



Ngaka Modiri Molema District Municipality
Annual financial statements
for the year ended 30 June 2022

Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2022

General Information

Legal form of entity	District Municipality DC38
Nature of business and principal activities	Water and Sanitation Service Authority, Fire Fighting and Municipal Health Services
Mayoral Committee	
Executive Mayor	Hon. Molefe Khumalo
Speaker	Cllr. Shuping Nthabiseng
Single Whip	Cllr. Maema Crosby
Infrastructure Development - Technical Services:	Cllr. Monnana Maria
Special Projects, Stakeholder Relations:	Cllr. Selekanyane Boitshoko
Community Services & Social Development:	Cllr. Mokome Madibuseng
Finance (Budget & Treasury) :	Cllr. Mabovu Thembinkosi
Inter-Governmental Relations & Spacial Planing:	Cllr. Mothibi Monnapula
Corporate Support, ICT & Shared Services:	Cllr. Letshufi Portia
LED, Agriculture, Rural Development & Shared:	Cllr. Moarabi Itumeleng
Sports, Arts, Culture & Traditional Affairs:	Cllr. Ngqobe Nombulelo
Councillors:	Cllr. Mohelekete Collin
	Cllr. Maruping Gopolang
	Cllr. Sega Kealeboga
	Cllr. Msimanga Mofusi
	Cllr. Kathazo Masego
	Cllr. Gantana Freddy
	Cllr. Pitso Ernest
	Cllr. Dala Margaret
	Cllr. Mogapi Gomotsegang
	Cllr. Phokompe Mosimagape
	Cllr. Mabalane Alamiita
	Cllr. Tlhagale Levy
	Cllr. Molete Emma
	Cllr. Cornel Dreyer
	Cllr. Laher Yusuf
	Cllr. Sebolao Brunette Tsholofelo
	Cllr. Tsagae Motseokae Petrus
	Cllr. Bamphitile Jacob Tumelo
	Cllr. Kekana Bhahare
	Cllr. Botha Jurie Hendrik
	Cllr. Gadithulwe Kabelo
	Cllr. Motlhatlhedhi Kgosiemang
	Cllr. Phokompe Mosimanegape
	Cllr. Mosiedi Gobusamang
	Cllr. Nko Keatlaletse
	Cllr. Ledikwa Kgomotso
	Cllr. Annandale Arista-Louise
	Cllr. Matsheka Semphete
	Cllr. Molefe Kedibogetse
	Cllr. Tladi Irene
	Cllr. Moruapheko Maria Merriam

Ngaka Modiri Molema District Municipality

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Annual Financial Statements for the year ended 30 June 2022

General Information

Grading of local authority	Category C
	OA Losaba
Chief Finance Officer (CFO)	SS Mphato
Registered office	Cnr Carrington Street and 1st Avenue Industrial Site Mafikeng 2745
Postal address	Private Bag X2165 Mafikeng 2745
Bankers	First National Bank
Auditors	Auditor General of South Africa

Ngaka Modiri Molema District Municipality

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Abbreviations used:

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
MIG	Municipal Infrastructure Grant
MPAC	Municipal Public Accounts Committee
GAAP	Generally Accepted Accounting Practice

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Accounting Officer Responsibilities and Approval

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

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

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

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

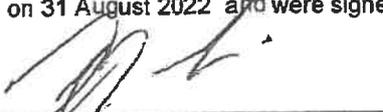
The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2023 and, in the light of this review and the current financial position, he 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 government grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The annual financial statements set out on page 7 - 10, which have been prepared on the going concern basis, were approved by the on 31 August 2022 and were signed on its behalf by:



Accounting Officer
MJ Rassol (Acting)

Ngaka Modiri Molema District Municipality

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Annual Financial Statements for the year ended 30 June 2022

Accounting Officer's Report

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

1. Review of activities

Main business and operations

The municipality is an investment and management entity with trading controlled entities engaged in water and sanitation service authority, fire fighting and municipal health services. The municipality operates principally in South Africa and [state other countries].

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

Net deficit of the municipality was -18 376 673 (2021: surplus 190 846 078).

2. Going concern

Ngaka Modiri Molema District Municipality earned a deficit of -R18 376 673 (21: R190 846 078) during the period ended 30 June 2022 and as at that date, the municipality had an accumulated surplus of R 5 449 538 017 (2021: R 5 467 914 690)

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

3. Subsequent events

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

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Corporate governance

General

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

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2017. The discuss the responsibilities of management in this respect, at council meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

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Accounting Officer's Report

Audit and risk committee

In terms of Section 166 of the Municipal Finance Management Act, The Municipality must appoint members of the Audit Committee. The Municipality was satisfied that the Audit Committee of the municipality then, constituted by the non-executive directors was properly constituted to fulfil its role and advise the council of its responsibilities as provided in Section 166 of the Municipal Finance Management Act.

The Audit and Risk committee convened during the year on the following dates:

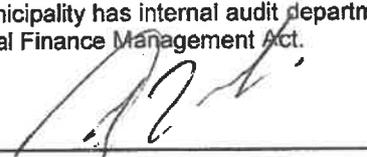
- 06 August 2021 – Ordinary committee
- 27 August 2021-Special meeting
- 30 August 2021-Special meeting
- 28 September 2021-Ordinary committee
- 09 December 2021 -Special meeting
- 17 January 2022-Ordinary Meeting
- 22 January 2022- In Committee meeting (AFS Consulting and ARC Chairperson)
- 23 January 2022- In Committee meeting (AFS Consulting and ARC Chairperson)
- 18 March 2022-Ordinary meeting
- 17 May 2022-Special Meeting

New Appointed Members of the Audit and Risk Committee:

- Mr. S Ngobeni -Chairperson
- Mr. F Buys -Member (Member resigned on the 6 June 2022)
- Mr. T Mokale- Member
- Mr. I Motala-Member
- Mr. R Mnisi-Member

Internal audit

The municipality has internal audit department that execute the function of the internal audit as provided in Section 165 of the Municipal Finance Management Act.



Accounting Officer
MJ Rassol (Acting)

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Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories	7	178 544 085	142 150 115
Receivables from exchange transactions	8	3 587 490	16 493 970
Receivables from non-exchange transactions	9	26 199	1 491 174
VAT receivable	10	36 501 001	19 589 227
Cash and cash equivalents	11	454 325 568	580 811 567
		672 984 343	760 536 053
Non-Current Assets			
Investment property	3	17 777 140	17 991 718
Property, plant and equipment	4	5 188 140 207	5 107 885 814
Other financial assets	5	326 356	311 141
		5 206 243 703	5 126 188 673
Total Assets		5 879 228 046	5 886 724 726
Liabilities			
Current Liabilities			
Payable from exchange transactions	14	281 284 558	269 455 789
Employee benefit obligation	6	3 238 339	2 020 621
Unspent conditional grants and receipts	12	459 452	-
Provisions	13	43 421 419	37 408 769
		328 403 768	308 885 179
Non-Current Liabilities			
Employee benefit obligation	6	101 286 261	109 924 867
Total Liabilities		429 690 029	418 810 046
Net Assets		5 449 538 017	5 467 914 680
Accumulated surplus		5 449 538 017	5 467 914 680
Total Net Assets		5 449 538 017	5 467 914 680

