



Letsemeng Local Municipality

Annual Financial Statements
for the year ended 30 June 2021
Auditor-General of South Africa

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

General Information

Legal form of entity	A municipality, which is an organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	A local authority providing municipal services and maintaining the best interest of the community in the Letsemeng municipal area.
Councillors	Mr MA Lebaka (Appointed as Mayor: 10 October 2020) Mr SJ Bahumi (Terminated as acting Mayor: 10 October 2020) Miss AN November Mr JDJ Barnes (Terminated: 9 April 2021) Mr MC Ntemane Mr MJ Phaliso Miss MM Potgieter (Appointed: 13 May 2021) Miss PM Dibe Mr PV Mlozana Mr TS Moqhoishi Mr TV Nthapo Mr XW Nqelani
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	Mr SJ Tooi
Accounting Officer	Mr TL Mkhwane
Registered office	Civic Centre 7 Groottrek Street Koffiefontein 9986
Business address	Civic Centre 7 Groottrek Street Koffiefontein 9986
Postal address	Private Bag X3 Koffiefontein 9986
Bankers	First National Bank ABSA Bank

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Annual

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

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AGSA	Auditor-General of South Africa
CRR	Capital Replacement Reserve
COID	Compensation for Occupational Injuries and Diseases
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
Mscosa	Municipal Standard Chart of Accounts

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed on its behalf by:

Mr TL Mkhwane
Accounting Officer

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2021.

1. Review of activities

Main business and operations

The Letsemeng Local Municipality is engaged in a local authority providing municipal services and maintaining the best interest of the community in the Letsemeng municipal area.

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

Net deficit of the municipality was R 10,735,465 (2020: deficit R 15,304,032).

2. Going concern

The municipality experienced cash flow difficulties during the financial period. Management considered the following matters relating to the going concern:

- The municipality's budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.
- As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the annual financial statements on the going concern basis. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the government will continue to fund the operations of the municipality through the provision of the equitable share, additionally the accounting officer will continue to tightly manage the cashflow of the municipality and where necessary procure funding for the ongoing operations for the municipality.

3. Subsequent events

The Accounting Officer is not aware of any matter or circumstances arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The Accounting Officer had no interest in any contracts.

5. Accounting policies

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

6. Non-current assets

There were no significant changes in the nature of the non-current assets of the municipality during the year.

7. Accounting Officer

The Accounting Officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr TL Mkhwane	South African

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Report

8. Corporate governance

General

The Accounting Officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the Accounting Officer supports the highest standards of corporate governance and the ongoing development of best practice.

Management meetings

The Accounting Officer meets the section 56 managers at least on a monthly basis.

Internal audit

The municipality has its own internal audit function. This is in compliance with the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

9. Bankers

The municipality's bankers did not change during the year.

10. Auditors

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

11. Non-compliance with applicable legislation

Significant non-compliance with various legislation have been properly disclosed in the notes to the financial statements.

12. Retirement benefit obligation

Management performed an actuarial valuation of the council's liability arising from the post-retirement healthcare subsidy ("PHS") payable to current and retired employees.

The valuation is in line with the requirements of GRAP 25 and the municipality has determined the items required for disclosure in terms of this standard.

Mr TL Mkhwane
Accounting Officer

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

	Note	2021 R	2020 Restated* R
Assets			
Current Assets			
Inventories	3	2,180,858	2,753,632
Other receivables from exchange transactions	4	2,827,126	3,031,595
Receivables from exchange transactions	5	76,962,481	60,942,871
Receivables from non-exchange transactions	6	22,081,102	18,224,344
Cash & cash equivalents	7	645,820	1,202,958
		104,697,387	86,155,400
Non-Current Assets			
Investment property	8	77,119,300	77,704,540
Property, plant and equipment	9	705,030,610	708,314,027
Intangible assets	10	177,119	378,514
Heritage assets	11	15,000	15,000
Other financial assets	12	182,950	179,750
		782,524,979	786,591,831
Total Assets		887,222,366	872,747,231
Liabilities			
Current Liabilities			
Finance lease obligation	13	246,653	160,805
Payables from exchange transactions	14	169,008,124	148,567,825
Consumer deposits	15	859,826	739,342
Employee benefit obligation	16	556,000	575,000
Unspent conditional grants	17	3,234,319	265,961
VAT payable	18	2,982,412	4,388,367
		176,887,334	154,697,300
Non-Current Liabilities			
Finance lease obligation	13	60,737	177,643
Employee benefit obligation	16	4,403,000	3,839,000
Provisions	19	8,542,898	5,969,431
		13,006,635	9,986,074
Total Liabilities		189,893,969	164,683,374
Net Assets		697,328,397	708,063,857
Accumulated surplus		697,328,397	708,063,861

* See Note 44

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

	Note	2021 R	2020 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	20	50,614,190	49,589,282
Dividends received	22	4,527	-
Interest received - outstanding debtors	21	10,323,620	11,364,140
Interest received - external investments	22	375,044	441,075
Rental of facilities and equipment	23	713,613	604,448
Other income	24	708,139	575,775
Total revenue from exchange transactions		62,739,133	62,574,720
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	25,605,086	23,906,946
Interest earned - outstanding debtors	21	4,063,552	3,957,976
Transfer revenue			
Government grants and subsidies	26	137,558,328	102,922,774
Fines, penalties and forfeits	27	13,900	28,450
Total revenue from non-exchange transactions		167,240,866	130,816,146
Total revenue		229,979,999	193,390,866
Expenditure			
Employee related costs	28	(63,364,198)	(59,470,390)
Remuneration of councillors	29	(4,217,404)	(4,200,291)
Depreciation and amortisation	30	(42,040,594)	(41,244,813)
Impairment loss	31	(8,783,528)	(13,232,331)
Finance costs	32	(7,871,577)	(2,513,323)
Debt impairment	33	(30,287,712)	(38,650,492)
Repairs and maintenance	34	(5,924,176)	(4,566,735)
Bulk purchases	35	(38,632,663)	(37,267,215)
Professional and consulting fees	36	(11,158,122)	(3,456,487)
General expenses	37	(16,977,614)	(19,498,469)
Total expenditure		(229,257,588)	(224,100,546)
Operating surplus (deficit)		722,411	(30,709,680)
(Loss) gain on disposal of assets and liabilities	38	(11,299,625)	14,503,516
Fair value adjustments	39	3,200	(1,121)
Actuarial gains	16	(308,000)	454,000
Inventories loss reversals (losses)		146,549	449,253
		(11,457,876)	15,405,648
Deficit for the year		(10,735,465)	(15,304,032)

* See Note 44

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	731,651,406	731,651,406
Adjustments		
Prior year adjustments (see note 45)	(8,283,513)	(8,283,513)
Balance at 01 July 2019 as restated*	723,367,893	723,367,893
Changes in net assets		
Surplus for the year	(15,304,032)	(15,304,032)
Total changes	(15,304,032)	(15,304,032)
Restated* Balance at 01 July 2020	708,063,862	708,063,862
Changes in net assets		
Surplus for the year	(10,735,465)	(10,735,465)
Total changes	(10,735,465)	(10,735,465)
Balance at 30 June 2021	697,328,397	697,328,397

* See Note 44

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement

	Note(s)	2021 R	2020 Restated* R
Cash flows from operating activities			
Receipts			
Sale of goods and services		40,584,358	29,368,750
Grants and subsidies received		140,526,686	77,239,763
Interest income		375,044	441,075
Dividends received		4,527	-
		<u>181,490,615</u>	<u>107,049,588</u>
Payments			
Employee costs		(64,201,405)	(63,522,321)
Supplier and other payments		(65,938,559)	(12,169,270)
Finance costs		(5,248,374)	(4,453,700)
		<u>(135,388,338)</u>	<u>(80,145,291)</u>
Net cash flows from operating activities	41	<u>46,102,277</u>	<u>26,904,297</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(46,578,621)	(45,305,822)
Proceeds from sale of property, plant and equipment		-	15,936,447
Net cash flows from investing activities		<u>(46,578,621)</u>	<u>(29,369,375)</u>
Cash flows from financing activities			
Finance lease payments		(80,794)	(35,741)
Net increase/(decrease) in cash and cash equivalents		<u>(557,138)</u>	<u>(2,500,819)</u>
Cash and cash equivalents at the beginning of the year		1,202,958	3,703,777
Cash and cash equivalents at the end of the year	7	<u>645,820</u>	<u>1,202,958</u>

* See Note 44

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Note 54
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	35,050,944	16,606,397	51,657,341	50,614,190	(1,043,151)	-2%
Rental of facility/equipment	296,822	-	296,822	713,613	416,791	140%
Interest on debtors	4,252,876	4,252,876	8,505,752	10,323,620	1,817,868	21%
Other income	569,000	107,256	676,256	708,139	31,883	5%
Dividends received	10,450	(2,450)	8,000	4,527	(3,473)	-43%
Interest-external investment	407,490	-	407,490	375,044	(32,446)	-8%
Total revenue from exchange transactions	40,587,582	20,964,079	61,551,661	62,739,133	1,187,472	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	23,504,140	470,082	23,974,222	25,605,086	1,630,864	7%
Interest on debtors	-	-	-	4,063,552	4,063,552	100%
Transfer revenue						
Transfer and subsidies	125,997,000	9,285,000	135,282,000	137,558,328	2,276,328	2%
Fines	33,233	-	33,233	13,900	(19,333)	-58%
Licences and permits	4,946	(2,473)	2,473	-	(2,473)	-100%
Total revenue from non-exchange transactions	149,539,319	9,752,609	159,291,928	167,240,866	7,948,938	
Total revenue	190,126,901	30,716,688	220,843,589	229,979,999	9,136,410	
Expenditure						
Employee costs	(58,918,002)	(2,154,143)	(61,072,145)	(63,364,198)	(2,292,053)	4%
Remuneration of councillors	(4,313,164)	(258,790)	(4,571,954)	(4,217,404)	354,550	-8%
Depreciation / amortisation and impairment loss	(47,139,650)	-	(47,139,650)	(50,824,122)	(3,684,472)	-8%
Finance costs	(600,000)	(1,400,000)	(2,000,000)	(7,871,577)	(5,871,577)	294%
Debt Impairment	(50,000,000)	-	(50,000,000)	(30,287,712)	19,712,288	-39%
Repairs and maintenance	(5,940,000)	(5,315,000)	(11,255,000)	(5,924,176)	5,330,824	-47%
Bulk purchases	(28,000,000)	6,000,000	(22,000,000)	(38,632,663)	(16,632,663)	76%
Contracted services	(8,924,117)	(2,550,883)	(11,475,000)	(11,158,122)	316,878	-3%
General expenses	(4,921,999)	(3,613,651)	(8,535,650)	(16,977,614)	(8,441,964)	99%
Total expenditure	(208,756,932)	(9,292,467)	(218,049,399)	(229,257,588)	(11,208,189)	
Operating surplus	(18,630,031)	21,424,221	2,794,190	722,411	(2,071,779)	
Loss on disposal of assets	-	-	-	(11,299,625)	(11,299,625)	100%
Fair value adjustments	-	-	-	3,200	3,200	100%
Actuarial gains/losses	-	-	-	(308,000)	(308,000)	100%
Inventories losses	-	-	-	146,549	146,549	100%
	-	-	-	(11,457,876)	(11,457,876)	
Surplus	(18,630,031)	21,424,221	2,794,190	(10,735,465)	(13,529,655)	

