



Sarah Baartman

DISTRICT MUNICIPALITY

Province of the Eastern Cape

progress through development

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the Year Ended 30 June 2023

Submitted 04 December 2023

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

General Information

Legal form of entity	District Municipality (DC10) Sarah Baartman District
Nature of business and principal activities	Municipal Services
Legislation governing the municipality's operations	Local Government Municipal Finance Management Act (No 56 of 2003) Remuneration of Public Office Bearers Act (No 20 of 1998) Local Government: Municipal Structures Act (No 117 of 1998) Constitution of the Republic of South Africa Act (No 108 of 1996) Division of Revenue Act (No 1 of 2007) Protection of Personal Information Act (No 4 of 2013) Remuneration of Public Office Bearers Act (No 20 of 1998)
Mayoral committee	
Executive Mayor	D W S de Vos - Appointed: 2022/01/20
Speaker	N S Gaga - Appointed: 2021/11/09
Portfolio Councillor: Finance	C Booysen - Appointed: 2022/01/20
Portfolio Councillor: Corporate Services	S Lucas - Appointed: 2022/01/20
Portfolio Councillor: Infrastructure Development and Community Services	P Faxi - Appointed: 2022/01/20
Portfolio Councillor: Planning & Economic Development	Z Funiselo - Appointed: 2022/01/20
Portfolio Councillor: Special Projects	Vacant - 2022/01/20
Accounting Officer	U Daniels - Appointed: 2022/06/01
Chief Finance Officer (CFO)	K Abrahams
Registered office	32 Govan Mbeki Ave Standard Bank Building Port Elizabeth 6001
Postal address	P O Box 318 Port Elizabeth 6000
Bankers	ABSA Bank Limited
Auditors	Auditor General of South Africa
Attorneys	Ms. F Antony - Senior Manager: Legal Services
Preparer	The group annual financial statements were internally compiled by: N Williams

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Abbreviations used:

CDDA	Cacadu District Development Agency
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
IMFO	Institute of Municipal Finance Officers
MDRG	Municipal Disaster Relief Grant
SARS	South African Revenue Services
DORA	Divison of Revenue Act
RRAMS	Rural Roads Access Municipal Systems
SBDM	Sarah Baartman District Municipality
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 (No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the group annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the group 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 group annual financial statements and was given unrestricted access to all financial records and related data.

The group 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 group 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 places 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 group 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 grant funding for continued funding of operations. The group 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 is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The group annual financial statements set out on pages 5 to 68, which have been prepared on the going concern basis, were approved by the Accounting Officer on 4 December 2023.



U Daniels
Accounting Officer

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group 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			
Receivables from exchange transactions	3	3 064 820	3 666 617
Receivables from non-exchange transactions	4	4 513 931	1 574 644
VAT receivable	5	1 496 620	3 044 620
Short-term investments	7	164 000 000	141 000 000
Cash and cash equivalents	8	57 307 777	87 988 489
		230 383 148	237 274 370
Non-Current Assets			
Deposits paid	6	15 410	15 410
Investment property	9	10 964 934	10 964 934
Property, plant and equipment	10	18 223 876	18 999 943
Intangible assets	11	2 916 104	1 291 923
Heritage assets	12	15 676 000	15 676 000
Long-term receivables	13	114 194	126 196
		47 910 518	47 074 406
Total Assets		278 293 666	284 348 776
Liabilities			
Current Liabilities			
Payables from exchange transactions	14	18 517 445	14 872 016
Unspent conditional grants and receipts	15	350 420	-
Employee benefit obligation	16	4 814 733	4 773 175
		23 682 598	19 645 191
Non-Current Liabilities			
Employee benefit obligation	16	51 665 075	56 766 894
Total Liabilities		75 347 673	76 412 085
Net Assets		202 945 993	207 936 691
Accumulated surplus	17	202 945 993	207 951 913
Total Net Assets		202 945 993	207 951 913

* See Note 29

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group 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			
Rental of facilities and equipment	9	109 739	60 264
Commission received		64 342	54 161
Interest earned	19	17 592 319	11 465 632
Job evaluation fees	3	1 082 793	1 144 039
Total revenue from exchange transactions		18 849 193	12 724 096
Revenue from non-exchange transactions			
Actuarial gain on post employment medical benefit	16	8 402 672	3 880 692
Government grants & subsidies	18	114 561 460	123 279 027
Other revenue	20	610 511	564 178
Total revenue from non-exchange transactions		123 574 643	127 723 897
Total revenue		142 423 836	140 447 993
Expenditure			
Depreciation	9&10	1 686 760	2 016 268
Amortisation	11	569 686	248 062
Interest costs on post employment medical benefit	16	7 092 502	5 931 925
Remuneration of employees	21	57 512 156	55 237 885
Remuneration of councillors	22	7 197 462	6 960 244
Grants and subsidies paid	23	20 486 936	17 351 370
General expenses	24	47 492 063	38 568 472
Contracted services	25	4 053 121	3 399 154
Impairment of assets	26	59 733	973 198
Increase in provision for doubtful debts	3 & 4	593 481	15 218
Loss on disposal of assets and liabilities	27	677 786	7 596
Fines and penalties		8 069	-
Total expenditure		147 429 754	130 709 392
(Deficit) surplus for the year		(5 005 918)	9 738 602

* See Note 29

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Group 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	198 780 195	198 780 195
Adjustments		
Correction of errors	(566 884)	(566 884)
Balance at 01 July 2021 restated	198 213 311	198 213 311
Changes in net assets		
Surplus for the year as restated	9 738 602	9 738 602
Restated* Balance at 01 July 2022	207 951 913	207 951 913
Changes in net assets		
Deficit for the year	(5 005 918)	(5 005 918)
Balance at 30 June 2023	202 945 990	202 945 990

Note 29

* See Note 29

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group 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			
Grants	19	114 911 880	112 104 001
Interest income		18 156 658	10 167 181
Other receipts		634 124	930 235
		<u>133 702 662</u>	<u>123 201 417</u>
Payments			
Employee costs		(66 153 655)	(61 025 785)
Cash paid to suppliers		(47 804 317)	(43 591 285)
Other payments		(19 161 784)	(19 139 530)
		<u>(133 119 756)</u>	<u>(123 756 600)</u>
Net cash flows from operating activities	28	<u>582 906</u>	<u>(555 183)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(1 648 202)	(1 008 017)
Purchase of other intangible assets	11	(2 193 866)	(679 916)
Net cash flows from investing activities		<u>(3 842 068)</u>	<u>(1 687 933)</u>
Cash flows from financing activities			
Payments of short-term investments		(23 000 000)	(41 000 000)
Repayment of employment benefit liabilities	16	(4 421 550)	(4 427 226)
Net cash flows from financing activities		<u>(27 421 550)</u>	<u>(45 427 226)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(30 680 712)</u>	<u>(47 670 342)</u>
Cash and cash equivalents at the beginning of the year		87 988 489	135 658 831
Cash and cash equivalents at the end of the year	8	<u>57 307 777</u>	<u>87 988 489</u>

* See Note 29

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Group Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2023											
Financial Performance											
Investment revenue	10 048 000	32 000	10 080 000	-	-	10 080 000	17 592 319		7 512 319	175 %	175 %
Transfers recognised - operational	117 969 000	26 700 000	144 669 000	-	-	144 669 000	114 561 460		(30 107 540)	79 %	97 %
Other own revenue	28 580 746	25 080 254	53 661 000	-	-	53 661 000	10 270 057		(43 390 943)	19 %	36 %
Total revenue (excluding capital transfers and contributions)	156 597 746	51 812 254	208 410 000	-	-	208 410 000	142 423 836		(65 986 164)	68 %	91 %
Employee costs	(66 210 063)	1 102 569	(65 107 494)	-	-	(65 107 494)	(57 842 356)		7 265 138	89 %	87 %
Remuneration of councillors	(8 193 835)	(48 040)	(8 241 875)	-	-	(8 241 875)	(7 197 463)		1 044 412	87 %	88 %
Depreciation and asset impairment	(2 577 750)	(480 000)	(3 057 750)			(3 057 750)	(2 294 305)		763 445	75 %	89 %
Transfers and grants	(26 067 000)	(14 902 000)	(40 969 000)	-	-	(40 969 000)	(25 686 936)		15 282 064	63 %	99 %
Other expenditure	(66 512 339)	(38 046 960)	(104 559 299)	-	-	(104 559 299)	(54 717 024)		49 842 275	52 %	82 %
Total expenditure	(169 560 987)	(52 374 431)	(221 935 418)	-	-	(221 935 418)	(147 738 084)		74 197 334	67 %	87 %
Surplus/(Deficit)	(12 963 241)	(562 177)	(13 525 418)	-	-	(13 525 418)	(5 314 248)		8 211 170	- %	- %
Surplus/(Deficit) for the year	(12 963 241)	(562 177)	(13 525 418)	-	-	(13 525 418)	(5 314 248)		8 211 170	- %	- %
Capital expenditure and funds sources											
Total capital expenditure	12 093 000	5 334 000	17 427 000	-	-	17 427 000	3 842 068		(13 584 932)	22 %	32 %
Sources of capital funds											
Internally generated funds	(12 093 000)	(5 334 000)	(17 427 000)	-	-	(17 427 000)	(3 842 068)		13 584 932	22 %	32 %

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and budget s31 of the MFMA)	Final adjustments (i.t.o. s31 of the MFMA)	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	-	(5 334 000)	(5 334 000)	-	-	(5 334 000)	582 908		5 916 908	(11)%	DIV/0 %
Net cash from (used) investing	(12 093 000)	-	(12 093 000)	-	-	(12 093 000)	(3 842 069)		8 250 931	32 %	32 %
Net cash from (used) financing	-	-	-	-	-	-	(27 421 550)		(27 421 550)	- %	- %
Net increase/(decrease) in cash and cash equivalents	(12 093 000)	(5 334 000)	(17 427 000)	-	-	(17 427 000)	(30 680 711)		(13 253 711)	176 %	254 %
Cash and cash equivalents at the beginning of the year	(17 561 000)	-	115 545 000	-	-	115 545 000	87 988 489		(27 556 511)	76 %	(501)%
Cash and cash equivalents at year end	(29 654 000)	(5 334 000)	98 118 000	-	-	98 118 000	57 307 778		(40 810 222)	58 %	(193)%

Refer to Note 40 for detailed explanations of material variances.