* See Note 43

Ngaka Modiri Molema District Municipality

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Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	15	100 985	140 736
Commission income		34 804	28 849
Rental of facilities and equipment	16	195 351	220 764
Licences and permits	18	72 270	70 598
Other revenue	20	4 227 597	322 141
Interest received	21	27 642 173	23 824 011
Total revenue from exchange transactions		32 273 180	24 607 099
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	23	1 198 909 750	1 236 002 749
Government Levy Relief	24	-	489 171
Public contributions and donations	25	-	422 844
Fines, Penalties and Forfeits	17	-	8 093
Total revenue from non-exchange transactions		1 198 909 750	1 236 922 857
Total revenue		1 231 182 930	1 261 529 956
Expenditure			
Employee related costs	26	(404 117 137)	(386 583 161)
Remuneration of councillors	27	(12 915 358)	(12 820 367)
Depreciation and amortisation	28	(212 446 067)	(200 681 819)
Finance costs	30	(10 903 996)	(11 483 828)
Lease rentals on operating lease	19	(819 940)	(868 196)
Inventory consumed	31	(30 699 526)	(41 812 085)
Debt impairment	32	(3 543 709)	-
Contracted services	33	(263 971 747)	(136 201 557)
Transfers and Subsidies	22	(60 000 000)	(65 000 000)
General Expenses	34	(103 790 880)	(80 826 706)
Total expenditure		(1 103 208 360)	(936 277 719)
Operating surplus	36	127 974 570	325 252 237
Loss on write off of assets		-	(14 135 903)
VIP Transfers to local communities	7	(118 894 467)	(100 127 955)
Actuarial gains/(losses)	6	27 116 207	(5 746 460)
Impairment loss	29	(46 702 221)	(10 765 099)
Inventories losses/write-downs	7	(7 870 762)	(3 630 742)
		(146 351 243)	(134 406 159)
(Deficit) surplus for the year		(18 376 673)	190 846 078

* See Note 43

Ngaka Modiri Molema District Municipality

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Annual Financial Statements for the year ended 30 June 2022

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	5 272 167 034	5 272 167 034
Adjustments		
Prior year adjustments 43	(4 900 625)	(4 900 625)
Balance at 01 July 2020 as restated*	5 277 068 602	5 277 068 602
Changes in net assets		
Surplus for the year	190 846 078	190 846 078
Total changes	190 846 078	190 846 078
Restated* Balance at 01 July 2021	5 467 914 690	5 467 914 690
Changes in net assets		
Surplus for the year	(18 376 673)	(18 376 673)
Total changes	(18 376 673)	(18 376 673)
Balance at 30 June 2022	5 449 538 017	5 449 538 017
Note(s)		

* See Note 43

Ngaka Modiri Molema District Municipality

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Annual Financial Statements for the year ended 30 June 2022

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		4 631 007	766 856
Grants		1 199 369 202	1 193 566 749
Interest income		27 671 263	23 658 874
		<u>1 231 671 472</u>	<u>1 217 992 479</u>
Payments			
Employee costs		(396 281 739)	(383 660 829)
Suppliers		(589 579 131)	(441 113 074)
Finance costs		(130 439)	(59 668)
		<u>(985 991 309)</u>	<u>(824 833 571)</u>
Net cash flows from operating activities	37	<u>245 680 163</u>	<u>393 158 908</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	<u>(372 166 162)</u>	<u>(273 838 512)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(126 485 999)</u>	<u>119 320 396</u>
Cash and cash equivalents at the beginning of the year		580 811 567	461 491 171
Cash and cash equivalents at the end of the year	11	<u>454 325 568</u>	<u>580 811 567</u>

The accounting policies on pages 13 to 48 and the notes on pages 49 to 98 form an integral part of the annual financial statements.

* See Note 43

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Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	108 996	-	108 996	100 985	(8 011)	
Commission income	-	-	-	34 804	34 804	
Rental of facilities and equipment	227 295	-	227 295	195 351	(31 944)	
Licences and permits	75 050	-	75 050	72 270	(2 780)	
Other Income	283 116	509 422	792 538	475 887	(316 651)	
Gain on Disposal of Assets	-	3 377 632	3 377 632	3 751 709	374 077	
Interest received - investment	-	26 385 837	26 385 837	27 642 173	1 256 336	
Total revenue from exchange transactions	694 457	30 272 891	30 967 348	32 273 179	1 305 831	
Revenue from non-exchange transactions						
Transfer revenue						
Transfers & subsidies grants-Operational	878 563 000	265 403	878 828 403	879 200 202	371 799	
Total revenue	879 257 457	30 538 294	909 795 751	911 473 381	1 677 630	
Expenditure						
Employee related costs	(402 448 118)	200 000	(402 248 118)	(404 117 137)	(1 869 019)	
Remuneration of councillors	(14 751 947)	-	(14 751 947)	(12 915 358)	1 836 589	
Depreciation and amortisation	(222 627 011)	-	(222 627 011)	(212 446 067)	10 180 944	
Impairment loss	-	-	-	(46 702 221)	(46 702 221)	
Finance costs	-	-	-	(10 812 857)	(10 812 857)	
Lease rentals on operating lease	-	-	-	(819 940)	(819 940)	
Inventory consumed	(153 085 212)	(99 700 241)	(252 785 453)	(30 699 526)	222 085 927	
Debt Impairment	-	-	-	(3 543 709)	(3 543 709)	
Contracted Services	(159 700 246)	(89 176 000)	(248 876 246)	(263 971 747)	(15 095 501)	
Transfers and Subsidies	(60 000 000)	-	(60 000 000)	(60 000 000)	-	
General Expenses	(94 358 750)	(43 905 766)	(138 264 516)	(103 790 880)	34 473 636	
Total expenditure	(1 106 971 284)	(232 582 007)	(1 339 553 291)	(1 149 819 442)	189 733 849	
Operating deficit	(227 713 827)	(202 043 713)	(429 757 540)	(238 346 061)	191 411 479	
Transfers and subsidies to local communities	-	-	-	(118 894 467)	(118 894 467)	
Transfers and subsidies - capital	320 169 000	-	320 169 000	319 709 548	(459 452)	
Actuarial gains/losses	-	-	-	27 116 207	27 116 207	
Inventory write down/gain or loss	-	-	-	(7 870 762)	(7 870 762)	
	320 169 000	-	320 169 000	220 060 526	(100 108 474)	
Surplus/(Deficit)	92 455 173	(202 043 713)	(109 588 540)	(18 285 535)	91 303 005	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	92 455 173	(202 043 713)	(109 588 540)	(18 285 535)	91 303 005	

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Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	(150 035 212)	(99 700 241)	(249 735 453)	178 544 085	428 279 538	
Receivables from exchange transactions	-	-	-	3 587 490	3 587 490	
Receivables from non-exchange transactions	-	-	-	26 199	26 199	
VAT receivable	-	-	-	36 501 001	36 501 001	
Cash and cash equivalents	264 031 051	122 150 442	386 181 493	454 325 568	68 144 075	
	113 995 839	22 450 201	136 446 040	672 984 343	536 538 303	
Non-Current Assets						
Investment property	13 873 492	-	13 873 492	17 777 140	3 903 648	
Property, plant and equipment	5 424 711 576	(88 818 156)	5 335 893 420	5 188 140 207	(147 753 213)	
Other financial assets	295 993	-	295 993	326 356	30 363	
	5 438 881 061	(88 818 156)	5 350 062 905	5 206 243 703	(143 819 202)	
Total Assets	5 552 876 900	(66 367 955)	5 486 508 945	5 879 228 046	392 719 101	
Liabilities						
Current Liabilities						
Payable from exchange transactions	234 268 287	(40 322 498)	193 945 789	281 284 558	87 338 769	
Employee benefit obligation	-	-	-	3 238 339	3 238 339	
Unspent conditional grants and receipts	-	-	-	459 452	459 452	
Provisions	52 021 266	(50 220 379)	1 800 887	43 421 419	41 620 532	
	286 289 553	(90 542 877)	195 746 676	328 403 768	132 657 092	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	101 286 261	101 286 261	
Provisions	48 911 295	(27 984 587)	20 926 708	-	(20 926 708)	
	48 911 295	(27 984 587)	20 926 708	101 286 261	80 359 553	
Total Liabilities	335 200 848	(118 527 464)	216 673 384	429 690 029	213 016 645	
Net Assets	5 217 676 052	52 159 509	5 269 835 561	5 449 538 017	179 702 456	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	5 217 676 052	52 159 509	5 269 835 561	5 449 538 017	179 702 456	

Ngaka Modiri Molema District Municipality

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

Figures in Rand	Note(s)	2022	2021
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1. Presentation of Annual Financial Statements

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

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

Management considers key financial metrics and approved medium-term budgets, MFMA Section 71 reports together with the municipality's dependency on grants from national and provincial government, to conclude that the going concern assumption used in the compiling of its annual financial statements, is appropriate. The COVID-19 disaster has not yet affected the going concern assumption, however management is continuously assessing any indicators of negative impact.

