



Matjhabeng Local Municipality
Annual Financial Statements
for the year ended 30 June 2022

Matjhabeng Local Municipality

(Registration number FS 184)

Annual Financial Statements for the year ended 30 June 2022

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Providing municipal services, infrastructure development and furthering the interest of the local community in the Matjhabeng area, Free State Province.
The following is included in the scope of operation	Area FS184, as a high capacity local municipality, as demarcated by the Demarcation Board and indicated on the demarcated map published for FS184.
Executive Mayor	TD Khalipha
Members of the Mayoral Committee	TD Khalipha - Executive Major MC Radebe - Human Settlement ML Radebe - IDP, Performance & Evaluation X Masina - Infrastructure: M Buti - LED, SMME's Agriculture & Tourism KR Tlake - Community Services & Public Safety T Monjovo- Xaba - Special Programme's KV Moipatle - Sports, Arts & Culture HA Mokhomo - Finance S Moshoeu - Corporate Services and Good Governance S Ramalefane - Fleet Disaster & Service delivery.
Councillors	Refer to councillors' note for detail
Grading of local authority	Local High Capacity Municipality (Grade 5)
Chief Finance Officer (CFO)	Panyani T
Accounting Officer (MM)	Tindleni Z
Registered office	Civic Centre 319 Stateway Welkom Free State 9460
Postal address	P O Box 708 Welkom Free State 9460
Bankers	ABSA Bank Limited
Attorneys	Full list available at the municipal offices in Welkom
Enabling legislation	Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) Municipal Finance Management Act, 2003 (Act No. 56 of 2003) Municipal Property Rates Act, 2004 (Act No. 6 of 2004) Municipal Structures Act, 1998 (Act No. 117 of 1998) Municipal Systems Act, 2000 (Act No. 32 of 2000)
Website	www.matjhabeng.co.za

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

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Abbreviations used:

COID	Compensation for Occupational Injuries and Diseases
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
ME's	Municipal Entities
MEC	Member of the Executive Council
MIG	Municipal Infrastructure Grant (Previously CMIP)

Matjhabeng Local Municipality

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Annual Financial Statements for the year ended 30 June 2022

Accounting officer's Responsibilities and Approval

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

The accounting officer acknowledges that she 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 2023 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The annual financial statements set out on page 4 to , which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2022 and were signed on its behalf by:

Tindleni Z
Accounting Officer

Matjhabeng Local Municipality

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Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	203,091,108	56,801,207
Inventories	4	6,042,765	5,128,172
Receivables from exchange transactions	5	962,664,504	918,045,601
Receivables from non-exchange transactions	6	259,255,123	198,609,252
Other receivables	7	34,596,206	33,986,003
VAT receivable	8	921,211,920	822,937,178
		2,386,861,626	2,035,507,413
Non-Current Assets			
Other financial assets	9	415,803	367,363
Investment property	10	2,188,232,016	1,855,400,000
Property, plant and equipment	11	3,898,020,773	4,055,620,359
Heritage assets	12	7,077,539	7,104,349
Receivables from non-exchange transactions	6	6,559,477	6,324,305
Receivables from exchange transactions	5	5,338,280	3,412,966
		6,105,643,888	5,928,229,342
Total Assets		8,492,505,514	7,963,736,755
Liabilities			
Current Liabilities			
Payables from exchange transactions	13	10,635,039,581	9,206,754,017
Consumer deposits	14	37,934,903	36,408,151
Unspent conditional grants and receipts	15	191,001,126	102,362,818
Employee benefit obligation	16	11,085,932	13,668,065
		10,875,061,542	9,359,193,051
Non-Current Liabilities			
Employee benefit obligation	16	458,133,543	415,795,780
Provisions	17	105,446,786	118,596,762
		563,580,329	534,392,542
Total Liabilities		11,438,641,871	9,893,585,593
Net Assets		(2,946,136,357)	(1,929,848,838)
Accumulated deficit		(2,946,136,363)	(1,929,848,838)
Total Net Assets		(2,946,136,363)	(1,929,848,838)

* See Note 44

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Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	1,312,985,681	1,274,441,276
Rental of facilities and equipment	19	19,885,345	17,103,249
Commissions received	21	16,424,132	15,308,621
Other income	23	15,572,012	22,508,227
Interest received	24	272,702,820	207,616,479
Dividends received	24	33,570	22,848
Total revenue from exchange transactions		1,637,603,560	1,537,000,700
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	441,609,603	422,817,944
Availability charges	22	38,774,090	34,454,051
Transfer revenue			
Government grants & subsidies	26	670,606,123	791,095,523
Public contributions and donations	27	44,551,882	-
Fines, Penalties and Forfeits	20	8,224,288	5,639,146
Total revenue from non-exchange transactions		1,203,765,986	1,254,006,664
Total revenue		2,841,369,546	2,791,007,364
Expenditure			
Employee related costs	28	(869,043,260)	(845,609,008)
Remuneration of councillors	29	(33,686,836)	(33,885,379)
Depreciation and amortisation	30	(234,573,396)	(194,699,359)
Finance costs	32	(173,475,381)	(108,812,106)
Debt Impairment	33	(850,074,718)	(814,216,642)
Bulk purchases	34	(1,251,983,519)	(1,186,624,040)
Contracted services	35	(178,912,448)	(403,509,766)
General expenses	36	(468,162,589)	(472,759,155)
Repairs and maintenance	38	(65,973,709)	(75,626,701)
Total expenditure		(4,125,885,856)	(4,135,742,156)
Operating deficit		(1,284,516,310)	(1,344,734,792)
Loss on disposal of assets		(36,645,149)	-
Fair value adjustments	37	290,880,456	812,807,794
Actuarial gains	16	16,544,624	11,342,388
Impairment loss	31	(2,546,162)	(40,512,267)
		268,233,769	783,637,915
Deficit for the year		(1,016,282,541)	(561,096,877)

* See Note 44

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Balance at 1 July 2020	(261,568,900)	(261,568,900)
Changes in net assets		
Deficit for the year as previously reported	(1,321,405,650)	(1,321,405,650)
Surplus for the year	(561,096,877)	(561,096,877)
Correction of errors - Note 46	(1,107,183,061)	(1,107,183,061)
Total changes	(1,668,279,938)	(1,668,279,938)
Restated* Balance at 1 July 2021	(1,929,853,822)	(1,929,853,822)
Changes in net assets		
Total changes	(1,016,282,541)	(1,016,282,541)
Balance at 30 June 2022	(2,946,136,363)	(2,946,136,363)

* See Note 44

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Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		1,090,238,661	1,108,820,468
Grants		759,244,431	826,927,482
Interest income		2,390,350	814,805
Other receipts		59,495,574	60,128,115
		1,911,369,016	1,996,690,870
Payments			
Employee costs		(903,383,715)	(808,852,038)
Suppliers		(752,368,725)	(989,236,074)
Finance costs		(18,922)	(19)
		(1,655,771,362)	(1,798,088,131)
Net cash flows from operating activities	39	254,040,616	184,774,257
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(107,784,285)	(186,491,318)
Dividends received		33,570	22,848
Net cash flows from investing activities		(107,750,715)	(186,468,470)
Net increase/(decrease) in cash and cash equivalents		146,289,901	(1,694,213)
Cash and cash equivalents at the beginning of the year		56,801,207	58,495,420
Cash and cash equivalents at the end of the year	3	203,091,108	56,801,207

The accounting policies on pages 14 to 37 and the notes on pages 38 to 93 form an integral part of the annual financial statements.

* See Note 44

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Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Final approved budget	Shifting of funds	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1,586,513,000	-	1,586,513,000	1,312,985,681	(273,527,319)	Note 1
Rental of facilities and equipment	25,082,797	-	25,082,797	19,885,345	(5,197,452)	Note 2
Commissions received	-	-	-	16,424,132	16,424,132	Note 3
Other income	606,258,000	-	606,258,000	15,572,012	(590,685,988)	Note 4
Interest received - investment	233,352,191	-	233,352,191	272,702,820	39,350,629	Note 5
Dividends or similar distributions received	24,182	-	24,182	33,570	9,388	Note 6
Total revenue from exchange transactions	2,451,230,170	-	2,451,230,170	1,637,603,560	(813,626,610)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	423,255,000	-	423,255,000	441,609,603	18,354,603	
Surcharges and Taxes	-	-	-	38,774,090	38,774,090	Note 3
Transfer revenue						
Government grants & subsidies	567,659,000	25,038,000	592,697,000	670,606,123	77,909,123	Note 7
Public contributions and donations	-	-	-	44,551,882	44,551,882	Note 8
Fines, Penalties and Forfeits	25,172,698	-	25,172,698	8,224,288	(16,948,410)	Note 9
Total revenue from non-exchange transactions	1,016,086,698	25,038,000	1,041,124,698	1,203,765,986	162,641,288	
Total revenue	3,467,316,868	25,038,000	3,492,354,868	2,841,369,546	(650,985,322)	
Expenditure						
Personnel	(886,220,000)	87,000	(886,133,000)	(869,043,260)	17,089,740	
Remuneration of councillors	(38,105,000)	-	(38,105,000)	(33,686,836)	4,418,164	Note 10
Depreciation and amortisation	(170,673,000)	47,671,000	(123,002,000)	(234,573,396)	(111,571,396)	Note 11
Impairment loss/ Reversal of impairments	-	-	-	(2,546,162)	(2,546,162)	Note 12
Finance costs	(204,412,000)	64,650,000	(139,762,000)	(173,475,381)	(33,713,381)	Note 13
Debt Impairment	(529,098,000)	186,000,000	(343,098,000)	(850,074,718)	(506,976,718)	Note 14
Bulk purchases	(1,258,632,000)	194,346,000	(1,064,286,000)	(1,251,983,519)	(187,697,519)	Note 15
Contracted Services	(129,171,000)	(267,801,000)	(396,972,000)	(178,912,448)	218,059,552	Note 16
General Expenses	(441,608,000)	(159,292,000)	(600,900,000)	(468,162,589)	132,737,411	Note 17
Repairs and maintenance	-	-	-	(65,973,709)	(65,973,709)	Note 18
Total expenditure	(3,657,919,000)	65,661,000	(3,592,258,000)	(4,128,432,018)	(536,174,018)	
Operating deficit	(190,602,132)	90,699,000	(99,903,132)	(1,287,062,472)	(1,187,159,340)	
Loss on disposal of assets and liabilities	-	-	-	(36,645,149)	(36,645,149)	
Fair value adjustments	-	-	-	290,880,456	290,880,456	Note 18
Actuarial gains/losses	60,000,000	(60,000,000)	-	16,544,624	16,544,624	Note 18
	60,000,000	(60,000,000)	-	270,779,931	270,779,931	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Final approved budget	Shifting of funds	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Deficit before taxation	(130,602,132)	30,699,000	(99,903,132)	(1,016,282,541)	(916,379,409)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement						

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Final approved budget	Shifting of funds	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	273,000,000	-	273,000,000	6,042,765	(266,957,235)	Note 18
Other receivables	664,868,682	(664,868,682)	-	34,596,206	34,596,206	Note 18
Receivables from non-exchange transactions	-	-	-	259,255,123	259,255,123	Note 18
VAT receivable	-	-	-	921,211,920	921,211,920	Note 18
Receivables from exchange transactions	5,196,507,000	(3,448,477,000)	1,748,030,000	962,664,504	(785,365,496)	Note 19
Cash and cash equivalents	398,938,310	7,063,275,287	7,462,213,597	203,091,108	(7,259,122,489)	Note 20
	6,533,313,992	2,949,929,605	9,483,243,597	2,386,861,626	(7,096,381,971)	
Non-Current Assets						
Investment property	1,045,584,956	-	1,045,584,956	2,188,232,016	1,142,647,060	
Property, plant and equipment	3,080,073,000	242,957,000	3,323,030,000	3,898,020,773	574,990,773	Note 21
Heritage assets	-	-	-	7,077,539	7,077,539	Note 18
Investments	304,555	-	304,555	-	(304,555)	Note 22
Other financial assets	7,104,349	(7,104,349)	-	415,803	415,803	Note 23
Receivables from non-exchange transactions (non-current)	-	-	-	6,559,477	6,559,477	Note 18
Receivables from exchange transactions (non-current)	437,901	-	437,901	5,338,280	4,900,379	Note 23
	4,133,504,761	235,852,651	4,369,357,412	6,105,643,888	1,736,286,476	
Total Assets	10,666,818,753	3,185,782,256	13,852,601,009	8,492,505,514	(5,360,095,495)	
Liabilities						
Current Liabilities						
Payables from exchange transactions	9,968,208,000	1,451,456,000	11,419,664,000	10,635,039,581	(784,624,419)	
Consumer deposits	84,669,222	-	84,669,222	37,934,903	(46,734,319)	Note 24
Employee benefit obligation	-	-	-	11,085,932	11,085,932	Note 18
Unspent conditional grants and receipts	-	-	-	191,001,126	191,001,126	Note 25
Provisions	428,405,000	-	428,405,000	105,446,786	(322,958,214)	Note 18
	10,481,282,222	1,451,456,000	11,932,738,222	10,980,508,328	(952,229,894)	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	458,133,543	458,133,543	Note 18
Total Liabilities	10,481,282,222	1,451,456,000	11,932,738,222	11,438,641,871	(494,096,351)	
Net Assets	185,536,531	1,734,326,256	1,919,862,787	(2,946,136,357)	(4,865,999,144)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated deficit						Note 26