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Group Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1. Presentation of Group Annual Financial Statements

The group annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (No. 56 of 2003).

These group 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 group annual financial statements, are disclosed below.

1.1 Presentation currency

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

1.2 Going concern assumption

These group 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 Basis for preparation

Statement of compliance

These accounting policies are consistent with the previous period.

Accounting policies for material transactions, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of the GRAP 3. These accounting policies and the applicable disclosures have been based on the International Financial Reporting Standards and the International Public Sector Accounting Standards (IPSA), where applicable, in terms of Directive Five including any interpretations of such Statements issued by the Accounting Practice Board. Certain accounting policies have been developed with reference to the MFMA, for e.g. unauthorised expenditure, irregular expenditure, and fruitless and wasteful expenditure policies.

These accounting policies have been applied to ensure that the financial statements provide information that is relevant to the decision-making needs of the users and are reliable.

Offsetting

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

There are no key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the group annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the group 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 group annual financial statements.

In the process of applying its accounting policies, and in preparing the group annual financial statements, management is required to make various judgements, including estimates and assumptions, that may affect the determination of the reporting framework, affect amounts represented in the group annual financial statements and as well as 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 group annual financial statements.

Significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

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Group Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Judgements

In the process of applying these accounting policies, management has made the following judgement that may have a significant effect on the amounts recognised in the annual financial statements.

Cash-generating assets - The municipality classifies its cash-generating assets as those assets which are used with the objective of generating a commercial return, and where positive cash flows are expected to be significantly higher than the cost of the asset. All other assets are considered to be non-cash generating assets.

Estimates

Estimates are informed by historical experience, information currently available to management, assumptions, and other factors that are believed to be reasonable under the circumstances. These estimates are reviewed on a regular basis. Changes in estimates that are not due to errors are processed in the period of the review and applied prospectively.

Receivables from exchange and non-exchange transactions

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

The impairment for receivables from exchange and non-exchange transactions is calculated based on the grading of the category of debtors according to their payment history. An accumulation of arrear balances is an indicator of debtor delinquency. Such debtors are provided for as they are considered to be impaired due to uncertainty surrounding the recoverability of the outstanding amounts.

Provisions

Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amount that will be required in future to settle the provision, management considers the weighted average probability of the potential outcomes of the provisions raised. This measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes.

Management then assigns a weighting factor to each of these outcomes based on the probability that the outcome will materialise in future. The factor is then applied to each of the potential outcomes and the factored outcomes are then added together to arrive at the weighted average value of the provisions.

Post-retirement benefits

The present value of the post-retirement medical aid benefit 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, future salary increases, mortality rates and future medical increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

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

Effective interest rate

The municipality used the prime interest rate less 0.5% to discount future cash flows. The prime interest rate was 11.25% (2022: 8.25%).

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Group Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles, so that the effect of any impairment on a group of receivables would not differ materially from the impairment, that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about probability of recovery of the debtors based on their past payment history and risk profile.

Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's current condition, expected condition at the end of the period of use, its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating the useful life and residual value, management considers the impact of technology and minimum service requirements of the assets.

Accounting by principals and agent

The municipality makes assessments on whether it is the principal or agent in principal-agent relationships. Significant judgements applied as per determination of the binding agreement entered into annually with the local municipality.

Related parties

In applying judgement as to whether or not a person(s) is a related party, the Municipality considers the following:

- Whether the person(s) are 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;
- Whether the person(s) are close members of the family of person(s) that are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the Municipality.

Impairment testing

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

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

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
- administrative purposes, or
- sale in the ordinary course of operations.

Initial recognition and measurement

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.

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Accounting Policies

1.5 Investment property (continued)

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

Subsequent measurement - Cost model

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

Depreciation

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

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

Impairment

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

If it is not possible to estimate the recoverable amount of the investment property, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of the investment property, or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of the investment property is less than its carrying amount, the carrying amount of the investment property is reduced to its recoverable amount. The reduction is an impairment loss.

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

A reversal of an impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Where a reversal occurs, the recoverable amount is limited to the carrying amount where no impairment occurred

Derecognition

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.

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.

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Group Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.6 Property, plant and equipment (continued)

Initial recognition and measurement

The cost of an item of property, plant and equipment is recognised as an asset when: it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The "initial measurement" of property, plant and equipment, upon its "initial recognition" refers to property, plant and equipment's value when the current basis of accounting is first adopted, i.e. 1 July 2005. The "cost" of land and buildings on 1 July 2005 would constitute its fair value at that date as no cost is available. The "cost" of other assets would be its carrying amount (cost less accumulated depreciation) as at that date on the assumption that the carrying amounts represents the asset's fair value at 1 July 2005 if the asset was acquired prior to this date.

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

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

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

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

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

Subsequent measurement - Cost model

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

Depreciation

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

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight-line	50 years
Furniture and fixtures	Straight-line	7 - 15 years
Motor vehicles	Straight-line	5 - 10 years
Office equipment	Straight-line	2 - 10 years
IT equipment	Straight-line	2 - 10 years
Bins and containers	Straight-line	5 - 10 years
Specialised vehicles	Straight-line	5 - 20 years
Specialised plant and equipment	Straight-line	5 - 15 years

The introduction of the new Municipal Chart of Accounts has resulted in a few changes within the classification of property, plant and equipment. The change does not specifically require a reclassification as the balance of property, plant and equipment is consistent with the prior year and does not affect presentation on the Statement of Financial Position:

- Furniture and fixtures have been consolidated with Office Equipment; and
- Specialised vehicles have been consolidated with Motor Vehicles

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Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

The municipality assesses at each reporting date whether there is any indication that the municipality's 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.

Impairment

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 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 recoverable amount of the asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The 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.

A reversal of an impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Where a reversal occurs, the recoverable amount is limited to the carrying amount where no impairment occurred.

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

Derecognition

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.

Property, plant and equipment with a cost below R1 000 is not capitalised. This is in line with the asset management policy of the Municipality.

1.7 Intangible assets

Initial recognition and measurement

Intangible assets are initially recognised at cost.

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.

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Accounting Policies

1.7 Intangible assets (continued)

Subsequent measurement

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

An intangible asset acquired at no or nominal cost will be measured at fair value at the date of acquisition.

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 goodwill is not recognised as an intangible asset.

Amortisation

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

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	3 - 5 years

Impairment

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

Derecognition

Intangible assets are derecognised:

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

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Accounting Policies

1.8 Heritage assets

Initial recognition and measurement

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

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

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

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

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

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

Derecognition

The municipality derecognises heritage assets on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

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

1.9 VAT

The municipality accounts for Value Added Tax on the invoice basis.

1.10 Leases

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

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

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Accounting Policies

1.10 Leases (continued)

Operating leases - lessor

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

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

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

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

Income for leases is disclosed under revenue in the 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.

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Accounting Policies

1.11 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories.

Financial assets at amortised cost.

Financial liabilities measured at amortised cost.

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or loss, which shall not be classified out of the fair value through surplus or loss category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an residual interest instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for residual interest investments for which a fair value is not determinable, which are measured at cost.

For financial instruments which are not at fair value, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Financial assets at amortised cost are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

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

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Accounting Policies

1.11 Financial instruments (continued)

Gains and losses

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

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

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

Where the municipality has transferred its rights to receive cash flows from an asset, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Cash and cash equivalents

Cash includes cash on hand and cash held at banks. Cash equivalents are short-term, liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

Cash and cash equivalents are classified as "Financial assets at amortised cost" and are initially measured at cost. Subsequent measurement is at amortised cost.

Short-term investments

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at amortised cost are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Financial assets at amortised cost, receivable within 3 months are included in cash and cash equivalents in the Statement of Financial Position.

Investments are initially measured at fair value and subsequently at amortised cost.

Receivables from exchange and no-exchange transactions

Receivables are classified as "Financial assets at amortised cost" and are initially recognized at the fair value. Subsequent measurement is at amortised cost. An estimate is made of doubtful receivables based on a review of outstanding amounts at year end. Bad debts are written off during the year in which they are identified based on the assessment on the recoverability of the receivable. Amounts that are receivable within 12 months from the reporting date are classified as current.

Payables from exchange transactions

Payables are classified as "Financial liabilities at amortised cost" and are initially recognized at the fair value of the present obligation of a past event. Subsequent measurement is at amortised cost.

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Accounting Policies

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Accrued leave pay

The leave pay accrual is calculated taking into account the actual number of days accrued and the remuneration as at 30 June.

Accrued bonuses

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.