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Note 54
	R	R	R	R	R	

Statement of Financial Position

Assets

Current Assets

Inventories	2,802,000	198,000	3,000,000	2,180,858	(819,142)	-27%
Other receivables	-	3,000,000	3,000,000	2,827,126	(172,874)	-6%
Receivables: exchange	85,058,000	(5,058,000)	80,000,000	76,962,481	(3,037,519)	-4%
Receivables: non-exchange	-	-	-	22,081,102	22,081,102	100%
Cash & cash equivalents	160,489,497	(155,918,497)	4,571,000	645,820	(3,925,180)	-86%
	248,349,497	(157,778,497)	90,571,000	104,697,387	14,126,387	

Non-Current Assets

Investment property	81,191,000	(2,942,528)	78,248,472	77,119,300	(1,129,172)	-1%
Property, plant and equipment	58,573,470	651,427,000	710,000,470	705,030,610	(4,969,860)	-1%
Intangible assets	606,000	(486,000)	120,000	177,119	57,119	48%
Heritage assets	-	-	-	15,000	15,000	100%
Other financial assets	-	20,500	20,500	182,950	162,450	792%
	140,370,470	648,018,972	788,389,442	782,524,979	(5,864,463)	

Total Assets

388,719,967	490,240,475	878,960,442	887,222,366	8,261,924	
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Liabilities

Current Liabilities

Finance lease obligation	-	-	-	246,653	246,653	100%
Payables from exchange transactions	(66,918,048)	217,395,331	150,477,283	169,008,124	18,530,841	13%
Consumer deposits	-	800,000	800,000	859,826	59,826	7%
Employee benefit obligation	-	-	-	556,000	556,000	100%
Unspent conditional grants	-	-	-	3,234,319	3,234,319	100%
VAT Payable	-	-	-	2,982,412	2,982,412	100%
	(66,918,048)	218,195,331	151,277,283	176,887,334	25,610,051	

Non-Current Liabilities

Finance lease obligation	-	-	-	60,737	60,737	100%
Employee benefit obligation	-	-	-	4,403,000	4,403,000	100%
Provisions	-	-	-	8,542,898	8,542,898	100%
	-	-	-	13,006,635	13,006,635	

Total Liabilities

(66,918,048)	218,195,331	151,277,283	189,893,969	38,616,686	
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Net Assets

455,638,015	272,045,144	727,683,159	697,328,397	(30,354,762)	
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Net Assets

Net Assets Attributable to Owners of Controlling Entity

Reserves

Accumulated surplus	455,638,015	272,045,144	727,683,159	697,328,397	(30,354,762)	-4%
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Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference Note 54
	R	R	R	R	R	

Cash Flow Statement

Cash flows from operating activities

Receipts

Sale of goods and services	51,982,680	11,656,385	63,639,065	40,584,358	(23,054,707)	-36%
Grants	101,997,000	9,285,000	111,282,000	140,526,686	29,244,686	26%
Dividends received	10,450	(2,450)	8,000	4,527	(3,473)	-43%
Other receipts	904,001	512,017	1,416,018	375,044	(1,040,974)	-74%
	154,894,131	21,450,952	176,345,083	181,490,615	5,145,532	

Payments

Supplier payments and employee costs	(111,017,281)	(7,892,468)	(118,909,749)	(130,139,964)	(11,230,215)	9%
Finance charges	(600,000)	(1,400,000)	(2,000,000)	(5,248,374)	(3,248,374)	162%
	(111,617,281)	(9,292,468)	(120,909,749)	(135,388,338)	(14,478,589)	

Net cash flows from operating activities

	43,276,850	12,158,484	55,435,334	46,102,277	(9,333,057)	
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Cash flows from investing activities

Purchase of property, plant and equipment	-	(52,067,506)	(52,067,506)	(46,578,621)	5,488,885	-11%
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Cash flows from financing activities

Finance lease payments	-	-	-	(80,794)	(80,794)	100%
Net increase/(decrease) in cash and cash equivalents	43,276,850	(39,909,022)	3,367,828	(557,138)	(3,844,172)	-265%
Cash and cash equivalents at the beginning of the year	1,202,958	-	1,202,958	1,202,958	-	0%
Cash and cash equivalents at the end of the year	44,479,808	(39,909,022)	4,570,786	645,820	(3,844,172)	

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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, 2003 (Act No. 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.

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

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

These accounting policies are consistent with the previous period, unless specifically stated.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables / Held to maturity investments and/or loans and receivables

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

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus and deficit for the year.

Fair value estimation

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

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

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

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 assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to the present value where the time value effect is material. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment as well as the intangible assets. The municipality re-assess the useful lives and the residual values on an annual basis, considering the condition and use of the individual assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 16.

Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

Allowance for doubtful debts

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

This accounting policy has been changed from the previous period and the effect has been disclosed in the notes to the annual financial statements.

Letsemeng Local Municipality

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Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

GRAP 24: Presentation of budget information

The comparison of budget and actual amounts were presented separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

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

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

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

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

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Letsemeng Local Municipality

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Accounting Policies

1.4 Investment property (continued)

All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties.

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

1.5 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 date of acquisition.

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

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

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

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

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

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

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

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

Letsemeng Local Municipality

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Accounting Policies

1.5 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	25 - 50 years
- Improvements	Straight line	25 - 50 years
Plant and machinery	Straight line	3 - 10 years
Furniture and fixtures	Straight line	3 - 10 years
Motor vehicles	Straight line	3 - 7 years
Heavy machinery and vehicles	Straight line	3 - 10 years
Office equipment	Straight line	2 - 7 years
Infrastructure	Straight line	
- Electricity	Straight line	7 - 50 years
- Roads	Straight line	8 - 50 years
- Sewerage and solid waste	Straight line	5 - 50 years
- Stormwater	Straight line	30 - 50 years
- Water	Straight line	5 - 50 years
Community assets	Straight line	
- Buildings	Straight line	20 - 50 years
- Recreational facilities	Straight line	7 - 50 years
- Security measures	Straight line	3 - 5 years
Other property, plant and equipment	Straight line	
- Other equipment	Straight line	2 - 10 years
- Fences and gates	Straight line	15 - 25 years
- Paving	Straight line	3 - 10 years
Other equipment	Straight line	3 - 10 years
Leased assets (computer equipment, copies and cell phones)	Straight line	2 - 3 years

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Computer software	Straight line	2 - 6 years

Intangible assets are derecognised:

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

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

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Letsemeng Local Municipality

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Accounting Policies

1.7 Heritage assets (continued)

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.8 Financial instruments

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

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

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

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

Letsemeng Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

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

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.

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

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.8 Financial instruments (continued)

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

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

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

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

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Letsemeng Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

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
Cash and cash equivalents	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

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
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants	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.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

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

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

Letsemeng Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

Fair value measurement considerations

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

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

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of 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.

Accounting Policies

1.8 Financial instruments (continued)

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 recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the 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 recognise the new financial asset, financial liability or servicing liability at fair value.

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

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

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Accounting Policies

1.8 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 expense in surplus or deficit.

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

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

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

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.

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.

1.9 Leases

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

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

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1.9 Leases (continued)

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

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

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

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

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

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

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

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Letsemeng Local Municipality

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Accounting Policies

1.10 Inventories (continued)

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

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

Identification

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

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

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

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.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.12 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.

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.

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Accounting Policies

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

1.13 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

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.

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1.13 Employee benefits (continued)

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

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

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 service.

Short-term employee benefits include items such as:

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

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

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the 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 recognise 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.

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1.13 Employee benefits (continued)

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

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

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

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

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

Post-employment benefits: Defined contribution plans

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

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

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity 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 contribution in the cost of an asset.

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

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.

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1.13 Employee benefits (continued)

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 measures the resulting asset at the lower of:

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

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

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

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

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and

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Accounting Policies

1.13 Employee benefits (continued)

- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

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

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

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

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

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

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

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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Accounting Policies

1.13 Employee benefits (continued)

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

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

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

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

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

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

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

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

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

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.

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Accounting Policies

1.13 Employee benefits (continued)

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

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

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

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

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

1.14 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 (deficit).

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.

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Accounting Policies

1.14 Provisions and contingencies (continued)

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 an 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 52.

1.15 Commitments

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

1.16 Revenue from exchange transactions

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

An exchange transaction is one in which the 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.

Letsemeng Local Municipality

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Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

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

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Interest, royalties and dividends

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

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

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

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

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

Letsemeng Local Municipality

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Accounting Policies

1.17 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.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

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

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

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

Recognition

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

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

Measurement

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

Letsemeng Local Municipality

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Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

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.

Transfers

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

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

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

Fines

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

There are two types of fines and summonses. Municipalities will usually issue both types of fines. There is uncertainty regarding the probability regarding the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable.

In respect of summonses the public prosecutor can decide whether to waive the revenue amount collected from the spot fines and summonses, the revenue from summonses should be recognised when the public prosecutor pays over to the municipality the cash actually collected on summonses issued.

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

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

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.

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Government grants are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transactions will flow to the entity;
- The amount of the revenue can be measured reliably. and;
- There has been compliance with the relevant legal requirement.

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

Letsemeng Local Municipality

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Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

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

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

Other grants and donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

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

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

Assessment rates

Revenue from rates, including collection charges and penalty interest, is recognised when:

- It is probable that the economic benefits or service potential associated with the transactions will flow to the entity;
- The amount of the revenue can be measured reliably. and;
- There has been compliance with the relevant legal requirement.

Changes to property values during a reporting period, which are referred to as "interims, are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Gifts and donations, including goods in-kind

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

1.18 Investment income

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

1.19 Borrowing costs

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

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

1.20 Comparative figures

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

1.21 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.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.21 Unauthorised expenditure (continued)

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.

1.22 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.

1.23 Irregular expenditure

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.

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.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Use in estimate

The preparation of financial statements in conformity with the Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements are disclosed in the relevant section 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.

1.25 Value added tax

The municipality is registered with the South African Revenue Services for VAT on the payment basis, in accordance with section 15(2) of the Value Added Tax Act, 1991 (Act No. 89 of 1991).

1.26 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.26 Budget information (continued)

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2020/07/01 to 2021/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

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

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

1.27 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 provincial 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.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

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.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.28 Events after reporting date

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

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

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

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

1.29 Segment information

A segment is an activity of an entity:

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

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.29 Segment information (continued)

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

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 25 on Employee benefits (revised)	To be determined	Unlikely there will be a material impact
• GRAP 104 on Financial instruments (revised)	To be determined	Unlikely there will be a material impact
• IGRAP 7 on The limit on a defined benefit asset, minimum funding requirements and their interaction (revised)	To be determined	Unlikely there will be a material impact
• IGRAP 21 on The effect of past decisions on materiality	To be determined	Unlikely there will be a material impact
• Guideline on Accounting for landfill sites	To be determined	Unlikely there will be a material impact

3. Inventories

Maintenance materials	2,141,091	2,713,374
Spare parts	29,195	23,999
Water	10,572	16,259
	2,180,858	2,753,632

Inventories are held for own use and measured at the lower of cost or current replacement value. Inventory amounting to R146 549 (2020: R449 253) was inventory reversals due to adjustments made with stock counts.

The cost of water production for the year amounted to R0.67 (2020: R0.67) per kilolitre.

