptions, particularly mortality rates, the small size of the membership precludes the use of assumptions based on past experience of the particular scheme. Thus, assumptions are set which are consistent with market practice and with investigations performed where there is a significant amount of data.

Pre-retirement mortality

The pre-retirement mortality table most commonly used in the retirement industry (for similar sub-populations in South Africa) is SA 85-90 (Light). However, given apparent improvements in mortality with active members living longer, we have rated the SA 85-90 (Light) table down by one year for both males and females. This means that the mortality rate assumed for an individual in the valuation is the rate provided in the table for an individual at age one year younger.

Post-retirement mortality

PA (90) is commonly used in the retirement industry. However, given the fact that pensioners are living longer than at the time the table was compiled, we have rated the PA (90) table down by one year for both males and females. This means that the mortality rate assumed for an individual in the valuation is the rate provided in the table for an individual one year younger.

There is a strong argument for inclusion of mortality improvements in the assumption (1.00% to 1.50% p.a. at all ages would be reasonable), given the improvements that have occurred at the post-retirement ages in most developed countries over the past forty years, as well as the evidence of improvements observed by larger actuarial service providers in South Africa. We therefore included a 1% per annum mortality improvement factor from 2010 onwards.

Withdrawal assumption

In the absence of credible past withdrawal data of this particular scheme, the withdrawal assumptions have been set in line with those generally observed in the South African market.

The table below shows the annual withdrawal rates for the valuation, differentiated by age.

Withdrawal assumption age	Males	Females
20 - 24	16,00%	24,00%
25 - 29	12,00%	18,00%
30 - 34	10,00%	15,00%
35 - 39	8,00%	10,00%
40 - 44	6,00%	6,00%
45 - 49	4,00%	4,00%
50 - 54	2,00%	2,00%
55 - 59	1,00%	1,00%
60+	0,00%	0,00%

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

11. Employee benefit obligation (continued)

Assumed retirement age

The assumed retirement age of 63 years for current employees is based on the normal retirement age of the employer of 65 years for all employees, including allowance for ill-health and early retirements. This assumption is in respect of both males and females.

Spouse and principal member age difference

We have assumed that males are 5 years older than females for active and continuation members.

Typically, the actual age of continuation members’ spouses would be used in valuations, although this detail could not be provided by the employer, and thus the above assumption was applied.

Child dependants

No value has been placed on benefits payable to child dependants. The impact is likely to be immaterial and not allowing for child dependants is generally applied by other actuaries in the market place

Percentage married assumption

We have assumed that 90% of all active members (both male and female), will be married at retirement, whereas actual marital status was used for continuation members.

12. Government grants and subsidies

Operating grants		
Equitable share	126 106 000	131 302 000
Financial Management Grant	2 300 000	2 000 000
Expanded Public Works Programme Integrated Grant	5 548 000	2 648 000
Rural Roads Assets Management System Grant	2 458 000	1 515 798
Local Government Sector Education and Training Authority Grant	72 918	114 928
Waste Management Grant (Kestel Lab)	5 000 000	-
Energy Efficiency and Demand Side Management Grant	10 000 000	4 500 000
	151 484 918	**142 080 726**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	20 378 918	10 778 726
Unconditional grants received	131 106 000	131 302 000
	151 484 918	**142 080 726**

Equitable Share

Current-year receipts	126 106 000	131 302 000
Conditions met - transferred to revenue	(125 196 000)	(131 042 000)
Other	(910 000)	(260 000)
	-	**-**

This grant is used by the municipality, mainly to fund its operational activities.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

12. Government grants and subsidies (continued)

Rural Roads Assets Management System Grant

Balance unspent at beginning of year	910 202	179 344
Current-year receipts	2 458 000	2 426 000
Conditions met - transferred to revenue	(2 458 000)	(1 515 798)
Other	(910 202)	(179 344)
	-	**910 202**

The purpose of the grant is for the provision of systems to collect rural road, traffic data and rural access of bridges.

Expanded Public Works Programme Integrated Grant

Current-year receipts	5 548 000	2 648 000
Conditions met - transferred to revenue	(5 548 000)	(2 648 000)
	-	**-**

This grant is used to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximized.