Post-employment benefits

The municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. 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 such medical aid fund, in which case the member is liable for 30% of the medical aid membership fee, and the municipality for the remaining 70%. The medical aid contributions are charged to the Statement of Financial Performance as they fall due.

The retirement benefits are calculated in accordance with the rules of the funds. Full actuarial valuations are performed on a regular basis on defined benefit contribution plans, unless exemption to do so has been obtained from the Registrar of Pension Funds.

The municipality's net obligation in respect of defined benefit retirement and post retirement plans are calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. These benefits are discounted to determine their present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The actuarial valuation is performed by an independent qualified actuary on a regular basis, using the projected unit credit method. When the calculation results in a benefit to the municipality, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. The actuarial gain is transacted in full in the Statement of Financial Performance and not calculated and accounted for according to the "corridor" method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the Statement of Financial Performance on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the Statement of Financial Performance.

1.13 Provisions

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

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

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

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

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Accounting Policies

1.13 Provisions (continued)

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

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

Provisions are not recognised for future operating surplus (deficit).

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is a possible obligation depending on whether some uncertain future event occurs now wholly within the control of the municipality, or a present obligation by payment is not probable or the amount cannot be measured reliably.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

1.14 Revenue from exchange transactions

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

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

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

Measurement

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

The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the accounting policy on Statutory Receivables).

Rendering of services

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

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

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

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

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

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Accounting Policies

1.15 Revenue from non-exchange transactions

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.

Donations are recognised on a cash receipt basis, or where the donation is in the form of property, plant and equipment, at the fair value of the asset at the date of acquisition.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received, but the municipality has not met the condition, a liability is recognised.

Contributed property, plant and equipment is recognised when ownership of the items of property, plant and equipment is transferred to the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act no. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Grants, transfers and donations

Unconditional grants and receipts

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached stipulations, the grants are recognised as revenue or, if the asset recognition criteria have been met, as assets in the reporting period in which they are received or receivable.

Conditional grants and receipts

Revenue received from conditional grants, donations and funding is 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 criteria, conditions or obligations have not been met, a liability is recognised. Revenue is recognised and the liability is decreased as the conditions associated with the grant is met.

1.16 Investment income

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

1.17 Comparative figures

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

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and/or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

The presentation and classification of items in the current year is consistent with prior periods.

1.18 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.

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Accounting Policies

1.18 Unauthorised expenditure (continued)

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

1.19 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.

1.20 Irregular expenditure

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

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

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

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

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

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

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

1.21 Budget information

The annual budget figures have been prepared in accordance with the Municipal Budget and Reporting Regulations, 2009. A comparative of actual to budgeted amounts are reported in a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the notes to the Statement giving motivations for over - or under spending on line items where it is found to be material. The budgeted figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan. The budget is prepared and approved on a cash basis by nature classification. The approved budget covers the fiscal period from 1 July 2022 to 30 June 2023.

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

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Accounting Policies

1.21 Budget information (continued)

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

The budget for the economic entity includes the entity's approved budget under its control.

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

1.22 Events after reporting date

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

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

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

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

1.23 Unutilised conditional grants

Initial recognition

Unutilised conditional grants are reflected on the Statement of Financial Position as a short term portion of unspent conditional grants. They represent unspent government grants, subsidies and contributions from the public. The following conditions are set for the creation and utilisation of these creditors:

- The grant received is initially recognised at cost as unspent conditional grants.
- Whenever an item of property, plant and equipment is funded from a grant, an amount equal to the purchase price is transferred from the unspent conditional grants account to the operating account on the Statement of Financial Performance as revenue.
- Whenever operational expenditure is funded from a grant, an amount equal to the expenditure is transferred from the unspent conditional grants account to the operating account on the Statement of Financial Performance as revenue to offset the expenditure which was expensed through the operating account.
- The cash which backs the unspent portion is invested until utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If the grant conditions indicate that interest is payable to donors then interest earned on unutilised conditional grants is allocated to the funds and is not recognised in the Statement of Financial Performance.
- The unspent grant is classified as "Financial liabilities at amortised cost".

Subsequent measurement

Unspent conditional grants are subsequently measured at amortised cost if material.

Derecognition

Unspent conditional grants are derecognised when the balance was expended per the conditions as set for a grant.

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Accounting Policies

1.24 Segment information

A segment is an activity of an entity:

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

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

1.25 Accounting by principals and agents

Identification

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

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

Identifying whether an entity is a principal or an agent

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

The assessment of whether 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.

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 para 45. of the requirements of GRAP 109.

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 para 46. of the requirements of GRAP 109.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of para. 50 of GRAP 109.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.25 Accounting by principals and agents (continued)

The municipality is in the process of designing and implementing its own policy to address the specific requirements of GRAP 109.

1.26 Deposits paid

Deposits paid are disclosed as current assets and are carried at amortised cost.

Deposits paid primarily relate to services provided to the Municipality such as electricity, post office services and parking facilities used.

1.27 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

1.28 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

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

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

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

Useful life is either:

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

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 21: The Effect of Past Decisions on Materiality	01 April 2022	The impact of the standard is not material.
• GRAP 25 (as revised): Employee Benefits	01 April 2022	Expected impact has not been assessed
• iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	01 April 2022	Expected impact has not been assessed

2.2 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:
• GRAP 103: Heritage Assets	01 April 2023	Expected impact has not been assessed
• GRAP 1: Presentation of Financial Statements	01 April 2023	Expected impact has not been assessed
• GRAP 104 (as revised): Financial Instruments	01 April 2023	Expected impact has not been assessed

3. Receivables from exchange transactions

Accrued interest	1 240 204	1 804 543
Rental	25 174	44 473
Allowance for impairment	(2 261 020)	(1 680 991)
Prepayments	738 401	702 533
Job evaluations	3 322 061	2 796 059
	3 064 820	3 666 617

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 90 days past due are not considered to be impaired. At 30 June 2023, R1 086 406 (2022: R 15 802) were past due but not impaired.

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

Less than 90 days past due	1 086 406	15 802
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Receivables from exchange transactions impaired

The amount of the provision was R2 261 020 as of 30 June 2023 (2022: R 1 680 991).

The ageing of these receivables is as follows:

Over 90 days	2 261 020	1 680 991
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SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

Figures in Rand	2023	2022
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3. Receivables from exchange transactions (continued)

Reconciliation of provision for impairment of receivables from exchange transactions

Opening balance	(1 680 991)	(1 665 773)
Provision for impairment	(580 029)	(15 218)
	<u>(2 261 020)</u>	<u>(1 680 991)</u>

Receivables from exchange transactions relates to rental and job evaluation debtors and the allowance for impairment relates to these debtors only.

4. Receivables from non-exchange transactions

General debtors	1 960 102	1 261 281
Other receivables	2 239 237	25 060
Allowance for impairment	(14 890)	(1 440)
Salaries and wages debtors	329 483	289 744
	<u>4 513 931</u>	<u>1 574 644</u>

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are less than 90 days past due are not considered to be impaired. At 30 June 2023, R- (2022: R 12 694) were past due but not impaired.

Less than 90 days past due	-	12 694
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Receivables from non-exchange transactions impaired

The amount of the provision was R14 890 as of 30 June 2023 (2022: R 1 440).

The ageing of these receivables is as follows:

Over 90 days	14 890	1 440
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Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(1 440)	(1 440)
Provision for impairment	(13 450)	-
	<u>(14 890)</u>	<u>(1 440)</u>

5. VAT receivable

VAT	<u>1 496 620</u>	<u>3 044 620</u>
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All VAT returns have been submitted by their due dates throughout the year.

VAT is accounted for on the invoice basis. No discounting was performed.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

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6. Deposits paid

Deposits - Electricity	5 000	5 000
Deposits - Post Office	9 000	9 000
Deposits - Parking Grace Street	1 410	1 410
	<u>15 410</u>	<u>15 410</u>

7. Short-term investments

Short-term balances at year end	<u>164 000 000</u>	<u>141 000 000</u>
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All short-term investments that will mature in more than 3 months, but less than 12 months after the reporting date, is classified as short term investments and do not form part of cash and cash equivalents. Refer note 42 for a summary of short-term investment accounts.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6 100	6 100
Bank balances	12 301 677	13 982 389
Short-term deposits	45 000 000	74 000 000
	<u>57 307 777</u>	<u>87 988 489</u>

Short-term deposits

Cash and cash equivalents are classified as a financial asset under loans and receivables at amortised costs. All short term deposits mature within 3 months after the reporting date.

No discounting was performed due to the short term nature of the cash turnover and the fact that all investments earned interest. The fair value cash and cash equivalents approximates their carrying amounts. No cash deposits were ceded as collateral.

The return on investment for 2023 fluctuates between 5.27% and 10.05%. (2022: 3.85% and 5.97%).