Inventory pledged as security

No inventories have been pledged as security for overdraft facilities of the municipality.

4. Other receivables from exchange transactions

ESKOM Security Held	1,919,848	1,844,234
Sundry deposits	852,317	957,434
Prepaid expense	33,450	-
Trade payables from exchange transactions with debit balances	21,511	229,927
	2,827,126	3,031,595

Electricity deposits relate to the deposits held for the bulk ESKOM accounts

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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	2021 R	2020 R
5. Receivables from exchange transactions		
Gross balances		
Electricity	8,805,429	12,917,689
Water	44,712,207	45,795,031
Sewerage	38,007,534	40,048,823
Refuse	35,442,196	35,772,585
Other	221,439	120,787
Housing rental	1,791,904	2,179,878
Interest	110,193,677	60,194,841
	239,174,386	197,029,634
Less: Allowance for impairment		
Electricity	(4,700,224)	(3,767,499)
Water	(30,699,120)	(28,146,247)
Sewerage	(26,295,893)	(23,726,971)
Refuse	(24,585,256)	(21,207,439)
Other	(141,426)	(128,467)
Housing rental	(999,289)	(1,294,457)
Interest	(74,790,697)	(57,815,683)
	(162,211,905)	(136,086,763)
Net balance		
Electricity	4,105,205	9,150,190
Water	14,013,087	17,648,784
Sewerage	11,711,641	16,321,852
Refuse	10,856,940	14,565,146
Other	80,013	(7,680)
Housing rental	792,615	885,421
Interest	35,402,980	2,379,158
	76,962,481	60,942,871
Electricity		
Current (0 -30 days)	693,551	202,688
31 - 60 days	365,645	192,840
61 - 90 days	333,387	154,499
91 - 120 days	231,279	103,313
121 - 150 days	246,916	160,657
>150 days	2,234,427	8,336,193
	4,105,205	9,150,190
Water		
Current (0 -30 days)	988,101	422,045
31 - 60 days	350,457	264,222
61 - 90 days	300,302	240,665
91 - 120 days	284,577	248,378
121 - 150 days	296,219	244,029
> 150 days	11,793,431	16,229,445
	14,013,087	17,648,784

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Notes to the Annual Financial Statements

	2021 R	2020 R
5. Receivables from exchange transactions (continued)		
Sewerage		
Current (0 -30 days)	371,135	385,298
31 - 60 days	287,227	226,310
61 - 90 days	275,707	216,608
91 - 120 days	278,932	212,822
121 - 150 days	264,222	221,039
> 150 days	10,234,418	15,059,775
	11,711,641	16,321,852
Refuse		
Current (0 -30 days)	307,101	378,599
31 - 60 days	273,193	220,039
61 - 90 days	253,525	210,634
91 - 120 days	258,889	207,253
121 - 150 days	244,087	212,049
> 150 days	9,520,145	13,336,572
	10,856,940	14,565,146
Other		
Current (0 -30 days)	10,855	3,232
31 - 60 days	7,003	2,676
61 - 90 days	5,836	1,884
91 - 120 days	5,836	1,884
121 - 150 days	5,836	1,884
> 150 days	44,647	(19,240)
	80,013	(7,680)
Housing rental		
Current (0 -30 days)	15,301	2,302
31 - 60 days	3,931	4,871
61 - 90 days	4,698	3,209
91 - 120 days	6,858	2,899
121 - 150 days	6,431	2,427
> 150 days	755,396	869,713
	792,615	885,421
Interest		
Current (0 -30 days)	257,511	382,635
31 - 60 days	439,827	860,967
61 - 90 days	433,453	847,587
91 - 120 days	424,174	906,395
121 - 150 days	421,779	976,504
> 150 days	33,426,236	(1,594,930)
	35,402,980	2,379,158
Reconciliation of allowance for impairment		
Balance at beginning of the year	136,086,763	101,696,326
Contributions to allowance	26,125,142	34,390,437
	162,211,905	136,086,763

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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5. Receivables from exchange transactions (continued)

Consumer debtors pledged as security

None of the receivable from exchange transaction debtors have been pledged as security for the municipality's financial liabilities.

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R5 971 746 (2020: R5 223 810) were past due but not impaired.

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

1 month past due	2,637,555	1,776,800
2 months past due	1,727,283	1,771,925
3 months past due	1,606,908	1,675,085

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of receivables from exchange transactions, the municipality has placed strong emphasis on verifying the indigent status of consumers. The provision for impairment in respect of the receivables from exchange transactions have been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the provision for impairment. Refer to details in the accounting policy for further details.

GRAP 3: Impracticable

Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

The effects of the retrospective application or retrospective restatement are not determinable;

The retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or

The retrospective application or retrospective restatement requires significant estimates of amounts, and it is impossible to distinguish objectively information about those estimates that:

Provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured, or disclosed; and

Would have been available when the financial statements for that prior period were authorized for issue from other information.

CHANGE IN ITC CONSULTANTS

The most impactful limitation experienced during the process has been the limitation on obtaining billing and debtor information for the financial years ending June 2013; 2014; 2015; 2016; and 2017, due to the change in the ITC consultants at the municipality.

Prior to the procurement and implementation of the mSCOA-compliant financial system, LLM used the SEBATA financial system for the processing and recording of its financial information. For the financial year starting on 1 July 2017, the SEBATA financial system was replaced with the SAGE financial system to ensure the municipality complies with the mSCOA requirements.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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	2021 R	2020 R
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5. Receivables from exchange transactions (continued)

In an attempt to obtain all the aforementioned information, it was however an unsuccessful task to obtain back-ups.

The following financial years were found to be impracticable to determine the misstatement of the revenue:

30 June 2013
30 June 2014
30 June 2015
30 June 2016
30 June 2017

The municipality investigated and calculated the misstatement of revenue that was approved by Council:

	30 June 2018:	30 June 2019:	30 June 2020:
Electricity	R 520 723	R 447 011	R 512 131
Water	R1 457 425	R 227 465	R 988 234
Sewerage	R1 631 643	R 340 165	R1 218 137
Refuse	<u>R3 081 297</u>	<u>(R1 089 092)</u>	<u>R1 454 761</u>
Total	R6 691 088	(R 74 441)	R4 173 263

6. Receivables from non-exchange transactions

Assessment rates	51,269,614	42,332,920
Provision for impairment	(29,643,665)	(24,108,576)
Other receivables	455,153	-
	22,081,102	18,224,344

Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions have been pledged as security for the municipality's financial liabilities.

Property rates

Current (0 - 30 Days)	2,180,954	931,966
31 - 60 days	789,644	806,192
61 - 90 days	697,760	764,735
91 - 120 days	681,476	746,268
121 - 150 days	606,445	722,658
> 150 days	<u>16,399,670</u>	<u>14,252,525</u>
	21,625,949	18,224,344

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R3 668 358 (2020: R2 502 839) were past due but not impaired.

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

1 month past due	2,180,954	931,822
2 months past due	789,644	806,337
3 months past due	697,760	764,735

Reconciliation of provision for impairment of receivables: exchange

Opening balance	24,108,576	25,112,201
Provision for impairment	5,535,083	(1,003,625)
	29,643,659	24,108,576

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Notes to the Annual Financial Statements

	2021 R	2020 R
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6. Receivables from non-exchange transactions (continued)

The provision for impairment was calculated after grouping all the financial assets of similar nature, risk ratings and assessing the recoverability.

In determining the recoverability of the receivables from non-exchange transactions, the municipality considers any change in the credit quality of the assessment rate debtors from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believes that there is no further credit provision required in excess of the provision for impairment.

The following financial years were found to be impracticable to determine the misstatement of the revenue:

30 June 2013
30 June 2014
30 June 2015
30 June 2016
30 June 2017

The municipality investigated and calculated the misstatement of revenue that was approved by Council:

30 June 2018: R3 476 465
30 June 2019: R1 714 964
30 June 2020: (R698 846)

7. Cash & cash equivalents

Cash and cash equivalents consist of:

Bank balances	345,386	928,508
Short-term deposits	300,434	274,450
	645,820	1,202,958

The management of the municipality is of the opinion that the carrying value of the current investments and bank balances recorded at amortised cost in the financial statements approximate amortised cost.

Cash and cash equivalents pledged as collateral

The municipality did not pledge any of its cash and cash equivalents as collateral for its financial liabilities. No restrictions have been imposed on the municipality in terms of the utilisation of its cash and cash equivalents

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
First National Bank - Current account - 527115689918	345,319	926,962	900,236	345,319	926,962	900,236
ABSA Bank - Current account - 4078034774	-	1,480	298,281	-	1,480	298,281
First National Bank - Call account - 62711355132	66	66	83	66	66	83
ABSA Bank - Current account - 409262218	183,815	193,199	2,505,194	183,815	193,199	2,505,194
Nedbank - Money Market - 03/7881110481/000003	16,305	15,763	-	16,305	15,763	-
First National Bank - Money Market - 62847543528	136	65,488	-	136	65,488	-
ABSA Bank - Current account - 9358983129	100,179	-	-	100,179	-	-
Total	645,820	1,202,958	3,703,794	645,820	1,202,958	3,703,794

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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	2021 R	2020 R
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8. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	77,119,300	-	77,119,300	77,704,540	-	77,704,540

Reconciliation of investment property - 2021

	Opening balance	Impairments	Total
Investment property	77,704,540	(585,240)	77,119,300

Reconciliation of investment property - 2020

	Opening balance	Total
Investment property	77,704,540	77,704,540

A register containing the information required by section 63 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is available for inspection at the registered office of the municipality.

Adjustment to fair value

The valuation was based on open market value for existing use. These assumptions are based on current market conditions.

The investment properties were valued in terms of the requirements of GRAP 16 and the details of the valuation is available for inspection at the registered office of the municipality. Properties were individually investigated to confirm classification as investment properties. Investment properties are identified under GRAP16.

The following criteria was used to determine whether a property should be classified as an investment property:

A building owned by the municipality and leased out to third parties under one or more operating leases.

Land held for a current undeterminable future use.

Property being constructed or developed for future use as investment property.

No restrictions exist unless the property is being leased out to third parties.

Under construction and Contractual commitments

No investment property was under construction or incurred towards contractual commitments during the financial year.

Repairs and maintenance

No repairs and maintenance was incurred in the running of these properties for the financial year.