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Final approved budget	Shifting of funds	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Total Net Assets						

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Final approved budget	Shifting of funds	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	155,601,127	1,808,199,524	1,963,800,651	1,090,238,116	(873,562,535)	Note 1
Grants	-	316,138,000	316,138,000	759,244,431	443,106,431	Note 7
Interest income	4,334,438	-	4,334,438	2,390,350	(1,944,088)	Note 27
Dividends or similar distributions received	24,182	-	24,182	33,570	9,388	Note 6
Other receipts	239,721,019	37,624,196	277,345,215	59,495,574	(217,849,641)	Note 28
	399,680,766	2,161,961,720	2,561,642,486	1,911,402,041	(650,240,445)	
Payments						
Suppliers and employee costs	(2,282,267,387)	-	(2,282,267,387)	(1,657,337,106)	624,930,281	Note 29
Net cash flows from operating activities	(1,882,586,621)	2,161,961,720	279,375,099	254,064,935	(25,310,164)	
Cash flows from investing activities						
Purchase of investment property	-	(1,380,917)	(1,380,917)	(107,784,285)	(106,403,368)	Note 22
Net increase/(decrease) in cash and cash equivalents	(1,882,586,621)	2,160,580,803	277,994,182	146,280,650	(131,713,532)	Note 18
Cash and cash equivalents at the beginning of the year	-	-	-	56,801,207	56,801,207	Note 18
Cash and cash equivalents at the end of the year	(1,882,586,621)	2,160,580,803	277,994,182	203,081,857	(74,912,325)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Final approved budget	Shifting of funds	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Variance of above 10% between the budgeted amount and the actual are due to the following:

Note 1 – Increased measures actual readings instead of making use of estimates resulted in less service charges than budgeted for.

Note 2 – Financial constraints to the public resulted in less events that necessitated the rental of facilities and equipment than budgeted for.

Note 3 – Item not being part of the core mandate of the municipality resulted in it not budgeted for.

Note 4 – No asset sales, reduction in funerals as well as reduced disconnection fees owing to increased public awareness on the importance of paying municipal services resulted in less other income than budgeted for.

Note 5 – Increase in overdue customer accounts as well as the reduction of provisions estimate resulted in more income received than what was anticipated.

Note 6 – Positive financial results resulted in more dividends being distributed to the municipality than what was anticipated.

Note 7 – Effectively use of DORA allocations resulted in allocations being awarded to the municipality than what was budgeted for.

Note 8 – Unanticipated donation received from the Department of Forestry and Fishery resulted in a variation from the budget.

Note 9 – Increase traffic officials' visibility resulted in less traffic fines being issued than what was budgeted for.

Note 10 - Changes to the mayoral committees owing to the 2021 Local Government Elections as well council resignations resulted in less remuneration for councilors than what was budgeted for.

Note 11 – Increased levels of projects that were completed during the year resulted in more depreciation than what was anticipated.

Note 12 – Implementation of an effective asset count resulted in the identification of assets that had to be impaired resulted.

Note 13 – Inability to meet 30-day payment obligation owing to financial constraints resulted in more finance costs being incurred than what was budgeted for.

Note 14 – Economic downturn resulted in the increase in debtors being unable to meet their obligations resulted in more debt impairment than what was anticipated.

Note 15 – Ageing infrastructure resulted in increased leaks owing to increased losses which resulted in more bulk purchases than what was anticipated.

Note 16 – Filling of various vacancies resulted in the decrease in reliance on external parties which resulted in less contracted services than what was budgeted for.

Note 17 – Effective measures to cost containment measures resulted in less general expenses being incurred than what was budgeted for.

Note 18 – Ineffective budgeting resulted in the item not being appropriately budgeted for.

Note 19 – Increase in debt being impaired resulted in less consumer debtors than what was anticipated.

Note 20 – Implementation of increased measures to pay third-party obligations resulted in less cash and cash equivalents being held at year-end than anticipated.

Note 21 – Increase in the number of completed projects resulted in a bigger property, plant and equipment balance than what was anticipated.

Note 22 – Cost containment measures resulted in anticipated investments not materializing.

Note 23 – Effective MSCOA and GRAP alignment techniques resulted in items that were budgeted for under receivables from exchange transactions (non-current) being appropriately classified as other financial assets; resulting in the budget being misalignment.

Note 24 – Economic downturn resulted in fewer customers acquiring properties which necessitated deposits than what was budgeted for.

Note 25 – Unanticipated project holdups resulted in a balance of unspent conditional grants than what was anticipated.

Note 26 – The use of more actual readings, no sale of assets as well as the reduction of events resulted in less a deficit in the financial year.

Note 27 - Economic downturn resulted in less interest being received than what was budgeted for.

Note 28 – Ineffective budgeting resulted in items such as sub-charges and taxes not being budgeted for.

Note 29 – Effective cost containment measures resulted in less expenditure being incurred than what was budgeted for.

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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.

1.1 Presentation currency

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

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 judgment 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 judgments include:

Other significant judgments, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

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Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

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 municipality makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, 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 operation surplus note.

Fair value estimation

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.

The municipality used the prime interest rate at year end to discount future cash flows.

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - 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 the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

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1.3 Significant judgements and sources of estimation uncertainty (continued)

Employee Benefits Obligation

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.

Provision for Impairment of Receivables

On consumer receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired.

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.

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Accounting Policies

1.4 Investment property (continued)

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.

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.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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.

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Accounting Policies

1.5 Property, plant and equipment (continued)

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

Subsequent Measurement :

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

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

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

Item	Depreciation method	Average useful life
Land	Straight-line	Indefinite
Buildings	Straight-line	2 - 50 years
Transport assets	Straight-line	4 - 15 years
Infrastructure	Straight-line	3 - 100 years
Other movable assets	Straight-line	2 - 20 years
Landfill rehabilitation assets	Straight-line	8 - 20 years

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

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

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

Depreciation commences when the asset is ready for its intended use and ceases when the asset is derecognised

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 4).

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Heritage assets

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.

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.

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.

Derecognition

The municipality derecognises heritage asset 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 a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset, such difference is recognised in surplus or deficit when the heritage asset is derecognised.

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.

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:

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Accounting Policies

1.8 Financial instruments (continued)

- 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.

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

- 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.

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
Other financial assets	Financial asset measured at fair value
Other receivables	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

Class	Category
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
Bank overdraft	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality 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.

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Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality 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 municipality 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.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality 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

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 municipality 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.

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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.

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1.8 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, 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 municipality :
 - 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 municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

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

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

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

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

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Accounting Policies

1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.9 Tax

Value Added Tax (VAT)

The municipality accounts for VAT on a cash basis. The municipality is liable to account for VAT at a standard rate (2017: 14%), 15% effective from 1 April 2018 in terms of section 7(1)(a) of the VAT Act in respect of supply of goods and services, except where the supplies are specifically zero rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality account for VAT on a monthly basis.

1.10 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.

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.

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.

1.11 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.

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Accounting Policies

1.11 Inventories (continued)

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

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.

1.12 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.

Identification

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.

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.

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

Redesignation

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

1.13 Impairment of non-cash-generating assets

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

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.

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Accounting Policies

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

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.

[Specify judgments made]

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.

Reversal of an impairment loss

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

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

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

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

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

1.14 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.

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Accounting Policies

1.14 Employee benefits (continued)

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

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

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 cellphones) for current employees.

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

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

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

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

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

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Accounting Policies

1.14 Employee benefits (continued)

Other Long term employee benefits

The municipality has an obligation to provide long service benefits to all of its employees. According to the rules of the long service benefit scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long benefits are accounted for through the statement of financial performance.

1.15 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.

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 deficit.

A Contingent Liability is:

- a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence and nonoccurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that an outflow of resources embodying economic benefits or services potential will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44..

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Accounting Policies

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

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 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.

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Accounting Policies

1.17 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

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.

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.

1.18 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.

Control of an asset arise 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.

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Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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.

Recognition

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

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

Measurement

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

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

Taxes

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

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Fines

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

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.

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1.19 Investment income

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

1.20 Borrowing costs

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

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

1.21 Comparative figures

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

1.22 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.

1.23 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.

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Accounting Policies

1.24 Irregular expenditure

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

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury circular 68 which was issued in terms of sections 32 of the Municipal Finance Management Act, Act 56 of 2003 on 10 May 2013 requires the following:

Irregular expenditure that was incurred and identified during the current financial year and which was written off 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 approval for write off 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 written off in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount written off.

Irregular expenditure that was incurred and identified during the current financial year and which was not written off 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 written off 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

1.25 Segment information

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.

A measure of assets and liabilities for each reportable segment has not been disclosed due to the fact that such amounts are not regularly provided to management for decision making purposes.

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Accounting Policies

1.25 Segment information (continued)

Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

1.26 Budget information

Municipality 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.

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 01/06/2022 to 31/06/2022.

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.

1.27 Related parties

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.

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

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.28 Consumer deposits

Consumer deposits are subsequently recorded in accordance with accounting policy of trade and other payables.

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Accounting Policies

1.29 Unspent 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 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.

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 1 July 2022 or later periods:

Guideline: Guideline on Accounting for Landfill Sites

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

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

The effective date of the guideline is for years beginning on or after 1 April 2009.

The municipality expects to adopt the guideline for the first time in the 2098/2099 annual financial statements.

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

GRAP 25 (as revised): Employee Benefits

Background

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

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

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

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

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

Key amendments to GRAP 25

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

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2. New standards and interpretations (continued)

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

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

Guideline: Guideline on the Application of Materiality to Financial Statements

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

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

The guideline is encouraged to be used by entities.

The municipality expects to adopt the guideline for the first time in the 2098/2099 annual financial statements.

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

GRAP 104 (as revised): Financial Instruments

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

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

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

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

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

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

iGRAP 21: The Effect of Past Decisions on Materiality

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2. New standards and interpretations (continued)

Background

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

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

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

iGRAP 21 addresses the following two issues:

- Do past decisions about materiality affect subsequent reporting periods?
- Is applying an alternative accounting treatment a departure from the Standards of GRAP or an error?

The effective date of these interpretation have not yet been set. 1 April 2023.

The municipality expects to adopt the interpretation for the first time in the 2022/2023 1 April 2023.

GRAP 1 (amended): Presentation of Financial Statements

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

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:

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

Statement of financial position and statement of financial performance

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

Notes structure

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

Disclosure of accounting policies

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

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

The effective date of this amendment is for years beginning on or after 1 April 2025.

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2. New standards and interpretations (continued)

The municipality expects to adopt the amendment for the first time in the 2024/2025 annual financial statements.