Energy Efficiency and Demand Side Management Grant

Balance unspent at beginning of year	-	80 000
Current-year receipts	10 000 000	4 500 000
Conditions met - transferred to revenue	(10 000 000)	(4 500 000)
Other	-	(80 000)
	-	**-**

This grant is used to implement EEDSM initiatives within municipal infrastructure in order to reduce electricity consumption and improve energy efficiency

Local Government Sector Education and Training Authority Grant

Current-year receipts	72 918	114 928
Conditions met - transferred to revenue	(72 918)	(114 928)
	-	**-**

The purpose of the grant is to improve the effectiveness and efficiency of the skills development through provision of bursaries and promotion and support of theoretical learning with workplace training.

Financial Management Grant (FMG)

Balance unspent at beginning of year	-	578
Current-year receipts	2 300 000	2 000 000
Conditions met - transferred to revenue	(2 300 000)	(2 000 000)
Other	-	(578)
	-	**-**

The purpose of the grant is to promote and support reforms in financial management by building capacity in municipalities to implement the MFMA

Covid-19 grant

The purpose of the grant is to provide additional access to basic services for vulnerable communities during the lockdown and to sanitize public transport facilities.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

12. Government grants and subsidies (continued)

In the current financial year the grant is included in the Equitable share.

Kestel Lab Waste Management Grant

Current-year receipts	5 000 000	-
Conditions met - transferred to revenue	(5 000 000)	-
	-	-

13. Interest received - investments

Interest revenue		
Bank	2 373 665	1 782 959

14. Service in Kind revenue

The building that TMDM operates in is owned but the Department of Public Works and the department paid the expenses below on behalf of the Municipality. The services in kind are as follows;

	5 750 872	5 298 479

Basis on which the fair value has been measured has considered fact that the service in kind is received from Department of Public Works and the department does not have to comply with GRAP they are on Cash payments basis and have only valued the buildings in 2013 financial period with the inclusion that yearly escalations are between 7,5% to 8,5

15. Sundry income

Tender documents	41 400	111 450
Other income	434 014	141 886
	475 414	**253 336**

16. Depreciation and amortisation

Property, plant and equipment	3 624 595	3 072 905
Intangible assets	258 125	214 987
	3 882 720	**3 287 892**

17. Finance costs

Actuarial interest costs	1 205 000	1 088 000

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

18. Operational expenses

Advertising	1 643 886	994 407
Auditors remuneration	3 845 035	2 521 938
Awareness campaign -Energy efficiency programme	92 173	37 200
Bank charges	159 493	156 416
Bursary fund	1 186 457	1 130 856
Cleaning and consumables	161 292	38 882
Catering	999 280	1 257 332
Disaster recovery services	1 165 000	500 000
District audit committee	361 898	224 077
District Development Model	854 895	275 000
Electricity	-	1 113 789
Events management	697 691	1 352 031
ICT and programming	-	-
Internet services	481 791	827 823
Installation of energy efficient lights	7 560 000	3 443 478
Insurance	718 722	483 337
IT infrastructure support & maintenance	156 000	10 257
Legal Fees	3 798 503	3 267 622
Magazines, books and periodicals	135 687	202 060
Motor vehicle expenses	1 348 937	1 625 500
Operating lease (Equipment rental)	-	921 481
Personal Protective Equipment, sanitizers and sanitizer stands	204 513	864 481
Printing and stationery	1 079 672	448 111
Repairs and maintenance	2 320 593	1 141 137
Rural community support	25 661	7 072
RRAMS Programme - Disbursement expenses	1 058 334	878 145
Sampling of food and water	235 461	209 366
Service in kind expenditure (Rental expense)	5 750 872	5 298 479
Software and licenses	916 025	2 983 289
Subscriptions and membership fees	1 000 706	932 132
SMME Development	467 053	999 999
Telephone and fax	1 370 082	1 843 184
Training	519 533	393 132
Transport	918 450	808 410
Travel and subsistence	1 760 944	880 972
Uniform and protective clothing	1 150	65 500
Rental: Vehicles	333 040	15 627
Youth development programme - Entrepreneur support	-	7 050
	43 328 829	**38 159 572**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