Maintenance by condition, nature and type of expenditure - corrective maintenance is in place. Maintenance is done as reported on.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13,417,919	-	13,417,919	13,417,919	-	13,417,919
Buildings	162,897,443	(86,947,493)	75,949,950	162,226,964	(75,209,073)	87,017,891
Other property, plant and equipment	11,819,802	(7,411,911)	4,407,891	12,121,784	(7,150,249)	4,971,535
Infrastructure	1,351,020,567	(740,080,880)	610,939,687	1,306,296,872	(703,802,102)	602,494,770
Leased assets	484,010	(168,847)	315,163	497,610	(85,698)	411,912
Total	1,539,639,741	(834,609,131)	705,030,610	1,494,561,149	(786,247,122)	708,314,027

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Write-off	Depreciation	Impairment loss	Total
Land	13,417,919	-	-	-	-	-	13,417,919
Buildings	87,017,891	1,337,649	(417,700)	-	(5,079,661)	(6,908,229)	75,949,950
Other property, plant and equipment	4,971,535	462,844	(359,319)	-	(660,831)	(6,338)	4,407,891
Infrastructure	602,494,770	49,705,174	(437,843)	(3,536,735)	(36,001,958)	(1,283,721)	610,939,687
Leased assets	411,912	-	-	-	(96,749)	-	315,163
Total	708,314,027	51,505,667	(1,214,862)	(3,536,735)	(41,839,199)	(8,198,288)	705,030,610

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	13,417,919	-	-	-	-	13,417,919
Buildings	89,581,530	7,844,372	(586,670)	(3,865,715)	(5,955,626)	87,017,891
Other property, plant and equipment	4,825,566	1,015,314	(99,817)	(769,528)	-	4,971,535
Infrastructure	601,934,825	44,664,875	(657,319)	(36,170,906)	(7,276,705)	602,494,770
Leased assets	254,294	484,011	(89,125)	(237,268)	-	411,912
	710,014,134	54,008,572	(1,432,931)	(41,043,417)	(13,232,331)	708,314,027

Assets subject to finance lease (Net carrying amount)

Motor vehicles	411,912	411,912
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Other information

Expenditure incurred on repairs and maintenance of property, plant and equipment

Other property, plant and equipment	5,924,176	994,960
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Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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9. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2021

	Included within infrastructure	Included within buildings	Total
Opening balance	90,460,095	13,186,836	103,646,931
Additions/capital expenditure	49,801,885	1,240,937	51,042,822
Transferred to completed items	(106,732,931)	(11,983,912)	(118,716,843)
	33,529,049	2,443,861	35,972,910

Reconciliation of Work-in-Progress 2020

	Included within infrastructure	Included within buildings	Total
Opening balance	68,539,582	9,756,014	78,295,596
Additions/capital expenditure	29,704,368	7,349,800	37,054,168
Transferred to completed items	(7,783,855)	(3,918,978)	(11,702,833)
	90,460,095	13,186,836	103,646,931

A register containing the information required by section 63 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is available for inspection at the registered office of the municipality.

Slow-moving projects

Koffiefontein / Sonwabile: Construction of new sports facility	2,443,860	-
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The aforementioned project represent the slow-moving project which are included in work-in-progress balance. This project is slow-moving due to a pending court case with the contractor.

10. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,006,977	(829,858)	177,119	1,006,977	(628,463)	378,514

Reconciliation of intangible assets - 2021

	Opening balance	Amortisation	Total
Computer software	378,514	(201,395)	177,119

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software	579,909	(201,395)	378,514

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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10. Intangible assets (continued)

Pledged as security

All of the municipality's intangible assets are held under freehold interests and no intangible assets had been pledged as security for any liabilities of the municipality.

11. Heritage assets

	2021			2020		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral chain	15,000	-	15,000	15,000	-	15,000

Reconciliation of heritage assets - 2021

	Opening balance	Total
Mayoral chain	15,000	15,000

Reconciliation of heritage assets - 2020

	Opening balance	Total
Mayoral chain	15,000	15,000

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	2021 R	2020 R
12. Other financial assets		
Designated at fair value		
Unlisted shares	182,950	179,750
The municipality holds the following non-controlling interests:		
Senwes Limited:	3 600 (2020: 3 600) shares	
Senwesbel Limited:	4 990 (2020: 4 990) shares	
OVK: Operational Shares	4 000 (2020: 4 000) shares	
OVK: Holding Shares	4 000 (2020: 4 000) shares	
Non-current assets		
Designated at fair value	182,950	179,750
Financial assets at fair value		
Fair values of financial assets measured or disclosed at fair value		
Class 1: Senwes Limited	36,000	36,000
These shares are valued as per the valuation obtained from the Senwes Limited Transfer Secretaries and represents the fair value as at 30 June.		
Class 2: Senwesbel Limited	24,950	24,950
These shares are valued as per the valuation obtained from the Senwesbel Limited Transfer Secretaries and represents the fair value as at 30 June.		
Class 3: OVK Operational shares	66,000	63,400
These shares are valued as per the valuation obtained from the OVK Transfer Secretaries and represents the fair value as at 30 June.		
Class 4: OVK Holding shares	56,000	55,400
These shares are valued as per the valuation obtained from the OVK Transfer Secretaries and represents the fair value as at 30 June.		
	182,950	179,750
Fair value hierarchy of financial assets at fair value		
For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:		
Level 1 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).		
Level 2 applies inputs which are not based on observable market data.		
Level 3 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.		
Level 1		
Class 1: Senwes Limited	36,000	36,000
Class 2: Senwesbel Limited	24,950	24,950
Class 3: OVK Operational shares	66,000	63,400
Class 4: OVK Holding shares	56,000	55,400
	182,950	179,750

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
13. Finance lease obligation		
Minimum lease payments due		
- within one year	266,290	187,412
- in second to fifth year inclusive	61,712	187,412
	328,002	374,824
less: future finance charges	(20,612)	(36,376)
Present value of minimum lease payments	307,390	338,448
Present value of minimum lease payments due		
- within one year	246,653	160,805
- in second to fifth year inclusive	60,737	177,643
	307,390	338,448
Non-current liabilities	60,737	177,643
Current liabilities	246,653	160,805
	307,390	338,448

It is municipality policy to lease certain other property, plant and equipment (motor vehicles) under finance leases.

The lease contract incurred in the current financial year, with a lease term of 36 months. The effective borrowing rate was 10%

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

14. Payables from exchange transactions

Trade payables	34,709,833	62,028,949
Accrued bonus	1,051,318	1,001,764
Accrued leave pay	5,955,470	4,685,898
Retention monies	7,813,986	7,366,346
Employee related liabilities	3,892,615	2,068,544
Eskom	86,576,571	54,512,777
Sedibeng Water	11,662,826	3,229,424
Oranje-Riet	647,140	208,791
Kalkfontein	11,779,741	7,881,758
Payments received in advanced	4,918,624	5,583,574
	169,008,124	148,567,825

15. Consumer deposits

Water and Electricity	859,826	739,342
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Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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16. Employee benefit obligations

Defined benefit plan

Post-employment medical aid benefit liability

The municipality provides certain post-employment health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the respective medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The municipality makes monthly contributions for health care arrangements to the Hosmed, LA Health and Key Health Medical Aid schemes.

The members of the Post-employment medical aid (health care) benefit plan are made up as follows:

- In-service members (employees): 0 (2020: 0)
- In-service non-members (employees): 0 (2020: 0)
- Continuation members (retirees, widowers and orphans): 8 (2020: 8)

Long service award liability

The municipality operates an unfunded defined benefit liability for all its employees. Under the plan, a long service award is every 5 years of continuous service, from 5 to 45 years of service, inclusive. The provision is an estimate of the long service based on historical staff turnover. No other long service benefits are provided to employees.

The most recent actuarial valuation of the present value of the defined benefit obligation were carried out at 30 June 2021. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

The current service cost for the year ending 30 June 2021 is estimated to be R356 000, whereas the cost for ensuing year is estimated to be R362 000.

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the respective medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2021. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
16. Employee benefit obligations (continued)		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the Post-employment medical aid benefit liability	(2,056,000)	(1,933,000)
Present value of the Long service award liability	(2,903,000)	(2,481,000)
	(4,959,000)	(4,414,000)
Non-current liabilities	(4,403,000)	(3,839,000)
Current liabilities	(556,000)	(575,000)
	(4,959,000)	(4,414,000)
The municipality expects to make a contribution of R296 000 (2020: R0) and R204 000 (2020: R0) in the next financial year to the post-employment medical aid benefit and long service award liabilities, respectively.		
Changes in the present value of the post-employment medical aid benefit obligation are as follows:		
Opening balance	1,933,000	2,040,000
Net expense recognised in the statement of financial performance	123,000	(107,000)
	2,056,000	1,933,000
Net expense recognised in the statement of financial performance: Post-employment medical aid benefit liability		
Benefits paid	(301,000)	(285,000)
Interest cost	219,000	189,000
Actuarial (gains) losses	205,000	(11,000)
	123,000	(107,000)
Changes in the present value of the long service award liability are as follows:		
Opening balance	2,481,000	2,688,000
Net expense recognised in the statement of financial performance	422,000	(207,000)
	2,903,000	2,481,000
Changes in the fair value of plan assets are as follows:		
Current service cost	289,000	362,000
Interest cost	297,000	275,000
Actuarial gains (losses)	103,000	(443,000)
Benefits paid	(267,000)	(401,000)
	422,000	(207,000)

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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16. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rate: Post-employment medical aid benefit liability	8.67 %	8.67 %
Discount rate: Long service award liability	8.47 %	8.47 %
Health care cost inflation rate	6.98 %	6.98 %
General salary inflation	6.29 %	6.29 %
Net discount rate: Post-employment medical aid benefit liability	1.59 %	1.59 %
Net discount rate: Long service award liability	2.05 %	2.05 %
Maximum subsidy inflation rate	4.86 %	4.86 %
Net discount rate: Maximum subsidy inflation rate	3.64 %	3.64 %

Other assumptions

The effect of a 1% movement in the assumed rate of post-employment health care benefit inflation is as follows:

Increase:

Effect on the aggregate of the current service cost and the interest cost	211,000	226,000
Effect on the defined benefit obligation	2,123,000	1,994,000

Decrease:

Effect on the aggregate of the current service cost and the interest cost	196,000	211,000
Effect on the defined benefit obligation	1,983,000	1,867,000

The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:

Increase:

Effect on the aggregate of the current service cost and the interest cost	672,000	627,000
Effect on the defined benefit obligation	3,088,000	2,639,000

Decrease:

Effect on the aggregate of the current service cost and the interest cost	590,000	549,000
Effect on the defined benefit obligation	2,736,000	2,337,000

Other assumptions

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

	2021 R	2020 R	2019 R	2018 R	2017 R
Post-employment medical aid benefit liability	2,056,000	1,933,000	2,040,000	1,996,000	4,293,667
Long service award liability	2,903,000	2,481,000	26,888	2,459,000	2,451,414

Actuarial gains

Post-employment medical aid benefit liability	(205,000)	11,000
Long service award liability	(103,000)	443,000
	(308,000)	454,000

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
17. Unspent conditional grants		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	3,234,319	25,651
Water Services Infrastructure Grant (WSIG)	-	240,310
	3,234,319	265,961

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 26 for reconciliation of grants from National/Provincial Government.

Due to the adverse economic environment, a significant portion of amounts due to the municipality in respect of services rendered, property rates and taxes are tied up in receivables. This resulted in amounts earmarked for conditional projects being utilised to ensure smooth running of the municipality. Management is actively following up on outstanding receivables to ensure that projects are completed.

18. VAT payable

VAT Payable	10,113,089	14,355,869
VAT invoice basis receivable	(8,673,671)	(10,001,272)
Plus: VAT payment basis	1,542,994	33,770
	2,982,412	4,388,367

VAT is payable on a cash basis. Once payment is received or made, VAT is payable or receivable from SARS.

No interest is payable to SARS if VAT is paid in time. Interest on late payments is charged according to SARS policies.

The municipality was charged with interest due to late payment.

19. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Unwinding of interest	Total
Environmental rehabilitation	5,969,431	2,573,467	8,542,898

Reconciliation of provisions - 2020

	Opening Balance	Unwinding of interest	Total
Environmental rehabilitation	7,945,811	(1,976,380)	5,969,431

The provision was based on 100% of the landfill site areas effected as this area is used for dumping of waste. Dumping is limited to a certain portion of landfill sites. The current area effected will have to be rehabilitated, therefore the provision was based on 100% of the current effected areas of the landfill sites.