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

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand and advances	9,474	9,474
Bank balances - cashbook	73,713,610	17,383,757
Short-term deposits	129,368,024	39,407,976
	203,091,108	56,801,207
ACB mag tape debit facility	2,000,000	2,000,000
Housing guarantee	20,000	20,000
Fleet card	1,000,000	1,000,000
Credit card facility	300,000	300,000

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Cash and cash equivalents pledged as collateral

None of the cash and cash equivalents were pledged as collateral.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2022	30 June 2021	30 June 2020	30 June 2022	30 June 2021	30 June 2020
ABSA Primary cheque account Acc no (40-5370-5465)	4,865,806	4,233,609	3,399,671	75,588,188	19,154,571	(9,412,429)
ABSA Market cheque account Acc no (40-5644-3399)	806,773	5,800,206	3,000,306	(1,874,579)	(1,770,814)	(1,358,853)
ABSA Savings account Acc no (90-9461-7107)	129,314,396	39,401,000	69,250,276	129,314,396	39,401,000	69,250,276
ABSA Savings account Acc no (91-0668-4115)	49,119	2,506	2,497	49,118	2,506	2,497
ABSA Savings account Acc no (91-1114-1338)	1,122	1,113	1,109	1,125	1,112	1,109
ABSA Savings account Acc no (91-0668-4238)	1,262	1,251	1,247	1,266	1,254	1,250
ABSA Savings account Acc no (91-0668-4157)	1,062	1,052	1,048	1,064	1,052	1,048
ABSA Savings account Acc no (91-2351-5666)	1,062	1,052	1,048	1,064	1,052	1,048
Total	135,040,602	49,441,789	75,657,202	203,081,642	56,791,733	58,485,946

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
4. Inventories		
Consumable stores	2,621,260	3,094,250
Water for distribution	3,421,505	2,033,922
	6,042,765	5,128,172
Inventories recognised as an expense during the year	4,163,548	5,743,694
Inventory pledged as security		
None of the inventory was pledged as security for any financial liability of the municipality.		
5. Receivables from exchange transactions		
Gross balances		
Electricity	469,029,710	405,578,278
Water	2,312,158,480	1,998,980,604
Sewerage	964,365,796	823,306,704
Refuse	608,333,111	524,313,238
Other receivables	5,599,289	5,705,826
Rentals	130,150,992	113,863,611
Sundries	154,402,587	142,776,565
Unmetered consumption - Electricity	75,186,405	90,533,139
Unmetered consumption - Water	52,818,434	48,436,551
Less: Non-current consumer receivables (arrangements)	(42,634,615)	(24,567,889)
	4,729,410,189	4,128,926,627
Less: Allowance for impairment		
Electricity	(315,496,702)	(257,102,803)
Water	(1,984,026,112)	(1,679,192,796)
Sewerage	(760,953,718)	(648,145,230)
Refuse	(491,542,188)	(422,608,195)
Rentals	(115,080,402)	(100,862,951)
Sundries	(132,240,248)	(119,468,429)
Other receivables	(4,702,650)	(4,655,545)
Less: Non-current consumer receivables (arrangements)	37,296,335	21,154,923
	(3,766,745,685)	(3,210,881,026)
Net balance		
Electricity	153,533,008	148,475,475
Water	328,132,368	319,787,808
Sewerage	203,412,078	175,161,474
Refuse	116,790,923	101,705,043
Rentals	15,070,590	13,000,660
Sundries	22,162,339	23,308,136
Other receivables	896,639	1,050,281
Unmetered consumption - Electricity	75,186,405	90,533,139
Unmetered consumption - Water	52,818,434	48,436,551
Less: Non-current consumer receivables (arrangements)	(5,338,280)	(3,412,966)
	962,664,504	918,045,601
Unmetered consumption - Water		
Current (0 -30 days)	52,818,434	48,436,551

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Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
5. Receivables from exchange transactions (continued)		
Electricity		
Current (0 -30 days)	51,194,663	48,580,727
31 - 60 days	16,439,572	20,115,598
61 - 90 days	13,428,895	15,160,184
91 + days	387,966,580	321,721,770
Less: Impairment	(315,496,702)	(257,102,804)
	153,533,008	148,475,475
Water		
Current (0 -30 days)	50,045,149	45,891,310
31 - 60 days	55,365,538	52,122,537
61 - 90 days	35,514,806	36,386,418
91 + days	2,171,232,987	1,864,580,339
Less: Impairment	(1,984,026,112)	(1,679,192,796)
	328,132,368	319,787,808
Unmetered consumption - Electricity		
Current (0 -30 days)	75,186,405	90,533,139
Sewerage		
Current (0 -30 days)	18,739,696	17,159,828
31 - 60 days	15,888,976	14,502,749
61 - 90 days	15,483,920	14,115,135
91 + days	914,253,203	777,528,992
Less: Impairment	(760,953,717)	(648,145,230)
	203,412,078	175,161,474
Refuse		
Current (0 -30 days)	11,338,207	10,405,594
31 - 60 days	9,481,646	8,659,549
61 - 90 days	9,209,252	8,393,530
91 + days	578,304,324	496,854,565
Less: Impairment	(491,542,506)	(422,608,195)
	116,790,923	101,705,043
Rentals		
Current (0 -30 days)	1,461,292	1,384,189
31 - 60 days	1,451,922	1,375,566
61 - 90 days	1,447,731	1,369,694
91 + days	127,362,230	109,734,162
Less: Impairment	(116,652,585)	(100,862,951)
	15,070,590	13,000,660
Sundries		
Current (0 -30 days)	1,906,044	1,156,705
31 - 60 days	1,358,153	2,316,673
61 - 90 days	1,598,612	1,278,252
91 + days	147,968,342	138,024,934
> 365 days	(130,668,812)	(119,468,428)
	22,162,339	23,308,136

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
5. Receivables from exchange transactions (continued)		
Other		
Current (0 -30 days)	28,563	37,770
31 - 60 days	11,307	16,827
61 - 90 days	10,150	14,406
91 + days	5,549,269	5,636,823
Less: Impairment	(4,702,650)	(4,655,545)
	896,639	1,050,281

Receivables from exchange transactions pledged as security

No consumer debtors were pledged as security for overdraft facilities of the municipality.

Receivables from exchange transactions past due but not impaired

As at 30 June 2022, consumer receivables of R22 173 107 (2021: R 41 024 537) were past due but not impaired.

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

1 month past due	12,991,688	9,062,074
2 months past due	9,181,419	2,717,895
3 months past due	-	29,244,567

Receivables from exchange transactions

As of 30 June 2022, consumer debtors of R3 905 640 120 (2021: R 3 990 199 719) were impaired and provided for.

6. Receivables from non-exchange transactions

Consumer receivables - Rates	714,358,786	573,002,030
Availability charges - Electricity	44,219,049	36,650,844
Availability charges - Water	41,256,573	25,040,673
Allowance for impairment - Rates	(478,227,704)	(390,418,267)
Allowance for impairment - Availability charges - Electricity	(30,839,736)	(26,485,442)
Allowance for impairment - Availability charges - Water	(31,511,845)	(19,180,586)
	259,255,123	198,609,252

Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions were pledged as security.

Credit quality of receivables from non-exchange transactions

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

Receivables from non-exchange transactions past due but not impaired

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
6. Receivables from non-exchange transactions (continued)		
Fair value of receivables from non-exchange transactions		
The carrying value of the receivables from non-exchange transactions recorded at amortised cost approximate their fair values.		
Receivables from non-exchange transactions impaired:		
As of 30 June 2022, receivables from non-exchange transactions of R799 834 408 (2021: R4 702 650) were impaired and provided for.		
The following factors were considered in determining the impairment:		
- Ageing of the outstanding debt.		
- Whether or not any payment was received during the year.		
- Whether the account is active or inactive.		
- Whether the account is that of an owner or a tenant.		
7. Other receivables		
Accrued interest	322,295	64,194
Deposits	225,850	9,850
Erf sales - Sanral	1,078,796	1,078,796
Maritz Attorneys	16,513,652	16,513,652
Market sales	3,149,576	3,024,741
Market sales - sundries	6,183	27,254
Rental hostels	-	-
Prepayments	1,131,732	-
Sundry receivables	57,527	57,527
Trade receivables - double payments	2,690,480	2,690,480
Traffic fines receivable	6,931,772	5,927,593
Welkom market	2,488,343	4,591,916
	34,596,206	33,986,003

Statutory receivables general information

8. VAT receivable

VAT	921,211,920	822,937,178
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VAT is treated on the payment basis. VAT is paid over to SARS on a net basis only when actual payments are received by the municipality and when actual payments are made to suppliers. The balance above is inclusive of accruals and provisions, where applicable.

9. Other financial assets

Designated at fair value

Unlisted shares	415,803	367,363
The unlisted shares consist of 17,238 (2021: 17,238) equity shares in Senwes Limited and 26,435 (2022: 26,435) equity shares in Senwesbel Limited.		

Non-current assets

Designated at fair value	415,803	367,363
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Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
9. Other financial assets (continued)		
Financial assets at fair value		
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 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.		
Level 2 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 3 applies inputs which are not based on observable market data.		
Level 2		
Class 1 (Unlisted shares)	415,803	367,363

Renegotiated terms

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

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Notes to the Annual Financial Statements

Figures in Rand

10. Investment property

	2022		2021			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	2,188,232,016	-	2,188,232,016	1,855,400,000	-	1,855,400,000

Reconciliation of investment property - 2022

	Opening balance	Additions	Fair value adjustment	Closing balance
Investment property	1,855,400,000	42,000,000	290,832,016	2,188,232,016

Reconciliation of investment property - 2021

	Opening balance	Fair value adjustments	Closing balance
Investment property	1,042,655,013	812,744,987	1,855,400,000

Fair value of investment properties 2,188,232,016 1,855,400,000

Pledged as security

There are no contractual obligations on investment property.

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

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
10. Investment property (continued)		
<p>The effective date of the revaluations was Thursday, 30 June 2022. Fair value determinations were performed by UNIQUECO Properties Pty Ltd. Mr L Nel, who is a registered Professional Property Valuer with the South African Council for the Property Valuer's Profession (registration number 4464/2) and has the appropriate experience in performing valuations of investment properties, was the valuer used to perform the valuations. The valuation for the land portion was based on adapted comparable sales and on replacement costs for for the improvements.</p> <p>These assumptions are based on current market conditions.</p>		
Maintenance of investment property		
The following maintenance costs were incurred:		
Preventative Maintenance incurred on		
Repairs and maintenance	878,784	195,490
Amounts recognised in surplus or deficit		
Rental revenue from investment property	19,885,345	10,638,775

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Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Transport assets	77,003,739	(38,760,769)	38,242,970	156,704,326	(93,384,232)	63,320,094
Infrastructure	9,049,350,042	(5,335,393,102)	3,713,956,940	8,961,324,866	(5,146,275,312)	3,815,049,554
Other movable assets	48,620,296	(31,305,199)	17,315,097	41,746,619	(26,793,847)	14,952,772
Landfill rehabilitation assets	149,128,898	(91,354,552)	57,774,346	146,335,669	(57,070,720)	89,264,949
Land and buildings	136,033,723	(65,302,303)	70,731,420	134,399,627	(61,366,637)	73,032,990
Total	9,460,136,698	(5,562,115,925)	3,898,020,773	9,440,511,107	(5,384,890,748)	4,055,620,359

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Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Transfers IN	Transfers OUT	Depreciation	Impairment loss	Closing balance
Transport assets	63,320,094	16,634,156	(36,645,149)	-	-	(5,066,131)	-	38,242,970
Infrastructure	3,815,049,554	88,025,176	-	105,597,605	(105,472,594)	(187,246,105)	(1,996,696)	3,713,956,940
Other movable assets	14,952,772	6,873,678	-	-	-	(4,511,353)	-	17,315,097
Landfill rehabilitation assets	89,264,949	2,793,229	-	-	-	(34,283,832)	-	57,774,346
Land and buildings	73,032,990	1,634,097	-	-	-	(3,412,650)	(523,017)	70,731,420
	4,055,620,359	115,960,336	(36,645,149)	105,597,605	(105,472,594)	(234,520,071)	(2,519,713)	3,898,020,773

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Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Transfers IN	Transfers OUT	Depreciation	Impairment loss	Closing balance
Transport assets	65,870,142	6,899,205	-	-	(9,449,253)	-	63,320,094
Infrastructure	3,840,177,123	184,466,753	87,541,018	(87,541,018)	(169,082,055)	(40,512,267)	3,815,049,554
Other movable assets	10,903,676	8,953,842	-	-	(4,904,746)	-	14,952,772
Landfill rehabilitation assets	30,554,682	66,662,400	-	-	(7,952,133)	-	89,264,949
Land and buildings	76,344,162	-	-	-	(3,311,172)	-	73,032,990
	4,023,849,785	266,982,200	87,541,018	(87,541,018)	(194,699,359)	(40,512,267)	4,055,620,359

Pledged as security

None of these assets were pledged as security.

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
11. Property, plant and equipment (continued)		
Property, plant and equipment in the process of being constructed was halted during the year		
Cumulative expenditure recognised in the carrying value of property, plant and equipment		
Electrification of 900 houses in Rheederpark	16,466,910	-
Installation of zonal water meters	8,179,651	-
Klippan Pumpstation upgrade	7,165,129	-
Mmamahabane Taxi Rank	477,699	477,699
Nyakallong Construction of stormwaters	17,461,171	-
Nyakalong Taxi Rank	377,781	377,781
Replacement of Old Galvanized Steel Pipes with UPVC Pipes: Nyakallong/Allanridge	8,413,854	-
Roads and stormwater White City (Ward 4)	5,111,155	-
Thabong (Twenty Ten) Provision and Installation of 5 High Mast Light	1,743,410	-
Thabong Community Centre parking upgrade	220,493	220,493
Thabong Taxi Rank	2,588,469	2,588,469
Thabong Upgrading and Refurbishment of T8 Sewer Pump station	13,570,402	-
Upgrading of Kutlwanong Outfall Sewer	22,458,201	-
Upgrading of seven electrical panels	167,058	167,058
Upgrading of the Urania 132KV 20MA Substation ad 132kV Overhead Line	8,441,708	-
Welkom Landfill Site	18,110,918	-
Welkom Regional Taxi Rank	6,741,313	6,741,313
White Septic Tank Welkom	335,631	200,008
	138,030,953	10,772,821

These projects are still in design stage and have been halted by management awaiting capital budget.