19. Remuneration related cost

Acting allowances	194 228	167 233
Basic	51 050 045	51 768 015
Bargaining council levies	16 421	883 647
Bonus	3 560 629	3 404 563
Car allowance	9 689 662	9 667 443
Cell phone allowance	840 878	647 200
Current service costs	622 000	504 000
EPWP Wages	5 689 726	2 855 532
Housing benefits and allowances	342 031	359 231
Leave redemption and provision	977 069	1 623 215
Medical aid - company contributions	4 608 837	4 569 248
Overtime payments	57 890	346 597
Pension fund contributions	7 261 339	7 092 745
SDL	661 781	664 437
UIF	239 576	239 187
Shift allowance	971 039	869 679
Long-service awards	239 428	-
Less: Post Retirement Healthcare Subsidy and Long service benefits	(692 000)	-
	86 330 579	**85 661 972**

Remuneration of Accounting Officer - Ms. TPM Lebenya

Annual Remuneration	1 135 969	1 135 969
Car allowance	250 668	250 668
Contributions to UIF, Medical and Pension Funds	15 654	17 026
Travel, motor car, accommodation, subsistence and other allowance	17 026	3 796
Cell phone allowance	30 000	23 000
	1 449 317	**1 430 459**

Ms. Lebenya's term ended 31 July 2017 and she was appointed from 1 December 2017 to 30 November 2022.

Remuneration of Executive Manager Corporate Service - Mr. SK Khote

Annual Remuneration	947 863	947 863
Car allowance	185 600	185 600
Contributions to UIF, Medical and Pension Funds	1 785	1 785
Travel, motor car, accommodation, subsistence and other allowance	11 936	1 902
Cell phone allowance	24 000	18 400
	1 171 184	**1 155 550**

Mr. Khote's term ended 31 August 2017 and he was appointed from 1 December 2017 to 30 November 2022.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

19. Remuneration related cost (continued)

Remuneration of Director Community Services - Mr. S Lengoabala

Annual Remuneration	786 683	770 327
Car allowance	210 000	210 000
Travel, motor car, accommodation, subsistence and other allowance	9 559	9 541
Contributions to UIF, Medical and Pension Funds	12 358	1 785
Housing allowance	60 000	60 000
Cell phone allowance	24 000	18 400
	1 102 600	**1 070 053**

Mr. Lengoabala was appointed on the 01 March 2020 to 28 February 2025.

Remuneration of Chief Financial Officer - Ms. NL Gqoli

Annual Remuneration	746 368	778 148
Car allowance	207 797	207 797
Contributions to UIF, Medical and Pension Funds	194 923	46 609
Travel, motor car, accommodation, subsistence and other allowance	9 743	8 345
Cell phone allowance	24 000	18 400
Annual bonus	57 838	67 171
	1 240 669	**1 126 470**

Ms. Gqoli was appointed as the Chief Financial Officer from 1 February 2018 to the 31 January 2023.

Remuneration of councillors

Former Executive Mayor - Cllr. M Vilakazi	340 464	941 720
Former Chief Whip - Cllr. SJ Mbiwe	276 166	730 033
Former Speaker - Cllr. MS Maduna	295 223	755 878
Executive Mayor - Cllr. AC Msibi	565 509	-
Chief Whip - Cllr. L Makhalema	421 573	-
Speaker - Cllr. TJ Mokoena	377 747	-
Former Chairperson MPAC - Cllr. M M Twala	132 136	368 376
Chairperson MPAC - Cllr. ES Chabeli	371 508	-
Mayoral Committee Members	3 734 936	5 815 556
Councillors	3 071 519	3 069 701
	9 586 781	**11 681 264**

Exec. Mayor, Speaker, Chief Whip and MPAC Chairperson	**Basic salary**	**Travel, motor car and other allowance**	**Cell phone allowance**	**Pension and medical aid**	**Skills development levy**	**Total**
Cllr. M Vilakazi	308 994	-	14 518	13 653	3 299	340 464
Cllr. SJ Mbiwe	171 944	63 409	14 518	23 866	2 429	276 166
Cllr. MS Maduna	177 073	78 509	17 918	19 338	2 385	295 223
Cllr. M M Twala	98 169	32 723	-	-	1 244	132 136
Cllr. AC Msibi	391 059	143 260	25 900	-	5 290	565 509
Cllr. LU Makhalema	279 327	112 766	25 900	-	3 580	421 573
Cllr. TJ Mokoena	257 936	90 302	25 900	-	3 609	377 747
Cllr. ES Chabeli	244 698	97 657	25 900	-	3 253	371 508
Subtotal	1 929 200	618 626	150 554	56 857	25 089	2 780 326
	1 929 200	**618 626**	**150 554**	**56 857**	**25 089**	**2 780 326**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