1.3 Materiality

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

Materiality has been considered in determining whether information is required to be recognised, measured, presented and disclosed in accordance with the requirements in the Standards of GRAP as well as assessing the effect of omissions, misstatements and errors on the financial statements.

Budget information

Variances between budget and actual amounts are regarded as material when there is a variance of:

- 20% or greater in the statement of financial position, the statement of financial performance and the cash flow statement.

1.4 Significant judgements and sources of estimation uncertainty

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

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

Ngaka Modiri Molema District Municipality

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete stock

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

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. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Allowance for doubtful debts

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

1.5 Investment property

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

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

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1.5 Investment property (continued)

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

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

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

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

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties

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

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

Fair value

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

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

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

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

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

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

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1.5 Investment property (continued)

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

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

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

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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1.6 Property, plant and equipment (continued)

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

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

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

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

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

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value. The depreciation charge for each period is recognised in surplus or deficit.

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

Item	Depreciation method	Average useful life
Buildings	Straight-line	8 - 50
Electricity infrastructure	Straight-line	5 - 50
Water infrastructure	Straight-line	10 - 100
Sewerage Infrastructure	Straight-line	10 - 70
Motor vehicles	Straight-line	1 - 10
Office equipment	Straight-line	3 - 7
Furniture and fittings	Straight-line	7 - 10
Plant and equipment	Straight-line	2 - 10
Specialised vehicles	Straight-line	1 -15
Infrastructure	Straight-line	

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

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

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

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

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

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

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Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

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

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1.7 Intangible assets (continued)

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	1 - 5 years

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

1.8 Financial instruments

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

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

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

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

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

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

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

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Accounting Policies

1.8 Financial instruments (continued)

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

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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

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

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

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

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

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

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

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;

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Accounting Policies

1.8 Financial Instruments (continued)

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

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Accounting Policies

1.8 Financial instruments (continued)

Classification

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

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

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

Class	Category
Trade and other payables from exchange transactions	Financial liability measured at fair value

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

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Accounting Policies

1.8 Financial instruments (continued)

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

Financial instruments at fair value.

Financial instruments at amortised cost.

Financial instruments at cost.

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

Fair value measurement considerations

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

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Accounting Policies

1.8 Financial instruments (continued)

adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

- derecognises the asset; and
- recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

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

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

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

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity derecognises a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as

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Accounting Policies

1.8 Financial instruments (continued)

having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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

Presentation

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

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

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

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

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

1.9 statutory receivables

Identification

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

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

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

Statutory receivables of the municipality include items such as:

- Traffic fines
- Value Added Tax.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or

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1.9 statutory receivables (continued)

- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

Accrued interest

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

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

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, a municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

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1.9 statutory receivables (continued)

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

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

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

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

1.10 Leases

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.11 Inventories

Inventories are assets in the form of materials or supplies to be consumed or distributed in the rendering of services or held for distribution in the ordinary course of operations.

Initial Measurement

Inventories are recognised as an asset if it is probable that future economic benefits or service potential associated with the item will flow to the municipality and the cost of the inventories can be measured reliably.

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Accounting Policies

1.11 Inventories (continued)

Subsequent Measurement

Subsequently inventories are measured at the lower of cost and net realisable value unless distributed through a non-exchange transaction or consumed in the production process of goods to be distributed at no charge or for a nominal charge, in which case they are measured at the lower of cost and current replacement cost.

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

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

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

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

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

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

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

Derecognition

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

The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Redundant and slow-moving inventories are identified and written down/written off. Inventories identified for write down/writeoff, but for which a council resolution to authorise the write down/write off, has not yet been obtained, are provided for as a provision for obsolete stock. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise.

1.12 Impairment of cash-generating assets

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

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).

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

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1.12 Impairment of cash-generating assets (continued)

Designation

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

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

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

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use, the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

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1.12 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

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Accounting Policies

1.13 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).

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

- the 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.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash generating assets, are as follows:

Assets acquired by the municipality are mainly used as per the municipality's mandate for service delivery purposes to customers that pay for the services but also to indigents. As the assets that are used for service delivery are similar, assets that generate cash flows cannot be distinguished from the non-cash generating assets and therefore are distinguished as non-cash generating.

* In the event that the assets that generate cash flows can be clearly identified the assets will be designated as cash generating.

Designation

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

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

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.
- The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

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

Impairment is a loss in the 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).

Identification

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

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

Value in use

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

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as

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Accounting Policies

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

the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

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

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

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1.14 Employee benefits

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

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

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

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

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

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

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

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

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

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

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

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

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

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

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

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Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits

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

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

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Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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1.14 Employee benefits (continued)

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

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

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

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1.14 Employee benefits (continued)

Other long term employee benefits

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

The municipality has an obligation to provide long term service allowance benefits to all of its employees. The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities.

Actuarial gains and losses on the long term service awards are recognised in the statement of financial performance. The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

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

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

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

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

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

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

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

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

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

1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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Accounting Policies

1.15 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating 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 constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

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

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

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

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

- financial difficulty of the debtor;

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Accounting Policies

1.15 Provisions and contingencies (continued)

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

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

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

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and .

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

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

1.16 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.17 Revenue from exchange transactions

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

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

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

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Accounting Policies

1.17 Revenue from exchange transactions (continued)

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).

Sale of goods

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

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

Rendering of services

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

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

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

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

Interest

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

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

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

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

1.18 Revenue from non-exchange transactions

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

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Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

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Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Services in-kind

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

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

1.19 Investment income

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

1.20 Borrowing costs

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

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

1.21 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

The assessment of whether 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.

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Accounting Policies

1.21 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

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

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

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

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

1.22 Comparative figures

Prior year Comparative

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 restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is 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.

Current year Comparative

Budgeted amounts have been included in the annual financial statements for the current financial year only.

1.23 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.24 Fruitless and wasteful expenditure

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

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

Additional disclosure for fruitless and wasteful expenditure is disclosed in note 51.

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1.25 Irregular expenditure

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

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

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

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

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

Additional disclosure for irregular expenditure is disclosed in note 52.

1.26 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.

Measurement

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

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

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1.27 Accumulated Surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surplus realised during a specific financial year is credited against the accumulated surplus.

Prior year adjustments, relating to income and expenditure are credited and/or debited against accumulated surplus/(deficit) when retrospective adjustments are made.

1.28 Budget information

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

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

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

The approved budget covers the fiscal period from 2021/07/01 to 2022/06/30.

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

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

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

1.29 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

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

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

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

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

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

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

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Accounting Policies

1.29 Related parties (continued)

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

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

1.30 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.