Short-term investments

Call Account Deposits	<u>45 000 000</u>	<u>74 000 000</u>
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SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

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8. 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 Limited, 32 Govan Mbeki Avenue, Gqeberha, Current Account (Primary Account) 1640-000-062	1 104 406	2 451 317	3 393 580	1 532 748	2 411 608	3 539 169
ABSA Limited (Call Account) 9099288999	45 000 000	74 000 000	112 000 000	45 000 000	74 000 000	112 000 000
ABSA Limited, Current Account (Primary Account - CDDA) 40-8134-2536	554 969	1 004 741	505 870	554 969	1 004 741	505 870
ABSA Limited (Call Account - CDDA) 92-8612-7645	1 154 620	2 127 991	3 200 072	1 154 619	2 127 991	3 200 072
ABSA Limited (Investment Account - CDDA) 93-5552-0986	9 059 341	8 438 049	16 407 620	9 059 341	8 438 049	16 407 620
Total	56 873 336	88 022 098	135 507 142	57 301 677	87 982 389	135 652 731

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

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9. Investment property

	2023		2022			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	12 643 000	(1 678 066)	10 964 934	12 643 000	(1 678 066)	10 964 934

Reconciliation of investment property - 2023

Investment property

Opening balance	Total
10 964 934	10 964 934

Reconciliation of investment property - 2022

Investment property

Opening balance	Depreciation	Impairment loss	Total
12 006 818	(120 904)	(920 980)	10 964 934

No operating expenditure was incurred by the Municipality on the investment properties during the current and previous financial year.

Investment properties are leased mainly to organs of state and the rentals are not market related. The rental revenue received for the year is R109 739 (2022: R60 264).

A register containing the information required by section 63 of the Municipal Finance Management Act 56 of 2003 is available for inspection at the registered office of the Sarah Baartman District Municipality.

Refer to Appendix A for more details.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2023		2022			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 754 636	-	1 754 636	1 754 636	-	1 754 636
Buildings	7 246 840	(1 072 231)	6 174 609	7 246 840	(1 072 231)	6 174 609
Specialised plant and machinery	4 156 769	(2 033 669)	2 123 100	3 950 414	(1 737 553)	2 212 861
Motor vehicles	10 413 952	(6 055 062)	4 358 890	11 721 692	(6 062 235)	5 659 457
Office equipment	5 583 459	(3 950 884)	1 632 575	7 872 526	(6 017 728)	1 854 798
IT equipment	6 363 611	(4 186 371)	2 177 240	4 972 414	(3 631 658)	1 340 756
Bins and containers	98 988	(96 162)	2 826	98 988	(96 162)	2 826
Total	35 618 255	(17 394 379)	18 223 876	37 617 510	(18 617 567)	18 999 943

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	1 754 636	-	-	-	-	1 754 636
Buildings	6 174 609	-	-	-	-	6 174 609
Specialised plant and machinery	2 218 423	156 584	(3 271)	(243 173)	(5 462)	2 123 100
Motor vehicles	5 654 128	-	(667 461)	(627 776)	-	4 358 890
Office equipment	1 854 566	106 636	(17)	(312 487)	(16 123)	1 632 576
IT equipment	1 340 753	1 384 982	(7 037)	(503 323)	(38 150)	2 177 239
Bins and containers	2 826	-	-	-	-	2 826
	18 999 941	1 648 202	(677 786)	(1 686 759)	(59 735)	18 223 876

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	1 754 636	-	-	-	-	1 754 636
Buildings	6 303 186	-	-	(128 577)	-	6 174 609
Specialised plant and machinery	2 180 712	284 365	(1)	(209 950)	(42 033)	2 213 093
Motor vehicles	6 479 660	-	-	(820 146)	(58)	5 659 456
Office equipment	2 100 577	116 863	(12)	(359 659)	(3 204)	1 854 565
IT equipment	1 150 817	606 787	(7 583)	(402 343)	(6 922)	1 340 756
Bins and containers	10 858	-	-	(8 032)	-	2 826
	19 980 446	1 008 015	(7 596)	(1 928 707)	(52 217)	18 999 941

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

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10. Property, plant and equipment (continued)

The introduction of the new Municipal Chart of Accounts has resulted in a few changes within the property, plant and equipment note. The changes does not specifically require a reclassification as the balance of property, plant and equipment is consistent with the prior year and does not affect presentation of the Statement of Financial Position:

- Furniture and Fittings have been consolidated with Office Equipment; and
- Specialised vehicles have been consolidated with Motor Vehicles.

Therefore, no reclassification was considered necessary.

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

Refer to Appendix A for more details.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

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11. Intangible assets

	2023		2022			
Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	
Computer software	6 663 293	(3 747 189)	2 916 104	4 469 427	(3 177 504)	1 291 923

Reconciliation of intangible assets - 2023

Computer software	Opening balance	Additions	Amortisation	Total
	1 291 923	2 193 866	(569 685)	2 916 104

Reconciliation of intangible assets - 2022

Computer software	Opening balance	Additions	Amortisation	Total
	860 069	679 916	(248 062)	1 291 923

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

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11. Intangible assets (continued)

Computer Software

Financial Systems (APPX)

The financial system was initiated through an annual licence with no initial purchase price. The software was then internally developed to meet the financial and other processing requirements of the municipality. In January 2020, Council approved the change of financial system from Sage Evolution to the in-house owned APPX Financial System with effect from 1 July 2020. Certain modules of the APPX Financial System were further developed to ensure that the municipality meets the Municipal Standard Chart of Accounts requirements before the 2020/21 financial year. The costs of this development were capitalised to the cost of computer software.

mSCOA Budget System (APPX)

An mSCOA compliant budget module was developed on the in-house APPX system in order to ensure that the municipality meets Municipal Standard Chart of Accounts requirements before the 2020/21 financial year. The costs of this development were capitalised to the cost of computer software.

Further costs of R542 205 (2022: R679 916) relating to the development of this system, were capitalised to the cost of computer software during the current financial year.

Disaster Management System

An Integrated Disaster Management Information and Communication System was developed during the current financial year. It is a district-wide integrated disaster management information and communication system that enables local municipalities to communicate with each other and with the District Municipality. The information on the system will be utilised to manage and take decisions during a significant incident or a disaster. The system is an online (web-based), operational management, reporting and communication tool, developed for Disaster Management and fire services with a wide variety of incidents including but not limited to veld fires, structural fires, social unrest, public events, automobile accidents, hazmat spills, specialist technical rescue. The costs of R617 705 (2022: R0) relating to the development of this system, were capitalised to the cost of computer software during the current financial year.

Interactive Virtual Travel Platform (IVTP)

An 360-Degree, Interactive Virtual Travel Platform (IVTP) was developed during the current financial year. The purpose of the IVTP is to take the Sarah Baartman District offering to the world with the inclusion of 34 Adventure locations across the region. The IVTP will be accessible from municipality's website & Social Media Platforms to allow users, nationally and internationally, to take a fully immersive experience of what the region has to offer, encouraging new visitors to boost tourism. The costs of R1 033 848 (2022:R0) relating to the development of this system, were capitalised to the cost of computer software during the current financial year.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

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12. Heritage assets

	2023		2022			
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Conservation areas	16 212 500	(536 500)	15 676 000	16 212 500	(536 500)	15 676 000

Reconciliation of heritage assets 2023

Conservation areas

Opening balance	15 676 000
Total	15 676 000

Reconciliation of heritage assets 2022

Conservation areas

Opening balance	15 676 000
Total	15 676 000

Heritage assets held at cost

A register containing the information required by section 63 of the Municipal Finance Management Act 56 of 2003 is available for the inspection at the registered office of the Sarah Baartman District Municipality.

Refer to Appendix A for more details.

Refer to note 27 for details of the impairment losses recognised.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

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13. Long-term receivables

Disciplinary action recoveries	114 194	126 196
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Classified as a financial asset and measured at amortised cost.

14. Payables from exchange transactions

Employee benefits*	6 648 939	6 548 904
Other payables	11 868 506	8 323 112
	18 517 445	14 872 016

* Not financial instruments.

Normal terms of repayment is 30 days and no discounting was calculated.

Makana Municipality - MIG Interest

The MIG grant allocation of Makana Local Municipality was transferred to SBDM in prior years to ensure proper management of the grant funds in terms of the MFMA and the grant conditions. A Service Level Agreement (SLA) was entered into between the SBDM and Makana Local Municipality to manage the proper disbursement of the MIG allocation as well as the approved rollover amount. The grant was fully spent during the 2018/19 financial year. In terms of the SLA, the interest that accrues on the funds administered by SBDM on behalf of Makana Municipality, should be utilised for infrastructure projects of Makana Municipality. Claims amounting to R 341 891 (2022: R1 252 049) were paid in the current financial year.

Payments in Advance - Other

When the roadworks, emergency medical services and health function was transferred to the Province, the municipality was requested to administer the payments to pensioners as the provincial system could not accommodate past employees. An agreement was entered into between the municipality and Province whereby Province would pay the pensioners' annual amount to the municipality and the municipality would administer the monthly payments. Included in payments in advance - other is an amount of R285 827 (2022: R384 614) relating to the payments to pensioners.

Employee benefits

Accrued annual bonus	1 427 849	1 358 749
Accrued leave pay	4 086 578	3 552 553
Performance bonus	121 743	361 256
Long service bonus	839 781	1 101 795
Other employee costs	172 988	174 551

Other payables

Payables and accruals	1 123 510	1 637 068
Accrued interest - MIG	1 698 875	2 040 766
Advance payments	285 827	384 614
Trade and other payables	8 760 294	4 260 664

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Rural Roads Asset Management Grant	350 420	-
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See note 18 for the disclosure requirements in terms of section 123(1) of the MFMA. A complete list of all conditions are available for viewing at the municipality during office hours.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

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16. Employee benefit obligations

Post Retirement fund benefits

The municipality's post-employment medical benefit is a post-employment defined benefit plan and consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions. This benefit is also generated in respect of dependents who are offered continued membership of the medical scheme on the death of the primary member.

