

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023



Mantsopa Local Municipality

Annual Financial Statements
for the year ended 30 June 2023

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

General Information

Legal form of entity	A municipality, which is an organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	The provision of services (electricity, water, sanitation and refuse) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.
Mayor	ME Tsoene
Speaker	ME Ncwada
Councillors	AJ Lemphane DT Moelefe KI Tigeli BM Sani T Halse DJ Hattingh RT Mpakathi TE Mutsi SJ Nkiane SJ Machakela KS Tsimatsima MA Lethoko CL Bouwer KS Motsoane SM Visagie KD Rantsonyane
Grading of local authority	Grade 3
Chief Finance Officer (CFO)	TD Tshikundu
Accounting Officer	M Mogopodi
Business address	38 Joubert Street Ladybrand Free State 9745
Postal address	PO Box 64 Ladybrand Free State 9745
Bankers	ABSA Bank Limited Standard Bank
Auditors	The Auditor-General of South Africa
Attorneys	Matlo Attorneys Finger Attorney Ishmael Ryan Attorneys Mohobo Attorneys
Telephone number	(051) 924 0654
Fax number	(051) 924 0020

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

General Information

Website

www.mantsopa.fs.gov.za

Mantsopa Local Municipality

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

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Abbreviations

AGSA	Auditor-General of South Africa
COGTA	Corporate Governance and Traditional Affairs
COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of Southern Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IDP	Integrated Development Planning
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
mSCOA	Municipal Regulations On A Standard Chart Of Accounts
NERSA	National Energy Regulator of South Africa
PRHS	Post Retirement Healthcare Subsidy
SARS	South African Revenue Services
SDBIP	Service Delivery and Budget Implementation Plan
VAT	Value-Added Tax

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Accounting Officer's Responsibilities and Approval

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

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

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

The accounting officer acknowledges that 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 2024 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 wholly dependent on the municipality 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.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2023 and were signed on its behalf by:

M Mogopodi
Accounting Officer

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2023.

1. Review of activities

Main business and operations

The municipality is engaged in the provision of services (electricity, water, sanitation and refuse) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.

The municipality's jurisdiction areas are: Ladybrand, Hobhouse, Tweespruit, Thaba-Phatswa and Excelsior.

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

Net deficit of the municipality was R 7,102,362 (2022: deficit R 77,756,269).

2. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus (deficit) of R 560,741,160 and that the municipality's total assets exceed its liabilities by R 560,741,160.

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

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

3. Subsequent events

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

4. Accounting Officers' interest in contracts

The Accounting Officer does not have an interest in contracts.

5. Accounting policies

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

6. Non-current assets

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

7. Accounting Officer

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

Name	Nationality
M Mogopodi	South African

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Officer's Report

8. Corporate governance

General

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

Internal audit

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

9. Auditors

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

10. Retirement benefit obligation

Management performed an actuarial valuation of the employee benefits of the employer's liability arising from the postretirement healthcare subsidy ("PRHS") payable to current and retired employees.

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

11. Non-compliance with applicable legislation

In terms of Section 65(2)(e) of the MFMA, all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement. Due to cash flow constraints, the municipality, could not settle all money owing within the prescribed period.

In terms of Section 71(1) of the MFMA, the accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month. During the financial year, the municipality did not comply with the required legislation as reports were submitted late.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Position as at 30 June 2023

Figures in Rand	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Inventories	3	3,403,617	2,575,451
Other financial assets	4	6,516	6,451
Receivables from exchange transactions	5&7	216,805,676	67,603,030
Receivables from non-exchange transactions	6&7	9,761,037	6,248,629
VAT receivable	8	34,596,205	34,026,768
Cash and cash equivalents	9	562,561	676,806
		265,135,612	111,137,135
Non-Current Assets			
Investment property	10	85,547,592	85,668,298
Property, plant and equipment	11	778,936,243	896,564,142
Intangible assets	12	30,000	-
Other financial assets	4	1,456,556	1,305,333
		865,970,391	983,537,773
Total Assets		1,131,106,003	1,094,674,908
Liabilities			
Current Liabilities			
Other financial liabilities	13	9,334,972	8,555,595
Payables from exchange transactions	14	436,032,630	408,695,336
Employee benefit obligation	15	1,645,000	1,399,000
Unspent conditional grants	16	35,206,962	14,729,449
Consumer deposits	17	2,609,242	2,544,816
Bank overdraft	9	4,759,329	341,952
		489,588,135	436,266,148
Non-Current Liabilities			
Employee benefit obligation	15	38,924,000	38,739,001
Provisions	18	41,852,707	51,826,234
		80,776,707	90,565,235
Total Liabilities		570,364,842	526,831,383
Net Assets		560,741,161	567,843,525
Accumulated surplus		560,741,160	567,843,529
Total Net Assets		560,741,160	567,843,529

* See Note 48

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	144,647,327	117,958,675
Rental of facilities and equipment	20	9,860	1,641,308
Interest received from outstanding debtors	21	61,484,468	53,597,043
Interest received from external investments	22	45,844	45,945
Debt impairment	31	21,919,302	-
Postage and courier		65,523	-
Other income	23	727,930	1,043,486
Dividends received	22	46,256	69,508
Total revenue from exchange transactions		228,946,510	174,355,965
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	20,193,577	20,069,121
Interest received from outstanding debtors	21	3,448,365	5,390,236
Transfer revenue			
Government grants and subsidies	25	121,816,487	122,914,969
Fines, Penalties and Forfeits	26	270,586	282,213
Total revenue from non-exchange transactions		145,729,015	148,656,539
Total revenue		374,675,525	323,012,504
Expenditure			
Employee related costs	27	(117,743,132)	(109,913,991)
Remuneration of councillors	28	(8,088,430)	(7,721,907)
Depreciation and amortisation	29	(41,841,390)	(38,611,088)
Finance costs	30	(21,030,781)	(17,038,144)
Debt impairment	31	(2,670,169)	(108,211,609)
Repairs and maintenance	32	(10,547,889)	(9,212,801)
Bulk purchases	33	(58,116,338)	(61,597,647)
General expenses	34	(49,891,643)	(29,827,257)
Total expenditure		(309,929,772)	(382,134,444)
Operating surplus (deficit)		64,745,753	(59,121,940)
Loss on disposal of assets and liabilities		(2,194,441)	(9,684,617)
Fair value adjustments	35	157,738	108,119
Actuarial gains/losses	36	6,490,932	(16,995,224)
Impairment reversals/(losses)	37	(76,236,821)	7,937,393
		(71,782,592)	(18,634,329)
Deficit for the year		(7,036,839)	(77,756,269)

* See Note 48

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	642,913,449	642,913,449
Adjustments		
Prior year adjustments (see note 47)	2,686,349	2,686,349
Opening balance as previously stated	645,599,798	645,599,798
Changes in net assets		
Surplus for the year	(77,756,269)	(77,756,269)
Total changes	(77,756,269)	(77,756,269)
Restated* Balance at 01 July 2022	567,843,522	567,843,522
Changes in net assets		
Surplus for the year	(7,102,362)	(7,102,362)
Total changes	(7,102,362)	(7,102,362)
Balance at 30 June 2023	560,741,160	560,741,160

* See Note 48

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Cash Flow Statement

Figures in Rand	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Taxation		39,649,253	17,760,619
Sale of goods and services		57,499,301	21,079,756
Grants		142,294,000	130,478,999
Interest income		45,844	59,033,224
Dividends		46,256	69,508
		<u>239,534,654</u>	<u>228,422,106</u>
Payments			
Employee costs		(131,607,687)	(120,321,092)
Suppliers		(85,086,041)	(66,400,909)
Finance costs		(8,773,608)	(8,834,175)
		<u>(225,467,336)</u>	<u>(195,556,176)</u>
Undefined difference compared to the cash generated from operations note		141,978	-
Net cash flows from operating activities	39	14,209,296	32,865,930
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(18,717,369)	(35,816,989)
Proceeds from sale of financial assets	11	6,451	6,386
Purchase of other intangible assets	12	(30,000)	-
Net cash flows from investing activities		(18,740,918)	(35,810,603)
Cash flows from financing activities			
Repayment of other financial liabilities		-	58,445
Net increase/(decrease) in cash and cash equivalents		(4,531,622)	(2,886,228)
Cash and cash equivalents at the beginning of the year		334,854	3,221,082
Cash and cash equivalents at the end of the year	9	(4,196,768)	334,854

* See Note 48

Mantsopa Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	149,045,298	(27,745,296)	121,300,002	144,647,327	23,347,325	Note 54
Rental of facilities and equipment	1,750,433	(783,808)	966,625	9,860	(956,765)	Note 54
Interest received - outstanding debtors	239,660	239,660	479,320	61,484,468	61,005,148	Note 54
Other income	2,809,654	(1,444,598)	1,365,056	727,930	(637,126)	Note 54
Interest received - external investments	-	-	-	45,844	45,844	Note 54
Dividends received	37,512	37,512	75,024	46,256	(28,768)	
Total revenue from exchange transactions	153,882,557	(29,696,530)	124,186,027	206,961,685	82,775,658	

Revenue from non-exchange transactions

Taxation revenue

Property rates	24,132,992	(2,832,992)	21,300,000	20,193,577	(1,106,423)	Note 54
Interest received - outstanding debtors	57,646,001	39,596,000	97,242,001	3,448,365	(93,793,636)	Note 54

Transfer revenue

Government grants and subsidies	160,878,009	1,222,342	162,100,351	121,816,487	(40,283,864)	Note 54
Fines	145,880	854,120	1,000,000	270,586	(729,414)	Note 54
Total revenue from non-exchange transactions	242,802,882	38,839,470	281,642,352	145,729,015	(135,913,337)	

Total revenue

396,685,439	9,142,940	405,828,379	352,690,700	(53,137,679)	
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Expenditure

Employee related costs	(111,243,576)	(267,224)	(111,510,800)	(117,743,132)	(6,232,332)	Note 54
Remuneration of councillors	(6,221,546)	3	(6,221,543)	(8,088,430)	(1,866,887)	Note 54
Depreciation and amortisation	(35,780,275)	(14,833,231)	(50,613,506)	(41,841,390)	8,772,116	Note 54
Impairment loss/ Reversal of impairments	-	-	-	(76,236,821)	(76,236,821)	Note 54
Finance costs	(8,899,288)	-	(8,899,288)	(21,030,781)	(12,131,493)	Note 54
Debt impairment	(53,971,850)	-	(53,971,850)	19,249,133	73,220,983	Note 54
Bulk purchases	(62,814,188)	2,814,188	(60,000,000)	(58,116,338)	1,883,662	Note 54
Contracted services	(19,287,952)	4,536,593	(14,751,359)	-	14,751,359	Note 54
General expenses	(32,134,019)	(3,522,914)	(35,656,933)	(49,891,643)	(14,234,710)	Note 54
Repairs and maintenance	-	-	-	(10,547,889)	(10,547,889)	Note 54

Total expenditure

(330,352,694)	(11,272,585)	(341,625,279)	(364,247,291)	(22,622,012)	
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Operating deficit

66,332,745	(2,129,645)	64,203,100	(11,556,591)	(75,759,691)	
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Loss on disposal of assets	(7,827,195)	(1,166,344)	(8,993,539)	(2,194,441)	6,799,098	Note 54
Fair value adjustments	-	-	-	157,738	157,738	Note 54
Actuarial gains/losses	-	-	-	6,490,932	6,490,932	Note 54

(7,827,195)	(1,166,344)	(8,993,539)	4,454,229	13,447,768	
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Surplus

58,505,550	(3,295,989)	55,209,561	(7,102,362)	(62,311,923)	
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Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Position

Assets

Current Assets

Inventories	-	-	-	3,403,617	3,403,617	Note 54
Other financial assets	7,657	-	7,657	6,516	(1,141)	Note 54
Receivables from exchange transactions	115,333,272	-	115,333,272	216,805,676	101,472,404	Note 54
Receivables from non-exchange transactions	-	-	-	9,761,037	9,761,037	Note 54
Other receivables from exchange transactions	38,476,131	-	38,476,131	-	(38,476,131)	Note 54
VAT receivable	-	-	-	34,596,205	34,596,205	Note 54
Cash and cash equivalents	121,883,447	75,607,237	197,490,684	(4,196,768)	(201,687,452)	Note 54
	275,700,507	75,607,237	351,307,744	260,376,283	(90,931,461)	