19. Remuneration related cost (continued)

Mayoral committee members	Basic salary	Travel, motor car and other allowance	Cell phone allowance	Pension and medical aid	Skills development levy	Total
Cllr. G Bengell	176 666	73 602	17 918	50 817	2 409	321 412
Cllr. K Tsoene	141 015	59 636	14 518	52 866	2 000	270 035
Cllr. TI Mkhwanazi	187 171	59 636	14 518	-	2 338	263 663
Cllr. J Radebe	140 889	64 512	14 518	53 022	2 056	274 997
Cllr. M Mamba	154 247	59 636	14 518	50 484	2 150	281 035
Cllr. SM Visagie	263 872	136 845	14 518	61 545	3 851	480 631
Cllr. ND Mofokeng	97 568	34 473	-	15 690	1 367	149 098
Cllr. TJ Tshabalala	163 105	59 636	14 518	23 098	2 412	262 769
Cllr. TN Masiteng	150 970	63 628	-	-	1 980	216 578
Cllr. A Fume	269 075	115 838	25 900	-	3 781	414 594
Cllr. TJ Mahlambi	145 319	48 440	-	-	1 841	195 600
Cllr. MJ Vilakazi	249 367	103 986	25 900	19 708	3 699	402 660
Cllr. MS Mosia	145 319	54 704	-	-	1 841	201 864
Subtotal	2 284 583	934 572	156 826	327 230	31 725	3 734 936
	2 284 583	**934 572**	**156 826**	**327 230**	**31 725**	**3 734 936**

	Basic salary	Travel, motor car and other allowance	Cell phone allowance	Pension and medical aid	Sitting allowance	Total
Other councillors	2 894 323	-	-	-	177 196	3 071 519
Subtotal	2 894 323	-	-	-	177 196	3 071 519
	2 894 323	**-**	**-**	**-**	**177 196**	**3 071 519**

The prior term ended on 8th November 2021 and new councillors were elected in to council on the same date. The new term will run from the 8th November 2021 to 31 October 2025.

In-kind benefits

The Executive Mayor, Speaker, Chief Whip, MPAC Chairperson and Mayoral Committee Members are full-time councillors. The Executive Mayor, Speaker, Chief Whip and MPAC Chairperson are provided with offices and secretarial support at the cost of the Council. The Mayoral Committee Members are provided with pool secretarial support and offices at the cost of council.

The Executive Mayor and the Speaker each have the use of separate Council owned vehicles for official duties.

The Executive Mayor and the Speaker have a full-time driver / bodyguard.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

20. Cash (used in) generated from operation

Surplus	28 736 449	8 436 542
Adjustments for:		
Depreciation and amortisation	3 882 720	3 287 892
Finance costs	1 205 000	1 088 000
Movements in provisions	396 948	2 228 389
Non-cash donations	(15 779 813)	-
Actuarial gain/loss	(788 000)	864 000
Gain / loss on sale of assets and liabilities	1 193 472	(63 458)
Interest received	(203 600)	(1 782 959)
Gains on debt impairment provision adjustment	-	(114 877)
Changes in working capital:		
Receivables from exchange transactions	(1 566 494)	(1 162 272)
Receivables from non-exchange transactions	2 100 241	2 054 351
Payables from exchange transactions	(3 841 977)	(7 705 566)
Unspent conditional grants and receipts	(910 202)	-
	14 424 744	**7 130 042**

21. Financial liability by category

The accounting policies for financial instruments have been applied to the column items below:

2022	Financial liabilities at amortised cost	Total
Payables from exchange transactions	14 468 324	14 468 324

2021	Financial liabilities at amortised cost	Total
Payables from exchange transactions	18 297 767	18 297 767

22. CETA agency fees

Commission income [Agency services (CETA)]	1 816 325	2 213 571

The municipality, as an implementing agent, does not recognise revenue and expenses that arise from transactions with third parties in a implementing agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an implementing agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from implementing agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

The municipality received an aggregate amount of R22 816 991.34, TMDM paid due stipends to the learners in accordance with the binding arrangement with CETA and revenue was recognised subsequent to payment of learner stipends amounting to R1 816 324.95 consisting of administration and rural allowance

The municipality did not have liability held on behalf of learner stipends as at 30 June 2022, there is no corresponding reimbursement for year under review.