The municipality is committed to pay subsidies broadly as follows:

In-service members will receive a post-employment subsidy of 70% of the contribution payable should they be a member of a medical scheme at retirement.

All continuation members and their eligible dependants receive a 70% subsidy. Upon a member's death-in-service or death-in-retirement, the surviving dependants will continue to receive the same subsidy.

The municipality's net obligation in respect of post employment medical benefits was calculated by One Pangaea Expertise & Solutions. The provision was established for the purpose of generating interest that is utilised to fund the yearly medical scheme commitments in respect of post employment medical benefits. The expected future outflows is dependant upon life expectancy of existing members and their spouses.

65 Principal members are currently covered by the fund (2022: 62).

Valuation method

The death in-service benefit is regarded as a post employment liability under the requirements of the Standards of GRAP 25.

Post retirement benefits

The method for accrual that has been used in the valuation is based on the length of service of the valuation date relative to the total potential service until the expected retirement date. The future-service liability is the difference between the total liability and the past service liability.

Accrued defined benefit obligation

The accrued liability is the value of the employer's share of the contribution-based liability.

Current service cost

The current costs for the following year is determined as the amount assumed to accrue to the member over the twelve months.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Long-term portion of post-employment medical benefit	(51 665 075)	(56 766 894)
Short-term portion of post-employment medical benefit	(4 814 733)	(4 773 175)
	(56 479 808)	(61 540 069)
Non-current liabilities	(51 665 075)	(56 766 894)
Current liabilities	(4 814 733)	(4 773 175)
	(56 479 808)	(61 540 069)

The funded status is calculated by comparing the accrued liabilities, as at the valuation date, with the plan assets held. The funded status, as at valuations dates, is shown below.

Accrued liability

Post-employment medical benefit	(56 479 808)	(61 540 069)
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SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

Figures in Rand	2023	2022
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16. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	61 540 069	63 199 852
Contributions (benefits) paid	(4 421 550)	(4 427 226)
Current service costs	671 459	716 210
Actuarial (gain)/loss on post employment medical benefit	(8 402 672)	(3 880 692)
Interest costs (discounting)	7 092 502	5 931 925
	56 479 808	61 540 069

The estimated expected timing of resulting outflows of post employment medical benefits are:

Within one year	4 814 733	4 773 175
Later than one year, not later than five years	8 848 776	13 786 251
Later than five years	42 816 299	42 980 643
	56 479 808	61 540 069

Accumulative actuarial gains and losses

Balance at the beginning of the year	(5 100 917)	(1 220 225)
Projected during the year	(8 402 672)	(3 880 692)
	(13 503 589)	(5 100 917)

The present value of the defined benefit obligation for the current annual period compared to the previous four annual periods are as follows:

Financial period 2018/2019	60 051 936
Financial period 2019/2020	58 410 026
Financial period 2020/2021	63 199 852
Financial period 2021/2022	61 540 069
Financial period 2022/2023	56 479 808

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	12,02 %	11,99 %
Consumer price inflation	6,25 %	7,10 %
Health care cost inflation	7,75 %	8,60 %
Maximum subsidy inflation rate	3,96 %	3,12 %

The discount rate was determined by using the Bond Exchange Zero Coupon Yield as at 30 June 2023 is 12.02 % per annum, and the yield on the inflation-linked bonds of similar terms was 4.96% per annum, implying an underlying expectation of inflation of 6.25 % per annum.

A healthcare cost inflation rate of 7.75% was assumed. This is 1.50 % in excess of the expected inflation over the expected term of the liability, consistent with the previous actuarial valuation.

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17. Accumulated surplus		
The accumulated surplus is reserved for the following purposes:		
General	202 945 993	207 951 913
General	172 595 573	177 951 913
Relocations costs allocated to surplus	30 000 000	30 000 000
Unspent conditional grants	350 420	-
	202 945 993	207 951 913
18. Government grants & subsidies		
Operating grants		
Equitable share	104 576 000	100 709 533
Grant funding - expenditure reimbursement	4 118 580	15 569 949
Department of Transport Grant - Upgrading of Makhandha Taxi Routes	-	5 000 000
Department of Economic Development Environmental Affairs and Tourism Grant - Waste Management Equipment and Materials	5 000 000	2 000 000
Discretionary grant from the Local Government SETA	866 880	-
	114 561 460	123 279 482
Conditional and Unconditional		
The following conditional grant was received by the municipal entity from the Provincial Economic Stimulus Fund:		
Somerset East Industrial Park	2 942 028	13 271 983
Conditions met - transferred to revenue	-	(10 329 955)
	2 942 028	2 942 028
Equitable Share		
In terms of the Constitution, this grant is used to finance the operations of the institution.		
DORA		
Balance unspent at beginning of year	-	1 045 071
Current-year receipts	4 469 000	4 364 000
Conditions met - transferred to revenue	(4 118 580)	(5 409 071)
	350 420	-
Conditions still to be met - remain liabilities (see note 15).		
The following conditional grants were received through the DORA allocation during the financial year:		
R 1 000 000 - Finance Management Grant (FMG)		
R 2 396 000 - Rural Roads Asset Management Grant (RRAMS)		
R 1 073 000 - Expanded Public Works Programme (EPWP)		
Refer to Note 45 for Disclosure of Grants and Subsidies in terms of Section 123 Of MFMA, 56 of 2003.		
19. Interest earned		
Interest earned		
Interest received - Investment	17 256 283	11 175 385
Interest received - Cash and cash equivalents	334 704	290 013
Interest received - Other	1 332	72
	17 592 319	11 465 470

SARAH BAARTMAN DISTRICT MUNICIPALITY

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Notes to the Group Annual Financial Statements

Figures in Rand	2023	2022
20. Other revenue		
Contribution from skills development fund	161 401	217 382
Insurance refund received	48 962	11 096
Other income	362 654	32 870
Settlement discount received	36 920	52 743
Tender deposit	574	87
	610 511	314 178

SARAH BAARTMAN DISTRICT MUNICIPALITY

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Notes to the Group Annual Financial Statements

Figures in Rand	2023	2022
21. Remuneration of employees		
Basic	41 891 929	41 328 931
Bonus	3 285 736	2 419 433
Medical aid - contributions	2 207 664	1 988 045
Unemployment insurance fund	199 121	195 796
Workmens compensation	310 364	310 215
Skills development levy	36 014	448 941
Other payroll levies	12 053	11 248
Travel, motor car, accommodation, subsistence and other allowances	1 920 519	1 597 002
Overtime payments	96 277	99 510
Pension fund contributions	4 340 826	3 871 160
Housing benefits and allowances	318 994	321 410
Other allowances	655 408	276 900
Other short term costs	2 237 251	2 369 294
	57 512 156	55 237 885

The remuneration of employees are determined in accordance with the task grade and the applicable notch allocated to the employees in their positions. The municipality is graded as a Category 5 municipality which affects the remuneration ranges of positions of employees. The municipality operates in accordance with the Collective Agreements entered into between the municipality and Bargaining Council.

Remuneration of Municipal Manager

Annual Remuneration	-	921 727
Car Allowance	-	104 000
Cellphone Allowance	-	4 800
Contributions to UIF, Medical and Pension Funds	-	14 930
	-	1 045 457

Mr D M Pillay was appointed on 1 March 2017 as Municipal Manager for a period of 5 years and left the employment of the Municipality on 28 February 2022. The prior year remuneration reflected is for a period of 8 months.

Remuneration of Municipal Manager

Annual Remuneration	1 330 411	105 054
Car Allowance	120 000	10 000
Cellphone Allowance	1 500	5 000
Contributions to UIF, Medical and Pension Funds	6 548	1 212
	1 458 459	121 266

Ms U Daniels was appointed as Municipal Manager on 1 June 2022 for a period of 5 years. The prior year remuneration reflected is for a period of one month.

Remuneration of the Director: Finance and Corporate Services

Annual Remuneration	1 111 848	1 057 476
Car Allowance	69 984	69 984
Cellphone Allowance	6 000	6 000
Performance Bonus	164 958	-
Contributions to UIF, Medical and Pension Funds	6 548	16 337
	1 359 338	1 149 797

Mrs K Abrahams was appointed as Director: Finance and Corporate Services on 1 October 2020 for a period of 5 years. The prior year remuneration reflected is for a period of 9 months.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

Figures in Rand

	2023	2022
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21. Remuneration of employees (continued)

Remuneration of Director: Infrastructure Development and Community Services

Annual Remuneration	674 366	1 007 460
Car Allowance	60 000	120 000
Cellphone allowance	3 000	6 000
Performance Bonus	80 533	-
Contributions to UIF, Medical and Pension Funds	5 421	16 390
	823 320	1 149 850

Ms T Betha was appointed on 1 January 2018 as Director: Infrastructure Development and Community Services for a period of 5 years and left the employment of the municipality on 31 December 2022. The current year remuneration reflected is for a period of 6 months. The vacancy was not filled as at 30 June 2023.

Remuneration of the Director: Planning and Economic Development

Annual Remuneration	585 540	1 045 241
Car Allowance	40 000	110 000
Cellphone allowance	2 000	5 500
Performance Bonus	84 367	-
Contributions to UIF, Medical and Pension Funds	3 182	16 690
	715 089	1 177 431

Ms U Daniels was appointed as Municipal Manager on 1 June 2022. The prior year remuneration reflected is for Ms U Daniels for a period of 11 months. Mr D Magxwalisa was appointed as Director Planning and Economic Development on 1 January 2023 for a period of 5 years. The current year remuneration reflected is for Mr D Magxwalisa for a period of 6 months.