Non-Current Assets

Investment property	222,720,965	-	222,720,965	85,547,592	(137,173,373)	Note 54
Property, plant and equipment	933,081,059	-	933,081,059	778,936,243	(154,144,816)	Note 54
Intangible assets	400,000	-	400,000	30,000	(370,000)	Note 54
Investments in associates	1,225,624	-	1,225,624	-	(1,225,624)	Note 54
Other financial assets	638,486	-	638,486	1,456,556	818,070	Note 54
	1,158,066,134	-	1,158,066,134	865,970,391	(292,095,743)	

Total Assets

1,433,766,641	75,607,237	1,509,373,878	1,126,346,674	(383,027,204)
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Liabilities

Current Liabilities

Consumer deposits	2,237,863	-	2,237,863	2,609,242	371,379	Note 54
Other financial liabilities	5,857,538	-	5,857,538	9,334,972	3,477,434	Note 54
Payables from exchange transactions	110,601,754	-	110,601,754	436,032,630	325,430,876	Note 54
Employee benefit obligation	-	-	-	1,645,000	1,645,000	Note 54
Unspent conditional grants	-	-	-	35,206,962	35,206,962	Note 54
Bank overdraft	251,647	-	251,647	-	(251,647)	Note 54
	118,948,802	-	118,948,802	484,828,806	365,880,004	

Non-Current Liabilities

Employee benefit obligation	30,503,080	-	30,503,080	38,924,000	8,420,920	Note 54
Provisions	35,391,496	-	35,391,496	41,852,707	6,461,211	Note 54
	65,894,576	-	65,894,576	80,776,707	14,882,131	

Total Liabilities

184,843,378	-	184,843,378	565,605,513	380,762,135
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Net Assets

1,248,923,263	75,607,237	1,324,530,500	560,741,161	(763,789,339)
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Net Assets

Reserves

Accumulated surplus	1,248,923,263	75,607,237	1,324,530,500	560,741,161	(763,789,339)	Note 54
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Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation	16,892,763	3,107,237	20,000,000	39,649,253	19,649,253	Note 54
Sale of goods and services	-	72,500,000	72,500,000	57,499,301	(15,000,699)	Note 54
Grants	153,658,000	-	153,658,000	142,294,000	(11,364,000)	Note 54
Interest income	36,667,072	-	36,667,072	45,844	(36,621,228)	Note 54
Dividends received	-	-	-	46,256	46,256	Note 54
Other receipts	1,500,000	-	1,500,000	-	(1,500,000)	Note 54
	208,717,835	75,607,237	284,325,072	239,534,654	(44,790,418)	
Payments						
Employee costs	(395,982,000)	(99)	(395,982,099)	(131,607,686)	264,374,413	Note 54
Suppliers	-	-	-	(85,086,069)	(85,086,069)	Note 54
Finance costs	(12,164,266)	-	(12,164,266)	(8,773,608)	3,390,658	Note 54
	(408,146,266)	(99)	(408,146,365)	(225,467,363)	182,679,002	
Net cash flows from operating activities	(199,428,431)	75,607,138	(123,821,293)	14,067,291	137,888,584	
Cash flows from investing activities						
Purchase of property, plant and equipment	(46,795,000)	-	(46,795,000)	(18,575,391)	28,219,609	Note 54
Purchase of other intangible assets	-	-	-	(30,000)	(30,000)	Note 54
Proceeds from sale of other asset	638,486	-	638,486	6,451	(632,035)	Note 54
Net cash flows from investing activities	(46,156,514)	-	(46,156,514)	(18,598,940)	27,557,574	
Cash flows from financing activities						
Redemption of debentures / redeemable preference shares	2,237,863	-	2,237,863	-	(2,237,863)	Note 54
Finance lease payments	(765,000)	-	(765,000)	-	765,000	Note 54
Net cash flows from financing activities	1,472,863	-	1,472,863	-	(1,472,863)	
Net increase/(decrease) in cash and cash equivalents	(244,112,082)	75,607,138	(168,504,944)	(4,531,649)	163,973,295	
Cash and cash equivalents at the beginning of the year	6,755,653	-	6,755,653	334,854	(6,420,799)	
Cash and cash equivalents at the end of the year	(237,356,429)	75,607,138	(161,749,291)	(4,196,795)	157,552,496	

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

Figures in Rand	Note(s)	2023	2022
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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 MFMA.

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.

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

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

Trade receivables

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

The impairment for trade receivables and loans and receivables is calculated on a payment rate basis per consumer. The payment rate is calculated on the total payments received per consumer in the current year, and then divided by the total revenue billed per consumer for the current year. The percentage is then converted to a non payment ratio. The non payment ratio is then multiplied with the consumers total outstanding balance. The movement between a consumers yearly impairment balance is accounted through profit and loss in the statement of financial performance.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to the present value where the time value effect is material.

Useful lives of property, plant and equipment and investment properties

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and Investment properties. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives. In the event that a depreciating asset is nearing the end of its useful life, the availability of budget to replace the asset is considered. If the asset is not budgeted to be replaced, the useful life is extended by one year. Depreciation is adjusted going forward.

Post-retirement benefits

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

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

Effective interest rate

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

Allowance for doubtful debts

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

1.5 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.

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.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.5 Investment property (continued)

Substantive rights and binding agreements are applied to confirm control over land as part of recognition criteria. Physical verification of these properties together with the terms of binding agreements are used to determine control of the land. The municipality does not control the land where the land is occupied by a third party and a binding agreement does not establish substantive rights.

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.

Cost model

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

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	10 - 50 years

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.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 10).

1.6 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.

Substantive rights and binding agreements are applied to confirm control over land as part of recognition criteria. Physical verification of these properties together with the terms of binding agreements are used to determine control of the land. The municipality does not control the land where the land is occupied by a third party and a binding agreement does not establish substantive rights.

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.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.6 Property, plant and equipment (continued)

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, its deemed cost is the carrying amount of the asset(s) given up.

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

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

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

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

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

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

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

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

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

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
Plant and machinery	Straight-line	3 - 10 years
Furniture and fixtures	Straight-line	3 - 10 years
Motor vehicles	Straight-line	3 - 10 years
Infrastructure assets		
- Electricity network	Straight-line	7 - 50 years
- Roads network	Straight-line	8 - 50 years
- Wastewater network	Straight-line	30 - 50 years
- Water network	Straight-line	30 - 50 years
Community assets		
- Buildings	Straight-line	20 - 50 years
Recreational facilities	Straight-line	7 - 50 years
IT equipment	Straight-line	2 - 7 years

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

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

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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.

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 11).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

1.7 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.

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.

1.8 Intangible assets

An asset is identifiable if it either:

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

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

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.8 Intangible assets (continued)

An intangible asset is recognised when:

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

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

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
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The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 12).

1.9 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.

Financial instruments are classified into three categories namely, financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost. The Municipality determines the classification of its financial instruments at initial recognition.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.9 Financial instruments (continued)

Initial recognition and measurement

A financial instrument is recognised, when the Municipality becomes a party to the contractual provisions of the instrument, and are initially measured at fair value. In the case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added or deducted from the fair value, as appropriate on initial recognition.

Subsequent measurement – financial assets

Financial assets consist of cash and cash equivalents, deposits, receivables and investments.

Receivables are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

A provision for impairment of receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Changes in the carrying amount of the provision is recognised in the Statement of Financial Performance. When a receivable is considered uncollectible, it is written off against the provision. Any gains or losses arising from the change in fair value of investments measured at fair value are recognised in the Statement of Financial Performance.

Residual interests that do not have a quoted market price in an active market, and the fair value of which cannot be reliably measured are subsequently measured at cost less any impairment. Impairment is considered when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Any calculated impairment is recognised in the Statement of Financial Performance.

Subsequent measurement – financial liabilities

Financial liabilities consist of payables, interest bearing loans and bank overdrafts. These liabilities are subsequently measured at amortised cost, using the effective interest rate method. Finance costs are expensed in the Statement of Financial Performance in the period in which they are incurred except where stated otherwise (see accounting policy on borrowing costs).

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 using a valuation technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs.

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short term highly liquid investments, readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are carried at amortised cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.9 Financial instruments (continued)

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value
Long-term receivables	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
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

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.

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.

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

Inventory consist of raw materials, work in progress, consumables and finished goods, which are valued at the lower of cost, determined on the first in first out basis, and net realisable value, except for items which are valued at the tariffs charged. Where it is held for distribution or consumption at no charge or for a nominal amount, inventories are valued at the lower of cost and current replacement value

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

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

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.11 Inventories (continued)

Redundant and slow moving inventory are identified and written down to their estimated net realisable values estimated by management. Inventories are written down according to their age, condition and utility. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventory arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventory recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventory is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Change in accounting policy was done in the 2020 financial year from weighted average cost to first in first out basis.

Water Inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates. Water is valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

1.12 Impairment of cash-generating assets

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

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 recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

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

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment of assets carried at revalued amount reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Administrative/owner-occupied assets

It is accepted that all administrative assets, for example, vehicles, office equipment/furniture, plant and machinery, computer equipment and administrative land and buildings are non-cash generating assets as they do not generate any return.

Infrastructure assets

Infrastructure assets can be divided into five main groups, roads, water, electricity, sewer and waste management. Roads do not generate any return and is therefore categorised as non-cash generating assets.

Water and electricity infrastructure assets in the municipality generate a return in the form of water and electricity service charges. These returns are not considered to be commercial returns for the following reason:

- These levies are determined annually based on:
 - the funds required as per the budget; and
 - the fees set by ESKOM and NERSA
- The budget is prepared to meet the objective of the municipality as set out in the IDP and SDBIP;
- The objectives of the municipality set in the IDP and SDBIP is to deliver services to the community and not to generate a commercial return.

Water and electricity infrastructure assets are non-cash generating assets.

Waste management do generate a return in the form of a fee charged at landfill sites for the disposing of household waste when the load is of a certain size.

These landfill sites are however management to protect health, well-being and the environment by providing the facility to safely dispose of household waste. Landfill sites are treated as non-cash generating assets.

Community assets

Community assets are all categorised as non-cash generating assets even if some of these assets, for example, swimming pool, community hall or cemeteries generate a return. The return generated by these assets is small and immaterial in relation to the cost of the assets and therefore is not considered to be a commercial return. In addition, all community assets are held with the primary objectives of service delivery in the community, to uplift the communities and to stimulate and enhance economic growth in the different communities.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.13 Impairment of non-cash-generating assets

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

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

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

The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

Mantsopa Local Municipality

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

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Administrative/owner-occupied assets

It is accepted that all administrative assets, for example, vehicles, office equipment/furniture, plant and machinery, computer equipment and administrative land and buildings are non-cash generating assets as they do not generate any return.

Infrastructure assets

Infrastructure assets can be divided into five main groups, roads, water, electricity, sewer and waste management. Roads do not generate any return and is therefore categorised as non-cash generating assets.

Water and electricity infrastructure assets in the municipality generate a return in the form of water and electricity service charges. These returns are not considered to be commercial returns for the following reason:

- These levies are determined annually based on:
 - the funds required as per the budget; and
 - the fees set by ESKOM and NERSA
- The budget is prepared to meet the objective of the municipality as set out in the IDP and SDBIP;
- The objectives of the municipality set in the IDP and SDBIP is to deliver services to the community and not to generate a commercial return.

Water and electricity infrastructure assets are non-cash generating assets.

Waste management do generate a return in the form of a fee charged at landfill sites for the disposing of household waste when the load is of a certain size.

These landfill sites are however management to protect health, well-being and the environment by providing the facility to safely dispose of household waste. Landfill sites are treated as non-cash generating assets.

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Accounting Policies

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

Community assets

Community assets are all categorised as non-cash generating assets even if some of these assets, for example, swimming pool, community hall or cemeteries generate a return. The return generated by these assets is small and immaterial in relation to the cost of the assets and therefore is not considered to be a commercial return. In addition, all community assets are held with the primary objectives of service delivery in the community, to uplift the communities and to stimulate and enhance economic growth in the different communities.

Identification

The Municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. A commercial return means that the return charged by the entity is commensurate with the risk associated with holding the asset and the asset is intended to generate positive cash inflows. All other assets are classified as non-cash-generating assets.