Jacobsdal	2,016,140	1,778,644
Koffiefontein	3,593,214	2,213,230
Luckhoff	1,175,697	825,620
Oppermansgronde	714,385	417,413
Petrusburg	1,043,462	734,525
	8,542,898	5,969,432

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

	2021 R	2020 R
20. Service charges		
Sale of electricity	20,782,670	17,684,443
Sale of water	11,880,843	13,524,573
Sewerage and sanitation charges	9,179,777	9,120,836
Refuse removal	8,770,900	9,229,830
Other service charges	-	29,600
	50,614,190	49,589,282
21. Interest earned on outstanding debtors		
Interest - non-exchange transactions	4,063,552	3,957,976
Interest - exchange transactions	10,323,620	11,364,140
	14,387,172	15,322,116
22. Investment revenue		
Dividend revenue		
Other financial assets	4,527	-
Interest revenue		
Interest earned - external investments	375,044	441,075
	379,571	441,075
23. Rental of facilities and equipment		
Premises		
Premises	465,341	348,657
Venue hire	248,272	255,791
	713,613	604,448
24. Other income		
Administration fees received	96,790	-
Building plan fees	9,890	5,721
Connection and re-connection fees	251,029	115,441
Grave sales	55,597	39,668
Insurance refund	181,600	239,455
Photocopies	9,963	53,851
Tax certificates	37,633	11,595
Tender documents	65,637	110,044
	708,139	575,775

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

	2021 R	2020 R
25. Property rates		
Rates received		
Property rates	25,605,086	23,906,946
Valuations		
Residential	836,845,000	836,845,000
Commercial	179,540,000	179,540,000
State	93,390,000	93,390,000
Municipal	22,330,000	22,330,000
Small holdings and farms	2,258,975,000	2,258,975,000
Other	219,348,000	219,348,000
	3,610,428,000	3,610,428,000

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

26. Government grants and subsidies

Operating grants

Equitable share	78,873,000	63,668,000
Financial Management Grant (FMG)	2,800,000	2,435,000
Municipal Disaster Relief Grant	-	655,000
National Treasury	1,953,686	2,363,711
COGTA*	5,300,000	-
	88,926,686	69,121,711

Capital grants

Water Services Infrastructure Grant (WSIG)	24,441,310	16,156,403
Municipal Infrastructure Grant (MIG)	13,643,332	11,444,660
Expanded Public Works Programme Grant (EPWP)	1,000,000	1,000,000
Integrated National Electrification Programme Grant (INEP)	9,547,000	5,200,000
	48,631,642	33,801,063
	137,558,328	102,922,774

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	56,992,739	36,891,063
Unconditional grants received	82,326,686	66,031,711
	139,319,425	102,922,774

*COGTA provided R1 500 000 to assist the municipality with legal fees that was disclosed as unconditional grants.

Equitable Share

In terms of the Constitution, this grant is used to subsidise the nation.

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

	2021 R	2020 R
26. Government grants and subsidies (continued)		
National: Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	25,651	21,311
Current-year receipts	16,852,000	17,149,000
Conditions met - transferred to revenue	(13,643,332)	(11,444,660)
Unspent Grant to be surrendered to NRF	-	(5,700,000)
	3,234,319	25,651

Conditions still to be met - remain liabilities (see note 17).

During the year National Treasury withheld R1 200 000 from the municipality's Equitable Share allocation as the repayment of the unspent portion of the previous financial years.

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions, and to provide for new, rehabilitation and upgrading of municipal infrastructure.

National: Integrated National Electrification Programme (INEP)

Current-year receipts	9,547,000	5,200,000
Conditions met - transferred to revenue	(9,547,000)	(5,200,000)
	-	-

Conditions still to be met - remain liabilities (see note 17).

The grant is allocated to municipalities to improve and upgrade the electricity infrastructure and enhance the electricity capacity within the municipality.

National: Water Services Infrastructure Grant (WSIG)

Balance unspent at beginning of year	240,310	227,661
Current-year receipts	24,201,000	24,000,000
Conditions met - transferred to revenue	(24,441,310)	(16,187,351)
Unspent Grant to be surrendered to NRF	-	(7,800,000)
	-	240,310

Conditions still to be met - remain liabilities (see note 17).

The grant is allocated and used to facilitate the planning, acceleration and implementation of various projects that will ensure water supply to communities identified as not receiving a basic water supply service.

During the year National Treasury withheld R24 900 000 from the municipality's Equitable Share allocation as the repayment of the unspent portion of the previous financial years.

National: Financial Management Grant (FMG)

Current-year receipts	2,800,000	2,435,000
Conditions met - transferred to revenue	(2,800,000)	(2,435,000)
	-	-

The Financial Management Grant (FMG) is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). All conditions attached to the grant were met and no funds were withheld.

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

	2021 R	2020 R
26. Government grants and subsidies (continued)		
National: Expanded Public Works Programme (EPWP)		
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,000,000)	(1,000,000)
	-	-

The Expanded Public Works Programme (EPWP) Grant is allocated to incentives municipalities to expand work creation efforts through the use of labour incentive delivery methods in the identified focus areas in compliance with the EPWP guidelines. All conditions attached to the grant were met and no funds were withheld.

Municipal Disaster Relief Grant

Current-year receipts	-	655,000
Conditions met - transferred to revenue	-	(655,000)
	-	-

Funding allocation for response and intervention measures for COVID-19 pandemic from the municipal disaster relief grant. National Treasury provided COVID-19 pandemic relief grants to Letsemeng Local Municipality. This is in terms of the division of revenue Act (Act 16 of 2019) This grant may only be used to fund expenditure in the event that the responsible line function organ of state is unable to deal with the effects of the disaster utilising their own legislation, guidelines and resources.

COGTA

Conditions met - transferred to revenue	3,800,000	-
Payment was made towards financial assistance	(3,800,000)	-
	-	-

This grant was paid towards financial assistance. All conditions attached to the grant were met and no funds were withheld.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Bill, 2018 (Bill No. 2 of 2018), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

27. Fines, Penalties and Forfeits

Law enforcement fines	13,900	28,450
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28. Employee related costs

Basic salaries and wages	36,742,961	34,930,860
Bonus	2,336,852	2,366,834
Overtime payments	5,698,428	5,020,980
Housing benefits and allowances	126,691	110,703
Other allowance	8,218,334	7,219,632
Telephone allowance	206,374	686,709
Pension funds - council contributions	4,430,681	4,309,751
Medical aid funds - council contributions	2,279,970	1,756,995
Industrial council	20,010	19,153
UIF	305,853	301,395
Short term benefit	591,221	908,433
Defined contribution plans	141,000	140,000
Leave pay provision charge	2,265,823	1,698,945
	63,364,198	59,470,390

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	2021 R	2020 R
28. Employee related costs (continued)		
Remuneration of Municipal Manager		
Annual remuneration	979,655	891,934
Car allowance	257,327	257,520
Bonus	73,764	73,764
Contributions to UIF, medical aid and pension funds	63,419	59,892
Other allowances	50,683	49,532
	1,424,848	1,332,642
Remuneration of Chief Finance Officer		
Annual remuneration	740,883	729,890
Car allowance	199,050	202,380
Bonus	60,564	58,384
Contributions to UIF, medical aid and pension funds	64,754	61,045
Other allowances	42,161	40,669
Acting allowance (Municipal Manager)	8,431	-
	1,115,843	1,092,368
Remuneration of the Director: Community Services		
Annual remuneration	835,587	773,472
Car allowance	150,106	155,092
Bonus	64,456	64,456
Contributions to UIF, medical aid and pension funds	63,368	58,219
Other allowances	41,613	54,089
Acting allowance (Municipal Manager)	16,947	26,299
Lump Sum	207,733	-
	1,379,810	1,131,627
Remuneration of the Director: Technical Services		
Annual remuneration	710,535	676,290
Car allowance	252,375	236,283
Bonus	58,431	52,598
Contributions to UIF, medical aid and pension funds	38,975	45,282
Other allowances	41,613	37,994
	1,101,929	1,048,447

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	2021 R	2020 R
28. Employee related costs (continued)		
Remuneration of the Director: Corporate Services		
Annual remuneration	-	503,531
Car allowance	-	45,760
Contributions to UIF, medical aid and pension funds	-	11,236
Other allowances	-	20,012
	-	580,539
The Director was terminated on 30 November 2019.		
Remuneration of the Director: Corporate Services		
Acting allowance	312,580	194,883
The Director started acting on 01 December 2019.		
29. Remuneration of councillors		
Mayor	584,158	521,732
Councillors	3,633,246	3,678,559
	4,217,404	4,200,291
In-kind benefits		
The executive mayor is full-time. The mayor is provided with an office, secretarial support and a full time driver at the cost of the Council.		
The salaries, allowances and benefits were paid within the upper limits of the framework envisaged in Section 219 of the Constitution.		
30. Depreciation and amortisation		
Property, plant and equipment	41,839,199	41,043,418
Intangible assets	201,395	201,395
	42,040,594	41,244,813
31. Impairment of assets		
Impairments		
Property, plant and equipment	8,198,288	13,232,331
Property, plant and equipment have been impaired due to the condition assessments that indicated a decrease in value in use since the last assessment.		
Investment property	585,240	-
Investment property have been impaired due to certain portion being illegally occupied.		
	8,783,528	13,232,331
32. Finance charges		
Trade and other payables	5,248,374	4,453,700
Finance leases	49,736	36,003
Rehabilitation of landfill site	2,573,467	(1,976,380)
	7,871,577	2,513,323

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Notes to the Annual Financial Statements

	2021 R	2020 R
33. Debt impairment		
Contributions to debt impairment provision	30,287,712	38,650,492
34. Repairs and maintenance		
Repairs and maintenance	5,924,176	4,566,735
35. Bulk purchases		
Electricity	33,824,352	32,025,098
Water	4,808,311	5,242,117
	38,632,663	37,267,215
36. Professional and consulting fees		
Professional fees		
Business and Financial management	11,158,122	3,456,487
37. General expenses		
Accommodation	112,016	412,392
Advertising	2,870	3,150
Auditors remuneration	4,895,872	4,353,877
Bank charges	680,790	630,121
Chemicals	994,946	2,279,610
Commission paid	920,796	793,239
Conferences and seminars	-	45,692
Entertainment	127,718	209,110
Fuel and oil	827,085	494,088
Funeral cost	13,781	55,845
Hire	1,321,826	215,330
Insurance	1,425,155	970,465
License fees	109,890	126,629
Other expenses	133,604	111,920
Covid equipment	-	58,665
Postage and courier	180,746	233,857
Printing and stationery	-	302,891
Security (Guarding of municipal property)	678,000	3,424,800
Software expenses	16,272	231,805
Subscriptions and membership fees	1,185,850	549,382
Telephone and fax	1,874,994	2,005,598
Title deed search fees	99	60
Training	-	57,412
Travel - local	288,719	609,634
Uniforms	57,672	244,844
Ward committee expense	427,217	529,058
Water tests	701,696	548,995
	16,977,614	19,498,469

The amounts disclosed above for other expenses are in respect of costs incurred in the general management of the municipality and not directly attributable to a specific service or class of expense. Inter-departmental charges are charged to other trading and economic services for support services rendered.