Figures in Rand	2022	2021

23. Contingencies

Ktravel agency vs Thabo Mofutsanyana

	2022	2021
Demand for payment in execution. Default judgment rescinded on 05 August 2022. Agency has applied for an appeal.	153 262	-

Free State Provident Fund

	2022	2021
Employees who resigned from Free State Provident Fund and joined other provident funds.	3 369 022	-

Submission made to the Department to withdraw the matter.

Ex-Employees vs Thabo Mofutsanyana

	2022	2021
Claim pro rata bonus and accrued Leave annual leave days	248 083	-

Maluti-A-Phofung seconded Councillors vs Thabo Mofutsanyana

	2022	2021
Civil claim for councillors remuneration.	5 497 850	5 497 850

Podbeilski Mhlambi Attorneys vs Thabo Mofutsanyana

	2022	2021
RSC levies collections. Matter is defended and pending in Bloemfontein High Court.	36 423 638	36 423 638

DW Wessels and 6 others vs Thabo Mofutsanyana

	2022	2021
Veld fire that destroyed farms. Matters is defended and pending.	4 432 501	4 432 501

Name of employee	Effective date		
Ngobese Malefu	22/03/2006	17 000	17 000
Moloi Khesa	25/05/2005	17 000	17 000
Moloi Materonko	08/10/2002	13 000	13 000
Motloung Sylvia	30/01/2007	17 000	17 000
Mthombeni Sthembiso	01/10/2004	14 000	14 000
Mani Koahela	01/07/2009	17 000	17 000
		95 000	**95 000**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

24. 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;
- management personnel, and close members of the family of management personnel;
- entities in which a substantial ownership interest is held, directly or indirectly, by management personnel or entities over which such a person is able to exercise significant influence.
- entities that control or exert significant influence over the municipality.

The economic entity's management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public with effect from 1 July 2004.

The related party transactions for the current financial year were with management personnel. Refer to Note 19 for detailed disclosure of remuneration.

Notes to the Annual Financial Statements

25. Risk management

Financial risk management

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

This note presents information about the entity's exposure to each of the financial risks below and the entity's objectives, policies and processes for measuring and managing financial risks. Further quantitative disclosures are included throughout the Annual Financial Statements.

The Council has overall responsibility for the establishment and oversight of the entity's risk management framework.

The entity's audit committee oversees the monitoring of compliance with the entity's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the entity. The audit committee is assisted in its oversight role by the entity's internal audit function.

The entity monitors and manages the financial risks relating to the operations of the entity through internal risk reports which analyse exposures by degree and magnitude of risks.

The entity seeks to minimise the effects of these risks in accordance with the entity's policies approved by the Council. The policies provide written principles on foreign exchange risk, 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 entity does not enter into or trade in financial instruments for speculative purposes.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

Liquidity risk is the risk that the economic entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the entity maintains flexibility in funding by maintaining availability under committed credit lines.

The entity’s risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an on going review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The entity has not defaulted on external loans, payables and lease commitment payments and no re-negotiation of terms were made on any of these instruments.

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

All of the 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.

Notes to the Annual Financial Statements

25. Risk management (continued)

At 30 June 2022	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables	5 661 362	-	-	-

At 30 June 2021	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables	9 093 856	-	-	-

Credit risk

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

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an on going 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.

All of the 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 entity.

Receivables are presented net of an allowance for impairment.

Financial assets which exposed the economic entity to credit risk at year end were as follows:

Financial instrument	2022	2021
ABSA Bank - Cheque account	13 651 947	1 767 473
ABSA Bank - Fixed deposit 2	3 185 318	3 068 236
ABSA Bank - Fixed deposit 3	17 025 866	1 505 126
ABSA Bank - Fixed deposit 4	6 789 401	5 775 068
Nedbank - Fixed deposit	6 250 767	20 840 694
Receivables from exchange transactions	2 168 272	618 335
Receivables from non-exchange transactions	55 893	2 156 134

The entity is exposed to a number of guarantees for housing loans of employees.

The balances represent the maximum exposure to credit risk.