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

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

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

Value in use

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

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

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.

Mantsopa Local Municipality

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Accounting Policies

1.14 Employee benefits

Short-term employee benefits

The municipality provides short term benefits, long term benefits and retirement benefits for its employees and councillors.

Remuneration to employees is recognised in the statement of financial performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service.

Leave pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end and is shown as an accrual in the statement of financial position.

Bonus provisions

The municipality recognises the expected cost of bonuses as a provision only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made at reporting date.

Long-service allowance

The Municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the long-service allowance 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-term incentives are accounted for through the statement of financial performance.

Post-employment benefits: Defined contribution plans

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The Municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the statement of financial performance in the period in which the service is rendered by the relevant employees.

Post-employment benefits: Defined benefit plans

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out by independent qualified actuaries regularly, as may be required for fair presentation.

Actuarial gains or losses recognised immediately in the statement of financial performance.

Post-retirement Health Care Benefits

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

Past-service costs are recognised immediately, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

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 best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances, where the provision being measured involves a large population of items; the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the statement of financial performance.

1.16 Revenue

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Recognition and measurement

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Mantsopa Local Municipality

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Accounting Policies

1.16 Revenue (continued)

Service charges – exchange revenue

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Pre-paid electricity – exchange revenue

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

Sale of goods – exchange revenue

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

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

Dividends – exchange revenue

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

Revenue recognition of unclaimed deposits – exchange revenue

Unclaimed deposits older than three (3) years are recognised as revenue.

Rates and taxes – non-exchange revenue

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.16 Revenue (continued)

Fines – non-exchange revenue

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the municipality is entitled to collect.

Subsequent to initial recognition and measurement, the municipality assess the collectability of the revenue and recognises a separate impairment loss where appropriate.

Donations and Contributions – non-exchange revenue

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Transfers and subsidies – non-exchange revenue

Unconditional grants

Equitable share allocations are recognised in revenue at the start of the financial year.

Conditional grants

Conditional grants recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Interest earned on grants received and invested is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the statement of financial performance.

Services received in-kind – non-exchange revenue

Services in kind are recognised at its fair value when it is significant to the operations and/or service delivery objectives and when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, only the nature and type of services in-kind received during the reporting period is disclosed.

1.17 Revenue from non-exchange transactions

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

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

Control of an asset 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.

Mantsopa Local Municipality

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1.17 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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.

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

Mantsopa Local Municipality

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Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Rates and taxes - non-exchange revenue

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

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines – non-exchange revenue

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the municipality is entitled to collect.

Subsequent to initial recognition and measurement, the municipality assess the collectability of the revenue and recognises a separate impairment loss where appropriate.

Donations and contributions – non-exchange revenue

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Transfers and subsidies - non-exchange expenditure

The municipality transfers money to individuals, organisations and other sectors of government from time to time. These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

1.18 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value-added taxation.

1.19 Investment income

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

1.20 Borrowing costs

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

1.21 Accounting by principals and agents

Identification

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

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

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

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Accounting Policies

1.21 Accounting by principals and agents (continued)

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Assessing which entity benefits from the transactions with third parties

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

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

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

Recognition

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

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

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

1.22 Comparative figures

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

1.23 Unauthorised expenditure

Unauthorised expenditure means:

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

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance 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.

Mantsopa Local Municipality

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Accounting Policies

1.24 Fruitless and wasteful expenditure

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

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

1.25 Irregular expenditure

Irregular expenditure, in relation to a municipality or municipal entity, means:

- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA, and which has not been condoned in terms of that act.
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, 2000 (No. 32 of 2000), and which has not been condoned in terms of that act.
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office Bearers Act, 1998 (Act No. 20 of 1998), or
- expenditure incurred by a municipality or municipal entity in contravention of, that is not in accordance with, a requirement of the supply chain management policy of the municipality, and which has not been condoned in terms of such policy, but excludes expenditure which falls within the definition of "unauthorised expenditure"

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

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

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

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

Irregular expenditure is expenditure that is contrary to the MFMA, the Municipal Systems Act, 2000 (Act No.32 of 2000), and the Public Office Bearers Act, 1998 (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.

1.26 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, 1997 (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

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Accounting Policies

1.27 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.28 Use of estimates

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

1.29 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 2022/07/01 to 2023/06/30.

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

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

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

Comparative information is not required.

1.30 Related parties

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

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

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

1.31 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.31 Commitments (continued)

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts that are non-cancellable or only cancellable at significant cost, contracts should relate to something other than the business of the municipality

1.32 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Investment in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the municipality has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with investment income over receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available-for sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the surplus/(deficit) for the period.

Investments in derivative financial instruments

Derivative financial instruments are initially recorded at cost and are subsequently measured at fair value.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in accumulated surpluses/(deficits). Amounts deferred in net assets are recognised in the statement of financial performance in the same period in which the hedged firm commitment or forecasted transaction affects the surplus/(deficit).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of financial performance as they arise.

1.33 Value added tax

The municipality is registered with the SARS for VAT on the payment basis, in accordance with the Section 15(2)(a) of the Value Added Tax Act, 1991 (Act no. 89 of 1991). Revenue, expenses and assets are recognised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.

Revenue, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.33 Value added tax (continued)

- Receivables and payables that are stated with the amount VAT included.

1.34 Conditional grants and receipts

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

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

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably, and;
- to the extent that there has been compliance with any restrictions associated with the grant.

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

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. For example, equitable share grants per the division of revenue act where the period of use of such funds are stated, should be recognised on a time proportion basis, i.e. over the stated period. Where there is no restriction on the period, such revenue should be recognised on receipt or when the Act becomes effective, whichever is earlier.

In certain circumstances government will only remit grants on a re-imbursement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.

Other grants and donations

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

Other grants and donations shall be recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of revenue can be measured reliably, and;
- to the extent that there has been compliance with any restrictions associated with the grant.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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Figures in Rand	2023	2022
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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 01 July 2023 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline on Accounting for Landfill Sites	01 April 2023	Unlikely there will be a material impact
• IGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact
• IGRAP 7 (revised): The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interactions	01 April 2023	Unlikely there will be a material impact
• GRAP 25 (revised): Employee Benefits	01 April 2023	Unlikely there will be a material impact
• GRAP 104 (revised): Financial Instruments	01 April 2025	Unlikely there will be a material impact

3. Inventories

Consumable stores	3,401,476	2,571,862
Water for distribution	2,141	3,589
	3,403,617	2,575,451

Inventories recognised as an expense during the year - 2,893,961

Included in the consumables stores balance is:

- 1 355 (2022: 980) water meters at a value of R 2 415 each;
- 0 (2022: 47 water meters at a value of R 3 067 each; and
- 199 (2022: 94) boxes of paper at R 649 per box.

All inventory for the current year are carried at the lower of cost or the net realisable value.

None of the inventories were pledged as security for liabilities.

4. Other financial assets

Designated at fair value

Unlisted shares	1,248,394	1,094,173
OVK Holdings: 34 566 (2022: 34 566) shares at R 18.00 (2022: R16.20) per share		
OVK Operations: 29 678 (2022: 29 678) shares at R21.10 (2022: 18.00) per share		
Listed shares	61,936	58,418
Old Mutual: 5 060 (2022: 5 111) shares at R 12.24 (2022: R 11.43) per share		
	1,310,330	1,152,591

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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Figures in Rand	2023	2022
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4. Other financial assets (continued)

At amortised cost

Loan and receivable	152,742	159,193
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The Buitekclub loan commenced in May 1995 for a period of 50 years, bears interest at 1% per annum and is repaid in monthly instalments of R668

Total other financial assets	1,463,072	1,311,784
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Non-current assets

Designated at fair value	1,310,330	1,152,591
At amortised cost	146,226	152,742
	1,456,556	1,305,333

Current assets

At amortised cost	6,516	6,451
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Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Old Mutual shares	13.50	13.50
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Share values was obtained from Old Mutual's website:
<https://www.oldmutual.com/investor-relations/share-price>

OVK Holdings shares	18.00	16.20
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Share values was obtained OVK Holdings statement as at 30 June 2023

OVK Operations shares	21.10	18.00
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Share values was obtained OVK Operations statement as at 30 June 2023

5. Receivables from exchange transactions

Electricity	7,367,208	6,856,980
Refuse	46,429,268	7,568,899
Sewerage	65,407,956	11,078,700
Water	67,935,102	13,752,069
Rentals	4,807,319	745,616
Other receivables	2,333,748	5,075,691
Centlec	22,381,363	22,381,363
Trade debtors	143,712	143,712
	216,805,676	67,603,030

Fair value of trade and other receivables

Receivables from exchange transactions	216,805,676	67,603,030
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The carrying amount of receivables from exchange transactions are denominated in Rand.

Trade and other receivables impaired

As on June 2023, trade and other receivables of R 600,537,408 (2022: R 624 966 782) were impaired and provided for.

There are no receivables from exchange transactions pledged as security.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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Figures in Rand	2023	2022
6. Receivables from non-exchange transactions		
Rates	9,064,251	5,571,329
Fines	696,786	677,300
	9,761,037	6,248,629

Statutory receivables included in receivables from non-exchange transactions above are as follows:

Rates	9,064,251	5,571,329
Fines	696,786	677,300
	9,761,037	6,248,629

Total receivables from non-exchange transactions	9,761,037	6,248,629
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Statutory receivables general information

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	9,761,037	6,284,629
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The carrying amount of receivables from non-exchange transactions are denominated in Rand.

Receivables from non-exchange transactions impaired

As of 30 June 2023, other receivables from non-exchange transactions of R 65 963 504 (2022: R 63 453 433) were impaired and provided for.

Reconciliation of provision for impairment - Traffic fines

Opening balance	(2,134,184)	(1,967,435)
Provision for impairment	-	(166,749)
Unused amounts reversed	18,116	-
	(2,116,068)	(2,134,184)

An amendment to IGRAP 1, required the Mantsopa Local Municipality to account for traffic fine Income on the accrual basis. The Standard of GRAP on revenue from non-exchange transactions (taxes and transfers) (GRAP 23), requires that revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured. IGRAP 1 clarifies that an entity should recognise the full amount of revenue at the transaction date when there is uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it. Entities should not consider or assess the probability of collecting revenue at the transaction date because this is a subsequent measurement event. Subsequent to initial recognition and measurement, an entity should assess the collectability of the revenue and recognise an impairment loss where appropriate. The municipality therefore accounted for each fine issued on the accrual basis, however the probability was assessed and it was found that the current year cash received from fines related to less than 6% of fines issued. Therefore the receivable created was impaired with 94% of the remaining debtor.