Remuneration of the Chief Executive Officer (CDDA)

Annual Remuneration	949 261	1 142 384
Car Allowance	115 000	120 000
Performance Bonuses	-	97 741
Cellphone allowance	12 807	15 369
	1 077 068	1 375 494

22. Remuneration of councillors

Executive Mayor	977 171	815 999
Speaker	774 930	760 968
Portfolio Councillor: Special Programmes	60 767	261 313
Portfolio Councillor: Finance	730 408	665 336
Portfolio Councillor: Corporate Services	729 208	665 670
Portfolio Councillor: Infrastructure Development and Community Services	730 408	665 392
Portfolio Councillor: Planning and Economic Development	657 224	664 967
District Councillors	2 269 515	2 216 505
Board Members - CDDA	267 831	244 094
	7 197 462	6 960 244

In-kind benefits

The Executive Mayor and Mayoral Committee Members are full-time Councillors and are provided with offices and secretarial support at the costs of the Council. The salaries, allowances and benefits of the Councillors of the Municipality are within the upper limits of the framework envisaged in section 2019 of the constitution.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

Figures in Rand	2023	2022
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23. Grants and subsidies paid

Conditional grant expenditure	3 805 741	4 486 790
Fire Services Subsidies	11 965 195	8 082 297
Environmental Health Subsidies	4 716 000	4 782 283
	<hr/>	<hr/>
	20 486 936	17 351 370

Conditional grant expenditure has been funded by

Finance Management Grant (FMG) - Financial Sustainability	863 923	695 652
Rural Roads Asset Management Grant (RRAMS) - Road Maintenance Systems	1 872 652	2 656 574
Expanded Public Works Programme (EPWP) - Volunteers	1 069 166	1 134 564
	<hr/>	<hr/>
	3 805 741	4 486 790

Fire Services & Environmental Health Subsidies

The municipality has entered into a Principal-agent relationship with its local municipalities due to the requirements of the National Health Amendments Act, 2013 (Act No.12 of 2013) for the Environmental Health Services.

Local municipalities are given the subsidy to execute the service of behalf of the District Municipality. Revenue that is collected by the local municipalities is not transferred to the District Municipality and the assets that are bought by the local municipalities using the subsidy are owned by the local municipalities.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

Figures in Rand	2023	2022
24. General expenses		
Advertising	508 981	525 333
Auditors remuneration	4 178 150	3 843 706
Congress and visits	2 897 714	1 448 937
Legal expenses	225 379	143 961
Environmental health	297 636	385 684
Computer expenses	313 382	266 659
Catering	1 769 924	672 640
Interview expenses	73 837	139 460
Insurance	976 544	566 802
Publications	383 948	312 842
Fuel and oil	1 211 764	1 029 073
Printing and stationery	681 453	1 034 611
Subscriptions	759 188	661 730
Telephone and fax	150 383	151 649
Training and development	663 129	676 173
Rental expense	207 822	181 102
Re-imbursive travel	740 133	597 252
Utilities	1 048 674	1 090 185
Study grants	35 228	177 839
Project costs (detailed breakdown below)	27 408 112	23 024 299
Licences	1 656 131	692 036
General - other	1 304 552	946 499
	47 492 064	38 568 473

SARAH BAARTMAN DISTRICT MUNICIPALITY

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Notes to the Group Annual Financial Statements

Figures in Rand	2023	2022
24. General expenses (continued)		
Detailed breakdown for Project Costs	2023	2022
Agricultural Support	-	300 000
Beef Project - China	-	500 000
Creative Industries	2 523 175	1 962 552
Development of Disaster Management Services By-Laws	-	64 000
Development of Environmental Health Services By-Laws	-	173 882
Development of Water Services Development Plans	455 900	348 114
Development of Disaster Management Plans	24 485	627 800
Development of District Development Model for SBDM	279 046	379 674
Development of Business Plans for Catalytic Projects	200 000	-
Covid Emergency Relief	199 841	-
Training for Water LMs	2 319 389	-
Upgrading Makhanda Taxi Routes	863 586	-
Waste Management Equipment and Materials DEDEAT	3 762 908	-
Support to LMs Speakers forum	27 684	-
Tourism Marketing	2 948 177	484 057
Implementation of HIV/AIDS	56 935	-
GIS Capacity Support	265 950	-
Education and Awareness Campaign: Volunteers	-	234 692
Beef project	52 194	-
LED Capacity Building Training	12 450	158 396
Public Participation	-	175 930
Somerset Industrial Park	640 975	8 652 149
Fencing project	122 533	165 126
Support to LMs - District Job Evaluations	689 050	734 656
Support to LMs - Fire equipment and machinery	790 728	284 365
Support to LMs - Fire station construction	-	154 489
Support to LMs - Fire training	1 231 844	899 259
Support to LMs - IDP processes	340 703	198 638
Support to LMs - Improving Audit Outcomes	2 389 982	1 909 126
Support to LMs - Legal Services	53 923	84 372
Support to LMs - Local Tourism and Tourism Awareness	700 000	700 000
Support to LMs - Performance Management	46 800	60 000
Support to LMs - Roads construction	-	149 621
Support to LMs - Spatial Development Framework	155 250	622 696
Support to LMs - SMME	1 594 392	817 028
Support to LMs - Technical Town Planning	44 924	3 567
Support to sporting events	438 523	68 560
Women and Disability empowerment programmes	265 355	32 600
WSA Support	3 766 434	1 690 290
Youth Fund	144 976	388 660
	27 408 112	23 024 299

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

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25. Contracted services

Outsourced Services

Consultant - mSCOA system	478 025	382 936
Cleaning Services	563 415	695 394
Internal Auditors	1 086 302	787 279
Security Services	597 381	583 372

Consultants and Professional Services

Professional Services	399 177	9 931
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Contractors

Maintenance of Buildings and Facilities	221 284	216 676
Maintenance of Equipment	707 537	723 566

4 053 121	3 399 154
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26. Impairment of assets

Property, plant and equipment

54 271	10 185
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In assessing whether there is any indication that the asset may be impaired, the asset was found to be significantly damaged. The recoverable amount of the asset was based on its fair value less costs to sell.

Investment property

-	920 980
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In assessing whether there is any indication that the asset may be impaired, the asset was found to be significantly damaged. The recoverable amount of the asset was based on its fair value less costs to sell.

Special plant and equipment

5 462	42 033
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In assessing whether there is any indication that the asset may be impaired, the asset was found to be significantly damaged. The recoverable amount of the asset was based on its fair value less costs to sell.

59 733	973 198
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27. Loss on disposal of assets and liabilities

Loss on disposal of property, plant and equipment	677 786	7 596
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SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

Figures in Rand	2023	2022
28. Cash generated from (used in) operations		
(Deficit) surplus	(5 314 122)	9 738 600
Adjustments for:		
Depreciation and amortisation	2 234 572	2 297 673
Loss on disposal of assets	677 786	7 596
Impairment of assets	59 733	973 198
Increase/(Decrease) in provision for doubtful debts	593 481	15 218
Prior year errors	11 992	11 992
Loss / (gain) on actuarial valuation for post employment medical benefits	(8 402 672)	(3 880 692)
Service costs	671 459	716 210
Discounting of post employment medical benefit obligation	7 092 502	5 931 925
Changes in working capital:		
Receivables from exchange transactions	21 768	(2 547 394)
Receivables from non-exchange transactions	(2 952 737)	245 178
Payables from exchange transactions	4 279 179	(582 311)
VAT	1 259 545	(1 684 039)
Unspent conditional grants and receipts	350 420	(11 798 337)
	582 906	(555 183)

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

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29. Prior period errors

During the year, the following errors were noted in the annual financial statements submitted in the prior year. These errors have been corrected retrospectively through restatements of the prior year amounts through journals in the financial accounting system and through correcting the misrepresented column in the annual financial statements.

STATEMENT OF FINANCIAL POSITION	Previously reported	Correction of error	Restated 2022
Non-Current Assets	-	-	-
VAT Receivable	3 042 279	2 341	3 044 620
Current Liabilities	-	-	-
Payables from exchange transactions	14 237 224	634 792	14 872 016
TOTAL ASSETS	284 346 435	2 341	284 348 776
TOTAL LIABILITIES	75 777 293	634 792	76 412 085
NET ASSETS	208 569 142	(632 451)	207 936 691

STATEMENT OF FINANCIAL PERFORMANCE	Previously reported	Correction of error	Restated 2022
Expenditure	-	-	-
General expenses	-	-	-
Utilities	38 502 905	65 567	38 568 472
CASH FLOW STATEMENT	-	-	-
Cash Flows from operating activities	-	-	-
Receipts	-	-	-
Other receipts	799 509	130 726	930 235
Payments	-	-	-
Employee costs	(62 479 401)	1 453 616	(61 025 785)
Cash paid to suppliers	(34 904 818)	(8 686 467)	(43 591 285)
Other payments	(26 041 653)	7 102 128	(18 939 530)
Net cash flows from operating activities	(555 181)	(2)	(555 183)

ACCUMULATED SURPLUS adjustments	Previously reported	Correction of error	Restated 2022
Opening balance as previously reported	198 780 189	-	198 780 189
Prior period errors impacting opening balance:	-	-	-
General expenses - Utilities	-	(566 884)	(566 884)
Balance at 01 July 2021 as restated	198 780 189	(566 884)	198 213 305
Surplus for the year	9 804 169	-	9 804 169
Prior period errors errors impacting deficit for the year:	-	-	-
General expenses - Utilities	-	(65 567)	(65 567)
	-	-	-
	208 584 358	(632 451)	207 951 907

Reclassifications	Previously reported	Reclassified	Restated 2022
Statement of financial performance	-	-	-
Expenditure	-	-	-
General expenses	38 502 905	65 567	38 568 472
Repairs and maintenance	906 899	(906 899)	-
Contracted services	2 458 911	940 242	3 399 153
Reclassified within general expenses	-	-	-
Advertising	1 683 238	(1 157 905)	525 333
Congress and visits	1 273 009	175 928	1 448 937
Catering	664 057	8 583	672 640
Publications	243 102	69 740	312 842
Training and development	256 577	419 596	676 173
Project costs	22 540 241	484 058	23 024 299
	-	-	-

SARAH BAARTMAN DISTRICT MUNICIPALITY

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30. Contingencies

Contingent liabilities incurred relating to interests in other entities

There is an application to compel the Municipality to deal with sewerage spillages in the Makana area. The Municipality is cited as the second respondent. No reliable estimate is available at present.