Receivables from exchange and non-exchange transactions

The ageing of receivables from exchange and non-exchange at the reporting date:		
3 to 6 months	-	-
Over 6 months	10 087 864	10 494 111
Less: Provision for Impairment	(3 526 919)	(3 526 919)
	6 560 945	**6 967 192**

The movement in the allowance for impairment in respect of receivables from exchange and non-exchange over the year was:

Balance at the beginning of the year	3 526 919	3 641 796

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

25. Risk management (continued)

Adjustments for impairment	-	(114 877)
	3 526 919	**3 526 919**

The allowance for impairment in respect of receivables from exchange and non-exchange is used to record impairment losses until the municipality is satisfied that no recovery of the amount owing is possible

Market risk

Cash flow and fair value 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 an amount as a result of market interest changes. Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, receivables and bank and cash balances. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The financial assets are based on the interest rate provided by the banks at the reporting date. As the municipality,we are not exposed to volatility of the market risk/ interest rate like the corporate is exposed. our investments in the banks are based on a solid interest rate agreed prior investment.

During 2021 and 2022, the municipality's borrowings and investments at variable rates were denominated in Rand.

26. 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.

During the year ended 30 June 2022, the municipality incurred a surplus of R 28 736 449 and the municipality's total assets exceed its total liabilities by R 49 257 477, in addition the municipality has a possible obligation of R50.2 million pending the court ruling as disclosed in note 23. These conditions and events do not cast doubt on the municipality’s ability to continue as a going concern.

27. Events after the reporting date

There were no material events to report after the reporting date.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

28. Unauthorised expenditure

Opening balance as previously reported	4 267 519	4 884 813
Opening balance as restated	**4 267 519**	**4 884 813**
Less: Amount written off - current period	(2 934 084)	(617 294)
Closing balance	**1 333 435**	**4 267 519**

A Municipal Public Accountant Committee is to convene to analyse and review the findings on unauthorised expenditure incurred, upon the recommendations provided by the Municipal Public Accountant Committee to Council, Council will resolve either to condone or recover the unauthorised expenditure as stated above as waiting to be condoned.

29. Irregular expenditure

Opening balance as previously reported	33 508 573	32 093 340
Opening balance as restated	**33 508 573**	**32 093 340**
Add: Irregular Expenditure - current period	9 791 475	16 920 949
Less: Amount written off - current	(8 805 380)	(15 505 716)
Closing balance	**34 494 668**	**33 508 573**

Management has performed a review of transactions and identified transactions which did not comply with SCM Regulation, expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-bearers Act to be irregular expenditure in accordance to the guidelines set per Chapter 1 of the MFMA.

A Municipal Public Accountant Committee is to convene to analyse and review the findings on irregular expenditure incurred, upon the recommendations provided by the Municipal Public Accountant Committee to Council, Council will resolve either to write off or recover the irregular expenditure as stated above as waiting to be condoned

The figures reported above are exclusive of VAT and the full extent of the irregular expenditure is still under investigation.

Irregular expenditure arising from:		
Three quotations not sourced	1 087 057	1 052 271
BBEE not considered on PPPF	-	1 659 863
Bid adjudicated by committee not in line with the regulation	1 968 318	704 273
Evaluation criteria changed	-	57 773
Expansion or variation of orders against the original contract not approved	-	3 115 812
No declaration of interest obtained	283 793	384 077
Regulation 32 contract not complied with	1 329 334	401 665
Contract management monitoring not in place	777 520	-
SCM Reg 17, 18 and 19 not in place	3 278 103	-
Valid contract not in place	300 035	-
Competitive bidding not followed	767 317	9 545 215
	9 791 477	**16 920 949**

30. Fruitless and wasteful expenditure

Opening balance as previously reported	51 959	377 976
Opening balance as restated	**51 959**	**377 976**
Add: Fruitless and wasteful expenditure - current period	-	3 626
Less: Amount written off - current	(48 333)	(329 643)
Closing balance	**3 626**	**51 959**

Municipal Public Accounts Committee is to convene to analyse and review the findings on fruitless and wasteful expenditure incurred, upon the recommendations provided by the Municipal Public Accountant Committee to Council, Council will resolve either to condone or recover the fruitless and wasteful expenditure as stated above as waiting to be condoned.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

31. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	940 252	878 109
Amount paid - current year	(940 252)	(878 109)
	-	-

Audit fees

Current year subscription / fee	3 845 035	2 521 938
Amount paid - current year	(3 845 035)	(2 521 938)
	-	-

PAYE, SDL and UIF

Current year subscription / fee	17 063 875	18 511 746
Amount paid - current year	(15 559 875)	(18 511 746)
	1 504 000	-

Pension and Medical Aid Deductions

Current year subscription / fee	12 254 262	12 481 969
Amount paid - current year	(12 254 262)	(12 481 969)
	-	-

VAT

VAT receivable	4 209 281	4 065 203

32. Municipal office occupation

The municipal head office situated at 1 Mampoi Street, Old parliament Building, Witsieshoek. The building is leased from Free State Department of Public Works for no rental consideration.