1.31 Disclosure in terms of Section 45 of the Municipal Supply Chain Management Regulations

The notes to the annual financial statements of a municipality must disclose particulars of any award of more than R2 000 to a person who is a spouse, child, or parent of such a person in the service of the state, or has been in the service of the state in the previous twelve months

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

iGRAP 21: The Effect of Past Decisions on Materiality

Background

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

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

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

iGRAP 21 addresses the following two issues:

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

The effective date of these interpretation have not yet been set. 01 April 2023.

The municipality expects to adopt the interpretation for the first time in the 2022/2023 01 April 2023.

The impact of this interpretation is currently being assessed.

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3. Investment property

	2022	2021			
Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
24 139 725	(6 362 585)	17 777 140	24 139 725	(6 148 007)	17 991 718

Investment property

Reconciliation of Investment property - 2022

Investment property

Opening balance	Depreciation	Total
17 991 718	(214 578)	17 777 140

Reconciliation of Investment property - 2021

Investment property

Opening balance	Depreciation	Total
18 206 296	(214 578)	17 991 718

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.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,

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3. Investment property (continued)

- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

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4. Property, plant and equipment

	2022		2021			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	20 588 362	-	20 588 362	20 588 362	-	20 588 362
Buildings	211 009 460	(94 043 468)	116 965 992	200 746 286	(88 770 397)	111 975 889
Other property, plant and equipment	95 802 554	(31 722 777)	64 079 777	62 823 014	(26 267 766)	36 555 248
Infrastructure	0 702 044 547	(5 715 538 471)	4 986 506 076	0 403 656 701	(5 464 890 386)	4 938 766 315
Total	1 029 444 923	(5 841 304 716)	5 188 140 207	0 687 814 363	(5 579 928 549)	5 107 885 814

Reconciliation of property, plant and equipment - 30 June 2022

	Opening balance	Additions	Disposals (Write-off)	Work In Progress	Depreciation	Impairment loss	Total
Land	20 588 362	-	-	-	-	-	20 588 362
Buildings	111 975 889	6 631 630	(29 561)	3 631 619	(5 240 106)	(3 479)	116 965 992
Other property, plant and equipment	36 555 248	30 537 082	-	-	(3 012 553)	-	64 079 777
Infrastructure	4 938 766 315	193 650 974	-	104 736 871	(203 978 903)	(46 669 181)	4 986 506 076
Total	5 107 885 814	230 819 686	(29 561)	108 368 490	(212 231 562)	(46 672 660)	5 188 140 207

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 30 June 2021

	Opening balance	Additions	Disposals (Write-off)	Work In Progress	Depreciation	Impairment loss	Total
Land	20 588 362	-	-	-	-	-	20 588 362
Buildings	115 249 009	57 432 832	(45 132)	(55 854 185)	(4 774 007)	(32 628)	111 975 889
Other property, plant and equipment	24 036 824	18 571 187	(3 345 567)	-	(2 704 050)	(3 146)	36 555 248
Infrastructure	4 902 064 044	132 146 679	(10 745 409)	119 234 089	(193 203 762)	(10 729 326)	4 938 766 315
	5 061 938 239	208 150 698	(14 136 108)	63 379 904	(200 681 819)	(10 765 100)	5 107 885 814

Pledged as security

No property, plant and equipment were pledged as security

Other information

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4. Property, plant and equipment (continued)

Property, plant and equipment in the process of being constructed or developed

The Following projects are currently experiencing delays or were halted. For each project, the reason for the delay or halting of the project were noted. The carrying amount of those assets included in the balance of the Property, Plant and Equipment are listed below.

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected

Groot Marico WWTP	51 926 765	51 926 765
Groot Marico WWTP was delayed due to land ownership disputes. The project continued after the municipality bought the farm on which the project was started.		
Zeerust Waste Water Treatment Plant Phase 2	160 468 135	103 220 976
Zeerust WWTP Phase 2 was delayed due to non funding for the project. The project had to be re-advertised when funding was made available		
	212 394 900	155 147 741

Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)

Dinokana Bulk Water Supply Augmentation Phase 2	17 795 904	17 795 904
There is currently a litigation process with the contractor Beyond Build Construction for non payment of the certificates		
Madibogo Water Supply	15 158 496	15 158 496
The Project was placed on hold because there was no source of water.		
Mafikeng South Bulk Water Supply	15 359 021	15 359 021
Project seeded to Sedibeng project will be handed over to Ngaka Modiri Molema District Municipality after completion.		
Part of Seweding, Magogoe Tar & Phatsima Water Supply	3 223 586	3 223 586
Project seeded to Sedibeng project will be handed over to Ngaka Modiri Molema District Municipality after completion		
	51 537 007	51 537 007

Reconciliation of Work-in-Progress -30 June 2022

	Included within	Total
Opening balance	562 395 264	562 395 264
Additions/capital expenditure	308 651 020	308 651 020
Transferred to completed items	(200 282 603)	(200 282 603)
	670 763 681	670 763 681

Reconciliation of Work-in-Progress -30 June 2021

	Included within	Total
Opening balance	499 015 360	499 015 360
Additions/capital expenditure	252 959 410	252 959 410
Transferred to completed items	(189 579 506)	(189 579 506)
	562 395 264	562 395 264

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4. Property, plant and equipment (continued)

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.

5. Other financial assets

Residual interest at cost

Momentum Flexible investment Terms and conditions	326 356	311 141
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Non-current assets

At amortised cost	326 356	311 141
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Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Fair value hierarchy of financial assets at fair value

The municipality has a flexible investment account with Momentum, the investment yields interest of 7.45 % per annum.

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6. Employee benefit obligations		
Defined benefit plan		
Post Retirement Medical Aid Benefits		
	2022	2021
Present value of the fund obligation at the beginning of the year	(89 217 878)	(66 960 723)
Current service cost	(8 435 536)	(6 586 252)
Current interest cost	(8 955 355)	(9 484 975)
Actuarial gain/(loss)	25 886 399	(6 315 156)
Payment made	145 401	129 228
	(80 576 969)	(89 217 878)
Long Service Bonus Awards		
	2022	2021
Present value of the fund obligation at the beginning of the year	(22 727 595)	(21 001 996)
Current service cost	(2 099 856)	(1 877 006)
Current Interest cost	(1 818 202)	(1 670 940)
Actuarial gain/losses	1 229 808	552 456
Payments made	1 468 229	1 269 891
	(23 947 616)	(22 727 595)
TOTAL NON-CURRENT EMPLOYEE BENEFITS		
Opening balance	(111 945 473)	(87 962 719)
Current service cost	(10 535 392)	(8 463 258)
Current interest cost	(10 773 557)	(11 155 915)
Actuarial gain/losses	27 116 207	(5 762 700)
Payments made	1 613 630	1 399 119
	(104 524 585)	(111 945 473)
Non-current liabilities	(101 287 246)	(109 924 852)
Current liabilities	(3 238 339)	(2 020 621)
	(104 525 585)	(111 945 473)
Calculation of actuarial gains and losses		
Actuarial (gains) losses – Post Retirement medical aid benefit	25 886 399	(6 315 156)
Actuarial (gains) losses – Long Service award	1 229 808	552 456
	27 116 207	(5 762 700)

6.1 Post Retirement Medical Aid Benefits

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6. Employee benefit obligations (continued)

The municipality provides certain post - retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member who is on the current conditions of service is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The municipality makes monthly contribution for health care arrangements to the following medical aid schemes:

- Bonitas
- Hosmed
- Keyhealth
- LA Health
- Samwumed

The most recent Actuarial Valuation of the Present value of the Defined Benefit Obligation were carried out at the 30 June 2021 by One Pangaea Expertise and Solutions, fellow of the Actuarial Society of South Africa. The present value of the Defined Benefit Obligation and the related current service and past service cost were measured using the projected unit credit method.:

The members are made up as follows:

	Valuation at 30 June 2022	Valuation at 30 June 2021
Current (In Service) Members	628	679
Continuation Members(e.g. Retireers,widows,ophans)	5	7
	633	686

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

Liability as at 01 July 2021	(89 197 841)	(66 960 723)
Benefits paid	145 401	149 265
Net expense recognised in the statement of financial performance	8 495 508	(22 386 383)
	(80 556 932)	(89 197 841)

Net expense recognised in the statement of financial performance

Current service cost	(8 435 536)	(6 586 252)
Interest cost	(8 955 355)	(9 484 975)
Actuarial (gains) losses	25 886 399	(6 315 156)
	8 495 508	(22 386 383)

Calculation of actuarial gains and losses

Actuarial (gains) losses	(1 229 808)	(552 456)
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6. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	12,32 %	10,05 %
Expected increase in salaries	7,82 %	6,16 %
Expected increase in healthcare costs	9,32 %	7,66 %
Net discount rate	2,74 %	2,22 %

ThGRAP 25 defines the determination of the Discount rate as assumption, to be used as follows;

The discount rate reflects the Time Value of Money is the best approximated by reference to the market yields at the Reporting date on Government Bonds. Where there is no dip in the Market for Government Bonds with sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rates for longer maturities by extrapolating current market rates along the yield curves.

Expected Retirement Age	Valuation 2022	Valuation 2021
Female	65	65
Male	65	65

The effect of the major categories of plan assets is as follow: A nil value to the fair value of plan assets was assumed as there were no assets aside for post-employment medical subsidies funding that qualify as plan assets in terms of the requirements of GRAP25.

The basis on which the discount rate has been determined is the relative levels of the discount rate and health care cost inflation to one another rather than the nominal values. The assumption regarding the relative levels of these two rates is our expectation of the long-term average.

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase R's	One percentage point decrease R's
Effect on interest cost	8 995 611	10 997 289
Effect on service cost	6 093 040	7 536 241

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

	2022	2021	2020	2019	2018
Defined benefit obligation	80 576 969	89 217 878	66 960 723	52 830 195	34 039 000

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6. Employee benefit obligations (continued)

6.2 Long Service Awards

The long service bonus awards (LSA) plan are defined benefit plans. The municipality offers long service bonus awards for every five years of service completed, from ten years of service to 45 years inclusive.

The employees eligible for long service awards:

Eligible Employees	699	724
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Key Actuarial Assumptions used:

Discount rate	11,20 %	8,33 %
CPI	7,28 %	5,23 %
Salary increase rate	8,28 %	6,23 %
Net Discount Rate	2,70 %	1,98 %
	- %	- %

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligations

Average retirement age

The normal retirement age is 65 years. It has been assumed that the employees will retire at age 63 on average. This assumption implicitly allows for early retirement.

Withdrawal from service

If an employee leaves, the employer's liability in respect of that employee ceases.

Mortality rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used in the industry.

The Amounts recognised in the statement of financial position are as follows:	2022	2021	2020	2019
Present value of the fund obligation	23 947 616	22 727 595	21 001 996	19 037 524

Sensitivity analysis on the unfunded Accrued liability

Withdrawal Rate:

illustrated below is the effect of high and lower withdrawal rates by increasing rate by 20% and decreasing the withdrawal rate by 20%. The adjustment will result in a 5,02% increase and 5,57% decrease in the accrued liability respectively.

	20% Increase R'	30 June 2022 Valuation basis R'	20% Decrease R'
Accrued liability	25 280 479	23 947 616	22 745 260
Current Service cost	2 191 249	2 052 907	1 929 721
Expense cost	2 656 074	2 508 667	2 375 877

General Earnings inflation rate:

The effect of a 1% per annum change in the general earnings inflation assumption is illustrated below:

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6. Employee benefit obligations (continued)		
	1% Increase R'	1% Decrease R'
	30 June 2022	
	Valuation basis	
	R'	
Accrued liability	22 453 607	25 595 582
Current service cost	1 914 690	2 206 541
Expense cost	2 341 338	2 693 239
The adjustment will result in a 6,88% increase and 6,24% decrease in the accrued liability respectively.		
7. Inventories		
Raw materials, components	27 200 247	16 630 924
VIP Toilets	151 295 637	125 470 990
Water for distribution	48 201	48 201
	178 544 085	142 150 115
Inventories recognised as an expense during the year	157 464 755	145 570 782
Inventory pledged as security		
No portion of inventory has been pledged as securities.		
VIP Toilets inventory reconciliation		
Opening balance	125 470 990	44 797 386
Additions	144 719 113	180 801 559
Completed and transferred	(118 894 466)	(100 127 955)
Closing balance	151 295 636	125 470 990
8. Receivables from exchange transactions		
Trade creditors with debit balances	660 758	660 758
Deposits	2 085 659	2 085 659
less provision for impairment	(2 085 514)	-
Prepaid expenses	2 926 732	13 747 553
Net trade receivables from exchange	3 587 635	16 493 970
Trade and other receivables pledged as security		
None of the trade and other receivables were pledged as security.		
Reconciliation of provision for impairment of trade and other receivables		
Opening balance	-	-
less Impairment losses recognised	(2 085 514)	-
	(2 085 514)	-
9. Receivables from non-exchange transactions		
Government grants and subsidies	557 969	557 969
Staff debtors	929 601	922 315
less provision for impairment	(1 458 195)	-
Net total receivable from exchange	29 375	1 480 284

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9. Receivables from non-exchange transactions (continued)		
Receivables from non-exchange transactions pledged as security		
No trade and other receivables from non-exchange transactions were pledged as security or collateral		
Receivables from non-exchange transactions impaired		
As of 30 June 2022, receivables from non-exchange transactions of were impaired and provided for.		
The amount of the provision was 1 479 743 as of 30 June 2022 (: -).		
The ageing of these loans is as follows:		
Over 6 months	1 479 743	-
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	-	-
Provision for impairment	(1 479 743)	-
	(1 479 743)	-
10. VAT receivable		
VAT	36 501 001	19 589 227
11. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Bank balances	165 007 370	25 536 335
Short-term deposits	289 318 198	555 275 232
	454 325 568	580 811 567

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11. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2022	30 June 2021	30 June 2020	30 June 2022	30 June 2021	30 June 2020
FNB Cheque Acc 52910086795	165 055 473	71 192 411	113 779 888	165 007 370	25 636 915	108 649 626
FNB Call Account 62859822374	17 765 531	24 730	-	17 765 531	24 730	-
FNB Call Account 62825653016	26 365 768	21 816 146	1 940 456	26 365 768	21 816 146	1 940 456
ABSA Call deposit 160432220101	329 613	322 504	317 183	329 613	340 526	317 183
FNB 8888886092907000	-	-	28 274	-	-	28 274
FNB Call account 62445709746	3 796 149	340 845 396	170 902 118	3 796 149	340 845 386	170 902 118
FNB Call Account 62858604369	30 588 459	29 528 475	-	30 588 459	29 528 475	-
Nedbank investment 03/7881001518/000014	-	-	107 067 202	-	-	107 067 202
Investec/ Ninety One FundManagers - 1234890	-	-	72 791 006	-	-	72 791 006
FNB Call Account 62860297706	185 346 421	162 719 959	-	185 346 421	162 719 959	-
FNB Call Account 62914421087	25 291 409	-	-	25 291 409	-	-
Total	454 538 823	626 449 621	466 826 127	454 490 720	580 912 137	461 695 865

The difference between the Cash and cash equivalent balance for the Cheque (primary) account as the underlying accounting records and bank confirmations/certificate is caused by the outstanding deposit and payments. These are payments made and receipts received closed to year end, therefore, they do not reflect in the banking systems:

reconciling list is available for inspection, made up of transactions which could not be processed on 30 June 2022.