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Notes to the Annual Financial Statements

	2021 R	2020 R
38. (Loss) gain on disposal of assets and liabilities		
(Loss) gain on disposal of assets and liabilities (R11 299 625) in the current financial year and R14 503 516 in the prior financial year.		
This was due to the following reasons:		
- Projects that was written-off,		
- Theft, and		
- During physical verification some of the assets could not be located in the fields.		
39. Fair value adjustments		
Other financial assets (Fair value model)	3,200	(1,121)
40. Auditors' remuneration		
Fees	4,895,872	4,353,877
41. Cash generated from operations		
Deficit	(10,735,465)	(15,304,032)
Adjustments for:		
Depreciation and amortisation	42,040,594	41,244,813
Gain (loss) on sale of assets and liabilities	11,299,625	(14,503,516)
Fair value adjustments	(3,200)	1,121
Finance costs - Finance leases	49,736	36,003
Impairment loss	8,783,528	13,232,331
Movements in provisions	2,573,467	(1,976,380)
Other movement in property, plant and equipment	(6,548,028)	-
Changes in working capital:		
Inventories	572,774	1,137,314
Receivables from exchange transactions	(3,157,892)	(10,842,538)
Receivables from non-exchange transactions	(17,383,426)	(4,767,687)
Other receivables from exchange transactions	204,469	(248,510)
Employee benefit obligation	545,000	(314,000)
Payables from exchange transactions	16,178,208	48,485,411
VAT payable	(1,405,955)	(3,599,487)
Unspent conditional grants	2,968,358	(25,683,011)
Consumer deposits	120,484	6,465
	46,102,277	26,904,297
42. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	8,205,867	15,072,236
Total capital commitments		
Already contracted for but not provided for	8,205,867	15,072,236

This committed expenditure relates to property, plant and equipment and will be financed from government grants.

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Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
43. Related parties		
These include the total remuneration per councillor and key management, in aggregate for the entire financial year. For remuneration of key management refer to note 29, employee related costs.		
Remuneration of councillors		
Mr SJ Bahumi	513,211	850,466
Miss AN November	371,767	365,512
Mr JDJ Barnes (Terminated 9 April 2021)	252,227	299,491
Mr MA Lebaka	697,272	371,767
Mr MC Ntemane	299,491	305,537
Mr MJ Phaliso	371,767	365,512
Miss MM Potgieter (Appointed: 13 May 2021)	41,229	-
Miss PM Dibe	305,245	299,491
Mr PV Mlozana	386,232	371,767
Mr TS Moqhoishi	299,491	299,490
Mr TV Nthapo	300,635	299,491
Mr XW Ngelani	378,837	371,767
	4,217,404	4,200,291

Related party transactions

Compensation of councillors

Basic remuneration	3,150,849	2,990,216
Telephone allowance	442,000	448,800
Car allowance	204,600	156,000
Acting allowance	381,741	521,732
Travel and subsistence (re-imbursement)	38,214	83,543

No related party transactions were identified during the year.

44. Prior-year adjustments

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

Statement of financial position

2020

	As previously reported	Correction of error	Restated
Other receivables from exchange transaction	2,801,668	229,927	3,031,595
Property, Plant and Equipment	702,953,968	5,360,060	708,314,028
Unspent conditional grants	(13,765,961)	13,500,000	(265,961)
Payables from Exchange Transactions	(138,009,374)	(10,558,451)	(148,567,825)
VAT payable	(4,210,868)	(177,497)	(4,388,365)
Accumulated Surplus / (Deficit)	(699,709,820)	(8,354,042)	(708,063,862)
	(149,940,387)	(3)	(149,940,390)

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Notes to the Annual Financial Statements

	2021 R	2020 R
44. Prior-year adjustments (continued)		
Statement of financial performance		
2020		
	As previously reported	Correction of error
Depreciation and Amortization	(41,071,347)	(173,466)
Repairs and maintenance	(4,043,070)	(523,665)
Professional and consulting fees	(4,830,632)	1,374,145
General expenses	(19,522,561)	24,092
Loss on disposal of property, plant and equipment	(1,432,931)	15,936,447
Surplus for the year	(70,900,541)	16,637,553
2021		
	As previously reported	Correction of error
Opening balance	731,651,405	-
Prior year adjustments	-	(8,283,513)
Restated Surplus for the year	(31,941,585)	16,637,555
Surplus for the year	699,709,820	8,354,042

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Notes to the Annual Financial Statements

	2021 R	2020 R
44. Prior-year adjustments (continued)		
Errors		
The following prior period error adjustments occurred:		
Incorrect classification on Professional fees		
Reclassification from Professional fees to repairs and maintenance and general expenses.		
The effect of the correction is as follows:		
Increase (decrease) in Repairs and maintenance		573,478
Increase (decrease) in Professional and consulting fees		(1,135,740)
Increase (decrease) in General expenses		562,262
		<u>-</u>
Expense relates to the 2018/2019 financial year		
This expense was incorrectly processed in the 2019/2020 financial year.		
The effect of the correction is as follows:		
(Increase) decrease in General expenses		(536,280)
Increase (decrease) in Accumulated Surplus		536,280
		<u>-</u>
Services rendered before year-end		
The following transactions were processed in the 2020/2021 financial year, which relates to the 2019/2020 financial year.		
The effect of the correction is as follows:		
Increase (decrease) in Repairs and maintenance		145,500
Increase (decrease) in General expenses		236,218
(Increase) decrease in Payables from Exchange Transactions		(381,718)
		<u>-</u>

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Notes to the Annual Financial Statements

	2021 R	2020 R
44. Prior-year adjustments (continued)		
Incorrect expense classification		
During the 2020 financial year this expenses were incorrectly classified.		
The effect of the correction is as follows:		
Increase (decrease) in Repairs and maintenance		(275,145)
Increase (decrease) in General expenses		275,145
		<u>-</u>
Incorrect expense classification		
During the 2020 financial year this expenses were incorrectly classified.		
The effect of the correction is as follows:		
Increase (decrease) in Repairs and maintenance		92,315
Increase (decrease) in Professional fees		(139,408)
Increase (decrease) in General expenses		47,093
		<u>-</u>
Services rendered in the 2018/2019 financial year		
The expense was incorrectly processed in the 2019/2020 financial year.		
The effect of the correction is as follows:		
Increase (decrease) in General expenses		(8,599)
Increase (decrease) in Accumulated surplus		8,599
		<u>-</u>
Services not processed in the incorrect financial year		
The expenses were incorrectly processed in the 2019/2020 financial year. The services was before year-end.		
The effect of the correction is as follows:		
Increase (decrease) in General expenses		(709,742)
Increase (decrease) in Trade and other payables		709,742
		<u>-</u>
Creditors with debit balances		
Creditors with debit balances were allocated to Other receivables.		
The effect of the correction is as follows:		
Increase (decrease) in Other Receivables from Exchange Transactions		229,927
(Increase) decrease in Trade and other payables		(229,927)
		<u>-</u>

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

	2021 R	2020 R
44. Prior-year adjustments (continued)		
Through physical verification, there was gains and losses on Property, Plant and Equipment		
There was gains and losses when physical verification was done, which had an impact on depreciation.		
The effect of the correction is as follows:		
Increase (decrease) in Property, Plant and Equipment	15,762,981	
Increase (decrease) in Depreciation and Amortization	173,466	
Increase (decrease) in Loss on disposal of Property, Plant and Equipment	(15,936,447)	
Increase (decrease) in Property, Plant and Equipment	(10,402,921)	
Increase (decrease) in Accumulated Surplus	10,402,921	
	-	
Cut-off of expenditure		
Expenses processed in the incorrect financial year.		
The effect of the correction is as follows:		
Increase (decrease) in Repairs and Maintenance	82,976	
Increase (decrease) in Accumulated Surplus	(656)	
Increase (decrease) in Professional fees	(84,643)	
Increase (decrease) in Trade and other payables	2,323	
	-	
Reversal of Debtors accounts wrongfully billed		
Incorrect reversal on debtors accounts.		
The effect of the correction is as follows:		
Increase (decrease) in receivables from exchange transactions	2,841,129	
Increase (decrease) in VAT Payable	(177,497)	
Increase (decrease) in Accumulated Surplus	(2,663,632)	
	-	
Reversal of Debtors accounts wrongfully billed		
Incorrect reversal on debtors accounts.		
The effect of the correction is as follows:		
Increase (decrease) in Repairs and maintenance	(95,459)	
Increase (decrease) in Professional and consulting fees	(14,354)	
Increase (decrease) in General expenses	109,813	
	-	
Increase in additional irregular expenditure as a result of undisclosed prior year amounts		
Increase in additional irregular expenditure as a result of undisclosed prior year amounts.		
The effect of the correction is as follows:		

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Notes to the Annual Financial Statements

	2021 R	2020 R
44. Prior-year adjustments (continued)		
Increase in the opening balance		127,652,289
Increase in additional irregular expenditure as a result of undisclosed prior year amounts		34,356,361
		162,008,650
Unspent conditional grants		
Cut-off corrections on the opening balance of unspent conditional grants.		
The effect of the correction is as follows:		
Decrease in the opening balance of Unspent conditional grants		13,500,000
Increase (decrease) in Trade and other payables		(13,500,000)
		-
Contingent liabilities:		
	As previously reported	Correction of error
Telkom SA	54,272	(54,272)

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Notes to the Annual Financial Statements

	2021 R	2020 R
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45. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	182,950	-	182,950
Receivables from exchange transactions	-	78,326,297	78,326,297
Receivables from non-exchange transactions	-	21,382,236	21,382,236
Other receivables from exchange transactions	-	2,827,126	2,827,126
Cash and cash equivalents	-	645,820	645,820
	182,950	103,181,479	103,364,429

Financial liabilities

	At amortised cost	Total
Finance lease liability	307,390	307,390
Payables from exchange transactions	169,673,074	169,673,074
Consumer deposits	859,826	859,826
Unspent conditional grants and receipts	3,234,319	3,234,319
VAT Payable	2,982,412	2,982,412
	177,057,021	177,057,021

2020

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	179,750	-	179,750
Receivables from exchange transactions	-	60,942,871	60,942,871
Receivables from non-exchange transactions	-	18,224,344	18,224,344
Other receivables from exchange transactions	-	3,031,595	3,031,595
Cash and cash equivalents	-	1,202,958	1,202,958
	179,750	83,401,768	83,581,518

Financial liabilities

	At amortised cost	Total
Finance lease liability	338,448	338,448
Payables from exchange transactions	148,567,825	148,567,825
Consumer deposits	739,342	739,342
Unspent conditional grants and receipts	265,961	265,961
VAT Payable	4,338,367	4,338,367
	154,249,943	154,249,943

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Notes to the Annual Financial Statements

	2021 R	2020 R
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46. Risk management

Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function. Further quantitative disclosures are included throughout these annual financial statements.

It is the policy of the municipality to disclose information that enables the user of its annual financial statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

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

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial environment.

Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

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 managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

Letsemeng Local Municipality

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	2021 R	2020 R
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46. Risk management (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Cash and cash equivalents:

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with ABSA Bank, First National Bank, Nedbank and Standard Bank.