33. Contracted services

Consultants and Professional Services		
System support consultancy	1 792 649	1 718 659
Professional fees on Grant expenditure	2 412 528	909 505
	4 205 177	**2 628 164**

34. Revenue

Agency services (CETA)	1 816 325	2 213 571
Recoveries (gains on impairment adjustment)	-	114 877
Sundry income	475 414	253 336
Interest received - investment	2 373 665	1 782 959
Service in Kind revenue	5 750 872	5 298 479
Government grants & subsidies	151 484 918	142 080 726
Public contributions and donations	15 779 813	-
Gain on disposal of assets	-	63 458
	177 681 007	**151 807 406**

Figures in Rand	2022	2021

34. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Agency services (CETA)	1 816 325	2 213 571
Debt impairment recovered	-	114 877
Interest received - investment	2 373 665	1 782 959
	4 189 990	**4 111 407**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Service in Kind revenue	5 750 872	5 298 479
Transfer revenue		
Government grants & subsidies	151 484 918	142 080 726
Public contributions and donations	15 779 813	-

35. Sundry income

Recoveries (gains on impairment provision adjustment)	-	114 877
Sundry income	475 414	253 336
	475 414	**368 213**

36. Auditors' remuneration

Fees	3 845 035	2 521 938

37. Budget differences

Material differences between budget and actual amounts (Reasons provided in cases where the difference exceeds 10%)

37.1. Agency services (CETA) - The budgeted amount is higher than the actual due to the decrease in the number of projects and decrease in several learners

37.2. Sundry income – The budgeted amount is less compared to the actual due to the LG SETA grant and medical aid refunds that were not projected for.

Figures in Rand	2022	2021

37. Budget differences (continued)

37.3. Interest investment - The budgeted amount is less compared to the actual due to higher investment amount due to less procurement resulting from the suspension of the preferential Procurement Regulations which were rendered invalid from 25 February 2021.

37.4 Non-cash reserves (Depreciation) – increase in property, plant and equipment warrants a higher depreciation cost for the year.

37.5 Cash backed reserves – Cash reserves were budgeted from the municipality `s surplus cash to fund for operations was not utilized to suspension of invalidity of the 2017 Preferential Procurement Regulations on 25 February 2021.

37.6 Capital replacement reserve – was not utilized to suspension of invalidity of the 2017 Preferential Procurement Regulations on 25 February 2021.

37.7 Service in kind – The budget amount is less than the actual amount due to an increase in rental rates per square meter.

37.8Goverment grants & subsidies – variance is less than 10%, no reason required.

37.9 Donations (PPE Kestel Lab) – Cogta donated building and property, plant and equipment to the district.

37.10 Employee related costs - variance is less than 10%, no reason required.

37.11 Remuneration of councillors - The new council has a lower number of councillors as compared to the old council with which budget figures were based.

37.12 Depreciation and amortisation – increase in property, plant and equipment warrants a higher depreciation cost for the year.

37.13 Finance costs – allocation made to cater for unforeseen finance cost.

37.14 Lease rentals on operating lease – actual cater for unforeseen operating lease on motor vehicles for the Mayor and the Speaker.

37.15 Contracted Services – The budgeted amount is less than the actual amount due to the increase in Professional Grant expenditure .

37.16 Operating Expenses - The operating expenses indicate a decrease against the final budget due to the Covid 19 pandemic during the first semester of the financial year and the appointment of the new council which resulted in most SDBIP approved projects not being executed because of the suspension of the preferential Procurement Regulations which were rendered invalid from 25 February 2021.

37.17 Actuarial gains/(losses) - allocation made to cater for unforeseen finance cost.

37.18. Receivable from exchange transactions – The Actual amount against the final budget indicates a decrease due to repayments received from long outstanding debtors.