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Other PPE	Total
Work in progress	566,127,653	2,938,708	569,066,361

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Other PPE	Total
Work in progress	587,677,310	2,938,708	590,616,018

2022

Transfers

Projects to the value of R105 47 2594 were completed and transferred out of Capital work in progress into Infrastructure assets.

2021

Transfers

Projects to the value of R87 541 018 were completed and transferred out of Capital work in progress into Infrastructure assets

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Figures in Rand	2022	2021
11. Property, plant and equipment (continued)		
Repairs and maintenance per class of asset:		
Buildings	2,637,278	1,308,835
Infrastructure	41,906,696	54,846,512
Transport assets	11,001,198	2,658,186
Other movable assets	6,892,580	6,966
Community assets	1,809,000	16,208,069
Landfill Site	848,174	-
	65,094,926	75,028,568

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

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12. Heritage assets

	2022			2021		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	4,747,835	-	4,747,835	4,747,835	-	4,747,835
Mayoral chains	2,356,514	(26,810)	2,329,704	2,356,514	-	2,356,514
Total	7,104,349	(26,810)	7,077,539	7,104,349	-	7,104,349

Reconciliation of heritage assets 2022

	Opening balance	Impairment losses	Closing balance
Historical buildings	4,747,835	-	4,747,835
Mayoral chains	2,356,514	(26,810)	2,329,704
	7,104,349	(26,810)	7,077,539

Reconciliation of heritage assets 2021

	Opening balance	Closing balance
Historical buildings	4,747,835	4,747,835
Mayoral chains	2,356,514	2,356,514
	7,104,349	7,104,349

Pledged as security

None of these assets were pledged as security.

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

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Figures in Rand	2022	2021
13. Payables from exchange transactions		
Accrued bonus	11,130,173	9,932,020
Accrued leave pay	100,692,679	105,169,834
Deferred income - pre paid electricity	3,700,000	1,800,000
Deposits received - hall and facilities	15,175	15,175
Eskom	4,763,944,657	3,964,044,474
Payments received in advanced from consumer receivables	187,739,462	102,869,513
Rental - Hostels and flats	2,858,273	2,858,273
Retentions	33,214,373	32,287,773
SALGA	13,281,101	9,035,604
Salary control account (3rd parties)	30,704,413	98,047,349
Sedibeng Water	4,897,035,157	4,307,438,655
Trade payables	590,724,118	573,255,347
	10,635,039,581	9,206,754,017

14. Consumer deposits

Electricity and water	36,911,286	35,472,541
Key deposits	1,023,617	935,610
	37,934,903	36,408,151

Guarantees held in lieu of electricity and water deposits amounted to R6,067,965 (2021: R6,047,965).

Deposits are paid by consumers on application for new electricity and water connections. The deposits are repaid when the electricity and water connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account balance.

Deposits are paid by lessees on application for new rental properties of the municipality.

No interest is paid to consumers on deposits held.

The carrying value of consumer deposits approximates their fair values.

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	111,349,918	83,392,606
Energy Efficiency and Demand side Management Grant (EEDG)	2,549	2,300,000
Municipal Water Services Infrastructure Grant (MWSIG)	12,502,659	16,670,212
Free State Department of Human Settlements	67,146,000	-
	191,001,126	102,362,818

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

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

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Figures in Rand	2022	2021
16. Employee benefit obligations		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the post-employment medical aid benefit	(414,638,472)	(381,155,187)
Present value of the long service award benefit	(54,582,003)	(48,308,658)
	(469,220,475)	(429,463,845)
Non-current liabilities	(458,133,543)	(415,795,780)
Current liabilities	(11,085,932)	(13,668,065)
	(469,219,475)	(429,463,845)
The fair value of plan assets includes:		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	429,463,845	390,465,049
Net expense recognised in the statement of financial performance	39,755,627	38,998,796
	469,219,472	429,463,845
Net expense recognised in the statement of financial performance		
Current service cost	22,427,337	20,408,508
Interest cost	47,540,982	49,036,709
Actuarial gains	(16,544,624)	(11,342,388)
Expected benefits paid	(13,668,068)	(19,104,033)
	39,755,627	38,998,796
Calculation of actuarial gains and losses		
Actuarial (gains) losses – Long service	2,299,626	1,714,828
Actuarial (gains) losses – Medical aid	(18,844,250)	(13,057,216)
	(16,544,624)	(11,342,388)

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16. Employee benefit obligations (continued)

Changes in the fair value of plan assets are as follows:

Post-retirement medical aid plan

The municipality has a post-employment medical aid fund for its pensioners. The post-retirement medical aid is in accordance with Resolution 8 of the South African Local Government Bargaining Council (SALGBC), signed on 17 January 2003, which states that an employee who retires from employment and who immediately prior to his or her retirement, enjoys the benefits of subsidy of his or her medical aid contributions by his or her employer, will continue to receive a subsidy calculated as follows:

- If the employee is 55 years or older on 1 July 2003, his or her subsidy from the employer as at the date of retirement will be 60% to a maximum amount of the norms of the cost of his or her medical aid scheme contributions as at the date immediately prior to the date of his or her retirement; or

- If the employee is 50 years or older on 1 July 2003, his or her subsidy will be 50% to a maximum amount of the norms of the cost of his or her medical aid scheme contributions as at the day immediately prior to the date of his or her retirement.

The municipality makes monthly contributions for the healthcare arrangements to the following medical aid schemes:

- Bonitas
- Hosmed
- Discovery
- Key-Health
- LA Health
- Samwumed

Long Service benefits

The municipality's liability for long service benefits relating to vested leave benefits to which employees may become entitled upon completion of five years of service and every five years thereafter. These leave benefits are in accordance with paragraph 11 of South African Government Bargaining Council (SALGBC) collective agreement on conditions of service for the Free State division of SALGA which was signed on July 2010.

In accordance with South African Local Government Bargaining Council (SALGBC) issued circular 1 of 2011 (issued 27 June 2011) with an effective date of 1 March 2011), specific bonuses are payable to employees for long service. Bonuses are payable in the following scale:

Years of service completed	Percentage of annual salary as bonus	- Additional Leave days
> 5 Years	2%	- 5 days
> 10 Years	3%	- 10 days
> 15 Years	4%	- 15 days
> 20 Years	5%	- 15 days
> 24 - 45 Years	6%	- 15 days

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Figures in Rand	2022	2021
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16. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

CPI (Medical aid)	7.30 %	6.54 %
CPI (Long service award)	6.76 %	4.64 %
Discount rate (Medical aid)	12.27 %	11.63 %
Discount rate (Long service award)	10.93 %	8.71 %
Medical aid inflation rate (Medical aid)	8.80 %	8.04 %
Net discount rate (Long service award)	2.94 %	2.39 %
Net discount rate (Medical aid)	3.19 %	3.32 %
Salary increase rate (Long service award)	7.76 %	5.64 %
Continuation percentage	100.00 %	100.00 %

The basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets, is as follows:

Other assumptions

The effect of one percentage increase/decrease in the net discount rate is as follows for the 2022 financial year:

	One percentage point increase	One percentage point decrease
Employer's accrued liability (Long service awards)	363,959,676	476,969,853
Current service cost (Long service awards)	120,535,379	23,725,105
	34,570,354	53,365,993
	58,090,361	51,387,177
	5,155,730	4,473,787
	6,120,219	5,387,561

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

	2022	2021	2020	2019	2018
Defined benefit obligation	469,220,473	(429,463,845)	(390,465,049)	(448,090,553)	(445,464,543)

Defined contribution plan

The municipality makes provision for post-retirement benefits to all employees and councilors, who belong to different contribution plans which are administered by various pension funds, provident and annuity funds. These plans are subject to the Pension Fund Act, 1995 (Act No. 24 of 1956) and include defined contribution plans. The municipality is under no obligation to cover any unfunded benefits. The only obligation of the municipality is to make the specific contributions.

The following are the multi-employer funds and are defined contribution plans:

- South African Local Authorities Pension Fund (SALA)
- Free State Municipal Pension Fund (FSMPF)
- Municipal councilors Pension Fund (MCPF)

Sufficient information was not available to use defined benefit accounting for the fund and it was accounted for as a defined contribution plan due to the following reasons:

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16. Employee benefit obligations (continued)

- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers; - One set of financial statements is compiled for all the funds are not for each participating employer; and

- The same rate of contribution applies to all participating employers and no regard is paid to differences in membership distribution of the participating employers.

This is in line with the exemption in GRAP 25 paragraph 31 which state that where information is required for proper defined benefit accounting is not available in respect of the multi-employer and state plan; these should be accounted for as defined contribution plans.

.

The amount recognised as an expense for defined contribution plans is 39,755,627 38,998,796

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

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17. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Discounting	Movement due to change in net discount rate	Closing balance
Rehabilitation of landfill sites	118,596,762	(15,943,205)	2,793,229	105,446,786

Reconciliation of provisions - 2021

	Opening Balance	Discounting	Change in estimate	Movement due to change in net discount rate	Closing balance
Rehabilitation of landfill sites	38,332,450	1,915,150	64,747,250	13,601,912	118,596,762

Rehabilitation of landfill sites

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites to a condition whereby it complies to the permit requirements issued in terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002).

Management has included the best estimated amount as the actual amount is uncertain. The payment of total closure and rehabilitation dates are uncertain.

The provision has been determined by an independent firm of consultants through investigation to determine the best estimated rehabilitation cost for the waste disposal sites at the end of its useful lives.

The municipality has five active landfill sites, as per the asset register:

Landfill	Estimated remaining useful lives
Allanridge	3 years (2021: 4 years)
Henneman (Phomolong)	6 years (2021: 7 years)
Odendaalsrus	18 years (2021: 19 years)
Virginia (Transfer station)	6 years (2021: 7 years)
Bronville (Welkom)	0 years (2021: 1 year)

There were no landfill sites developed, planned, rehabilitated or closed during the current or prior year.

Discount rate assumptions

The key assumptions used in the valuation, with prior year's assumptions shown for comparison, are summarised as follows:

	30 June 2022	30 June 2021
Discount rate (D)	10.54 %	9.94 %
Consumer price inflation (CPI)	6.37 %	6.03 %

The discount rate used was deduced from the average of the Zero-Coupon Yield Curve (Nominal Bond) over the entire durations applicable in the future. The annualised long term discount rate at 30 June 2022 was 10.54% p.a.

The consumer price inflation was obtained from the differential between the averages of the Nominal Bond and the Real Bond (Zero Yield Curves). The consumer price inflation at 30 June 2022 was 6.37% p.a.

The Zero-Coupon Yield Curves were obtained from the Bond Exchange of South Africa after the market closed on 30 June 2022.