Receivables from exchange and non-exchange transactions:

Receivables from exchange and non-exchange transactions are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

The application of section 118(3) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.

- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount.
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually.
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of financial position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Letsemeng Local Municipality

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	2021 R	2020 R
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46. Risk management (continued)

Long-term receivables and other debtors are individually evaluated annually at reporting date for impairment or discounting.

A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment /discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

Market risk

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with ABSA Bank and First National Bank. No investments with a tenure exceeding twelve months are made.

Consumer debtors (included in Receivables from exchange and non-exchange transactions) comprise of a large number of ratepayers, dispersed across different industries and geographical areas.

Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer deposits are increased accordingly.

Long-term receivables and other debtors are individually evaluated annually at the reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial assets and Financial liabilities are detailed in the Credit Risk Management section of this note.

Price risk

Although shares are held by the municipality, it is not exposed to equity price risks arising from equity investments as the municipality does not actively trade in these investments and the balance is immaterial to the municipality's operations.

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

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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	2021 R	2020 R
47. Irregular expenditure		
Opening balance	502,749,903	310,442,449
Prior year adjustments to opening balance	-	127,652,289
Add: Current year irregular expenditure	2,085,468	17,421,956
Add: Current year irregular expenditure (identified during the audit)	-	12,876,848
Add: additional 2019/20 irregular expenditure identified	-	34,356,361
	504,835,371	502,749,903

Irregular expenditure is largely due to Supply Chain Management processes not followed. The 2020/21 identified irregular expenditure as well as prior period adjustments are recorded inclusive of VAT.

48. Fruitless and wasteful expenditure

Opening balance	11,525,687	5,798,185
Add: current year fruitless and wasteful expenditure	5,248,374	4,453,700
Add: Fruitless and wasteful pertaining to prior years, identified in current years	3,536,734	1,273,802
	20,310,795	11,525,687

The fruitless and wasteful expenditure for the current year is represented by interest levied on overdue payables due to cash flow constraints experienced by the municipality. Prior year identified amounts relates to infrastructure projects that were written-off due to payments made on projects where the required conditions were not met for the definition of a capital project.

49. Unauthorised expenditure

Opening balance	517,811,207	425,824,897
Add: Current year unauthorised capital and operating expenditure	177,058,547	91,986,310
	694,869,754	517,811,207

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	(19,540)	(22,895)
Current year subscription / fee	618,873	565,370
Amount paid - current year	(2,000)	(544,960)
Credit note - current year	-	(17,055)
	597,333	(19,540)

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

	2021 R	2020 R	
50. Additional disclosure in terms of Municipal Finance Management Act (continued)			
Distribution losses			
Electricity	Lost units	Tariff	Value
Unaccounted Electricity Losses for 2021	8,228,425	1.36	11,180,470
Unaccounted Electricity Losses for 2020	8,742,564	1.34	11,718,554
Electricity losses occur due to inter alia, technical and non-technical losses. Technical losses include inherent resistance of conductors, transformers and other electrical equipment, whilst Non-technical losses include the tampering of meters, incorrect ratio used on bulk meters, faulty meters and illegal connections.			
Volumes in kWh per year		-	-
System input volume		21,646,531	20,936,262
Billed consumption		(13,418,106)	(12,193,698)
		8,228,425	8,742,564
Percentage distribution loss (%)		38.00 %	42.00 %
Water	Lost units	Tariff	Value
Unaccounted Water Losses for 2021	3,158,304	1.00	3,158,304
Unaccounted Water Losses for 2020	3,988,154	1.08	4,296,573
Water losses occur due to inter alia, tampering of meters, incorrect ratio used on bulk meters, faulty meters and illegal connections.			
Volumes in kWh per year		-	-
System input volume		4,036,721	4,865,825
Billed consumption		(878,417)	(877,671)
		3,158,304	3,988,154
Percentage distribution loss (%)		78.00 %	82.00 %

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

	2021 R	2020 R
50. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Audit fees		
Opening balance	2,798,401	1,838,839
Current year subscription / fee	4,895,872	4,353,877
Amount paid - current year	(1,518,309)	(1,883,000)
Value add tax	734,381	653,083
Credit notes - current year	(1,953,686)	(2,363,714)
Interest charges	205,448	199,316
	5,162,107	2,798,401
PAYE, UIF and SDL		
Opening balance	1,883,397	485,111
Current year subscription / fee	9,539,257	9,240,899
Amount paid - current year	(10,421,015)	(7,842,613)
	1,001,639	1,883,397
Pension and medical aid fund contributions		
Opening balance	460,046	(460,046)
Current year subscription / fee	6,200,819	6,066,747
Amount paid - current year	(6,200,819)	(6,066,747)
	460,046	460,046

The balance represents pension and medical aid fund contributions made by the municipality towards employees and councillors in June 2021 payroll.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2021:

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Miss AN November	4,042	3,919	7,961
Mr JDJ Barnes (Terminated 9 April 2021)	2,542	13,339	15,881
Mr MA Lebaka	2,100	-	2,100
Mr MC Ntemane	(440)	(454)	(894)
Mr MJ Phaliso	(913)	-	(913)
Miss PM Dibe	(235)	1,652	1,417
Mr PV Mlozana	1,946	28,082	30,028
Mr SJ Bahumi	1,171	44,718	45,889
Mr TS Moqhoisi	964	-	964
Mr TV Nthapo	874	21,771	22,645
Mr XW Nqelani	1,922	29,435	31,357
	13,973	142,462	156,435

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Miss AN November	2,272	6,826	9,098
Mr JDJ Barnes	3,784	4,847	8,631
Mr MA Lebaka	1,410	98	1,508
Mr MC Ntemane	(2,178)	944	(1,234)
Mr MJ Phaliso	(935)	(72)	(1,007)
Miss PM Dibe	124	1,470	1,594
Mr PV Mlozana	2,263	21,992	24,255
Mr SJ Bahumi	2,000	40,407	42,407
Mr TS Moqhoisi	65	400	465
Mr TV Nthapo	1,177	19,146	20,323
Mr XW Nqelani	2,313	23,376	25,689
	12,295	119,434	131,729

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Accounting Officer and noted by Council. The expenses incurred as listed hereunder have been condoned.

The municipality maintains a detailed register at its offices.

Incident

Emergency procurement	2,704,886	-
Sole providers	-	88,072
Impracticable - Repairs	166,547	367,715
Impracticable - Other	-	300,856
	2,871,433	756,643

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

2021	2020
R	R

51. Non-compliance with the MFMA

Chapter	Section	Description
8	62	Not all general financial management function requirements were adhered to during the year, as not all controls operated effective and efficiently.
8	64	Not all revenue management requirements were met as not all controls operated effective and efficiently throughout the year.
8	65	Not all expenditure management requirements were met as not all controls operated effective and efficiently throughout the year.
8	65	Due to financial constraints, not all invoices were paid within the legislative 30-days deadline.
14	166	The MFMA requirements for the audit committees were not complied with throughout the financial year.

Letsemeng Local Municipality

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Notes to the Annual Financial Statements

	2021 R	2020 R
52. Contingencies		
Contingent liabilities		
The municipality had the following contingent liabilities at 30 June 2021:		
Peyper attorneys: estimated legal fees	600,000	-
Ducharme Consulting (Pty) Ltd: The claimant was appointed by the municipality to prepare the 2017 annual financial statements. The amount billed exceeded the project amount and it is claimed that the additional costs incurred were due to requests from management. The matter is still pending with an amount of R208 568.39 and no resolution has been taken to date.	208,568	208,568
Nomano, Makamohelo and MBB JV: The claimant is claiming funds for work performed on the Waste Water Treatment Works in Jacobsdal. The supporting information has been requested to support the claim, but to date no information has been provided.	-	-
Vula Trust and Lucas Ramohlaba: The municipality paid the disputed invoices of R143 340 for the rental of machinery, but due to fraud on the side of the claimant, invoices with the incorrect bank account details were submitted. The municipality is of the opinion that as the fraud occurred on the side of the claimant, the matter should be handled by them and the municipality fulfilled its obligation.	143,340	143,340
Net 15: During an investigation it was found that the website hosting costs exceeded the allowed and agreed-upon project cost. The contract was cancelled based on irregularities identified. Net 15 is claiming the outstanding fees of R404 637.29.	404,637	404,637
Electrocution of minor child on municipal property: PBS Mpatshela	1,000,000	1,000,000
Motlhom obo Motlhom: The child was electrocuted at one of the Farms in the area of Koffiefontein, the farm is serviced by Eskom in terms of electricity supply, the maintenance and overall management of electricity supply is done by Eskom, Letsemeng is a second responded on this case due to the fact that this incident happened in the area of jurisdiction of Municipality	650,000	-
Sebata Municipal Solutions: Sebata continued to provided services to the Municipality despite the fact that Municipality had appointed a service provide in line with Transversal Contract 25 of Municipal Standard Chart of Accounts, Sebata's argument is that the services were not cancelled and such we are liable to pay for services rendered in 2017 financial year.	1,378,708	-
Refilwe Civil \$ Plant Hire: Municipality appointed Sotika Pty Ltd to refurbish Stadium in Koffientein, Refiloe was a cessionary to this contract. Municipality paid all the monies due from this contract to Sotika Pty Ltd and in terms of the contract, Sotika was supposed to pay Refiloe Plant hire but failed to do so, Refiloe is requesting the payment from Municipality as the right of this contact were partly ceded to them.	437,721	-
	4,822,974	1,756,545

53. Events after the reporting date

No events occurred after the reporting date.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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54. Budget differences

Material differences between budget and actual amounts

Material difference between the adjusted budget and actual amounts are deemed material if it differs with more than 10%. The following is reasons for the material differences identified:

Statement of financial performance:

Rental of facilities and equipment: The municipality did not anticipate that rental income will be this high and needed to budget for more.

Interest on outstanding receivables: More interest was levied on consumer debtor accounts than what was budgeted for. This is a result of consumers not making regular payments on their accounts as anticipated.

Dividends received: the actual amount received was less than management budgeted for.

Interest on outstanding receivables: More interest was levied on consumer debtor accounts than what was budgeted for. This is a result of consumers not making regular payments on their accounts as anticipated (budgeted amount is for exchange and non-exchange transactions).

Fines and penalties: The municipality expected the fines and penalties to be more than the actual amount during the year and the amount is not material.

Licences and permits: No licences and permits was accounted for during the year and the amount is not material.

Finance cost: Although the municipality did not have overdraft facilities whereby interest were charged, the budget was exceeded due to interest being charged on overdue accounts as well as the unwinding of the interest applicable to the provision for the rehabilitation of the landfill sites.

Debt impairment: The budget amount was a lot higher than the actual amount. The municipality also embarked on a process to retrieve outstanding debtors, which have a impact on the debt impairment calculation.

Repairs and maintenance: Management anticipated for more expenses relating to repairs and maintenance which did not materialise.

Bulk purchases: Normal increases in bulk purchases occurred during the year. The budgeted amount lower than this.

General expenses: Management did not anticipate for general expenses to be this high during the year, which resulted in the budgeted amount being material lower than the actual expenses.

Loss on disposal of assets: this was due to physical verification that was done and found that the municipality due not have control on some of their Investment property as well as gains and losses on the municipality's assets was identified during physical verification.

Fair value adjustments: This represents the gains in employee benefit obligations. As this represents a "non-cashflow" movement, management did not provide / budget for it.