37.19 Receivable from non-exchange transaction - provision indicates a decrease due to Impairment of unpaid debts.

37.20. Cash and Cash Equivalents – Increase in cash and cash equivalent actual against the budget is due to more capital investment made during year and the suspension of the preferential Procurement Regulations which were rendered invalid from 25 February 2021

37.21. Property plant and equipment – The actual PPE indicates an increase against the final budget due to additions to Machinery and Equipment, Furniture and Fixtures,building and IT Equipment made during the year.

37.22. Intangible assets – A decrease due amortization of software .

37.23. Payables from exchange transactions - Actual payables from exchange transactions are higher than budgeted actual payable are higher than budgeted amount due to suppliers not submitting invoices timeously year end.

Figures in Rand	2022	2021

37. Budget differences (continued)

37.24. Employee benefit obligation (current portion) - The future medical aid liability and long service bonus budgeted for was lower than the liability calculated by actuaries at year end, an adjustment to the budget was made to cover the full extent of the liability. However, the revised estimation is only done at year-end

37.25 Employee benefit obligation (Non-current portion) - The future medical aid liability and long service bonus budgeter for was lower than the liability calculated by actuaries at year end, an adjustment to the budget was made to cover the full extent of the liability. However, the revised estimation is only done at year-end

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

38. Prior period errors

38.1. Employee related costs

Shift allowance was erroneously added to basic salary line in the prior year and therefore needs to be split accordingly to rectify the error.

The correction of the error resulted in adjustment as follows;

Note 21 Statement of Financial Performance (30 June 2021)		
Increase in Shift allowance	-	869 679
Decrease in Basic salary	-	(869 679)
	-	**-**

38.2. Payables from exchange transactions

Creditors for the year 2021 were not raised and therefore accounted for in the 2022 financial year resulting in a cut-off issue.

The impact is as follows:

Statement of Financial Performance (30 June 2021)		
Increase in Operational expenses	-	849 997

Statement of Financial Position (30 June 2021)		
Increase in payables from exchange transactions	-	(977 496)
Increase in receivables from exchange transactions	-	127 500
	-	**(849 996)**

39. Deviations

Deviations from normal supply chain procedures.

Category	**Supplier**	**Amount**
Price: R2 000 to R10 000	N/A	-
		-
Price: R10 000 to R30 000	N/A	-
		-
		-
Price: R30 000 and above		-
	Ferreira Broers/ Motors Hoogland Bethlehem	86 809
	MMG Toyota Harrismith	36 343
	Amtech Service Centre (Pty) Ltd	75 253
	Ramosena Electrical Construction	113 600
	Ramosena Electrical Construction	127 995
	Ramosena Electrical Construction	84 805
	Ramosena Electrical Construction	127 000
	QwaQwa Radio	39 000
	Ferreira Broers/ Motors Hoogland Bethlehem	43 988
		734 793

40. Segment reporting

Segmental information on property, plant and equipment, as well as income and expenditure, is set out based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board. The jurisdiction of Thabo Mofutsanyana District Municipality comprises of the following local municipalities, Maluti-A-Phofung Local Municipality, Dihlabeng Local Municipality, Setsoto Local Municipality, Mantsopa Local Municipality, Nketoana Local Municipality and Phumelela Local Municipality.

Thabo Mofutsanyana District Municipality in the year under review does not have a reportable segment that generates economic benefits or service potential, Laboratory based in Maluti -A- Phofung Local Municipality donated to the District Municipality is currently being reviewed by management during the year under review.

Decisions about resources to be allocated to that activity and in assessing its performance and whether the Laboratory will have separate financial information is under consideration. To achieve this, the municipality has advertised the post of Principal Scientist..

41. Change in estimate

New information was apparent at the beginning of the year which indicated that the Property, Plant and Equipment was nearing the end of their useful lives but were however still in working condition. As a result the municipality decided to revise the useful life of the Property, Plant and Equipment to extend the carrying value of the Property, Plant and Equipment by increasing the remaining useful life.

The aggregate effect of the changes in estimate on the annual financial statements for the year ended 30 June 2022 is as follows:

Statement of financial position

2022

	Note	Net impact	After change	Before change
Property, Plant and Equipment	7	(240 838)	21 489 946	21 249 108

Statement of financial performance

2022

	Note	Net impact	After change	Before change
Depreciation	16	240 838	3 624 599	3 865 437

The effect in future periods cannot be disclosed as it is impractical to do so.