There is an application for a supervisory order. The matter deals with failure to comply with the legislative responsibilities, obligations and duties as set on the Ndlambe by-laws and various environmental management acts, relating to properties not being fenced, no cutting of grass and no spraying of alien vegetation. No reliable estimate is available at present.

Contingent assets

The municipality has no contingent assets in the current and previous financial year.

31. Unauthorised expenditure

No unauthorised expenditure was incurred in the current and previous financial years.

32. Fruitless and wasteful expenditure

Opening balance as previously reported	212 181	210 617
Add: Expenditure identified - current	94 587	1 564
Less: Expenditure certified as irrecoverable / written off by Council	(1 564)	-
Closing balance	305 204	212 181

Current year fruitless and wasteful expenditure relates to accommodation and flights not utilised, for which no refunds could be obtained. There are two erroneous payments included.

There were no criminal or disciplinary steps taken as a result of the fruitless and wasteful expenditure incurred and value for money was received.

33. Irregular expenditure

Opening balance as previously reported	1 003 661	1 766 386
Add: Irregular expenditure - current	1 481 081	997 659
Less: Expenditure certified as irrecoverable/ written off by Council	(1 000 656)	(1 760 384)
Less: Expenditure recoverable	(3 004)	-
Closing balance	1 481 082	1 003 661

Details of irregular expenditure

After the council committee investigation, council adopted the council committee recommendation to write-off an amount of R1 000 656 (2022: R1 760 384) from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable. An amount of R3 004 was deemed recoverable.(2022: R0) There were no criminal or disciplinary steps taken as a result of the irregular expenditure incurred and value for money was received.

An amount of R1 481 081 relates to bids/quotes awarded that did not comply with supply chain management regulations which have been submitted to Council for investigation.

Bids/quotes awarded that did not comply with supply chain management regulation	1 481 081	1 304 775
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SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2023

Notes to the Group Annual Financial Statements

Figures in Rand	2023	2022
34. Commitments		
Authorised capital expenditure		
Capital expenditure		
• Approved and contracted for	498 789	845 001
This committed expenditure relates to capital assets and will be financed by retained surpluses.		
Total capital commitments		
Already contracted for but not provided for	498 789	845 001
Authorised operational expenditure		
Non-capital expenditure		
• Approved and contracted for	7 631 200	6 842 424
Total operational commitments		
Already contracted for but not provided for	7 631 200	6 842 424
Total commitments		
Total commitments		
Authorised capital expenditure	498 789	845 001
Authorised operational expenditure	7 631 200	6 842 424
	8 129 989	7 687 425

This committed expenditure relates to other: commitments and will be financed by available bank facilities, retained surpluses.

The Municipality has additional commitments with service providers which were awarded on a rate basis and budget availability. These additional commitments are related to services for vehicle maintenance, fuel cards and tracking services, short term insurance, advertising services, financial services support local Municipalities and travel agency services. The value of these commitments cannot be quantified as the commitment is only raised upon the usage of these services.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	64 594	64 594
- in second to fifth year inclusive	103	203
	64 697	64 797

Certain of the municipality's properties are held to generate rental income. No contingent rentals have been received by the Municipality.

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35. Risk management

Liquidity risk

The municipality's risk to liquidity is as 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.

Stringent cash management procures are in place. These include cash flow forecasting.

A sensitivity analysis has not been performed and included, as the municipality is not exposed to foreign exchange risk. The municipality does not enter into any foreign exchange transactions and since the municipality effects payments on presentation of invoices, no interest rate changes are applicable. It would thus be misleading to provide a sensitivity analysis.

The following table details the municipality's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the entity can be required to pay. The table includes both estimated interest and principal cash flows.

At 30 June 2023	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
• Payable from exchange transactions	18 517 445	-	-	-
At 30 June 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
• Payable from exchange transactions	14 872 016	-	-	-

Interest rate risk

The current account and the call account expose the municipality to an interest rate risk on cash flow. Deposits attract interest at a rate that varies according to the prime banking rate.

The municipality manages this interest rate risk by ensuring that all surplus funds are invested in fixed rate instruments and by maintaining the minimum possible balance in the current account.

The interest rates on the fixed deposits are fixed, but varies from investment to investment.

Should the prime rate vary by 1% in either direction, the effect on the cash balance would be R1.6 million (2022: R1.4 million) in either direction.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and debtors. The Municipality only deposits cash with banks which have an equity above R10 billion with a good credit rating.

The most significant concentration of credit risk is the outstanding receivables. Management believes that the allowance for impairment adequately addresses the credit risk involved.

Credit risk consists mainly of cash deposits, cash equivalents, and receivables from exchange and non-exchange transactions.

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Receivables from exchange transaction comprises of the interest accrued for the current financial year and debtors in respect of salaries and wages.

Receivables from non-exchange transactions largely comprises of pension contributions made by the Municipality on behalf of other organs of state, for which SBDM is fully re-imbursed.

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36. Related parties

Relationships

Wholly-owned municipal entity

Cacadu District Development Agency (CDDA)

Members of key management (Refer to note 21, 22 and 37) for details of Speaker, Mayoral Committee Members, Councillors, key management) Municipal Manager & Directors

The Municipality has provided the CDDA with an unconditional grant of R5 200 000 (2022: R5 200 000) to fund its operations.

These transactions were eliminated in the consolidated financial statements, as well as unconditional grant related transactions.

37. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	(702 533)	(564 222)
Current year subscription / fee	702 533	564 222
Amount paid in advance for the following year	(738 401)	(702 533)
	(738 401)	(702 533)

Audit fees

Current year audit fees	3 628 308	3 342 597
Amount paid - current year	(3 624 718)	(3 342 597)
	3 590	-

PAYE, UIF and SDL

Opening balance	288 430	288 430
Current year payroll deductions	11 853 046	10 870 033
Amount paid	(11 853 046)	(10 870 033)
	288 430	288 430

Pension and Medical Aid Deductions

Current year payroll deductions and Council Contributions	21 544 417	21 187 772
Amount paid - current year	(21 544 417)	(21 187 772)
	-	-

SARAH BAARTMAN DISTRICT MUNICIPALITY

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

Disclosures of awards to person(s) of in the service of the state

Awards to close family members of persons in the service of the state 2023

Supplier Name	Name	Relation to Supplier	Organ of the State	Amount
Ordon Trading 18 CC t/a Mosaic Marketing	A Van Onselen	Child of M Van Onselen	Department of Health	20 700
Liela Food Services and General Trading	Leynette Moos	Gerhard Moos (Spouse)	Koukamma LM	21 840
Ndlambe FM	O Shuping	D Shuipng(Spouse)	Dept of COGTA	69 000
Zutari (Pty) Ltd	R J Ahlschlager	H C Ahlschlager(Spouse)	SIU	515 012
	I Gassant	S Seegers (Child)	City of Cape Town	
		N Allie (Child)	SARS	
		G Mariam	SARS	
	K P Nadasen	K Nadasen (Spouse)	Dept of Public Works	
	E T Marques	M R Marques (Spouse)	Dept of Internal Affairs	
	J Ndala	T J Ndala (Spouse)	G P (Dept of Education)	
				626 552

Awards to close family members of persons in the service of the state 2022

Supplier Name	Name	Relation to Supplier	Organ of the State	Total
CHM Vuwani Computer Solution CC	D Monks	Child of P Monks	Clr. Nelson Mandela Bay Municipality	104 687
Malwande Construction t/a Miya Electrical	E Nstukazi	Spouse - T Ntsukazi	SADF	7 367
				112 054

SARAH BAARTMAN DISTRICT MUNICIPALITY

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Notes to the Group Annual Financial Statements

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38. Financial instruments disclosure

Categories of financial instruments

2023

Financial assets

	Note	At amortised cost	Total
Cash and cash equivalents	8	57 307 777	57 307 777
Short term investments	7	164 000 000	164 000 000
Receivables from exchange transactions	3	3 064 820	3 064 820
Receivables from non-exchange transactions	4	4 513 931	4 513 931
		228 886 528	228 886 528

Financial liabilities

	Note	At amortised cost	Total
Payables from exchange transactions	14	11 868 506	11 868 506

2022

Financial assets

	Note	At amortised cost	Total
Cash and cash equivalents	8	87 988 489	87 988 489
Short term investments	7	141 000 000	141 000 000
Receivables from exchange transactions	3	3 666 617	3 666 617
Receivables from non-exchange transactions	4	1 574 644	1 574 644
		234 229 750	234 229 750

Financial liabilities

	Note	At amortised cost	Total
Payables from exchange transactions	14	8 323 112	8 323 112

SARAH BAARTMAN DISTRICT MUNICIPALITY

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39. 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 council and includes a note to the group annual financial statements.