A

Cheque (primary) account

	Bank statement balance	Cash book balances	Differences	Column heading
30 June 2022	165 055 473	165 007 370	48 103	-

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Rural Roads Asset Management Grant	459 452	-
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The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

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

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

These amounts are invested in a ring-fenced investment until utilised.

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13. Provisions				
Reconciliation of provisions - 2022				
	Opening Balance	Movement during the year	Leave payout	Total
Leave provision	37 408 769	9 321 159	(3 308 509)	43 421 419
Reconciliation of provisions - 2021				
	Opening Balance	Movement during the year	Leave payout	Total
leave provisions	35 488 069	5 329 958	(3 409 258)	37 408 769
*The leave provision has been reclassified from payables from exchange to provisions as the municipality does not allow cash pay out of unused leave balances at year end.				
14. Payable from exchange transactions				
Trade payables		184 149 076	149 092 646	
Transfers and subsidy payable		37 164 095	58 000 000	
Retention fees		44 635 187	41 457 989	
Employee related accruals		2 452 952	8 797 822	
Control and Clearing Accounts		2 344 846	1 891 333	
Bonus accrual		10 538 402	10 215 999	
		281 284 558	269 455 789	
15. Service charges				
Sale of water		23 948	49 341	
Sewerage and sanitation charges		77 037	91 395	
		100 985	140 736	
16. Rental of facilities and equipment				
Premises				
Premises		195 351	220 764	
17. Fines, Penalties and Forfeits				
Building Fines		-	8 093	
18. Licences and permits				
Health Certificates		72 270	70 598	
19. Lease rentals on operating lease				
Premises				
Parking		366 280	336 000	
Equipment				
Photocopying		453 660	532 196	
		819 940	868 196	

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20. Other revenue		
Sale of Write-off assets	3 751 709	-
Sale of tender documents	475 887	322 141
	4 227 596	322 141
<p>The increase in other income was due to sale of assets through an auction that took place during the year.</p>		
21. Interest received		
Investment interest revenue		
Bank	27 642 173	23 824 011
<p>Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R27 642 173 (PY: R23 824 011).</p>		
22. Transfer and subsidies		
Other subsidies		
Transfers to local municipalities	60 000 000	65 000 000

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23. Government grants & subsidies

Operating grants

Equitable share	873 573 000	916 965 000
Financial Management Grant	2 850 000	2 700 000
EPWP	2 140 000	1 139 000
LG SETA	637 202	510 749
	879 200 202	921 314 749

Capital grants

Rural Roads Asset Management Grant	2 136 548	2 561 000
Municipal Infrastructure Grant	317 573 000	312 127 000
	319 709 548	314 688 000
	1 198 909 750	1 236 002 749

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	324 699 548	318 527 000
Unconditional grants received	874 210 202	917 475 749
	1 198 909 750	1 236 002 749

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	41 878 000
Current-year receipts	317 573 000	293 727 000
Conditions met - transferred to revenue	(317 573 000)	(312 127 000)
Unspent Grant set-off against Equitable Share	-	(23 478 000)
	-	-

The grant is for provision of specific capital finance for eradicating basic municipal infrastructure backlogs for poor household, microenterprises and social institutions servicing poor communities.

EPWP

Current-year receipts	2 140 000	1 139 000
Conditions met - transferred to revenue	(2 140 000)	(1 139 000)
	-	-

Purpose of the grant is to incentivise the municipality to expand work creation efforts through the use of labour intensive delivery methods (roads maintenance and the maintenance of buildings, low traffic volume roads and rural roads, basic services infrastructure, including water and sanitation reticulation (excluding built infrastructure), other economic and social infrastructure, tourism and cultural industries, waste management, parks and beautification, sustainable land-based livelihoods, social services programmes, community safety programmes) in line with Expanded Public Works Programme guidelines.

Municipal Disaster Recovery Grant

Purpose of the grant is to provide for the immediate release of funds for disaster response

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23. Government grants & subsidies (continued)

LG SETA

Balance unspent at beginning of year	-	510 749
Current-year receipts	637 202	-
Conditions met - transferred to revenue	(637 202)	(510 749)
	<u>-</u>	<u>-</u>

Purpose of the grant is to aid in the development of a skilled and capable workforce supporting a responsive, accountable, efficient and effective local government system, through a range of learning programmes that focuses on scarce and critical skills in the respect of sectors covered by the LGSETA, the New Growth Path, the Industrial Development Action Plan, the National Skills Accord, the Green Accord, the Beneficiation Strategy of South Africa, the National Development Plan, Strategic Integrated Projects, the Rural Development Strategy, the Back to Basics Strategy, the Environmental Strategy and the Human Resource Development Strategy.

FMG

Current-year receipts	2 850 000	2 700 000
Conditions met - transferred to revenue	(2 850 000)	(2 700 000)
	<u>-</u>	<u>-</u>

Purpose of the grant is to promote and support reforms to financial management and the implementation of the MFMA.

Rural Roads Asset Management Grant

Current-year receipts	2 596 000	2 561 000
Conditions met - transferred to revenue	(2 136 548)	(2 561 000)
	<u>459 452</u>	<u>-</u>

The purpose of the grant as is to assist rural district municipalities in setting up their road asset management systems, and collect road and traffic data in line with the Road Infrastructure Strategic Framework for South Africa (RISFSA).

24. Government levy relief

Government levy relief	-	489 171
	<u>-</u>	<u>489 171</u>

25. Public contributions and donations

Donations received	-	422 844
	<u>-</u>	<u>422 844</u>

The following donations were received by the district municipality in the 2020/21 financial year:

- Two mist blowers were received from COGTA as a donation amounting to R20 400.
- A container office was received from DBSA as a donation, the value of the container is R175 178.
- Personal Protective Equipment (PPE) items to the value of R227 266 were received from SALGA

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26. Employee related costs		
Basic	231 709 655	221 132 483
Bonus	18 162 846	17 757 878
Medical aid - company contributions	23 947 674	23 119 601
Unemployment Insurance Fund	1 411 106	1 339 533
Leave pay provision charge	9 643 562	5 693 434
COVID-19 Danger Allowance	3 752 500	5 181 000
Defined contribution plans	10 535 392	8 463 258
Overtime payments	28 814 767	28 783 987
Car allowance	19 395 407	16 955 784
Housing benefits and allowances	1 005 771	945 347
Bargaining council	84 347	82 744
Pension fund contributions	43 082 381	42 731 266
Cellphone allowance	614 200	633 000
Stand-by allowance	4 580 153	6 453 241
Shift allowance	7 377 376	7 310 605
	404 117 137	386 583 161

We have re-classified Skills development levy and workman's compensation to General expenses as they are excluded from the definition of remuneration.

The increase in Employee related costs is mainly due to general increases in salaries in accordance with the Bargaining Council Agreement in place and the hiring of permanent staff.