There are no receivables from non-exchange transactions pledged as security.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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Figures in Rand	2023	2022
7. Consumer debtors disclosure		
Gross balances		
Rates	75,027,755	69,024,762
Electricity	38,898,781	39,410,779
Water	298,246,454	253,383,564
Sewerage	260,108,431	211,929,563
Refuse	179,991,091	146,645,218
Rentals	15,239,505	13,599,922
	867,512,017	733,993,808
Less: Allowance for impairment		
Rates	(65,963,504)	(63,453,433)
Electricity	(31,531,573)	(32,553,799)
Water	(230,311,352)	(239,631,495)
Sewerage	(194,700,475)	(200,850,863)
Refuse	(133,561,823)	(139,076,319)
Rentals	(10,432,186)	(12,854,306)
	(666,500,913)	(688,420,215)
Net balance		
Rates	9,064,251	5,571,329
Electricity	7,367,208	6,856,980
Water	67,935,102	13,752,069
Sewerage	65,407,956	11,078,700
Refuse	46,429,268	7,568,899
Rentals	4,807,319	745,616
	201,011,104	45,573,593
Statutory receivables included in consumer debtors above are as follows:		
Rates	9,064,251	5,571,329
Financial asset receivables included in consumer debtors above	191,946,853	40,002,264
Total consumer debtors	201,011,104	45,573,593
Included in above is receivables from exchange transactions		
Electricity	7,367,208	6,856,980
Water	67,935,102	13,752,069
Sewerage	65,407,956	11,078,700
Refuse	46,429,268	7,568,899
Rentals	4,807,319	745,616
	191,946,853	40,002,264
Included in above is receivables from non-exchange transactions		
Rates	9,064,251	5,571,329
Net balance	201,011,104	45,573,593

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
7. Consumer debtors disclosure (continued)		
Rates		
Current (0 -30 days)	842,341	747,871
31 - 60 days	224,521	251,883
61 - 90 days	222,408	197,566
91 - 120 days	213,821	156,524
121 - 365 days	7,561,160	4,217,485
	9,064,251	5,571,329
Electricity		
Current (0 -30 days)	1,235,297	5,881,909
31 - 60 days	73,581	138,753
61 - 90 days	166,669	57,604
91 - 120 days	80,079	59,625
121 - 365 days	5,811,582	719,089
	7,367,208	6,856,980
Water		
Current (0 -30 days)	3,407,189	634,586
31 - 60 days	1,101,304	218,441
61 - 90 days	1,082,067	212,152
91 - 120 days	1,091,454	215,038
121 - 365 days	61,253,088	12,471,852
	67,935,102	13,752,069
Sewerage		
Current (0 -30 days)	3,680,555	593,772
31 - 60 days	1,371,354	244,809
61 - 90 days	1,393,799	235,520
91 - 120 days	1,385,306	227,897
121 - 365 days	57,576,942	9,776,702
	65,407,956	11,078,700
Refuse		
Current (0 -30 days)	2,901,771	421,582
31 - 60 days	930,262	167,711
61 - 90 days	944,163	161,488
91 - 120 days	938,243	156,151
121 - 365 days	40,714,829	6,661,967
	46,429,268	7,568,899
Rentals		
Current (0 -30 days)	306,796	25,246
31 - 60 days	100,067	6,950
61 - 90 days	99,548	4,915
91 - 120 days	99,073	4,308
121 - 365 days	4,201,835	704,197
	4,807,319	745,616
Reconciliation of allowance for impairment		
Balance at beginning of year	(688,420,215)	(571,050,317)
Contribution to allowance	21,919,303	(117,369,898)
	(666,500,912)	(688,420,215)

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
7. Consumer debtors disclosure (continued)		
Statutory receivables general information		
Statutory receivables impaired		
As of 30 June 2023, Statutory receivables of R 65 963 504 (2022: R 63 453 433) were impaired and provided for.		
Reconciliation of provision for impairment for statutory receivables		
Opening balance	(63,453,433)	(51,831,633)
Provision for impairment	(2,510,071)	(11,621,800)
	(65,963,504)	(63,453,433)
8. VAT receivable		
VAT	34,596,205	34,026,768
VAT is payable on a cash basis. Once payment is received or made, VAT is payable or receivable from SARS.		
No interest is payable to SARS if VAT is paid in time. Interest on late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.		
9. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	1,564	1,564
Bank balances	-	501,114
Short-term deposits	560,997	174,128
Bank overdraft	(4,759,329)	(341,952)
	(4,196,768)	334,854
Current assets	562,561	676,806
Current liabilities	(4,759,329)	(341,952)
	(4,196,768)	334,854
The municipality has the following facilities with ABSA bank:		
- A credit card used for travel facility of R 100 000, at year end this facility was not being utilised (2022: R 100 000). - An overdraft facility of R 4 000 000 (2022: R 4 000 000), which may only be utilised on the approval of council.		
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:		
Credit rating		
C	(4,195,768)	334,854

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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9. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2023	30 June 2022	30 June 2021	30 June 2023	30 June 2022	30 June 2021
ABSA Bank - Current - 2020000050	241,031	(341,952)	254,880	241,031	(341,952)	254,880
Standard Bank - Current - 371180538	477,509	501,114	-	(4,980,665)	501,114	-
ABSA Bank - Call account - 9264892325	962	1,010	98,697	962	1,010	98,697
ABSA Bank - Call account - 9230571400	93	93	35,137	93	93	35,137
ABSA Bank - Call account - 9278783703	1,113	1,122	2,553,563	1,113	1,122	2,553,563
ABSA Bank - Call account - 9264892561	964	1,012	131,652	964	1,012	131,652
ABSA Bank - Call account - 9277963448	1,044	1,056	3,036	1,044	1,056	3,036
Standard Bank - Call account - 02265057	-	-	111	-	-	111
Nedbank - Call account - 094831059996	156,617	145,487	142,443	156,617	145,487	142,443
Standard Bank 248495860	7,903	24,349	-	7,903	24,349	-
Total	887,236	333,291	3,219,519	(4,570,938)	333,291	3,219,519

10. Investment property

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	261,595,302	(176,047,710)	85,547,592	254,189,864	(168,521,566)	85,668,298

Reconciliation of investment property - 2023

	Opening balance	Depreciation	Total
Investment property	85,668,298	(120,706)	85,547,592

Reconciliation of investment property - 2022

	Opening balance	Additions	Disposals	Depreciation	Total
Investment property	79,781,782	7,000,000	(1,018,535)	(94,949)	85,668,298

Mantsopa Local Municipality

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Notes to the Annual Financial Statements

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10. Investment property (continued)

Pledged as security

No Investment properties were pledged as security.

Impairment of investment properties

Key considerations made:

The municipality considered GRAP 16 and iGRAP 18 and calculated impairment on investment properties if the following factors are applicable to the municipality:

- The municipality must have the legal ownership and rights to the property in terms of an actual title deed.
- The property must be occupied by residents. And the municipality can not remove these residents due to political and socio-economic factors.
- Each erven was verified with arial footage to confirm occupation thereof.
- A final register of properties occupied owned by the municipality is then confirmed.
- All properties that are identified are then impaired by the municipality as the value in use could not be calculated as per iGRAP 18 as the future economic benefits could not be confirmed nor calculated.

Analysis

The accounting for land is based on the rights that an entity is presently able to exercise in terms of its ownership of the land or other rights granted in terms of a binding arrangement.

Legal ownership

The invasion of land may be an illegal act. Although the illegal occupants may have certain rights, these rights do not supersede or eliminate the entity's currently exercisable rights in terms of its legal ownership of the land. Land ownership means that the entity has substantive rights to direct or restrict access to the economic benefits or service associated with the land. The fact that the entity may not execute these rights because of political, socio-economic or other factors, is irrelevant in establishing whether control exists for accounting purposes. An entity would need to assess if its ownership rights are subsequently changed through another legal action, such as the outcome of a court process such as the outcome of court case, court order, etc.

The illegal occupation of land may indicate that an impairment loss should be recognised.

A register containing the information required by section 63 of the MFMA is available for inspection at the registered office of the municipality.

Mantsopa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Community assets (incl own buildings)	161,717,422	(90,913,059)	70,804,363	164,712,436	(86,132,466)	78,579,970
Plant and machinery	1,385,416	(692,024)	693,392	2,503,909	(1,417,655)	1,086,254
Furniture and fixtures	5,882,406	(4,535,152)	1,347,254	6,028,449	(4,704,881)	1,323,568
Motor vehicles	31,333,314	(19,127,502)	12,205,812	28,552,758	(13,471,233)	15,081,525
IT equipment	4,962,610	(2,456,653)	2,505,957	4,859,799	(3,745,886)	1,113,913
Infrastructure - roads network	489,929,173	(215,909,340)	274,019,833	484,586,632	(170,175,551)	314,411,081
Infrastructure - electricity network	154,351,474	(85,180,530)	69,170,944	153,373,583	(79,086,833)	74,286,750
Landfill site asset	46,744,767	(20,001,232)	26,743,535	62,938,090	(17,629,502)	45,308,588
Infrastructure - wastewater network	268,841,220	(105,446,377)	163,394,843	268,444,499	(94,300,150)	174,144,349
Infrastructure - water network	288,743,430	(130,693,120)	158,050,310	290,373,540	(99,145,396)	191,228,144
Total	1,453,891,232	(674,954,989)	778,936,243	1,466,373,695	(569,809,553)	896,564,142

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Other movements	Depreciation	Impairment loss	Total
Community assets	78,579,970	2,041,646	(202,953)	-	(5,184,607)	(4,429,693)	70,804,363
Plant and machinery	1,086,254	-	(248,165)	-	(158,161)	13,464	693,392
Furniture and fixtures	1,323,568	506,476	(135,595)	-	(368,802)	21,607	1,347,254
Motor vehicles	15,081,525	-	(2,767)	-	(2,645,138)	(227,808)	12,205,812
IT equipment	1,113,913	2,430,785	(398,501)	-	(636,403)	(3,837)	2,505,957
Infrastructure - roads	314,411,081	6,551,407	(176,726)	-	(12,285,013)	(34,480,916)	274,019,833
Infrastructure - electricity	74,286,750	3,971,287	(109,832)	-	(5,173,831)	(3,803,430)	69,170,944
Landfill site network	45,308,588	-	-	(16,193,323)	(2,371,730)	-	26,743,535
Infrastructure - wastewater	174,144,349	1,831,266	(6,702)	-	(5,757,778)	(6,816,292)	163,394,843
Infrastructure - water	191,228,144	1,384,502	(913,198)	-	(7,139,223)	(26,509,915)	158,050,310
	896,564,142	18,717,369	(2,194,439)	(16,193,323)	(41,720,686)	(76,236,820)	778,936,243

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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Figures in Rand	2023	2022
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11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Other movements	Depreciation	Total
Community assets	83,294,169	501,576	-	(5,215,775)	78,579,970
Plant and machinery	459,984	772,531	-	(146,261)	1,086,254
Furniture and fixtures	1,536,862	123,720	-	(337,014)	1,323,568
Motor vehicles	2,956,414	14,323,803	-	(2,198,692)	15,081,525
IT equipment	653,731	661,847	-	(201,665)	1,113,913
Infrastructure - roads	318,208,488	8,341,142	-	(12,138,549)	314,411,081
Infrastructure - electricity	76,848,249	2,552,810	-	(5,114,309)	74,286,750
Landfill site asset	45,881,567	-	58,709	(631,688)	45,308,588
Infrastructure - wastewater	164,006,380	15,845,909	-	(5,707,940)	174,144,349
Infrastructure - water	198,177,594	(125,204)	-	(6,824,246)	191,228,144
	892,023,438	42,998,134	58,709	(38,516,139)	896,564,142

Pledged as security

No property, plant and equipment assets were pledged as security.

Reconciliation of work-in-progress 2023

	Included within infrastructure	Included within Community	Total
Opening balance	21,552,589	-	21,552,589
Additions/capital expenditure	24,206,255	2,041,646	26,247,901
Transferred to completed items	(12,258,078)	-	(12,258,078)
Transferred to expensed	(10,467,793)	-	(10,467,793)
	23,032,973	2,041,646	25,074,619

Reconciliation of work-in-progress 2022

	Included within infrastructure	Included within Community	Total
Opening balance	26,469,856	-	26,469,856
Additions/capital expenditure	27,343,347	501,576	27,844,923
Transferred to completed items	(31,531,934)	(501,576)	(32,033,510)
Transferred to expensed	(728,690)	-	(728,690)
	21,552,579	-	21,552,579

Expenditure incurred to repair and maintain property, plant and equipment

Land and buildings	-	557,567
Infrastructure	-	468,816
Plant and machinery	5,303,453	24,848
Motor vehicles	1,425	1,011,119

Mantsopa Local Municipality

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12. Intangible assets

	2023			2022		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	30,000	-	30,000	-	-	-

Reconciliation of intangible assets - 2023

	Opening balance	Additions	Total
Computer software	-	30,000	30,000

Pledged as security

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

The estimated useful life on the software is 12 months.

13. Other financial liabilities

At amortised cost

Development Bank of Southern Africa	9,334,972	8,555,595
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The municipality entered into a loan agreement with DBSA on 01 April 2015, whereby the DBSA borrowed a total capital amount of R 6 275 120 to the municipality. The loan was repayable over 6 years at an interest rate of 6.75% and 8.75%.

Current liabilities

At amortised cost	9,334,972	8,555,595
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Defaults and breaches

The loan from the DBSA with carrying amount of R 9,334,972 (2022: R 8,555,595) was in default as a result of not meeting capital repayment requirements as per the contractual arrangements. This was due to cash flow timing delays. The default was not rectified before annual financial statements were authorised for issue.