Reasons	2023	2022
Emergency	-	9 200
Goods or services are produced or available from a single supplier	1 772 117	1 047 683
In any other exceptional case where it is impractical to follow supply chain processes	2 662 112	2 076 900
	4 434 229	3 133 783

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40. Budget differences

Material differences between budget and actual amounts

Variances in the budget amounts and the actual amounts are considered material when the actual amount is 10% more than the budget for both revenue and expenditure.

The material variances are as follows:

Investment revenue

The variance of 75% is attributable to fluctuations in the prime-lending rate which affects the interest earned. The prime lending rate increased by 75 basis points in September 2022, 25 basis points in January 2023 and by another 50 basis points in March 2023. In addition, the municipal entity (CDDA) had an agreement with a funder that the current year interest from the conditional grant is due to the entity.

Transfers recognised - operational

The variance of 21% is attributable to grants from the Local Government SETA being recognised when claimed.

Other own revenue

Based on the principles of budgeting, this area is utilised to fund the budget of the Municipality and therefore the budgeted amount is high. The amount reflected in the financial statements is however actual other revenue received during the year. The variance therefore relates to the portion utilised to balance the revenue budgeted from the accumulated surplus.

Employee costs

- Remuneration of employees

The variance of 11% is attributable to vacancies. This resulted in savings in employee related costs

- Remuneration of Councillors

The variance of 23% is attributable to Skills Development Levies that have been re-allocated to operational costs based on mSCOA requirements.

Depreciation and asset impairment

The variance of 25% is attributable to fewer asset purchases compared to planned purchases.

Transfers and grants

The total variance of 36% is mainly attributable to underspending of the fire subsidy provided to Local Municipalities. Monies were not spent at year end as local municipalities did not timeously identify and submit their capital requests to the District Municipality.

Other expenditure

The total variance of 48% is mainly attributable to underspending on own funded projects. Other factors that contributed to the variance are as follows:

- Repairs and maintenance for renovations on the ground floor did not take place as planned.

- Delayed project implementation due to various reasons.

Three approved projects of the municipal entity (CDDA) was not implemented as a result of change in strategy and approach.

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40. Budget differences (continued)

Capital expenditure

The variance of 78% is attributable to the following

- Underspending on ICT capital projects due to lack of sufficient resources in the ICT section.

The project of relocation of the District Offices to new Offices in Addo did not take place as planned reasons.

The installation of new lifts and Aluminium Windows did not take place as bids had to be re-advertised twice due to bids being non-responsive.

Material difference between original and final budget

Revenue - Transfers recognised

An adjustment was required because of additional grants received from Provincial Departments.

Other own revenue

Adjustments relate to funds that were committed based on procurement processes.

Expenditure - Transfers and grants

Adjustments relate to expenditure to be incurred in respect of additional grants from Provincial Departments as well as increased budget allocations for support to local municipalities.

Other expenditure

Adjustment relates to funds committed on projects based on procurement processes and additional funds required under the operational budget.

Capital expenditure

Adjustments were required due to funds that were committed and bid processes that commenced in 2022.

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41. Segment information

General information

Identification of segments

The municipality is organised and reports to management on the basis of four major functional areas: Municipal Manager, Finance and Corporate Services, Planning and Development and Infrastructure and Development. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

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

Aggregated segments

The municipality operates throughout the Eastern Province in seven cities. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout the Eastern Province were sufficiently similar to warrant aggregation.

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:

Reportable segment

Segment 1
Segment 2
Segment 3
Segment 4
Segment 5

Goods and/or services

Municipal Manager
Finance and Corporate Services
Planning and Development
Infrastructure and Development
Economic Development - Municipal Entity

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41. Segment information (continued)

Segment surplus or deficit, assets and liabilities

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	Municipal Manager	Finance and Corporate Services	Planning and Development	Infrastructure and Development	Economic Development - Municipal Entity	Total
Revenue from exchange transactions						
Rental of facilities and equipment	-	109 739	-	-	-	109 739
Commission received	-	64 342	-	-	-	64 342
Interest earned	-	16 878 479	-	-	7 13 840	17 592 319
Job evaluation fees	-	1 082 793	-	-	-	1 082 793
Revenue from non-exchange transactions						
Actuarial gain on post employment medical benefits	8 402 672	-	-	-	-	8 402 672
Government grants and subsidies	33 558 839	73 806 125	-	7 196 496	-	114 561 460
Other revenue	210 363	266 617	-	133 531	-	610 511
Total segment revenue	42 171 874	92 208 095	-	7 330 027	7 13 840	142 423 836
Entity's revenue						142 423 836
Expenditure						
Employee related costs	6 962 176	16 771 234	5 627 270	24 314 016	3 837 460	57 512 156
Remuneration of councillors/board	6 929 632	-	-	-	267 831	7 197 463
Depreciation and amortisation	-	2 225 874	-	-	30 573	2 256 447
Impairment of assets	-	39 164	-	-	20 569	59 733
Grants and subsidies paid	-	863 923	-	19 623 013	-	20 486 936
Contracted services	845 793	2 467 523	-	392 658	-	3 705 974
General expenses	7 160 154	14 462 973	6 041 408	17 954 038	2 228 707	47 847 280
Loss on disposal of property, plant and equipment	-	677 786	-	-	-	677 786
Discounting of post employment medical benefit	7 092 502	-	-	-	-	7 092 502
Increase in provisions	-	593 481	-	-	-	593 481
Total segment expenditure	28 990 257	38 101 958	11 668 678	62 283 725	6 385 140	147 429 758
Total segmental surplus/(deficit)						(5 005 922)

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42. Summary of Investment Accounts

FINANCIAL INSTITUTION	ACCOUNT NUMBER	PERIOD MNTHS	% INT RATE	DATE INVESTED	DATE MATURING	MATURE 2022/23	INVEST / MATURE 2022/23	BALANCE 30 JUNE 2023
STANDARD BANK	088430537209	12	5.271	2021-08-04	2022-08-03	-	11 000 000	-
ABSA GROUP	2080157847	10	5.350	2021-12-20	2022-10-17	-	35 000 000	-
STANDARD BANK	088430537210	10	5.700	2021-12-21	2022-10-21	-	40 000 000	-
INVESTEC	JA11028159	3	5.900	2022-08-02	2022-11-02	-	19 000 000	-
NEDBANK	03788150148000160	12	5.970	2021-12-21	2022-12-20	-	11 000 000	-
ABSA GROUP	2080567814	6	7.500	2022-08-02	2023-01-30	-	7 000 000	-
ABSA GROUP	2080779821	5	8.330	2022-11-29	2023-04-28	-	37 000 000	-
FNB	762008861013	12	7.640	2022-08-02	2023-08-01	-	-	51 000 000
NEDBANK	03788150148000161	12	8.210	2022-08-02	2023-08-01	-	-	30 000 000
STANDARD BANK	088430537211	12	8.049	2022-08-02	2023-08-01	-	-	3 000 000
STANDARD BANK	088430537212	12	8.810	2022-11-29	2023-11-28	-	-	30 000 000
ABSA BANK	2081088621	12	10.030	2023-05-26	2024-05-24	-	-	38 000 000
INVESTEC	JA11252278	12	9.550	2023-05-26	2024-05-24	-	-	7 000 000
STANDARD BANK	088430537213	12	10.049	2023-06-02	2024-05-31	-	-	5 000 000
Balance 30 June 2023								164 000 000

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43. Conditional grants and receipts

	Unspent Balance 30 June 2022	Contributions / Adjustments Rand	Interest Allocated Rand	Value Added Taxation Rand	Current Year Receipts Rand	Transfer to Revenue Rand	Unspent Balance 30 June 2023 Rand
Finance Management Grant (FMG)	-	-	-	(136 077)	1 000 000	(863 923)	-
Rural Roads Asset Management Grant (RRAM)	-	-	-	(172 928)	2 396 000	(1 872 652)	350 420
Expanded Public Works Programme (EPWP)	-	-	-	(3 834)	1 073 000	(1 069 166)	-
	-	-	-	(312 839)	4 469 000	(3 805 741)	350 420

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44. Disclosure of Grants and Subsidies in terms of Section 123 of MFMA 56 of 2003

Name of Grant	Opening Balance	2022/2023			2022/2023						
		Quarterly Receipts	Quarterly Expenditure	Quarterly Receipts	Quarterly Expenditure	Quarterly Receipts	Quarterly Expenditure				
		Sep	Dec	Mar	Sep	Dec	Mar	Sep	Dec	Mar	Jun
Finance Management Grant	-	1 000 000	-	-	500 000	199 663	300 337	-	-	-	-
Rural Roads Asset Management Grant (RRAM)	-	1 677 000	-	719 000	977 092	336 443	12 245	719 800	-	-	719 800
Expanded Public Works Programme (EPWP)	-	269 000	483 000	321 000	116 262	265 979	572 644	118 115	-	-	118 115
	-	2 946 000	483 000	1 040 000	1 593 354	802 085	885 226	837 915			

All grants comply with DoRA and no non-compliance was recorded for the year.

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45. Events after the reporting date

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