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Figures in Rand	2022	2021			
17. Provisions (continued)					
Movement in the closing balance of the provision					
Reconciliation of landfill sites - 30 June 2022	Opening balance 1 July 2021	Discounting	Movement due to change in the net discount rate	Closing balance 30 June 2022	
Odendaalsrus	37,754,024	(25,166)	(16,231,701)	21,497,157	
Bronville (Welkom)	41,258,789	1,803,486	3,881,124	46,943,399	
Allanridge	11,912,960	383,602	(242,457)	12,054,105	
Hennenman (Phomolong)	21,595,076	494,104	(2,598,551)	19,490,629	
Virginia (Transfer station)	6,075,912	137,203	(751,622)	5,461,493	
	118,596,761	2,793,229	(15,943,207)	105,446,783	
Reconciliation of landfill sites - 30 June 2021	Opening balance 1 July 2020	Discounting	Movement due to change in the net discount rate	Change in estimate	Closing balance 30 June 2021
Odendaalsrus	5,456,342	416,903	5,849,079	26,031,707	37,754,031
Bronville (Welkom)	13,727,967	565,479	1,606,495	25,358,848	41,258,789
Allanridge	7,588,423	346,582	1,810,055	2,167,901	11,912,961
Hennenman (Phomolong)	9,630,363	487,531	3,590,329	7,886,853	21,595,076
Virginia (Transfer station)	1,929,355	98,656	745,954	3,301,947	6,075,912
	38,332,450	1,915,151	13,601,912	64,747,256	118,596,769
18. Service charges					
Refuse removal			123,831,678	116,830,059	
Sale of electricity			640,397,932	622,832,833	
Sale of water			425,986,361	422,553,223	
Sewerage and sanitation charges			189,901,708	178,340,074	
Less: Income foregone - indigents			(67,131,998)	(66,114,913)	
			1,312,985,681	1,274,441,276	
19. Rental of facilities and equipment					
Premises					
Rental of living quarters			19,688,503	16,875,175	
Facilities and equipment					
Rental of facilities			196,842	228,074	
			19,885,345	17,103,249	
20. Fines, Penalties and Forfeits					
Traffic fines			8,224,288	5,639,146	
21. Commission received					
Market agents			14,589,177	13,354,545	
Policy administration fees			1,834,955	1,954,076	
			16,424,132	15,308,621	

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22. Availability charges		
Electricity	33,547,819	29,513,518
Water	5,226,271	4,940,533
	38,774,090	34,454,051
23. Other income		
Application fees - land usage	1,124,931	851,733
Cemetery and burial	2,768,139	3,488,654
Clearance certificates	768,498	904,535
Connection fees	521,720	291,220
Disconnection fees	2,322,340	2,045,994
Fire services	1,977,134	5,610,501
Movable assets sold	-	4,515,696
Payroll theft recovered	-	1,404,010
Sundry income	5,735,215	2,926,372
Tender documents	354,035	469,512
	15,572,012	22,508,227
24. Investment revenue		
Dividend revenue		
Unlisted shares - Local	33,570	22,848
Interest received		
Bank and investments	2,390,350	814,805
Interest charged on consumer receivables	254,369,264	206,801,674
Provisions	15,943,206	-
	272,702,820	207,616,479
	272,736,390	207,639,327

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Figures in Rand	2022	2021
25. Property rates		
Rates received		
Commercial	144,580,189	169,105,706
Residential	170,857,254	110,827,621
Small holdings and farms	19,149,886	7,823,616
State	107,022,274	135,061,001
	441,609,603	422,817,944
Valuations		
Residential	21,555,865,255	12,192,398,421
Commercial	5,096,270,000	3,740,587,140
State	4,251,842,120	1,513,204,500
Small holdings and farms	7,325,161,003	3,320,907,110
	38,229,138,378	20,767,097,171

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2021. Supplementary valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A firm was appointed perform the general valuation and the new valuation roll was implemented on 1 July 2021 for the financial period 2022 to 2027.

The first R75,000 of the valuation of residential property is exempted from property rates.

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Figures in Rand	2022	2021
26. Government grants & subsidies		
Operating grants		
Equitable share	561,610,705	622,853,000
Expanded Public Works Program (EPWP)	2,964,000	1,748,000
Energy Efficiency and Demand side Management Grant (EEDG)	2,297,451	5,000,000
Finance Management Grant (FMG)	3,100,000	3,000,000
Sector Education and Training Authority (SETA)	1,370,430	752,482
	571,342,586	633,353,482
Capital grants		
Integrated National Electrification Program Grant (INEP)	-	837,283
Municipal Infrastructure Grant (MIG)	84,263,537	122,270,298
Water Services Infrastructure Grant (WSIG)	15,000,000	34,634,460
	99,263,537	157,742,041
	670,606,123	791,095,523
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	108,995,417	168,242,523
Unconditional grants received	561,610,705	622,853,000
	670,606,122	791,095,523
Equitable Share		
Current-year receipts as per Government Gazette	561,595,000	630,681,000
Transferred to revenue	(536,595,000)	(622,853,000)
Amount withheld from Equitable share	(25,000,000)	-
Amount short paid by Treasury	-	(7,828,000)
	-	-
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	83,392,606	44,388,904
Current-year receipts as per Government Gazette	133,069,000	116,796,000
Current-year receipts - Additional to Government Gazette	-	44,478,000
Conditions met - transferred to revenue	(84,263,537)	(122,270,298)
Offset the unspent grant against Equitable Share	(20,848,151)	-
	111,349,918	83,392,606

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26. Government grants and subsidies (continued)

This grant is used to supplement municipal capital budget to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households.

REPAYMENT ARRANGEMENT OF UNSPENT CONDITIONAL GRANTS

Matjhabeng Local Municipality and National Treasury reached repayment arrangement in terms of section 22(4) of the Division of Revenue Act, 2020 (Act No.4 of 2020) to repay the 2020/21 unspent conditional grants in four instalments, starting from March 2022. This pertains to MIG and WSIG unspent conditional grants.

- March 2022: R25 million;
- July 2022: R25.1 million;
- December 2022: R25 million; and
- March 2023: R25 million.

Finance Management Grant (FMG)

Current-year receipts	3,100,000	3,000,000
Conditions met - transferred to revenue	(3,100,000)	(3,000,000)
	-	-

The purpose of this grant is to promote and support reforms to financial management and the implementation of MFMA.

Integrated National Electrification Program (INEP)

Balance unspent at beginning of year	-	837,283
Conditions met - transferred to revenue	-	(837,283)
	-	-

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

Expanded Public Works Programme (EPWP)

Current-year receipts	2,964,000	1,748,000
Conditions met - transferred to revenue	(2,964,000)	(1,748,000)
	-	-

The purpose of this grant is to subsidise municipalities to expand on work creation efforts through the use of labour intensive delivery methods in identified focus areas.

Energy Efficiency and Demand Side Management Program (EEDG)

Balance unspent at beginning of year	2,300,000	5,000,000
Current-year receipts	-	2,300,000
Conditions met - transferred to revenue	(2,297,451)	(5,000,000)
	2,549	2,300,000

The purpose of this grant is to assist the municipalities to reduce their energy consumption through deployment of electricity and other energy saving measures.

Water Services Infrastructure Grant (WSIG)

Balance unspent at beginning of year	16,670,212	16,304,672
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Figures in Rand	2022	2021
26. Government grants and subsidies (continued)		
Current-year receipts	15,000,000	35,000,000
Conditions met - transferred to revenue	(15,000,000)	(34,634,460)
Offset the unspent grant against Equitable Share	(4,167,553)	-
	12,502,659	16,670,212

The purpose of this grant is to address water and sanitation challenges that occurred with the aging infrastructure.

REPAYMENT ARRANGEMENT OF UNSPENT CONDITIONAL GRANTS

Matjhabeng Local Municipality and National Treasury reached repayment arrangement in terms of section 22(4) of the Division of Revenue Act, 2020 (Act No.4 of 2020) to repay the 2020/21 unspent conditional grants in four instalments, starting from March 2022. This pertains to MIG and WSIG unspent conditional grants.

- March 2022: R25 million;
- July 2022: R25.1 million;
- December 2022: R25 million; and
- March 2023: R25 million.

Sector Education and Training Authority (SETA)

Current-year receipts	1,370,429	752,482
Conditions met - transferred to revenue	(1,370,429)	(752,482)
	-	-

The purpose of this grant is to do skills development among employees and improve the auditing skills of the municipality. This is a Mandatory grant that only gets paid once the SETA required documents are submitted, therefore MLM met the conditions as the tranches were paid for the current year.

Free State Provincial Department of Human Settlements

Current-year receipts	67,146,000	-
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EXPEDITION OF TITLE DEED RESTORATION PROGRAMME IN THE FREE STATE

The transferred funds will be utilized solely and strictly for the purpose of resolving disputes amongst erf owners and rectification transfers as a result of implementing the dispute resolution outcome

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 10 of 2010), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

27. Public contributions and donations

Public contributions and donations	44,551,882	-
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Property, plant and Equipment

The Municipality is a beneficiary of Compactor Truck from the Department of Environmental Affairs, which was handed over on 1 April 2022.

Investment property

5 farms were bought by the Department of Agriculture, land reform and rural development on behalf of Matjhabeng Local Municipality.

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28. Employee related costs		
Salaries	418,766,742	393,872,040
13th Cheque	32,387,964	31,562,363
Bargaining council levy	241,195	237,332
Employee benefit (medical aid)	32,955,005	30,577,450
Group life insurance	2,369,756	2,208,117
Housing allowances	4,055,177	4,095,665
Leave pay provision charge	13,062,971	18,200,959
Medical aid	47,492,176	46,852,445
Other allowances	30,505,585	28,388,129
Other long term employee benefits	45,402,962	44,398,006
Overtime payments	74,857,894	85,472,071
Pension	68,775,573	67,910,703
SDL	6,864,156	5,507,448
Shift allowance	20,536,044	19,757,800
Standby allowance	18,025,322	18,178,488
Transport allowance	48,747,892	44,826,441
UIF	3,996,846	3,563,551
	869,043,260	845,609,008

Directors Remuneration

30 June 2022	Basic Salary	Car and other allowances	Contributions to Medical and Pension Funds	Backpay	Total
Tindleni ZK - Municipal Manager	1,274,640	132,000	299,284	200,766	1,906,690
TC Panyani - Chief Financial Officer	997,519	379,272	199,504	268,873	1,845,168
Makofane TB - Director Strategic Support	1,183,073	-	29,477	3,000	1,215,550
Thobela MB - Director Infrastructure	939,955	638,699	18,094	3,000	1,599,748
Williams Van Wyk LS - Director Community Services	808,110	180,000	200,528	3,000	1,191,638
Ramphoma S - Director LED & Planning	92,921	25,000	-	-	117,921
G Pitso - Acting Director LED & Planning	621,347	181,186	114,471	4,774	921,778
M Vanga - Acting Director LED and Planning	482,562	254,042	117,502	3,000	857,106
Dr Adonis - Director Corporate Services	133,062	-	-	-	133,062
	6,533,189	1,790,199	978,860	486,413	9,788,661

30 June 2021	Basic Allowances	Car and other allowances	Contributions to Medical and Pension Funds	Leave Payout	Total
Tindleni ZK - Municipal Manager	1,282,305	132,000	299,910	62,687	1,776,902
TC Panyani - Chief Financial Officer	946,390	379,272	201,033	72,717	1,599,412
MMG Mokhekhe - Acting Director LED & Planning	606,754	187,857	132,849	-	927,460
TB Makofane - Director Strategic and Support Services	1,184,200	-	40,386	-	1,224,586
G Mokgatle - Acting Director Community Services	280,188	87,195	59,173	-	426,556
LS Williams Van Wyk - Director Community Services	916,239	196,161	211,992	207,401	1,531,793
MB Thobela - Director Infrastructure	941,063	638,699	31,158	-	1,610,920
DP Olyn - Acting Director Strategic Support Services	181,882	60,820	38,736	-	281,438

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Notes to the Annual Financial Statements

Figures in Rand				2022	2021
28. Employee related costs (continued)					
	6,339,021	1,682,004	1,015,237	342,805	9,379,067
29. Remuneration of councillors					
Executive Mayor and Councillors				33,686,836	33,885,379

In-kind benefits

The Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has the use of separate Council owned vehicles for official duties, one full time driver and a bodyguard.

The Speaker has the use of separate Council owned vehicles for official duties and one part time driver.

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021			
29. Remuneration of councillors (continued)					
Details of remuneration for the year ended 30 June 2022					
Name of councillor	Annual remuneration	Car allowance	Cellphone allowance	Contributions to SDL, medical aid and pension funds	Total
Badenhorst MJ	248,501	82,834	40,800	3,352	375,487
Badenhorst HS	248,501	82,834	40,800	3,352	375,487
Botha PF	215,090	82,834	40,800	36,441	375,165
Botha GP	220,890	-	27,200	2,345	250,435
Buti MP	552,320	19,049	31,630	5,844	608,843
Chaka MS	83,019	29,427	14,494	6,870	133,810
Claasen Malherbe C	248,501	82,834	40,800	3,352	375,487
Danster MP	88,798	29,427	14,494	1,206	133,925
Du Plessis JM	248,501	82,834	40,800	3,352	375,487
Dyantyi A	241,277	82,834	40,800	10,431	375,342
Hanisi C	220,890	-	27,200	2,345	250,435
Helepi AB	200,182	-	27,200	2,345	229,727
Hess S	220,890	2,083	27,200	2,345	252,518
Jacobs EJ	238,388	82,834	40,800	13,263	375,285
Jama BL	241,277	82,834	40,800	10,431	375,342
Janse Van Rensburg WH	220,890	-	27,200	2,345	250,435
Khalipha TD	611,924	-	24,024	13,511	649,459
Kalipa T	220,890	-	27,200	2,345	250,435
Khepeng MA	220,890	-	27,200	2,345	250,435
Khetsi LE	231,164	82,834	40,800	20,222	375,020
Khothule MJ	83,019	29,427	14,494	6,870	133,810
Letlhake TW	232,637	82,834	40,800	19,071	375,342
Letsele Setlhabi SV	220,890	2,083	27,200	2,345	252,518
Liphoko SJ	156,742	56,553	14,494	13,702	241,491
Lushaba TB	204,686	69,740	14,494	8,505	297,425
Macingwane MT	83,019	29,427	14,494	6,870	133,810
Mafa DM	77,661	29,427	14,494	12,236	133,818
Mafaisa MG	77,661	29,427	14,494	12,236	133,818
Mahlaku ME	28,937	-	3,512	307	32,756
Mahlumba BH	101,183	37,764	14,494	14,159	167,600
Maile LJ	220,890	-	27,200	2,345	250,435
Maile PE	220,890	-	27,200	2,345	250,435
Makaliane CL	213,690	-	27,200	9,545	250,435
Manenye AJ	241,277	82,834	40,800	10,431	375,342
Manese SD	414,056	69,740	41,694	22,370	547,860
Maruping II	220,890	-	27,200	2,345	250,435
Marais JS	88,798	29,427	14,494	1,206	133,925
Masienyane MD	219,436	31,736	14,494	23,443	289,109
Masina XN	571,285	173,734	42,253	39,699	826,971
Mawela VE	191,392	69,740	14,495	21,534	297,161
Meli TS	77,661	29,427	14,495	12,236	133,819
Moalosi TE	213,690	-	27,200	2,345	243,235
Mohapi LA	180,616	34,514	27,200	8,036	250,366
Moipatle KV	542,661	35,195	41,359	30,022	649,237
Mokhomo HA	547,977	50,414	42,253	63,150	703,794
Mokhothu SM	220,890	-	27,200	2,345	250,435
Molefi M	266,459	27,611	40,800	40,327	375,197
Molelekoa PMI	83,019	29,427	14,494	6,870	133,810
Moloja NJ	77,661	29,427	14,494	12,236	133,818
Molula IP	212,250	-	27,200	10,985	250,435
Montoeli DB	220,890	-	27,200	2,345	250,435