Remuneration of Municipal Manager

Basic Salary	696 508	696 508
Car Allowance	168 000	168 000
Contributions to UIF, Medical and Pension Funds	149 994	145 872
Housing allowance	60 000	60 000
Annual Bonus	58 042	58 042
Non-Pensionable	333 744	-
	1 466 288	1 128 422

Remuneration of Chief Financial Officer

Basic Salary	573 796	583 027
Contributions to UIF, Medical and Pension Funds	147 699	143 063
Cellphone allowance	14 000	18 000
13th Cheque	47 632	48 632
Non-Pensionable	487 024	207 387
	1 270 151	1 000 109

Remuneration of Senior Manager - Corporate Services

Basic Salary	575 589	583 589
Car Allowance	84 000	84 000
Cellphone allowance	14 000	18 000
Contributions to UIF, Medical and Pension Funds	117 744	114 365
Housing allowance	151 381	138 766
13th cheque	47 632	48 632
Non-pensionable	279 636	60 332
	1 269 982	1 047 684

Remuneration of Senior Manager - Community services

Basic Salary	573 404	582 811
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26. Employee related costs (continued)		
Car Allowance	168 000	168 000
Contributions to UIF, Medical and Pension Funds	154 482	149 690
13th Cheque	47 632	48 632
Cellphone allowance	14 000	18 000
Non-Pensionable	312 385	32 749
	1 269 903	999 882
Remuneration of Senior Manager - Technical Services		
Basic Salary	587 004	595 004
Car Allowance	160 380	160 380
Cellphone allowance	14 000	18 000
Contributions to UIF, Medical and Pension Funds	117 602	114 173
Housing Allowance	112 218	112 218
Non-Pensionable	279 636	-
	1 270 841	999 775
Remuneration of Senior Manager - Chief Audit Executive		
Basic Salary	432 692	583 589
Car Allowance	168 000	168 000
13th Cheque	47 632	48 632
Contributions to UIF, Medical and Pension Funds	117 637	114 200
Cellphone Allowance	14 000	18 000
Housing Allowance	36 000	36 000
Non-pensionable	311 017	31 381
	1 126 978	999 802
27. Remuneration of councillors		
Executive Mayor	1 085 130	1 091 397
Single Whip	828 585	829 647
Mayoral Committee Members	3 788 350	3 798 722
Speaker	880 815	881 998
Councillors	6 332 545	6 218 603
	12 915 425	12 820 367
In-kind benefits		
The municipality has granted the right of use of municipal vehicles to the Municipal Mayor and Municipal Speaker.		
Additional information		
The salaries, allowance and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.		
28. Depreciation and amortisation		
Property, plant and equipment	212 231 562	200 681 819
Investment property	214 578	214 578
	212 446 140	200 896 397

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Figures in Rand	2022	2021
29. Impairment loss		
Impairments		
Property, plant and equipment	46 702 221	10 765 099
30. Finance costs		
Interest on late payments to suppliers	130 439	295 267
Interest on post-retirement benefits	10 773 557	11 188 561
	10 903 996	11 483 828
31. Inventory Consumed		
Water distribution	8 745 957	7 964 786
Material and supplies consumed	21 953 569	33 847 299
	30 699 526	41 812 085
Water bulk purchases have been reclassified from bulk purchases as per circular 93 of MFMA..Additional text		
32. Debt impairment		
Debt Imparement	3 543 708	-
Water losses		
Units Purchased (KL)	-	952 338
Free Basic Services	-	128 982
Average Cost per Unit purchased (rands per kl)	-	9
Water Loss (units)	-	799 155
Subtotal	-	7 048 546
% Net loss	-	86
Total	-	6 425 766
Units purchased	-	799 155
The Municipality's water losses for 2020/21 and 2019/20 are 86% and 98% respectively. The losses are due to illegal connections and unmetered water consumption. The reason for the decrease in the percentage water losses is attributable to a decrease in tariffs and a decrease in the units purchased in the current financial year.		
33. Contracted services		
Outsourced Services		
Catering Services	2 198 320	402 189
Security Services	26 693 531	19 679 090
Water Takers	-	27 862 612
Consultants and Professional Services		
Business and Advisory	28 540 219	31 142 413
Infrastructure and Planning	2 613 537	335 200
Legal Cost	5 465 222	6 019 599

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Figures in Rand	2022	2021
33. Contracted services (continued)		
Contractors		
Repairs and Maintenance of Building and facilities	198 460 918	50 760 454
	263 971 747	136 201 557
34. General expenses		
Assessment rates & municipal charges	2 838 846	2 273 095
Auditors remuneration	7 644 042	7 871 136
Bank charges	430 222	459 313
Cleaning Materials	9 078 835	665 827
Hire	26 196 059	18 306 952
Insurance	2 478 376	5 816 755
IT expenses	2 907 453	4 685 267
Marketing	4 744 098	3 044 366
Motor vehicle expenses	1 166 512	479 018
Fuel and oil	5 009 194	2 539 344
Placement fees	-	8 845
Printing and stationery	928 101	508 587
Promotions	508 615	-
Skills Development Levy	3 430 334	3 158 951
Subscriptions and membership fees	6 654 757	4 060 677
Telephone and fax	5 862 634	5 224 786
Transport and freight	1 458 989	146 615
Training	1 528 718	1 101 555
Subsistence and travel	297 055	607 773
Electricity	13 566 965	13 326 712
Protective clothing and uniform	1 736 139	5 491 182
Accommodation	4 149 723	611 705
Sitting allowance	753 568	438 245
Local Development Expenditure	421 645	-
	103 790 880	80 826 706
35. Auditors' remuneration		
Fees	7 644 042	7 871 136
36. Operating (deficit) surplus		
Operating (deficit) surplus for the year is stated after accounting for the following:		
Operating lease charges		
Premises		
• Parking	366 280	336 000
Equipment		
• Printing and photocopying	453 660	532 196
	819 940	868 196
Loss on sale of property, plant and equipment	-	(14 135 903)
Impairment on property, plant and equipment	46 702 221	10 765 099
Depreciation on property, plant and equipment	212 446 067	200 681 819
Employee costs	417 032 495	399 403 528

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Figures in Rand	2022	2021
37. Cash generated from operations		
(Deficit) surplus	(18 376 673)	190 846 078
Adjustments for:		
Depreciation and amortisation	212 446 067	200 681 819
Gain on sale of assets and liabilities	-	14 135 903
Impairment deficit	46 702 221	10 765 099
Debt impairment	3 543 709	-
Movements in retirement benefit assets and liabilities	(7 420 888)	23 982 721
Movements in provisions	6 012 650	1 920 700
Inventory losses or write-downs	7 870 762	3 630 742
Public contribution and donation	-	(422 844)
Government levy relief	-	(489 171)
Changes in working capital:		
Inventories	(36 393 970)	(72 001 243)
Receivables from exchange transactions	12 906 480	1 235 050
Other receivables from non-exchange transactions	1 464 975	(718 680)
Payable from exchange transactions	33 377 152	45 047 364
VAT	(16 911 774)	16 423 401
Unspent conditional grants and receipts	459 452	(41 878 031)
	245 680 163	393 158 908

38. Financial instruments disclosure

Categories of financial instruments

2022

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	3 587 490	3 587 490
Other receivables from non-exchange transactions	-	26 199	26 199
Cash and cash equivalents	454 325 568	-	454 325 568
Other financial asset	326 356	-	326 356
	454 651 924	3 613 689	458 265 613

Financial liabilities

	At fair value	Total
Trade and other payables from exchange transactions	281 284 557	281 284 557

2021

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	16 493 970	16 493 970
Other receivables from non-exchange transactions	-	1 491 174	1 491 174
Cash and cash equivalents	580 811 567	-	580 811 567
Other financial asset	311 140	-	311 140
	581 122 707	17 985 144	599 107 851

Financial liabilities

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38. Financial instruments disclosure (continued)		
Trade and other payables from exchange transactions	<u>296 615 006</u>	<u>296 615 006</u>
39. Commitments		
Authorised capital expenditure		
Commitment balance Prior year Correction		
• Commitments balance as previously audited -FY2019/20	-	388 496 582
• Adjustment of Prior year errors 2020	-	(60 091 974)
• Payments 2021	-	(15 956 950)
Restated Commitments Opening Balance	<u>-</u>	<u>312 447 658</u>
Already contracted for but not provided for		
• Property, plant and equipment	<u>180 304 246</u>	<u>312 447 658</u>
Total capital commitments		
Already contracted for but not provided for	<u>180 304 246</u>	<u>312 447 658</u>
Total commitments		
Total commitments		
Authorised capital expenditure	<u>180 304 246</u>	<u>312 447 658</u>