14. Payables from exchange transactions

Trade payables	48,309,582	63,665,744
Payments received in advanced - contract in process	10,468,045	9,238,080
Salary control accounts	6,899,428	15,920,968
Eskom	326,544,812	268,211,855
Accrued leave pay	9,686,873	8,165,509
Accrued bonus	2,322,713	2,262,562
Leeuw water	392,253	201,646
Retentions	13,485,222	13,343,245
Unknown deposits	14,474,712	25,683,296
Bloemwater	3,448,990	2,002,431
	436,032,630	408,695,336

Mantsopa Local Municipality

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14. Payables from exchange transactions (continued)

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter the interest is charged in accordance with the credit of the various individual creditors that the municipality deals with.

The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe. received in advance is due to payments received for hall hire and prepaid electricity. Payments in advance are consumer debtors' accounts paid in advance.

Accrued leave and bonuses accrue to the staff of the municipality on an annual basis, subject to certain conditions.

15. Employee benefit obligations

Defined benefit plan

Post-employment medical aid benefit liability

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

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

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

- In-service members (employees): 310
- In-service non-members (employees): 0
- Continuation members (retirees, widowers and orphans): 13

Long service award liability

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

The most recent actuarial valuation of the present value of the defined benefit obligation were carried out at 30 June 2023. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

Post retirement medical aid plan

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

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2023. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The last actuarial valuation was dated 30 June 2023.

Mantsopa Local Municipality

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Figures in Rand	2023	2022
15. Employee benefit obligations (continued)		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the Post-employment medical aid benefit liability	(34,223,000)	(33,658,000)
Present value of the Long service award liability	(6,346,000)	(6,480,001)
	(40,569,000)	(40,138,001)
Non-current liabilities	(38,924,000)	(38,739,001)
Current liabilities	(1,645,000)	(1,399,000)
	(40,569,000)	(40,138,001)
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	(40,138,001)	(19,738,863)
Net expense recognised in the statement of financial performance	(430,999)	(20,399,138)
	(40,569,000)	(40,138,001)
Net expense recognised in the statement of financial performance		
Current service cost	(3,139,000)	(1,811,597)
Interest cost	(5,258,000)	(2,476,890)
Benefits paid	1,475,069	884,573
Actuarial (gains) losses	6,490,932	(16,995,224)
	(430,999)	(20,399,138)
Calculation of actuarial gains and losses		
Post employment benefit plan	5,899,000	(16,386,796)
Long service awards	591,932	(608,428)
	6,490,932	(16,995,224)
Key assumptions used		
Assumptions used at the reporting date:		
Discount rate: Post-employment medical aid benefit liability	13.22 %	13.10 %
Discount rate: Long service award liability	10.93 %	10.95 %
Consumer price inflation: Post-employment medical aid benefit liability	7.73 %	8.59 %
Consumer price inflation: Long service award liability	5.98 %	7.24 %
Medical aid contribution inflation: Post-employment medical aid benefit liability	9.32 %	10.09 %
Medical aid contribution inflation: Post-employment medical aid benefit liability	9.24 %	9.24 %
Net effective discount rate: Post-employment medical aid benefit liability	3.65 %	2.73 %
Net effective discount rate: Long service award liability	2.74 %	1.56 %
Other assumptions		
The effect of a 1% movement in the assumed rate of post-employment health care benefit inflation is as follows:		
Increase:		
Effect on the aggregate of the current service cost and the interest cost	7,837,000	7,696,000
Effect on the defined benefit obligation	38,455,000	38,034,000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	6,022,000	6,047,000
Effect on the defined benefit obligation	30,101,000	29,381,000

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

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15. Employee benefit obligations (continued)

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

Increase:

Effect on the aggregate of the current service cost and the interest cost	1,349,000	1,491,000
Effect on the defined benefit obligation	6,731,000	6,894,000

Decrease:

Effect on the aggregate of the current service cost and the interest cost	1,191,000	1,312,000
Effect on the defined benefit obligation	5,994,000	6,104,000

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

	2023 R	2022 R	2021 R	2020 R	2019 R
Post-employment medical aid benefit liability	34,223,000	33,658,000	14,614,721	17,021,967	22,828,312
Long service award liability	6,346,000	6,480,001	5,124,142	4,457,649	4,391,997

16. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG)	26,596,739	3,628,261
Water Services Infrastructure Grant (WSIG)	3,651,955	8,142,920
Integrated National Electrification Programme (INEP)	4,958,268	2,958,268
	35,206,962	14,729,449

Movement during the year

Balance at the beginning of the year	13,157,553	7,165,419
Current year receipts	51,232,000	43,293,000
Conditions met - transferred to revenue	(17,818,591)	(30,967,970)
Repayment	(13,564,000)	(4,761,000)
Additional INEP income recognition during the year	2,200,000	-
	35,206,962	14,729,449

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 24 for reconciliation of grants from National/Provincial Government.

17. Consumer deposits

Water and electricity	2,609,242	2,544,816
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Consumer deposits are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit for the outstanding account. No interest is paid on consumer deposits held.

The management of the municipality is of the opinion that the carrying value of the consumer deposits approximate their fair value.

The fair value of the consumer deposits were determined after considering the standard terms and conditions of the agreements entered into between the municipality and its consumers.

Mantsopa Local Municipality

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18. Provisions

Reconciliation of provisions - 2023

	Opening balance	Change in provision	Unwinding of interest	Total
Environmental rehabilitation	51,826,234	(16,193,323)	6,219,796	41,852,707

Reconciliation of provisions - 2022

	Opening balance	Change in provision	Unwinding of interest	Total
Environmental rehabilitation	46,696,306	58,709	5,071,219	51,826,234

Environmental rehabilitation provision

Environmental rehabilitation provision:

There are four existing waste disposal sites, one in each town of Ladybrand, Hobhouse, Excelsior and Tweespruit. A provision has been recognised to account for the closure cost estimate for the sites in question.

Landfill closure and rehabilitation:

Landfill operations continue until all the available permitted land space has been filled. Once this happens, the site will be closed and capped with a layer of impermeable clay and a layer of the top soil. Grass and other suitable vegetation types are planted to stabilize the soil and improve the appearance. Environmental monitoring continues for a period of up to 30 years after the closure of the site. No appointment for the closure of the sites has been made, and therefore only rough estimates have been made.

19. Service charges

Sale of electricity	68,615,504	48,840,534
Sale of water	24,689,149	24,573,114
Solid waste	21,004,176	18,321,717
Sewerage and sanitation charges	30,338,498	26,223,310
	144,647,327	117,958,675

The amounts disclosed above for revenue generated from service charges are in respect to services rendered and billed to the consumers on a monthly basis in accordance with the approved tariffs, except in the case of service rendered to consumers registered as indigent debtors. It is the municipality's practice not to bill indigent consumer debtors for services rendered.

20. Rental of facilities and equipment

Premises

Premises	9,860	1,641,308
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21. Interest received on outstanding debtors

Receivables from non-exchange transactions	3,448,365	5,390,236
Receivables from exchange transactions	61,484,468	53,597,043
	64,932,833	58,987,279

Mantsopa Local Municipality

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22. Investment revenue		
Dividend revenue		
OVK	46,256	69,508
Interest revenue		
Bank accounts	45,844	45,945
	92,100	115,453
23. Other income		
Administrative fees	119,497	24,698
Advertisements	10,486	6,350
Building plans	52,458	80,991
Commission received	30	197,896
Connections	151,056	130,225
Grave sales	162,491	208,194
Photo copies	44,811	56,850
Tender documents	91,714	82,364
Valuation lists	14,989	21,606
Valuation roll	80,398	234,312
	727,930	1,043,486
24. Property rates		
Rates received		
Property rates levied	20,193,577	20,069,121
Valuations		
Residential	1,879,347,000	1,879,347,000
Commercial	296,828,000	296,828,000
Public service infrastructure	292,425,000	292,425,000
Municipal	6,530,000	6,530,000
Small holdings and farms	3,489,013,355	3,489,013,355
Schools and churches	23,506,000	23,506,000
Vacant land	232,272,500	232,272,500
Servitudes	147,500	147,500
	6,220,069,355	6,220,069,355

The last valuation came into effect on 30 June 2018 and rates in the current year was calculated on these property values. A supplementary valuation received came into effect 30 June 2019 and was implemented In the 2019 / 2020 financial year. Prior year rates were reclassified to be In line with current year, refer to note 47 for prior period corrections made.

Mantsopa Local Municipality

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25. Government grants and subsidies

Operating grants

Equitable share	102,426,000	91,947,000
Local Government Financial Management Grant (FMG)	3,100,000	3,001,000
Expanded Public Works Programme Integrated Grant (EPWP)	1,337,000	1,134,000
	106,863,000	96,082,000

Capital grants

Municipal Infrastructure Grant (MIG)	5,342,522	18,302,157
Water Services Infrastructure Grant (WSIG)	9,610,965	5,595,080
Integrated National Electrification Grant (INEP)	-	2,935,732
	14,953,487	26,832,969
	121,816,487	122,914,969

Conditional and unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	23,749,964	30,967,969
Unconditional grants received	102,426,000	91,947,000
	126,175,964	122,914,969

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and the day-to-day running and operational costs of the municipality.

The gazetted amount was R 102 426 000 and only R 88 862 000 was transferred to the municipality as a result of funds withheld against the equitable share amounting to R 13 564 000.

All registered indigents receive a monthly subsidy of 50 KWh (2022: 50 KWh), which is funded from the grant.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	3,628,261	4,441,419
Current-year receipts	32,275,000	20,889,000
Conditions met - transferred to revenue	(5,342,522)	(18,302,158)
Repayment (withheld from Equitable Share allocation)	(3,964,000)	(3,400,000)
	26,596,739	3,628,261

Conditions still to be met - remain liabilities (see note 16).

The MIG was allocated for the construction of roads, maintenance of aging municipal infrastructure and to provide for new rehabilitation and upgrading of municipal infrastructure.

Local Government Financial Management Grant (FMG)

Current-year receipts	3,100,000	3,100,000
Conditions met - transferred to revenue	(3,100,000)	(3,001,000)
Repayment (withheld from Equitable Share allocation)	-	(99,000)
	-	-

The grant is paid by National Treasury to municipalities to help with the implementation of the financial reforms required by the MFMA. The grant also pays for the cost of the financial management internship programme.

All the conditions of the grant were met, the grant was fully spent by the end of the financial year and no funds were withheld.

Mantsopa Local Municipality

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25. Government grants and subsidies (continued)

Water Services Infrastructure Grant (WSIG)

Balance unspent at beginning of year	8,142,920	-
Current-year receipts	11,720,000	15,000,000
Conditions met - transferred to revenue	(9,610,965)	(5,595,080)
Repayment (withheld from Equitable Share allocation)	(6,600,000)	(1,262,000)
	3,651,955	8,142,920

Conditions still to be met - remain liabilities (see note 16).

The WSIG was allocated for the construction of water infrastructure, maintenance of aging municipal infrastructure and to provide for new rehabilitation and upgrading of municipal infrastructure.

Regional Bulk Infrastructure Grant (RBIG)

Balance unspent at beginning of year	-	1,753,921
Repayment (withheld from Equitable Share allocation)	-	(1,753,921)
	-	-

Integrated National Electrification (INEP)

Balance unspent at beginning of year	2,958,268	2,724,000
Current-year receipts	2,800,000	3,170,000
Repayment (withheld from Equitable Share allocation)	(3,000,000)	(2,935,732)
Additional grant receipts	2,200,000	-
	4,958,268	2,958,268

Conditions still to be met - remain liabilities (see note 16).

The grant is paid by National Treasury in order to implement the INEP by addressing the electrification backlog of all existing and planned residential dwellings and the installation of relevant bulk infrastructure.

Expanded Public Works Programme Integrated Grant (EPWP)

Current-year receipts	1,337,000	1,134,000
Conditions met - transferred to revenue	(1,337,000)	(1,134,000)
	-	-

To incentivise the municipalities to expand work creation efforts through the use of labour intensive delivery methods in the identified focus areas, in compliance with EPWP guidelines.

All the conditions of the grant were met, the grant was fully spent by the end of the financial year and no funds were withheld.