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Figures in Rand					2022	2021
29. Remuneration of councillors (continued)						
Moopela RH	184,639	27,611	27,200	10,930	250,380	

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Figures in Rand			2022	2021	
29. Remuneration of councillors (continued)					
Morris VR	204,686	69,740	14,494	8,505	297,425
Moshoeu ZS	444,505	136,245	41,359	29,826	651,935
Mosia TJ	231,164	82,834	40,800	20,342	375,140
Motlatsi SH	220,890	-	27,200	2,345	250,435
Mphikeleli MA	277,185	86,084	41,694	12,929	417,892
Mphore IP	220,890	-	27,200	2,345	250,435
Mthebere NA	77,074	27,611	13,600	6,888	125,173
Nel J	220,890	-	27,200	2,345	250,435
Nkone GNP	220,890	-	27,200	2,345	250,435
Nkonka BB	77,661	29,427	14,494	12,236	133,818
Nqeobo ME	241,277	82,834	40,800	10,431	375,342
Nthako TD	83,019	29,427	14,494	6,870	133,810
Nthuba PV	193,279	27,611	27,200	2,290	250,380
Ntoni KM	220,890	-	27,200	9,545	257,635
Ntsebeng MH	77,661	29,427	14,494	12,236	133,818
Ntuli BN	83,019	29,427	14,494	6,870	133,810
Olifant MA	89,461	-	7,359	931	97,751
Petersen SL	55,223	-	6,800	586	62,609
Phiri EP	220,890	2,083	27,200	2,345	252,518
Phofeli NM	83,038	29,427	14,494	6,966	133,925
Pholo SJ	77,661	29,427	14,494	12,236	133,818
Poo IP	77,661	29,427	14,494	12,236	133,818
Presente LN	248,501	82,834	40,800	3,352	375,487
Pretorious HS	220,890	20,708	27,200	2,304	271,102
Radebe MC	660,511	69,740	42,253	48,647	821,151
Radebe ML	656,046	69,740	42,253	53,023	821,062
Rakaki MM	83,019	29,427	14,494	6,870	133,810
Ramabodu BM	88,798	29,427	14,494	1,206	133,925
Ramalefane SJ	440,041	138,512	41,359	29,781	649,693
Ramatisa PT	260,038	34,514	40,800	39,841	375,193
Ramosie BS	151,862	43,092	23,800	1,969	220,723
Rantso MJ	28,937	-	3,512	307	32,756
Riet MI	130,785	42,614	14,494	1,732	189,625
Scheurkogel IS	220,890	-	27,200	2,345	250,435
Sebotsa MM	77,661	29,427	14,494	12,236	133,818
Seane LI	220,890	-	27,200	2,345	250,435
Seate MO	28,937	-	3,735	308	32,980
Senoge MM	83,019	29,427	14,494	6,870	133,810
Setabela ML	482,824	7,378	27,759	13,693	531,654
Sibeko TS	113,869	13,806	15,724	1,328	144,727
Sithole AM	241,277	84,917	40,800	10,431	377,425
Sotenjwa V	212,250	2,083	27,200	10,985	252,518
Schoeman A	248,501	82,834	40,800	3,352	375,487
Speelman NW	280,595	92,987	14,494	3,633	391,709
Steyn R	220,890	-	27,200	2,345	250,435
Stofile RB	692,608	74,389	38,518	34,999	840,514
Styger A	88,798	29,427	14,494	1,206	133,925
Taljaard SDM	231,221	82,834	40,800	20,632	375,487
Tau RD	220,890	-	27,200	2,345	250,435
Thelingoane NE	77,661	29,427	14,494	12,236	133,818
Thelingoane TJ	475,657	47,843	40,800	12,486	576,786
Tlake KR	559,764	16,826	41,359	31,290	649,239
Tsatsa SJ	77,661	29,427	14,494	12,236	133,818
Tshabangu SE	248,501	82,834	40,800	3,352	375,487
Tshokotshela NJ	83,019	29,427	14,494	6,870	133,810
Tshopo ME	204,686	69,740	14,494	8,505	297,425
Tsunke SE	220,890	-	27,200	2,345	250,435
Twala MJ	220,890	-	27,200	2,345	250,435

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Figures in Rand	2022				2021
29. Remuneration of councillors (continued)					
Van Rooyen KV	210,446	69,740	14,494	2,745	297,425
Van Rooyen MS	248,501	82,834	40,800	3,352	375,487
Van Schalkwyk HCT	83,019	29,427	14,494	6,870	133,810
Xaba Monjovo NE	542,661	35,195	41,359	30,022	649,237
	25,307,053	4,246,879	2,976,154	1,217,820	33,747,906

Details of remuneration for the year ended 30 June 2021

Name of councillor	Annual remuneration	Car allowance	Contributions to SDL, medical aid and pension funds	Total
Badenhorst MJ	288,538	82,966	2,786	374,290
Badenhorst HS	289,301	82,834	2,793	374,928
Botha PF	255,890	82,834	35,936	374,660
Chaka MS	271,964	82,834	19,841	374,639
Claasen Malherbe C	289,301	82,834	2,793	374,928
Daly A	289,301	82,834	2,793	374,928
Danster MP	289,301	82,834	2,793	374,928
Du Plessis JM	133,377	38,372	1,546	173,295
Dyantyi A	271,964	82,834	19,841	374,639
Jacobs EJ	271,964	82,834	19,841	374,639
Jama BL	271,964	82,834	19,841	374,639
Khetsi LE	271,964	82,834	19,741	374,539
Khothule MJ	271,964	82,834	19,841	374,639
Kopela MP	-	-	2,667	2,667
Letlhake TW	277,817	82,834	19,841	380,492
Liphoko SJ	588,646	196,312	46,790	831,748
Lushaba TB	612,455	196,312	23,667	832,434
Macingwane TM	271,964	82,834	19,841	374,639
Mafa DM	255,890	82,834	35,936	374,660
Mafaisa MG	255,890	82,834	35,936	374,660
Mahluma BH	321,943	106,304	41,510	469,757
Manenye AJ	271,964	82,834	19,841	374,639
Manese SD	681,819	219,558	24,132	925,509
Manzana NR	149,269	48,320	23,789	221,378
Marais JS	289,301	82,834	2,793	374,928
Masienyane MD	650,660	89,335	68,630	808,625
Masina XN	578,398	196,312	62,885	837,595
Mawela VE	572,572	196,312	62,885	831,769
Meli TS	255,890	82,834	35,936	374,660
Moipatle KV	255,890	82,834	35,936	374,660
Mokhomo HA	327,212	106,304	41,510	475,026
Molefi M	332,944	-	41,757	374,701
Molelekoa PMI	272,520	82,834	19,841	375,195
Moloja NJ	255,890	82,834	35,936	374,660
Monjovo NE	255,890	82,834	35,936	374,660
Morris VR	618,281	196,312	23,667	838,260
Moshoeu ZS	255,890	82,834	35,936	374,660
Mosia TJ	271,964	82,833	19,841	374,638
Mphikeleli MA	337,461	106,304	25,415	469,180
Mthebere NA	272,021	82,833	20,073	374,927
Nkonka BB	255,890	82,833	35,936	374,659
Nqeobo ME	271,964	82,833	19,841	374,638
Nthako TD	271,964	82,833	19,841	374,638
Ntsebeng MH	256,446	82,833	35,936	375,215

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Figures in Rand			2022	2021
29. Remuneration of councillors (continued)				
Nthuli BN	277,790	82,833	19,841	380,464
Phofeli NM	272,021	82,833	20,073	374,927
Pholo SJ	255,890	82,833	35,936	374,659
Poo IP	255,890	82,833	35,936	374,659
Presente LN	289,301	82,833	2,793	374,927
Radebe MC	572,572	196,312	62,885	831,769
Radebe ML	578,464	196,312	62,885	837,661
Rakaki MM	271,964	82,834	19,841	374,639
Ramabodu BM	289,301	82,834	2,793	374,928
Ramalefane SJ	255,890	82,834	35,936	374,660
Ramatisa PT	332,944	-	41,757	374,701
Riet MI	32,296	11,479	392	44,167
Sebotsa MM	255,890	82,834	35,936	374,660
Senoge MM	271,964	82,834	19,841	374,639
Sephiri MJ	572,572	196,312	62,885	831,769
Sithole MA	258,569	82,834	33,253	374,656
Speelman NW	839,387	261,749	8,459	1,109,595
Stofile B	609,096	209,399	65,993	884,488
Styger A	289,301	82,834	2,793	374,928
Taljaard SDM	272,021	82,834	20,073	374,928
Thelingoane TJ	282,238	82,834	19,841	384,913
Thelingoane NE	255,890	82,834	35,936	374,660
Tlake KR	296,107	39,600	38,974	374,681
Tsatsa SJ	255,890	82,833	35,936	374,659
Tshabangu SE	289,301	82,833	2,793	374,927
Tshokotshela NJ	271,964	82,833	19,841	374,638
Tshopo ME	612,455	196,311	23,667	832,433
Van Rooyen MS	289,300	82,833	2,793	374,926
Van Rooyen KV	691,232	214,473	7,807	913,512
Van Schalkwyk HCT	271,963	82,833	19,842	374,638
	24,582,961	7,359,820	1,942,598	33,885,379

30. Depreciation and amortisation

Property, plant and equipment	234,573,396	194,699,359
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31. Impairment loss

Impairments		
Property, plant and equipment	2,519,352	40,512,267
Heritage assets	26,810	-
	2,546,162	40,512,267

The main classes of assets affected by impairment losses are as follows:

Infrastructure	1,996,335	40,512,267
Land and buildings	523,017	-
Heritage assets	26,810	-
	2,546,162	40,512,267

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
32. Finance costs		
Trade and other payables	173,456,459	95,210,175
Bank	18,922	19
Provisions	-	13,601,912
	173,475,381	108,812,106
33. Debt impairment		
Contributions to bad debt provision	850,074,718	814,216,642
Balance at the beginning of the year	(3,683,674,206)	(2,940,748,318)
Contributions to allowance	(850,074,718)	(814,216,642)
VAT provision on impairment	44,224,738	(62,830,499)
Debt impairment written off against the allowance	-	134,121,253
	(4,489,524,186)	(3,683,674,206)
34. Bulk purchases		
Electricity	643,907,451	544,880,225
Water	608,076,068	641,743,815
	1,251,983,519	1,186,624,040
Electricity losses		
Units purchased (Kw/H)	426,188,805	437,362,652
Units sold (Kw/H)	(323,519,930)	(331,171,702)
Total loss	102,668,875	106,190,950
Rand value of loss:		
Non-technical losses	150,050,786	127,890,866
Percentage Loss:		
Non-technical losses	24 %	24 %

These losses are the result of technical losses caused by the nature of electricity and the manner of its distribution, via the network, status / condition and age of the network, weather conditions and load on the system as well as non technical losses, e.g. theft and vandalism.

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
34. Bulk purchases (continued)		
Water losses		
Units purchased (KI)	48,469,518	54,581,876
Units sold (KI)	(21,814,540)	(23,773,385)
Total	26,654,978	30,808,491
Rand value of loss:		
Non-technical losses	323,991,257	363,540,187
Percentage Loss:		
Non-technical losses	55 %	56 %

These losses are predominantly due to metering inefficiencies, unmetered connections, aging pipeline infrastructure, burst pipes, old reticulation networks and other leakages which are by nature regarded as normal production losses.