Actuarial gains: This represents the gains in employee benefit obligations. As this represents a "non-cashflow" movement, management did not provide / budget for it.

Inventory losses / write-downs: Due to lack of internal controls over maintenance materials and stationary, items were written off during the year. As these represent controls within the municipality, management did not provide / budget for it.

Statement of financial position:

Inventories: Management anticipated that more inventory would have been purchased through out the year, which did not materialise.

Receivables from exchange/non-exchange transactions: Management did not anticipate for the material movement during

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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54. Budget differences (continued)

the year, which resulted in a material difference between the budgeted and actual amounts. Management budgeted for exchange and non-exchange under exchange transactions.

Cash and cash equivalents: Management anticipated to have more money in the bank at year-end, but it did not materialise due to higher expenses during the year.

Intangible assets: During the 2018 financial year, the municipality purchased SAGE software amounting to R1 006 976. The expectation was that the system would have amortised quicker than it actually did.

Heritage assets: No balance was budgeted for, as it is immaterial to the municipality's operations.

Other financial assets: The assets are valued at fair value, which means the municipality should've provided/budgeted for the 2021 disclosed amount with an fair value adjustment, to account for the movement.

Finance lease obligations: In the prior year the municipality entered into new finance lease agreements. Due to cashflow constraints and the need for the equipment, these were acquired although not budgeted for.

Payables from exchange transactions: Due to financial difficulties the actual amount is higher than budgeted for.

Employee benefit obligations: Due to the municipality's financial difficulties this was not provided / budgeted for.

Unspent conditional grants and receipts: The municipality anticipated that all grants received and paid will be utilised for the year, therefore no amount was budgeted for.

VAT payables: The municipality did not budget for VAT payables, although VAT materialised.

Provisions: Management did not budget for landfill sites however the landfill sites operated by the municipality were physically inspected and a professional valuation was performed to estimate the future liability, which resulted in an actual amount to be provided for in the current financial year.

Cash Flow Statement:

Sales of goods and services: Goods and services were not as much as expected and budgeted for.

Grants: Management received more grants during the year than budgeted for. They also received an additional grant from COGTA.

Dividends received: Management anticipated that they will receive more dividends during the year, which did not materialise.

Other receipts: Management budgeted more than the actual amounts received.

Finance charges: The municipality should have budgeted more for suppliers as the trade payables shows the municipality owes suppliers a material amount.

Property, plant and equipment: Through physical verification it was found that the municipality do not have control over a few investment properties which resulted in the municipality removing the properties from its register to a control sheet.

Finance lease payments: Although the municipality did not budget for finance lease payments, the expense incurred during the year.

Net increase/(decrease) in cash and cash equivalents: The amount budgeted for is much higher than the actual transactions relating to cash and cash equivalents.

55. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of R 697,328,397 and that the municipality's total assets exceed its total liabilities by R 697,328,397.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

	2021 R	2020 R
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55. Going concern (continued)

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.

Management considered the following matters relating to the going concern assumption, which indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern:

- The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.
- The municipality's budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.
- As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.
- The ability of the municipality to continue as a going concern is dependant on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality is currently experiencing financial difficulties. Indicators of the financial problems are:

- Deficit of R10 735 465 (2020: R15 304 032) was realised, Government grants and subsidies contributed R137 558 328 (2020: R102 922 774).
- The municipality's unspent conditional grants for the current year amounted to R3 234 319 (2020: R265 961). This is an indication that monies received are not utilised for the specific projects under construction and should be paid back to the relevant parties.
- The municipality owed Eskom R86 576 571 (2020: R54 512 777) and the water boards R12 426 881 (2020: R8 090 549) as at 30 June 2021, which was long overdue.
- The creditors are not paid within 30 days as required by the MFMA due to cash constraints.
- Debt collection period has not improved during the current financial year.
- The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets should be impaired (GRAP 104). A provision for doubtful debt amounting to R30 287 712 (2020: R38 650 492) has been disclosed in the financial statements.
- As at 30 June 2021 the municipality's current liabilities amounted to R176 887 334 (2020: R154 697 300), whilst the current assets amounted to R104 697 367 (2020: R86 155 400).
- The current and acid test ratios are below the required ratio of 0.5:1 and 0.5:1, respectively.

Management have considered the risks, but based on their evaluation of the following mitigating factors have concluded that the going concern assumption is appropriate for the following 12 months:

- The Letsemeng Local Municipality is a municipality within the local government sphere. Currently, in the municipal environment, municipalities within South Africa rely heavily on government's financial assistance through the provision of grants. For the 2021 financial year, the allocated Equitable Share allocation amounts to R78 873 000 and the Financial Management Improvement Grant to R2 800 000.

Letsemeng Local Municipality

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	2021 R	2020 R
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55. Going concern (continued)

- No intention by government has been identified that indicates the discontinuing of financial assistance through the provision of government grants. The DoRA and the Division of Revenue Bill, 2018 furthermore disclosed government's proposed allocation of the 2021 and 2022 financial years. This is evidence of government's continued financial support to be provided to the municipality for the following 36 months.
- The municipality has not been placed under administration for the 12 months ending 30 June 2021.

56. Segment information

General information

Identification of segments

Refere below for the segments identified by the municipality. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

Goods and/or services

Finance and administration: vote 2, 3 and 15
Community and social services: vote 9, 10, 11 and 14
Public safety and sports and recreation and environmental protection: vote 5, 6 and 13
Road transport and energy sources: vote 7 and 12
Executive and council: vote 1
Planning and development: vote 4
Waste management: vote 8

Reportable segments

Budget and Treasury Office
Community Services
Corporate Services
Technical Services
Mayor's Office
Municipal Manager
Project Management Unit

Geographical considerations:

The municipality's operations are in the Free State Province, its major geographical areas within the province are Koffiefontein, Jacobsdal, Luckhoff, Petrusburg and Oppermansgronde. Management has as per the GRAP standards decided to report on Letsemeng as a single geographical area.

Management is of the opinion that as per paragraph 32, the cost of developing geographical information would be excessive, secondly that due to the nature of the municipality, the geographical area, although five towns are demarcated as a single municipal area in the same province and district municipality and it would therefore not be in the interest of the users of the financial statements to develop geographical information for reporting.

Letsemeng Local Municipality

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Figures in Rand

56. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2021

	Budget and Treasury Office	Community Services	Corporate Services	Technical Services	Mayor's Office	Municipal Manager	Project Management Unit	Total
Revenue								
Services charges	50,614,190	-	-	-	-	-	-	50,614,190
Dividends	4,527	-	-	-	-	-	-	4,527
Interest received - outstanding debtors	14,387,172	-	-	-	-	-	-	14,387,172
Interest - external investments	375,044	-	-	-	-	-	-	375,044
Rental of facilities	710,214	3,399	-	-	-	-	-	713,613
Other income	708,139	-	-	-	-	-	-	708,139
Property rates	25,605,086	-	-	-	-	-	-	25,605,086
Government grants and subsidies	112,567,996	-	1,500,000	23,490,332	-	-	-	137,558,328
Fines and penalties	13,900	-	-	-	-	-	-	13,900
Total segment revenue	204,986,268	3,399	1,500,000	23,490,332	-	-	-	229,979,999
Entity's revenue								229,979,999

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Figures in Rand

	Budget and Treasury Office	Community Services	Corporate Services	Technical Services	Mayor's Office	Municipal Manager	Project Management Unit	Total
56. Segment information (continued)								
Expenditure								
Employee costs	(10,632,983)	(6,249,537)	(6,439,276)	(27,726,542)	(3,576,304)	(8,712,411)	(27,147)	(63,364,200)
Remuneration of councillors	-	-	-	-	(4,217,404)	-	-	(4,217,404)
Depreciation and amortisation	(42,040,594)	-	-	-	-	-	-	(42,040,594)
Impairment loss	-	(8,783,528)	-	-	-	-	-	(8,783,528)
Finance costs	(7,509,908)	-	(347,169)	-	-	(14,499)	-	(7,871,576)
Debt impairment	(30,287,712)	-	-	-	-	-	-	(30,287,712)
Repairs and maintenance	(2,004,147)	(277,301)	(128,395)	(2,941,272)	(573,061)	-	-	(5,924,176)
Bulk purchases	-	-	-	(38,632,662)	-	-	-	(38,632,662)
Professional fees	(2,863,104)	(960,295)	(2,719,077)	(2,294,014)	-	(2,321,632)	-	(11,158,122)
General expenses	(3,104,343)	(1,315,610)	(2,168,945)	(3,549,286)	(1,755,209)	(5,084,220)	-	(16,977,613)
Loss on disposal of assets	(11,299,625)	-	-	-	-	-	-	(11,299,625)
Fair value adjustments	3,200	-	-	-	-	-	-	3,200
Actuarial gains/losses	(308,000)	-	-	-	-	-	-	(308,000)
Inventories losses	4,682	-	-	141,867	-	-	-	146,549
Total segment expenditure	(110,042,534)	(17,586,271)	(11,802,862)	(75,001,909)	(10,121,978)	(16,132,762)	(27,147)	(240,715,463)
Total segmental surplus/(deficit)								(10,735,464)

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Figures in Rand

	Budget and Treasury Office	Community Services	Corporate Services	Technical Services	Mayor's Office	Municipal Manager	Project Management Unit	Total
56. Segment information (continued)								
Assets								
Inventories	2,180,859	-	-	-	-	-	-	2,180,859
Other receivables	2,827,128	-	-	-	-	-	-	2,827,128
Receivables exchange transactions	31,207,015	(4,703,738)	435,261	50,623,943	-	-	-	77,562,481
Receivables non-exchange transactions	22,081,102	-	-	-	-	-	-	22,081,102
Cash and cash equivalents	645,820	-	-	-	-	-	-	645,820
Investment property	77,119,299	-	-	-	-	-	-	77,119,299
Property, plant and equipment	743,966,091	596,791	(7,166,379)	(131,174,773)	82,400	(14,273,927)	113,000,407	705,030,610
Intangible assets	1,006,977	-	-	-	-	(829,858)	-	177,119
Heritage assets	-	15,000	-	-	-	-	-	15,000
Other financial assets	-	182,950	-	-	-	-	-	182,950
Total segment assets	881,034,291	(3,908,997)	(6,731,118)	(80,550,830)	82,400	(15,103,785)	113,000,407	887,822,368
Total assets as per Statement of financial Position								887,822,368
Liabilities								
Finance lease obligation	(307,390)	-	-	-	-	-	-	(307,390)
Payables from exchange transactions	(169,008,124)	-	-	-	-	-	-	(169,008,124)
Consumer deposits	(859,826)	-	-	-	-	-	-	(859,826)
Employee benefit obligations	(4,959,000)	-	-	-	-	-	-	(4,959,000)
Unspent grants	(3,234,319)	-	-	-	-	-	-	(3,234,319)
VAT payable	(2,982,408)	-	-	-	-	-	-	(2,982,408)
Provisions	(8,542,898)	-	-	-	-	-	-	(8,542,898)
Total segment liabilities	(189,893,965)	-	-	-	-	-	-	(189,893,965)
Total liabilities as per Statement of financial Position								(189,893,965)
Measurement of segment surplus or deficit, assets and liabilities								

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	2021 R	2020 R
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56. Segment information (continued)

Basis of accounting for transactions between reportable segments

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.