26. Fines, penalties and forfeits

Traffic fines	270,586	282,213
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Mantsopa Local Municipality

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27. Employee related costs		
Basic	61,684,350	62,076,485
Bonus	4,678,975	4,350,399
Car allowance	5,514,511	5,872,105
Defined contribution plan	11,263,704	9,791,348
Employee benefit obligation	1,663,931	927,001
Housing benefits and allowance	1,544,383	1,548,242
Leave pay provision charge	2,139,056	(257,425)
Long service awards	373,609	230,920
Medical aid - company contributions	9,250,455	10,028,775
Other	1,397,110	851
Other payroll levies	866,101	39,264
Overtime payments	12,664,158	10,717,781
SDL	969,881	881,309
Standby allowance	3,067,395	3,026,468
UIF	665,513	680,468
	117,743,132	109,913,991

Remuneration of municipal manager - MRE Mogopodi

Annual remuneration	174,266	-
Car allowance	24,000	-
Contributions to UIF, medical and pension funds	63,252	-
Other contributions	21,685	-
	283,203	-

Ms Mogopdi was appointed as the Municipal Manager with an effective date of 1 May 2023.

Remuneration of Acting Municipal Manager - MM Lesoetsa

Annual remuneration	-	496,701
Car allowance	-	270,000
Acting allowance	-	303,362
Contributions to UIF, medical and pension funds	-	119,909
Other contributions	-	10,128
	-	1,200,100

Mr. Lesoetsa was appointed to act in the position from 1 May 2021 and he occupied the position until 31 March 2022.

Remuneration of Acting Municipal Manager - AB Masuku

Annual remuneration	-	207,848
Car allowance	-	89,120
Acting allowance	-	51,645
Contributions to UIF, medical and pension funds	-	36,003
Other contributions	-	3,076
	-	387,692

Mr. Masuku acted as the municipal manager from 1 April 2022.

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27. Employee related costs (continued)

Remuneration of Acting Chief Financial Officer - KD Pharoee

Annual remuneration	-	367,509
Car allowance	-	180,152
Acting allowance	-	231,177
Housing allowance	-	3,961
Contributions to UIF, medical and pension funds	-	103,547
Other contributions	-	7,902
	-	894,248

Mr. Pharoee acted as the chief financial officer for the period 1 June 2021 to 30 April 2022.

Remuneration of Acting Chief Financial Officer - GL Seleke

Annual remuneration	-	36,566
Car allowance	-	17,507
Acting allowance	-	19,867
Contributions to UIF, medical and pension funds	-	8,482
Other contributions	-	735
	-	83,157

Mr. Seleke acted as the chief financial officer for the period 1 May 2022 to 31 May 2022.

Remuneration of Chief Financial Officer - TD Tshikundu

Annual remuneration	587,065	46,991
Car allowance	264,048	22,004
Contributions to UIF, medical and pension funds	29,608	2,514
Other Contributions	94,321	10
	975,042	71,519

Mr. Tshikundu was appointed in the chief financial officer position on 1 June 2022.

Remuneration of Director Corporate Services - NM Litabe

Annual remuneration	-	591,776
Car allowance	-	216,000
Housing allowance	-	168,000
Contributions to UIF, medical and pension funds	-	119,323
Other contributions	-	8,762
	-	1,103,861

Remuneration of Director Technical Services - AB Masuku

Annual remuneration	758,856	593,178
Car allowance	260,000	180,000
Contributions to UIF, medical and pension funds	143,074	105,973
Other contributions	79,880	6,877
	1,241,810	886,028

Mr. Masuku acted as the municipal manager from 1 April 2022.

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27. Employee related costs (continued)

Remuneration of Director Community Services - MM Lesoetsa

Annual remuneration	627,657	151,331
Car allowance	243,000	51,000
Bonus	50,444	-
Contributions to UIF, medical and pension funds	156,945	40,747
Other contributions	144,374	2,079
	1,222,420	245,157

Mr. Lesoetsa acted as the municipal manager for the period 1 May 2021 to 31 March 2022.

28. Remuneration of councillors

Executive mayor	997,842	896,296
Speaker	769,211	735,603
Councillors	6,321,377	6,090,008
	8,088,430	7,721,907

Additional information

The salaries, allowance and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa, 1996 (Act No. 108 of 1996).

29. Depreciation and amortisation

Property, plant and equipment	41,720,684	38,516,139
Investment property	120,706	94,949
	41,841,390	38,611,088

30. Finance costs

Other financial liabilities	779,377	655,860
Trade and other payables	8,773,608	8,834,175
Landfill site	6,219,796	5,071,219
Employee benefit obligations	5,258,000	2,476,890
	21,030,781	17,038,144

31. Debt impairment

Receivables from exchange	(21,919,302)	108,044,860
Receivables from non-exchange	2,670,169	166,749
	(19,249,133)	108,211,609

32. Repairs and maintenance

Repairs and maintenance	10,547,889	9,212,801
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33. Bulk purchases

Electricity	55,376,637	55,678,159
Water	2,739,701	5,919,488
	58,116,338	61,597,647

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand			2023	2022
33. Bulk purchases (continued)				
Electricity losses				
	Number 2023	Number 2022		
Units purchased	31,628,208	35,991,672	55,376,637	52,778,586
Units sold	(22,130,865)	(24,996,532)	(38,985,778)	(36,655,191)
Total loss	9,497,343	10,995,140	16,390,859	16,123,395
Comprising of:				
Technical losses	569,841	659,708	983,452	967,404
Non-technical losses	8,927,502	10,335,432	15,407,407	15,155,991
Total	9,497,343	10,995,140	16,390,859	16,123,395
Percentage loss:				
Technical losses	6 %	6 %	6 %	6 %
Non-technical losses	24 %	26 %	24 %	26 %
Total	30 %	32 %	30 %	32 %
Water losses				
	Number 2023	Number 2022		
Units purchased	4,538,594	6,060,610	2,739,701	5,919,488
Units sold	(2,855,504)	(2,603,509)	(1,723,712)	(2,542,886)
Total	1,683,090	3,457,101	1,015,989	3,376,602
Comprising of:				
Technical losses	100,985	2,074,261	60,959	202,596
Non-technical losses	1,582,105	32,496,750	955,030	3,174,006
Total	1,683,090	34,571,011	1,015,989	3,376,602
Percentage loss:				
Technical losses	6 %	6 %	6 %	6 %
Non-technical losses	31 %	51 %	31 %	51 %
Total	74 %	57 %	37 %	57 %

Mantsopa Local Municipality

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Figures in Rand	2023	2022
34. General expenses		
Accounting fees	258,235	148,129
Advertising	636,498	628,593
Audit committee	82,888	189,631
Auditors remuneration	4,930,989	1,425,126
Bank charges	1,208,222	806,611
Cleaning	176,446	311,118
Commission paid	735,150	1,417,596
Community development and training	24,057	646,774
Consulting and professional fees	2,463,497	2,807,509
Consumables	615,894	2,893,961
Debt collection	-	147,507
Deeds	1,936,560	26,587
Fuel and oil	3,845,559	832,606
Hire	1,886,221	3,363,410
Insurance	-	885,809
License fee	292,250	201,375
Outsourced services	16,908,742	104,410
Postage and courier	-	20,347
Protective clothing	328,912	917,832
Security (Guarding of municipal property)	-	45,900
Software expenses	9,213,442	5,627,675
Staff welfare	27,724	-
Subscriptions and membership fees	1,263,418	1,438,601
Telephone and fax	1,907,656	1,480,625
Travel - local	1,214,806	3,459,525
	49,957,166	29,827,257
35. Fair value adjustments		
Other financial assets		
• Other financial assets (designated through profit and loss)	157,738	108,119
36. Actuarial gains/(losses)		
Employee benefit obligation gains/(losses)	6,490,932	(16,995,224)
The actuarial gains/(losses) is based on the actuarial valuation performed to determine the retirement benefit liability balance as at 30 June.		
37. Impairment of assets		
Impairments		
Property, plant and equipment	76,236,821	-
The municipality applied GRAP21 on its property, plant and equipment. The value of use was calculated for each asset in use after a detailed condition assessment was performed by an accredited engineer. Where the value in use was lower than the carrying value, the asset was impaired.		
Investment property	-	(7,937,393)
The municipality applied GRAP21 on its Investment properties. The value of use was calculated for each asset in use after a detailed condition assessment was performed by an accredited engineer. Where the value in use was lower than the carrying value, the asset was impaired. IGRAP18 was also considered for all assets the municipality has in its control.		
	76,236,821	(7,937,393)

Mantsopa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
38. Auditors' remuneration		
Auditor-General of South Africa	4,930,989	1,425,126
39. Cash generated from operations		
Deficit	(7,036,839)	(77,756,269)
Adjustments for:		
Depreciation and amortisation	41,841,390	37,272,335
Gain on sale of assets and liabilities	2,194,441	-
Fair value adjustments	(157,738)	(108,119)
Impairment loss (reversal)	76,236,821	(6,918,203)
Finance costs	779,377	5,727,079
Movements in retirement benefit assets and liabilities	430,999	20,399,138
Movements in provisions	(9,973,529)	-
Loss on disposal of assets and liabilities	-	8,949,391
Debt impairment	-	108,211,609
Property, plant and equipment - non-cash movement	16,051,344	(7,923,382)
Other non-cash items	-	296,426
Changes in working capital:		
Inventories	(828,166)	176,572
Receivables from exchange transactions	(149,202,646)	(117,641,818)
Receivables from non-exchange transactions	(3,512,408)	(2,590,715)
Payables from exchange transactions	27,413,749	48,592,156
VAT	(569,437)	8,491,479
Unspent conditional grants	20,477,512	7,564,030
Consumer deposits	64,426	124,221
	14,209,296	32,865,930

40. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk, but the exposure is limited to the municipality's management thereof. Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes. Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

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.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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40. Risk management (continued)

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality managing of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met. The tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

At 30 June 2023	Less than 1 year	Over 1 year
Trade and other payables	436,032,630	-
Other financial liabilities	9,334,972	-
At 30 June 2022	Less than 1 year	Over 1 year
Trade and other payables	408,695,336	-
Other financial liabilities	8,555,595	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents 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.

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

Financial instrument		
Receivables from exchange transactions	216,805,676	67,603,030
Receivables from non-exchange transactions	9,761,038	6,248,629
Bank balances	(4,196,768)	334,854

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued. Refer to note 9 for additional details.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate risk is deferred that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result in market interest changes.

To decrease interest rate risk exposure, investments is mostly done on a on a term not longer than six months. The current Interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions.

Price risk

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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41. Financial instruments disclosure

Categories of financial instruments

2023

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	1,310,330	146,226	1,456,556
Receivables from exchange transactions	-	216,805,675	216,805,675
Receivables from non-exchange transactions	-	9,761,038	9,761,038
Cash and cash equivalents	-	562,661	562,661
	1,310,330	227,275,600	228,585,930

Financial liabilities

	At amortised cost	Total
Other financial liabilities	9,334,972	9,334,972
Trade and other payables from exchange transactions	436,032,630	436,032,630
Unspent conditional grants and receipts	35,206,962	35,206,962
Consumer deposits	2,602,242	2,602,242
Bank overdraft	4,759,329	4,759,329
	487,936,135	487,936,135

2022

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	1,152,591	159,193	1,311,784
Receivables from exchange transactions	-	67,603,030	67,603,030
Receivables from non-exchange transactions	-	6,248,629	6,248,629
Cash and cash equivalents	-	676,806	676,806
	1,152,591	74,687,658	75,840,249

Financial liabilities

	At amortised cost	Total
Other financial liabilities	8,555,595	8,555,595
Trade and other payables from exchange transactions	408,695,336	408,695,336
Unspent conditional grants and receipts	14,729,449	14,729,449
Consumer deposits	2,544,816	2,544,816
Bank overdraft	341,952	341,952
	434,867,148	434,867,148

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
42. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	36,477,602	53,738,724
Total capital commitments		
Already contracted for but not provided for	36,477,602	53,738,724

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

43. Contingencies

The following contingent liabilities were identified:

Samwu obo Nhlapo and others	1,000,000	-
Applicants lodged the matter with SALGBC for unfair labour practice with reference to level adjustment from 7/1 to level 5/4. Trial was held and the application was dismissed.		
Samwu obo Tseko and 33 others	1,500,000	-
The matter deals with the dispute in relations to the interpretation of shift allowance as per collective agreement.		
Makheke TP	165,731	-
Summons was issued against the municipality for water seepage on the applicant's property.		
West Rand	8,037,064	8,037,064
The plaintiff sued the municipality for their services rendered.		
Letlaka Media CC	-	744,634
The end user department disagrees with the amount stipulated on the invoices. The action has been accordingly defended. A request has been made for around table meeting, for parties to try and settle the dispute.		
Love dale	3,956,538	-
Summons issued against the municipality for water services rendered.		
Nandipha Jacobs	-	-
The matter as been finalised.		
Mohobo	702,875	-
The municipality received the invoice from Mohobo Attorneys, for assisting the municipality with the matter of the West Rand Consultant.		
RC Ishmail Attorneys	64,665	-
Summons were issued against the municipality for an amount of R64 665.		
SAMWU OBO Nthako	410,031	-
Summons were issued against the municipality.		
Justice Machakela	32,373	-
Summons were issued against the municipality.		
Love-dale	156,574	-
Summons were issued against the municipality.		