35. Contracted services

Professional services	37,687,659	103,124,733
Outsourced services	49,279,661	175,652,047
Meter reading services	8,643,596	18,843,359
Legal services	31,932,361	42,369,549
Security services	51,369,171	63,520,078
	178,912,448	403,509,766

Contracted services are mandated services in terms of the Local Government: Municipal Structures Act, Act 117 of 1998, a municipal by-law or the Integrated Development Plan (IDP) that the municipality is expected to have the capacity and expertise to deliver, but are being Outsourced instead.

Refer to prior period error note 46 for more details on the error.

Matjhabeng Local Municipality

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Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
36. General expenses		
Advertising	8,920,552	16,216,665
Audit fees	9,945,364	10,158,682
Bank charges	3,626,733	8,858,586
Cleaning	5,754,477	19,437,880
Commission paid	4,991,580	-
Consumables	32,433,398	91,908,951
Entertainment	376,551	299,333
Expired traffic fines	10,463,136	6,076,100
Insurance	42,213,232	40,900,165
Community development and training	2,101,685	2,352,383
Medical expenses	19,217	-
Motor vehicle expenses	201,803,493	159,509,169
Fuel and oil	28,795,551	15,753,686
Postage and courier	5,790,929	1,998,724
Royalties and license fees	937,575	246,777
Staff welfare	1,634,979	1,114,330
Subscriptions and membership fees	15,374,200	14,629,056
Telephone and fax	36,513,125	38,371,060
Training	520,486	2,529,991
Subsistence and travel	3,803,119	811,447
Assets expensed	3,566,186	205,788
Uniforms	20,576,797	16,490,628
Poverty relief	539,619	115,000
Ward committee members' remuneration	2,414,000	4,042,000
Other expenses	25,046,605	20,732,754
	468,162,589	472,759,155
37. Fair value adjustments		
Investment property (Fair value model)	290,832,016	812,744,986
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	48,440	62,808
	290,880,456	812,807,794
38. Repairs and maintenance		
Repairs and maintenance	65,973,709	75,626,701

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
39. Cash generated from operations		
Deficit	(1,016,282,541)	(561,096,877)
Adjustments for:		
Depreciation and amortisation	234,573,396	194,699,359
Loss on sale of assets and liabilities	36,645,149	-
Fair value adjustments	(290,880,456)	(812,807,794)
Interest received - Receivables	(254,369,264)	(206,801,674)
Dividends or similar distributions received	(33,570)	(22,849)
Finance costs - Trade and other payables	173,456,459	95,210,175
Impairment loss	2,546,162	40,512,267
Debt impairment	850,074,718	814,216,642
Employee benefit obligations - current service cost	22,427,337	20,408,508
Finance cost - Employee benefit obligation	47,540,982	49,036,709
Non-cash donations and other in-kind benefits	(44,551,882)	-
Provision raises/increased - finance cost	(15,943,206)	13,601,912
Actuarial loss	(16,544,624)	(11,342,388)
Changes in working capital:		
Inventories	(914,593)	2,266,429
Other receivables	(610,203)	(431,128)
Receivables from exchange transactions	(575,051,016)	(530,504,646)
Other receivables from non-exchange transactions	(128,079,698)	(92,388,157)
Payables from exchange transactions	1,251,815,213	1,337,804,961
VAT	(98,274,742)	(186,064,391)
Unspent conditional grants and receipts	88,638,308	35,831,959
Consumer deposits	1,526,752	1,749,269
Employee benefit obligation - expected payments	(13,668,065)	(19,104,029)
	254,040,616	184,774,257

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40. Financial instruments disclosure			
Categories of financial instruments			
2022			
Financial assets			
	At fair value	At amortised cost	Total
Other receivables	-	34,596,206	34,596,206
Receivables from non-exchange transactions	-	259,255,123	259,255,123
Receivables from exchange transactions	-	962,664,504	962,664,504
Cash and cash equivalents	-	203,091,108	203,091,108
Other financial assets	415,803	-	415,803
	415,803	1,459,606,941	1,460,022,744
Financial liabilities		At amortised cost	Total
Trade and other payables from exchange transactions		10,635,039,581	10,635,039,581
Consumer deposits		37,934,903	37,934,903
Unspent conditional grants and receipts		191,001,126	191,001,126
		10,863,975,610	10,863,975,610
2021			
Financial assets		At amortised cost	Total
Other receivables		33,986,003	33,986,003
Receivables from non-exchange transactions		198,609,252	198,609,252
Receivables from exchange transactions		918,045,601	918,045,601
Cash and cash equivalents		56,801,207	56,801,207
		1,207,442,063	1,207,442,063
Financial liabilities		At amortised cost	Total
Trade and other payables from exchange transactions		9,206,754,017	9,206,754,017
Consumer deposits		36,408,151	36,408,151
Unspent conditional grants and receipts		102,362,818	102,362,818
		9,345,524,986	9,345,524,986

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41. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Infrastructure	190,344,111	188,224,385
Total capital commitments		
Already contracted for but not provided for	190,344,111	188,224,385

This committed expenditure relates to infrastructure projects and will be financed by available bank facilities, funds internally generated and grants received

Refer to prior period error note 46 for more information.

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42. Contingencies

Contingent liabilities

Several claims are in the process against the municipality, a register containing all the detail is available at the municipal offices and the nature and amount of the different litigations are as follows:

Nature of litigation	Possible Rand	Possible Rand	Number of litigations	Number of litigations
	value of claim	value of claim		
	2022	2021	2022	2021
Application to compel	-	-	2	2
Civil litigations	97,131,833	97,131,833	8	7
Claims for services rendered	3,695,805,503	3,600,055,976	34	23
Conveyancing	350,000	350,000	3	3
Interdict application	-	-	2	2
Public liability claim	872,500	872,500	3	3
	3,794,159,836	3,698,410,309	52	40

Civil litigation - Summons were issued against Matjhabeng Local Municipality by various plaintiffs for outstanding rates, taxes, monies owed and compliances in terms of the Deed of Cession.

Claims for services rendered - Various summons have been issued against Matjhabeng Local Municipality by plaintiffs for services that they rendered for the Municipality, but did not receive payment for.

Conveyancing - Disputes and Title Deed reversals concerning numerous serf's in and around Matjhabeng Local Municipality.

Public liability claim - These are claims that are made for injuries sustained as a result of accidents that occur on property that is open or accessible to the public. The claims briefly relate to the following:
Plaintiff alleged that she slipped and fell on a spinach leave outside Welkom Mini Market and Matjhabeng Local Municipality is responsible for removing rubble and keeping the premises neat and clean, damage to public vehicles due to potholes and a plaintiff suffered damages due to Matjhabeng Local Municipality's irresponsible actions.

Contingent assets

Several claims are in the process on behalf of the municipality, a register containing all the detail is available at the municipal offices and the nature and amount of the different litigations are as follows:

Claims for services rendered - Relating to various claims against third parties for services rendered.

Eviction Notice - Notices to vacate illegal occupiers of land through section 4(2) of the Land Act 19 of 1998.

Nature of litigations	Possible Rand	Possible Rand	Number of litigations	Number of litigations
	value of claim	value of claim		
	2022	2021	2022	2021
Claims for services rendered	2,000,000	2,000,000	3	3
Eviction notice	999,792	999,792	6	7
	2,999,792	2,999,792	9	10

43. Related parties

Relationships

Members of key management

Refer to note 28

Members of council

Refer to note 29

Key management and councilors receive and pay for services on the same terms and conditions as other rate payers, these transactions are recorded at arm's length.

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44. Prior-year adjustments

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

A summarised explanation of the prior period errors are as follows:

VAT was restated due to inappropriate unrecorded prior year transactions.

Investment property was restated due to fair value adjustments.

Property, plant and equipment was restated due to unrecorded of prior year additions and retention amounts.

Depreciation was corrected due to additions that were not accounted for in the prior year and completed projects which were not capitalised.

Payables from exchange transaction was restated due to unrecorded transactions as well as corrections to third party amount.

Rental of facilities and equipment was restated due to inappropriate classification.

Employee related cost was restated due to inappropriate classification.

Repairs and maintenance was restated due to incorrect classification and unrecorded transactions.

Contracted services were restated due to errors in recording expenditure.

General expenses was restated due to unrecorded transactions and inappropriate classification.

Fair value adjustment was restated due to investment property being revalued.

Finance cost was restated due to inappropriate classification.

The prior year commitments were misstated due to projects that were omitted and projects that were completed but still formed part of commitments. Other projects were included while the contract value amount was exceeded.

Irregular expenditure was restated due to a casting error in the prior year.

Work in progress has been corrected due to projects that were completed in the prior year but were not capitalised into infrastructure.

Statement of financial position

2021

	Note	As previously reported	Correction of error	Adjustment 2021	Restated
VAT Receivable	8	823,993,617	(1,056,439)	-	822,937,178
Investment property	10	1,094,907,529	760,492,471	-	1,855,400,000
Property, plant and equipment	11	4,041,208,366	14,411,993	-	4,055,620,359
Payables from exchange transactions	13	(9,221,744,268)	14,990,251	-	(9,206,754,017)
Accumulated surplus		(2,718,687,113)	2,381,337,277	80,782,017	(256,567,819)
		(5,980,321,869)	3,170,175,553	80,782,017	(2,729,364,299)

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Figures in Rand		2022	2021			
44. Prior-year adjustments (continued)						
Statement of financial performance						
2021						
	Note	As previously reported	Correction of error	Adjustment 2021	Re-classification	Restated
Rental of facilities and equipment	19	10,866,849	-	-	6,236,400	17,103,249
Employee related cost	28	800,614,299	-	-	44,994,709	845,609,008
Repairs and maintenance	38	75,798,442	1,188,259	-	(1,360,000)	75,626,701
Contracted services	35	399,163,679	4,346,087	-	-	403,509,766
General expenditure	36	468,080,442	4,678,713	-	1,980	472,761,135
Fair value adjustments	37	(52,315,323)	(760,429,655)	-	-	(812,744,978)
Finance costs	32	157,848,815	-	-	(49,036,709)	108,812,106
Depreciation and amortisation	30	193,088,340	-	1,611,019	-	194,699,359
Surplus for the year		2,053,145,543	(750,216,596)	1,611,019	836,380	1,305,376,346

Disclosure	As previously reported	Correction of error	Restated
Commitments	- 170,226,840	17,997,547	188,224,387
Irregular Expenditure	- 945,941,736	(46,941,245)	899,000,491
Work in progress	- 689,327,137	(98,711,119)	590,616,018
	- 1,805,495,713	(127,654,817)	1,677,840,896

45. Risk management

Financial risk management

This note presents information about the municipality's exposure to each of the financial risks below and the municipality's objectives, policies and processes for measuring and managing financial risks. The Council has overall responsibility for the establishment and oversight of the municipality's risk management framework.

Liquidity risk

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.

At 30 June 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	10,635,025,900	-	-	-
Consumer deposits	37,934,903	-	-	-
Unspent conditional grant and receipts	191,001,126	-	-	-
At 30 June 2021	Less than 1 year	Between 1 and 2 years		Over 5 years
Payables from exchange transactions	9,206,754,017	-	-	-
Consumer deposits	36,408,151	-	-	-
Unspent conditional grant and receipts	102,362,818	-	-	-

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45. Risk management (continued)

Credit risk

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

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

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

Financial instrument	2022	2021
Other financial assets	415,803	367,363
Other receivables	34,596,206	33,986,003
Receivables from non-exchange transactions	221,958,788	198,609,252
Receivables from exchange transactions	962,664,504	918,045,601
Cash and cash equivalents	203,091,108	56,801,207
Receivables from non-exchange transactions (non-current)	6,559,477	6,324,305
Receivables from exchange transactions (non-current)	42,634,615	3,412,966

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46. Going concern

Management made an assessment on Matjhabeng Local Municipality's ability to continue as a going concern and whether this set of Financial Statement should be prepared on the going concern basis. Based on the assessment management identified following conditions that may cast significant doubt on MLM's ability to continue as a going concern:

Solvency assessment

We draw attention to the fact that at 30 June 2022:

The municipality had an accumulated deficit of R(2,946,136,363) and 2021:R(1,929,848,838)

The municipality's total liabilities exceed its total assets by R(2,946,136,357) and 2021:R(1,929,848,838).

Which represents a 360% decline of the asset value when compared to liabilities in the current year.

The municipality had a deficit of R(1,016,282,541) and 2021:R(561,096,877).

Liquidity assessment

Based on the current assets and current liabilities values on the statement of financial position we calculated the following ratios to assess liquidity of the municipality:

Total current liability exceeds the total current assets by R8 488 199 916 and (2021:R7 323 685 638)

Current ratio: (0,22 : 1) Total current assets cover only 22% of the total current liabilities.