Mantsopa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
43. Contingencies (continued)		
Inzalo EMS	4,779,893	-
Summons were issued against the municipality.		
The following contingent assets were identified:		
Nomano Trading	2,000,000	2,000,000
Double payment was made to the service provider. Matter is pending before the High Court.		
Seleke and Phirime	900,000	-
Three transactions were made on the 24th of December 2020, which collectively amount to R 1.9 million. It was subsequently discovered that payments made did not go to the intended beneficiaries and that there was an underlining element of criminality. A criminal case of theft/fraud was registered with SAPS after this realization. SAPS managed to trace one of the transactions which amounted R900 000, the respective bank account was frozen and efforts are being made to have the monies transferred back to the municipality.		
	2,900,000	2,000,000

44. Related parties

Relationships
Accounting officers
Key management

M Mogopodi
Refer to note 27

Remuneration of management

Management class: Councillors

2023

Name	Basic salary	Allowances	Contributions	Total
ME Tsoene (Mayor)	730,659	222,300	44,883	997,841
ME Ncwada (Speaker)	617,214	145,603	6,394	769,211
KI Tigeli	393,376	143,005	21,106	557,488
DT Molefe	321,087	102,300	8,195	431,582
BM Sani	290,507	42,300	14,263	347,070
T Halse	381,205	42,300	4,405	427,910
DJ Hattingh	216,395	114,300	46,513	377,208
RT Mpakathe	228,395	102,300	23,929	354,624
SJ Nkiane	213,671	114,300	22,411	350,382
DA Masakala	26,414	3,101	223	29,738
KS Tsimatsima	280,127	42,300	2,609	325,036
MA Lethoko	294,526	114,300	17,477	426,303
CL Bouwer	226,657	101,700	2,647	331,004
KS Motsoane	347,229	42,300	3,683	393,212
SM Visagie	367,400	42,300	16,471	426,171
AJ Lemphane	412,160	-	-	412,160
TE Mutsi	409,331	-	-	409,331
SJ Machakele	423,333	-	-	423,333
KD Rantsonyane	298,826	-	-	298,826
	6,478,512	1,374,709	235,209	8,088,430

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Figures in Rand	2023	2022
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44. Related parties (continued)

2022

Name	Basic salary	Allowance	Contributions	Total
ME Tsoene (Mayor)	622,456	182,598	91,242	896,296
MJ Moduka (Speaker - previous)	191,126	38,714	41,153	270,993
ME Ncwada (Speaker - appointed)	365,782	85,214	13,614	464,610
YJ Jacobs (previous)	9,951	-	-	9,951
MP Nakalebe (previous)	81,663	54,023	24,723	160,409
NJ Thaisi (previous)	87,593	43,912	14,858	146,363
KI Tigeli	363,990	143,813	82,512	590,315
GM Seoe (previous)	85,592	43,912	14,858	144,362
DT Molefe	241,263	91,116	73,242	405,621
BE Meya (previous)	62,742	38,302	19,701	120,745
BM Sani	174,159	81,589	82,726	338,474
T Halse	293,794	71,325	42,613	407,732
DJ Hattingh	204,547	119,841	29,039	353,427
LP Moletsane (previous)	151,389	48,080	15,772	215,241
SQG Gaba (previous)	56,096	38,302	18,598	112,996
RT Mpakathe	206,286	124,203	29,691	360,180
SJ Moses (previous)	14,261	-	-	14,261
SJ Nkiane	196,996	106,335	29,039	332,370
SE Tlali (previous)	87,196	42,500	15,088	144,784
DA Masakala	223,068	64,202	32,952	320,222
AJ Lemphane	183,505	65,600	4,842	253,947
TE Mutsi	205,789	29,600	16,096	251,485
SJ Machakela	198,691	66,303	-	264,994
KS Tsimatsima	176,649	29,600	1,584	207,833
MA Lethoko	193,108	60,353	6,459	259,920
CL Bouwer	148,412	54,350	4,954	207,716
KS Motsoane	178,265	29,600	-	207,865
SM Visagie	225,612	33,186	-	258,798
	5,229,981	1,786,573	705,356	7,721,910

45. Unauthorised expenditure

Opening balance as previously reported	308,104,835	182,819,770
Opening balance as restated	308,104,835	182,819,770
Add: Expenditure identified - current	35,206,962	121,340,728
Add: Expenditure identified - prior year	-	3,944,337
Closing balance	343,311,797	308,104,835

Unauthorised expenditure: Budget overspending – per municipal department:

Vote 3 - Finance Services	-	106,130,591
Vote 4 - Corporate Services	-	2,387,438
Unspent conditional grants (not cash backed)	35,206,962	12,822,699
	35,206,962	121,340,728

Mantsopa Local Municipality

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Figures in Rand	2023	2022
46. Fruitless and wasteful expenditure		
Opening balance as previously reported	18,871,805	9,381,770
Opening balance as restated	18,871,805	9,381,770
Add: Expenditure identified - current	17,082,738	9,490,035
Closing balance	35,954,543	18,871,805

Fruitless and wasteful expenditure is presented inclusive of VAT.

The fruitless and wasteful expenditure incurred during the year was for interest raised by Eskom, SARS, DBSA, pension funds and other service providers for non-payments. The cash flow challenges faced by the municipality was the root cause for failure to settle the debts within the prescribed period as per Section 65 of the MFMA,

Expenditure identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings		
Interest on overdue creditors	Council to condone expenditure	17,082,738	9,490,035

Fruitless and wasteful expenditure - current year

Borrowings	779,377	655,860
Trade payables	16,303,361	8,834,175
	17,082,738	9,490,035

47. Irregular expenditure

Opening balance as previously reported	14,636,414	9,306,412
Opening balance as restated	14,636,414	9,306,412
Add: Irregular expenditure - current	2,450	991,052
Add: Irregular expenditure - identified during the audit	5,021,275	4,338,950
Closing balance	19,660,139	14,636,414

Irregular expenditure is presented inclusive of VAT.

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

The SCM processes were not followed to the latter	2,450	276,000
The appointment amount exceeded threshold for quotations	-	715,052
Invalid deviation from SCM requirements	-	2,787,427
Reasons for deviations are not reasonable	-	418,334
Winning bidders tax statute is non-compliant at date of award	-	220,080
Winning bidders tax statute is non-compliant	-	243,328
Invalid deviation	-	669,781
SCM- COMPLIANCE Deviations from Quotaions and Competitive Bidding Process- Emergencies	3,951,182	-
Deviations from Quotations and Competitive Bidding Process, (Sole Provider)	268,787	-
Deviations from Quotations and Competitive Bidding Process, (Impracticability)	199,960	-
Three quotations not obtained and deviations reasons not reasonable	216,761	-
SCM: COMPLIANCE & ADJUSTMENT No CSD Report provided for the winning bidder	29,300	-
Deviations from Competitive Bidding Process- Emergencies and completeness of deviation register	352,835	-
	5,021,275	5,330,002

Mantsopa Local Municipality

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Figures in Rand		2023	2022		
48. Prior-year adjustments					
Statement of financial position					
2022					
		As previously reported	Correction of error	Re-classification	Restated
Inventories	3	1,124,149	1,451,302	-	2,575,451
Cash and cash equivalents	9	676,806	-	(341,952)	334,854
Bank overdraft	9	(341,952)	-	341,952	-
Unspent conditional grants		(13,157,553)	(1,571,896)	-	(14,729,449)
Investment property	10	78,762,593	6,905,705	-	85,668,298
Property, plant and equipment	11	894,838,292	1,725,853	-	896,564,145
Payables from exchange transactions	14	(401,695,336)	(7,000,000)	-	(408,695,336)
Accumulated surplus - opening balance		(642,913,449)	(2,686,348)	-	(645,599,797)
Accumulated surplus - (surplus)/deficit		76,580,886	1,175,384	-	77,756,270
		(6,125,564)	-	-	(6,125,564)

Statement of financial performance

2022

		As previously reported	Correction of error	Re-classification	Restated
Interest received		(53,642,988)	-	53,642,988	-
Interest received from outstanding debtors	21	-	-	(53,597,043)	(53,597,043)
Interest received from external investments	22	-	-	(45,945)	(45,945)
Depreciation and amortisation	29	38,284,333	326,755	-	38,611,088
Repairs and maintenance		10,664,103	(1,451,302)	-	9,212,801
Loss on disposal of assets and liabilities		7,937,393	1,747,224	-	9,684,617
Impairment losses	37	(6,918,203)	(1,019,190)	-	(7,937,393)
Government grants and subsidies received		(124,486,865)	1,571,896	-	(122,914,969)
Surplus for the year		(128,162,227)	1,175,383	-	(126,986,844)

Disclosures

Errors

The following prior period errors adjustments occurred:

Incorrect calculation of inventory at yearend

During the compilation of the 2022 annual financial statements, the inventory count sheets were incorrectly interpreted. The count sheets made reference to "boxes" of meters at yearend, indicating more than 1 meter, whilst the calculation and adjustments interpreted the count as per individual meter. The necessary adjustment is significant and was therefore made retrospectively.

Mantsopa Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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Figures in Rand	2023	2022
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48. Prior-year adjustments (continued)

The effect of the adjustment is as follow:

Statement of financial position

Inventories	1,451,302	1,451,302
Accumulated surplus or deficit	(1,451,302)	-

Statement of financial performance

Repairs and maintenance	-	(1,451,302)
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Adjustments made to fixed assets

The municipality performed an asset verification during the year. Based on the verification results, the completed and WIP registers were compiled and agreed to the financial records of the municipality. The required correctins were material and was therefore made retrospectively.

The effect of the adjustment is as follow:

Statement of financial position

Investment property	6,905,705	6,905,705
Property, plant and equipment	1,725,853	1,725,853
Payables from exchange transactions	(7,000,000)	(7,000,000)
Accumulated surplus or deficit	(1,631,560)	(2,686,349)

Statement of financial performance

Depreciation and amortisation	-	326,755
Loss on disposal of assets and liabilities	-	1,747,224
Impairment loss	-	(1,019,190)

Unspent grants correction

Correction made to the Unspent grants and income recognised for WSIG:

The effect of the adjustment is as follow:

Statement of financial position

Unspent conditional grants	(1,571,896)	(1,571,896)
Accumulated surplus	1,571,896	-

Statement of financial performance

Government grants and subsidies received	-	1,571,896
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Reclassifications

The following reclassifications occurred:

Reclassification of interest received

The 2022 annual financial statements grouped interest received from outstanding debtors (exchange) and from external investments. Due to the materiality of the interest received from outstanding debtors and the significant portion thereof in relation to total amount, these items were split to ensure compliance with GRAP 1.

The effect of the reclassification is as follows:

Statement of financial performance

Interest received (exchange)	-	53,642,988
Interest received from outstanding debtors	-	(53,597,043)
Interest received from external investments	-	(45,945)

Mantsopa Local Municipality

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48. Prior-year adjustments (continued)

Reclassification of the bank balances

The municipality currently complies mSCOA and is such an environment bank accounts are not seperately linked to specific votes. This results in entire balances being classified as either cash and cash equivalents or as bank overdraft. The reclassification is necessary for comparison purposes in terms of GRAP 1.