Acid ratio: (0,22 : 1) Quick assets covers only 22% of the current liabilities.

Cash ratio: (0,02 : 1) Cash and cash equivalent can only cover 2% of current asset if they become due.

Creditors days: It takes MLM an average 930 days to pay off its creditors.

In addition to above the municipality owed Eskom R4,763,944,657 2021: R3,964,044,474 and Sedibeng Water R4,897,035,157 2021: R4,307,438,655 these accounts are long overdue.

Debtors impairment increased from R3,683,674,206 at 30 June 2021 to R4,489,524,186 at 30 June 2022.

Notwithstanding the above negative indicators there is an assurance that municipal activities will still continue to meet its statutory obligation for the foreseeable future based on the following:

The municipality is in the process of implementing revenue enhancement programs, these revenue enhancement programs "operation patala" will include a specific recovery of arrear amounts from clients.

The DORA allocation for the grants to be received in the 2022 /2023:

- Equitable share: R 628,523,000

- MIG : R 136,630,000

- INEP: R4,380,000

- WSIG: R 25,800,000

The municipality has an improved working capital management manifested by reduction of third-party arrears from R98,047,349 in 2021 and R30,704,413 in 2022.

47. Events after the reporting date

The Council is not aware of any material event which occurred after the reporting date and up to the date of this report.

48. Unauthorised expenditure

Opening balance as previously reported	2,130,357,976	2,090,446,152
Add: Unauthorised expenditure	1,474,880,000	-
Add: Unspent grants (Non cash backed)	-	39,911,824
Less: Amount written off - current	(2,561,799,400)	-
Closing balance	1,043,438,576	2,130,357,976

A report was served before council on the 30th of August 2022 and it was approved that unauthorised expenditure to the value of R2 561 799 400 relating to 2020/2021 and 2019/2020 financial years be written-off.

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Figures in Rand	2022	2021
48. Unauthorised expenditure (continued)		
The over expenditure incurred by municipal departments during the year is attributable to the following categories:		
Non-cash	745,281,377	39,911,824
Cash	729,598,623	1,234,175,598
	1,474,880,000	1,274,087,422

49. Fruitless and wasteful expenditure

Opening balance	518,237,371	414,494,221
Fruitless and wasteful expenditure	180,736,297	103,743,150
Less: Amount written off - current	(387,404,703)	-
Closing balance	311,568,965	518,237,371

Fruitless and wasteful expenditure is presented inclusive of VAT.

Fruitless and wasteful expenditure includes interest levied for late payment of creditors.

A report was served before council on the 30th of August 2022 and it was approved that fruitless and wasteful expenditure to the value of R387 404 703 relating to prior periods be written-off.

Details of fruitless and wasteful expenditure

Eskom	167,934,678	95,299,199
Sedibeng	25,951	-
Payables from exchange transactions	3,448,812	1,745,828
Late contribution to pension fund	-	527,670
Interest and penalties - SARS (VAT)	489,818	207,041
Interest and penalties - Compensation Commission	-	1,148,998
Interest and penalties - SARS (PAYE)	8,837,038	4,814,415
	180,736,297	103,743,151

50. Irregular expenditure

Opening balance as previously reported	1,346,393,213	899,000,491
Add: Irregular expenditure - current	216,180,180	410,191,976
Add: Irregular Expenditure identified during the audit	91,742,521	37,200,746
Closing balance	1,654,315,914	1,346,393,213

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50. Irregular expenditure (continued)

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

	Disciplinary steps taken/criminal proceedings		
Non-compliance with the MFMA & Supply Chain Policy	None	307,922,701	447,392,722

Details of investigations performed

Irregular expenditure includes instances of non-compliance with the requirements of MFMA and Supply Chain Management regulations..

The Accounting Officer continues to establish controls to detect and prevent these types of expenditure and the municipality has adopted the use of a centralised database from Treasury.

Detailed particulars of irregular expenditure is contained in the register maintained in terms of the requirements of MFMA Circular No.68

No amount of irregular expenditure was certified by the council to be irrecoverable and to be written-off.

As per updated MFMA circular no.68 issued in October 2021 the amounts disclosed for irregular expenditure are inclusive of VAT.

The total extent of the 2022 financial year's irregular expenditure is under investigation.

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51. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government (SALGA)		
Opening balance	9,035,604	8,918,825
Current year subscription / fee	9,297,497	9,022,189
Amount paid - current year	(24,000)	-
Amount paid - previous years	(5,028,000)	(8,905,410)
	13,281,101	9,035,604

Being the subscription fee to the South African Local Government Association (SALGA).

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

Fraud investigations

The municipality conducted the following fraud investigations for the prior financial year:

- Case number: 527/05/2016
- Case number: 451/02/2016
- Case number: 116/08/2017
- Case number: 406/01/2020

As at 30 June 2022 the following cases were still under investigation:

Case number: 451/02/2016 - Fraud by service provider

The service provider Tiro Ya Nnete Trading and projects was given official orders no. 0001047515 and 0001047593 on the 9th and 19th November 2015 for the supply and delivery of tar for an amount of R154,080.58 respectively, however the services were never rendered to the municipality despite having received payment on the 11th of November 2015 for order no. 0001047515. After a thorough investigation it was found that the service provider forged the signature of Mr. Ewan Eloff on the invoice he submitted at Supply Chain in order to receive payment fraudulently. He later came clear with his actions admitting to the fraud he had committed. The case was reported to Mr. Bokvel Pieterse to investigate and open a criminal case where necessary. It was recommended that all orders issued to this service provider be cancelled and any fraudulent payment done to be recovered from him. The Department of Public Safety and Transport would investigate the matter and open possible criminal cases. It was also recommended that the supplier be permanently removed from the Service Providers database of Matjhabeng.

Case number: 527/05/2016 - Bank details amendments

On the 13th of May 2016 payments were made to suppliers - Circle Tooling, Free State Sun and Ricmisa Trading for a total of R787,779.91. Contrary to the normal payment process, the final payment report pulls through different banking details although the payments were captured correctly on the system (Solar). After a thorough investigation it was found that there is no audit trail on cash focus to indicate that the banking details were changed or amended on ABSA cash focus. Correct banking details also appear on the IF80 report derived from Solar. It was therefore concluded that the changes could have occurred on the Z drive. Therefore it seems the payments were directed to the incorrect payees. The IT department was contacted for investigation but no information could be obtained. This case is still under investigation with the Thabong SAPS branch.

Case number: 116/08/2017 - Illegal sale of erven

During the 2017/18 financial year the Municipal Housing Department discovered that there was a growing number of individuals alleging to have purchased sites from the municipality without council having approved sale of such erven. The municipality launched an investigation to discover that the matter was prevalent and may be intentionally perpetuated by municipal staff. Upon discovery a case was opened with South African Police Services. The case is still under investigation.

Case number: 406/01/2020 - Payroll fraud

On 22 January 2020, 69 bank account numbers of various Matjhabeng Local Municipality employees had been changed to 16 different bank account numbers without consent. Although the bank accounts on the payslips had been verified as correct, the account numbers on the payroll system were altered. After a thorough investigation it appeared that the IP address of the Senior Clerk: Salaries was compromised and unauthorised access had been obtained, which resulted in the alteration of the banking details of various employees. The issue was immediately escalated to the Chief Financial Officer and in turn to the Acting Municipal Manager at that time. A total of R3,508,268.52 had been fraudulently diverted to other individuals. A case has been opened and is still under investigation by the Hawks.

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51. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Audit fees		
Opening balance	2,218,431	5,720,944
Current year audit fees	11,437,169	11,682,484
Interest charged	225,088	98,993
Amount paid - current year	(8,594,064)	(9,563,046)
Amount paid - previous years	(1,509,200)	(5,720,945)
	3,777,424	2,218,430
PAYE, UIF and SDL		
Opening balance	30,731,226	34,919,854
Current year payroll deductions and council contributions	139,977,837	130,530,196
Penalties and interest	8,805,376	4,814,415
Adjustments made by SARS	(23,024,367)	(4,814,415)
Amount paid - current year	(113,825,931)	(116,569,964)
Amount paid - previous years	(23,970,398)	(18,148,860)
	18,693,743	30,731,226
Pension and Medical Aid Deductions		
Opening balance	41,752,336	40,556,014
Current year payroll deductions and council contributions	129,705,934	197,344,075
Amount paid - current year	(206,430,926)	(155,591,739)
Amount paid - previous years	-	(40,556,014)
	(34,972,656)	41,752,336
VAT		
VAT receivable	921,211,920	822,874,683

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Figures in Rand	2022	2021
51. 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 2022:		
30 June 2022	Outstanding more than 90 days	Total
Buti MP	882	882
Helepi AB	86,725	86,725
Jansen Van Rensburg WH	1,476	1,476
Kalipa T	11,173	11,173
Khalipha TD	30,619	30,619
Khepeng MA	20,367	20,367
Mahlaku ME	53,184	53,184
Manenye AJ	8,592	8,592
Manese SD	139	139
Mokhomo HA	990	990
Mphore IP	15,538	15,538
Tuba PVC	32,819	32,819
Rantso MJ	36,173	36,173
Tshabangu SE	70,490	70,490
Twala MJ	412,652	412,652
Xaba Monjovo NE	15,700	15,700
	797,519	797,519
30 June 2021	Outstanding more than 90 days	Total
Chaka MS	3,875	3,875
Khothule MJ	474,921	474,921
Mafaisa MG	26,215	26,215
Mahlumba BH	18,874	18,874
Manenye AJ	63	63
Manese SD	1,647	1,647
Manzana NR	182	182
Molelekoa PMI	16,284	16,284
Monjovo NE	9,081	9,081
Mthebere NA	515	515
Nthako TD	13,310	13,310
Ntsebeng MH	68,661	68,661
Pholo SJ	47,711	47,711
Ramabodu BM	46,062	46,062
Ramatisa PT	10,957	10,957
Speelman NW	648	648
Tshabang SE	1,016	1,016
	740,022	740,022

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

Supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may deviate from official procurement process in certain circumstances, provided the reasons for any deviations are recorded, reported to Council.

30 June 2021	Strip and quote	Sole suppliers	Emergency	Impractical
October 2020	-	-	1,180,612	1,792,688
January 2021	-	18,734	2,322,236	786,600
March 2021	133,460	-	85,760	-
	133,460	18,734	3,588,608	2,579,288

30 June 2022	Strip and quote	Sole suppliers	Emergency	Impractical	Total
July 2021	-	-	-	367,208	367,208
August 2021	-	903,000	-	1,846,317	2,749,317
September 2021	-	34,754	-	1,976,591	2,011,345
October 2021	-	-	6,489	779,208	785,697
November 2021	-	-	-	1,826,048	1,826,048
December 2021	-	-	-	2,176,080	2,176,080
January 2022	-	337,097	592,312	1,550,670	2,480,079
February 2022	-	774,356	127,121	2,483,540	3,385,017
March 2022	-	695,652	667,340	1,587,374	2,950,366
April 2022	-	4,930	2,547,887	2,153,052	4,705,869
May 2022	-	392,039	-	1,129,504	1,521,543
	-	3,141,828	3,941,149	17,875,592	24,958,569

52. Segment information

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52. Segment information (continued)

Segment surplus or deficit

2022

	Community and public safety	Trading services	Economic and environmental services	Other	Governance and administration	Total
Revenue						
External revenue from non-exchange transactions	8,224,288	16,544,624	-	-	1,116,132,215	1,140,901,127
External revenue from exchange transactions	4,861,204	1,368,573,308	13,257	243,325	40,701,412	1,414,392,506
Interest revenue	-	216,552,740	-	-	40,664,314	257,217,054
Total segment revenue	13,085,492	1,601,670,672	13,257	243,325	1,197,497,941	2,812,510,687
Entity's revenue						2,812,510,687
Expenditure						
Total segment expenditure	273,280,773	2,536,275,669	95,357,268	5,354,423	699,203,113	3,609,471,246
Depreciation and amortisation	19,263,947	132,096,921	89,367,866	-	4,636,002	245,364,736
Interest expense	-	-	-	-	221,016,363	221,016,363
Total segment expenditure	292,544,720	2,668,372,590	184,725,134	5,354,423	924,855,478	4,075,852,345
Total segmental surplus/(deficit)						(1,263,341,658)
Total Segmental surplus /deficit						1,263,341,658
Non-segmental revenue - (Governance and administration)						1,197,497,941
Non-segmental expenditure - (Government and administration)						(924,855,477)
Entity's surplus (deficit) for the period						1,535,984,122

Measurement of segment surplus or deficit

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.

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52. Segment information (continued)

Information about geographical areas

The municipality's operations are in the Free State Province.

The municipality does not report on a geographical basis, therefore decision making is not based on geographical areas.