The effect of the reclassification is as follows:

Statement of financial position

Cash and cash equivalents	-	(341,952)
Bank overdraft	-	341,952

49. Change in estimate

Property, plant and equipment

A change in the estimated useful life of various assets of the municipality has resulted in the following decreases (increases) in depreciation for the mentioned asset categories for the financial year:

Property, plant and equipment

Other property, plant and equipment	51,197	-
Infrastructure	41,178	-
Buildings	74,151	-
	166,526	-

Provisions

The valuation differs from the previous years:

- The exact extend of each site is unknow since the licence application reports are not available that indicated the extend of each site. At this stage each consultant is using roughly what was used previously a the extend of each landfill. The exact co-ordinates need to be obtained as a matter of urgency since each landfill has to be operated within the licensed boundary.
- The remaining life of each site cannot be determined until a formal design is in place. Each of the previous reports as well as for this report, the extend and hence the area that will ultimately be rehabilitated is being estimated and not based on the actual licensed coordinates.
- The 2023 reports only assumed closure cost for the current operational areas which is incorrect. The entire licensed area needs to be rehabilitated.
- Both previous reports calculated the post closure cost over a 30 year period and add the total cost for 30 years to the closure cost. This is an annual cost and only one year's post closure cost should be added to the provision since it is an annual provision.
- Each site requires a proper engineered design since this will impact on the capping requirements for each site. Linked to this is the establishment of boreholes at each site to determine if a site is polluting. Closure designs have to consider the type of basal liner as well as the environmental impact of the site when a closure design is prepared.
- The closure methodology used in the previous reports as well as this one may not be adequate should a particular site be polluting the ground water. A more robust and therefor expensive cap will be required.

The following assumptions were used in the financial calculations for closure and post closure:

- For calculating the inflation on services, the "Consumer Price Index – P0141, specifically Table B2 - CPI headline year-on-year rates" was used. The price adjustment from June 2022 to June 2023 is 7.4%.

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49. Change in estimate (continued)

- Since the remaining site life cannot be calculated based on the available information, a remaining life of 10 years was assumed for each landfill. This is seen as a conservative approach that can be refined once the extend of each site is known. Closure is therefor assumed to be during 2032 for each site and an inflation rate of 7.63% is used (based on South African Government Bonds Yield curve).
- The discount rate used is 12.06% for a 10-year period - 2032 (based on South African Government Bonds Yield curve).

50. Additional disclosure in terms of MFMA

Contributions to organised local government

Opening balance	4,478,728	3,090,602
Current year subscription / fee	1,255,701	1,395,331
Amount paid - current year	(2,000)	-
	5,732,429	4,485,933

Audit fees

Opening balance	10,812,356	11,525,610
Current year subscription / fee	5,671,637	1,638,895
Interest incurred	1,019,695	719,508
Amount paid - current year	(7,106,457)	(3,071,657)
	10,397,231	10,812,356

PAYE, UIF and SDL

Opening balance	5,694,941	3,041,428
Current year subscription / fee	16,493,927	16,119,718
Amount paid - current year	(13,774,423)	(15,279,120)
Amount paid - current year	(5,694,941)	-
Interest and penalties	1,694,792	1,812,915
	4,414,296	5,694,941

Pension and medical aid deductions

Opening balance	7,159,188	6,705,093
Current year subscription / fee	32,948,675	31,512,472
Amount paid - current year	(34,891,933)	(31,058,377)
	5,215,930	7,159,188

VAT

VAT receivable	34,596,205	34,026,768
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All VAT returns have been submitted to SARS.

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50. Additional disclosure in terms of MFMA (continued)

Councillors' arrear consumer accounts

The following councillors had arrear accounts outstanding for more than 90 days at 30 June 2023:

30 June 2023	Outstanding less than 90 days	Outstanding more than 90 days	Total
T Halse	1,904	3,634	5,538
DJ Hatting	2,797	14,534	17,331
AJ Lemphane	15,326	9,962	25,288
ME Lisanyane	3,168	87,762	90,930
MJ Mabope	2,574	38,217	40,791
MM Masakal	2,241	19,220	21,461
MS Motsoane	3,576	29,113	32,689
DM Motsoere	2,301	75,666	77,967
ME Ncwada	5,536	129,944	135,480
St Nkiane	978	-	978
M Sani	1,980	8,856	10,836
ML Tsimatsima	1,482	3,481	4,963
KJ Tsoene	1,938	5,671	7,609
	45,801	426,060	471,861

30 June 2022	Outstanding less than 90 days	Outstanding more than 90 days	Total
BM Sani	2,306	32,446	34,752
DJ Hattingh	1,700	5,902	7,602
SJ Nkiane	(1,555)	9,463	7,908
DA Masakala	1,965	11,578	13,543
ME Ncwada	744	144,299	145,043
T Halse	538	2,317	2,855
KS Tsimatsima	504	14,790	15,294
SJ Machakela	2,315	70,106	72,421
KS Motsoane	(1,649)	41,286	39,637
TE Mutsi	3,434	74,719	78,153
MA Lethoko	(3,017)	38,489	35,472
SM Visagie	(301)	126,167	125,866
RT Mpakathe	615	300	915
	7,599	571,862	579,461

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51. Deviation from 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 dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Incident

Emergency	4,972,095	3,542,729
Sole supplier	76,494	605,677
Three quotations not obtained	177,910	3,073,962
Impractical to follow procurement processes	6,994,998	2,273,149
Other	288,178	-
	12,509,675	9,495,517

52. Fraud

During December 2020 the municipal IT infrastructure was compromised and the supplier statements were altered, resulting in a fraudulent transaction and payment being made to an unknown 3rd party. The municipality was informed about the breach in security and a case was subsequently opened.

This is an ongoing investigation by the South African Police Service, Department Bethlehem Serious Commercial Crime.

53. Events after the reporting date

No events having financial implications, requiring disclosure, occurred subsequent to yearend.

54. Budget differences

Material differences between budget and actual amounts

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

Statement of financial performance:

Service charges: More services were levied and charged as expected and in relation to that of the previous year.

Rental of facilities and equipment: In 2022 the rental income exceeded management's expectation. This did however not re-occur.

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

Interest received on investments: The municipality did not budget for interest to be earned on external investments.

Other income: Management expected more income to incur during the year however this did not materialise.

Dividends received: Management's budgeted figure was based on past events and did not take in consideration the financial challenges.

Fair value adjustment: As this represents a "non-cashflow" movement, management did not provide / budget for it.

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54. Budget differences (continued)

Actuarial gains/losses: As this represents a "non-cashflow" movement, management did not provide / budget for it.

Debt impairment: The municipality expected an expense relating to debt impairment but the calculation indicated an income on debt impairment when the methodology was followed.

Government grants and subsidies: The municipality received less grants during the year which is stipulated on the DoRA and grants were withheld.

Fines and penalties: The municipality expected the fines and penalties to be more than the actual amount during the year.

Finance cost: The budget was exceeded due to interest being charged on overdue accounts as well as the unwinding of the interest applicable to the provision for the rehabilitation of the landfill sites.

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

Depreciation and amortisation: The expense is less than the budgeted amount due to change in estimates.

Loss on disposal of assets: The municipality anticipated that the actual amount would have been more material do to theft and vandilism which did not materialise.

Inventories: The municipality did not budget for inventories.

Other financial assets: The municipality did not anticipate that other financial assets will be this material.

Receivables from exchange/non-exchange transactions: Management did not anticipate for the material movement during the year, which resulted in a material difference between the budgeted and actual amounts. Management budgeted for exchange and non-exchange under exchange transactions and other receivables from exchange transactions.

Other receivables: The municipality included the actual amounts for Other receivables under Receivables from exchange transactions.

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

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

Investment property: Management expected Investment properties to be higher than the actual amount.

Property, plant and equipment: The municipality anticipated for more additions on assets, however due to cash flow constraints it did not materialise.

Investment in associates: Management budgeted for investments in associates however no actual amounts incurred.

Bank overdraft: Management did budget for bank overdraft however due to cash flow issues the actual amount was more than budgeted for.

Other financial liabilities: Management did not budget for any other financial liabilities.

Payables from exchange transactions: Management budgeted for the movement of payables but did not include the opening balances.

Employee benefit obligations: Management budgeted for employee benefit obligations but did not anticipate for the actual amount to be this material. This is a non-cash item.

Provisions: Due to change in estimate the actual amount is higher than budgeted for.

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

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54. Budget differences (continued)

Consumer deposits: The actual amount was higher than budgeted for.

Cash flow statement:

Taxation: The municipality budgeted for this but is included under sale of goods and services.

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

Interest income: The municipality budgeted more than the actual amount.

Dividends received: The municipality did not budget for dividends.

Employee costs: The municipality budgeted more than the actual amount.

Supplier payments: The municipality did not budget for suppliers however the expense did incur.

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

Payments capital assets: The municipality anticipated for more additions on assets, however due to cash flow constraints it did not materialise.

Transfer and grants: The amount budgeted for is not material.

Cash and cash equivalents at the beginning of the year: The municipality expected more money to be in the bank account, however it did not materialise due to cash flow constraints. The actual amount is supported by the bank statement.

55. Segment information

General information

Identification of segments

In the identification of segments the Municipality applied the definition of a "segment" included in Paragraph 5 of GRAP 18, on Segment Reporting:

A segment is an activity of an entity:

(a) That generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);

(b) Whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and

(c) For which separate financial information is available.

In the identification of a segment, paragraph (b) above did not meet the definition of a segment due to the fact that the Municipality does not budget and monitor per vote/department. Based on this the Municipality does not have any identifiable segments and therefore there is only one reportable segment which is the Municipality as a whole.

Aggregated segments

Aggregated segments

The municipality operates throughout the Free State Province in 4 towns. Segments were aggregated on the basis of services delivered.

Types of goods and/or services by segment

These reportable segments as well as the goods and/or services for each segment are set out below:

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55. Segment information (continued)

Reportable segment

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Please refer to the Statement of Financial Position and the Statement of Financial Performance

Segment surplus or deficit

2023

Information about segment surplus/deficit:

Revenue - Please refer to the Statement of Financial Performance for information about the reportable segment

Expenditure - Please refer to the Statement of Financial Performance for information about the reportable segment.

Information about segment assets and liabilities:

Assets - Please refer to the Statement of Financial Position for information about the reportable segment

Liabilities - Please refer to the Statement of Financial Position for information about the reportable segment

Net Assets - Please refer to the Statement of Financial Position for information about the reportable segment

Measurement of segment surplus or deficit, assets and liabilities

Basis of accounting for transactions between reportable segments

The Municipality does not have any identifiable segments and as such there are not transactions between segments.

Information about geographical areas

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

The municipality does not report on a geographical basis, therefore information is not available and it is therefore impractical to report on a geographical basis.

56. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus (deficit) of R 560,741,160 and that the municipality's total liabilities exceed its assets by R 560,741,160.

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

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

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

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56. Going concern (continued)

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

- Deficit of R 7 036 839 (2022: R 77 756 269) was realised, Government grants and subsidies contributed R126 175 964 (2022: R122 914 969).
- The municipality's unspent conditional grants for the current year amounted to R 35 206 962 (2022: R 14 729 449). This is an indication that monies received are not utilised for the specific projects under construction and should be paid back to the relevant parties.
- The creditors are not paid within 30 days as required by the MFMA due to cash constraints.
- Debt collection period has not improved during the current financial year.
- The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets should be impaired (GRAP 104). A reversal in the provision for doubtful debt amounting to R 19 249 133 (2022: R 108 211 609) has been disclosed in the financial statements.
- As at 30 June 2023 the municipality's current liabilities amounted to R 489 588 135 (2022: R 436 266 148), whilst the current assets amounted to R 265 135 612 (2022: R111 137 135).
- The current and acid test ratios are below the required ratio of 0.3:1 and 0.3:1, respectively.

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

- The Mantsopa Local Municipality is a municipality within the local government sphere. Currently, in the municipal environment, municipalities within South Africa rely heavily on government's financial assistance through the provision of grants. For the 2023 financial year, the allocated Equitable Share allocation amounts to R 102 426 000 and the Financial Management Improvement Grant to R 3 100 000.
- No intention by government has been identified that indicates the discontinuing of financial assistance through the provision of government grants. The DoRA and the Division of Revenue Bill, 2022 furthermore disclosed government's proposed allocation of the 2023 and 2024 financial years. This is evidence of government's continued financial support to be provided to the municipality for the following 36 months.
- The municipality has not been placed under administration for the 12 months ending 30 June 2023.