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Figures in Rand	2022	2021
40. Contingencies		
Contingent liabilities	2022	
1. T Gwabeni vs NMMDM	2 021 184	
2. Al Jaza Investment (Pty) Ltd	6 185 943	
3. Naphtronics	19 796 158	
4. Bathalefi Projects	17 722 191	
5. Dr Maduo	986 386	
6. Beyond Build Construction JV	2 875 303	
7. Johanenes Delport	28 171	
8. Geldenhuyus Et al	201 341 200	
9. Lele & Tshidi	668 273	
10. Quantibuilt (Pty)Ltd	2 439 850	
11. Sharon 's Maintenene and Electrical	2 227 898	
12. IX Engineers	297 032	
13. Kgalalelo Veronice Bohilelo	3 000 000	
16. Maqs Construction and Plant	5 170 464	
17. Kawo Construction CC	9 939 988	
19. Monarch Protection SA	4 451 008	
20. Keitumetsi Moroka and Others	6 203 282	
21. Imatu Abo Lesenyane T	480 439	
22. Gutta	2 235 379	
23. Sedibeng Water	625 783 357	
24. Violet Tshetlo	24 619	
25. Tebogo Shomolekae	14 640	
26. Donald Maebane	900 000	
	914 792 765	

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40. Contingencies (continued)

1. T Gwabeni vs NMMD

In February 2011 Mr. Gwabeni (former Executive Mayor of the NMMDM) instituted a claim of R2 021 184 against the NMMDM for outstanding term payment and legal fees incurred for his defence on an allegation faced in a criminal case in 2011.

NMMDM is opposing this matter because at the time he instituted the claim, his contract had already expired therefore he was not an employee of the NMMDM. This matter is pending as correspondence received in November 2018 that the applicant has referred this matter to the MEC for Local Government and Housing and Office of the Premier.

Uncertainty exists around the ultimate timing of the outflow, if any, as this will be determined by the decision passed by the MEC for Local Government and Housing and Office of the Premier. No legal fees and disbursements will be incurred as the matter is being handled by internal legal counsel. Additionally there is no possibility of any reimbursements.

2. Al Jaza Investments (Pty) Ltd et al

On 12 February 2015, NMMDM received a letter from Ditsobotla Local Municipality informing them that attorneys for Al Jaza Investments (Pty) Ltd issued a letter of demand stating that their property was damaged by fire as a result of the NMMDM's failure to provide adequate water tank and equipment to oust off the fire and that the fire services personnel did not have sufficient protective clothing. As a result, their client suffered damages to the tune of R2 408 530,77. The complainant did not appear in court for the matter and the case was struck off the roll with costs. In October 2018, the court taxed the costs involved and requested Al Jaza to settle these. Thereafter an application was made for trial by Al Jaza Investments in March 2019 but the Municipality responded that the complainant needs to settle the taxed costs before pursuing a new case.

Uncertainties exist around the timing of the outflow, if any, as this will be dependent on the outcome of the arbitration hearing. There is no possibility of reimbursements at this stage. Estimated legal costs and disbursements to be paid to M.E Tlou attorneys are R331 000. There is no possibility of reimbursements.

3. Naphtronics

In 2015, Naphtronics was appointed to render security services irregularly due to SCM processes not being followed. The municipality then elected to terminate their contract in light of the irregularity but Naphtronics referred the matter to court in March 2018 decision was made in favour of the municipality, however the claimant applied for a review and it was dismissed and then he applied for an appeal for the termination of equitable cost, the trial date for the termination of equitable cost is still awaited. Uncertainty exists around the timing of outflow, there's uncertainty on possibility of reimbursements.

4. Bathalefi Projects

The Mahikeng Local Municipality appointed Bathalefi Projects in December 2011 to upgrade roads and infrastructure in Mahikeng and the contract amount was R 14 000 000,00. Bathalefi Projects extended its scope to upgrade the roads and infrastructure that was not part of the agreement and claimed an excessive amount of R 17 722 191. This matter was set down for Arbitration for 19-23 August 2019 but Bathalefi did not attend the Arbitration hearing. Thus the date of arbitration can not be confirmed due to lack of payment by Bathalefi for arbitrating sitting. Uncertainties exist around the timing of the outflow, if any, as this will be dependent on the outcome of the arbitration hearing..

5. Dr Maduo

"Dr Maduo's employment contract was terminated following the end of term of the then Executive Mayor - T Gwabeni. He then submitted a letter of demand in December 2011 and NMMDM submitted its defence through an answering affidavit in 2013 opposing this. In February 2019, Dr Maduo was expected to file his affidavit response but this has not been done to date. He is claiming payment of R986 386 for the remainder of his contract duration and argues that he was on a fixed term contract and his appointment was not linked to that of the Executive Mayor. The municipality is opposing this matter as his appointment was linked to the Executive Mayor's term. The municipality is awaiting further correspondence from Dr Maduo currently. The estimated legal fees and disbursements to be paid to Semaushu Attorneys is R250 000, there is no possibility of reimbursements at this stage. Uncertainty exists around the ultimate timing of an outflow, if any, as this will be determined when in Court. "

6. Beyond Build Construction JV

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40. Contingencies (continued)

A dispute exists over a letter of demand from Beyond Build Construction in May 2015 for the payment of R2 819 372,9 relating to an outstanding payment certificate for the construction of VIP toilets in Dinokana Village. The municipality attorneys then requested a Practical Completion Certificate from Beyond Build as proof of work done but this was not submitted. Beyond Build then reissued their letter of demand through their attorneys, Morweng Attorneys in May 2019. The NMMDM then denied the liability and instituted a counter claim for the same amount in July 2019 thus the matter is on-going as we await a response from their attorneys in this regard. Uncertainty exists around the timing of any outflow dependent on the response from Sifumba Attorneys. M.E Tlou attorneys has estimated legal fee and disbursements to the tune of R184 676.

There is no possibility of reimbursement at this stage..

7. Johannes Delpont

"In February 2018 a claim of R28 171 was filed against NMMDM for vehicle damages sustained as a result of the potholes in Ditsobotla Local Municipality. The NMMDM opposed this matter in court through filing an intention to defend, as NMMDM is only responsible for gravel roads, but the complainant has not pursued the matter further since the initial letter of demand. The ultimate outcome is dependent on Mr Delpont approaching the court for a trial date thus uncertainty exists around the timing of an outflow, if any, to Mr Delpont. The estimated legal fees and disbursements to be paid to Semaushu Attorneys is R20 000. There is no possibility of reimbursements at this stage."

8. Geldenhuyus et al

"In September 2007, the NMMDM entered into a purchase agreement with Geldenhuyus to purchase its farm containing multiple boreholes to abstract water. Subsequent to signing the agreement, the municipality withdrew its decision to purchase as the purchase price was too high. In June 2011, Geldenhuyus then approached the Court with this matter but the purchase agreement specifically stated that all disagreements should be handled through an arbitration and not the courts. Parties agreed to remove the case off the court's roll due to the arbitration clause. Thereafter Geldenhuyus approached the then Minister of Local Government, Pravin Gordhan to intervene but the intervention did not yield any results. Subsequently the municipality applied to court to terminate the purchase agreement in February 2020. The municipality applied to court for application to terminate claim and consequent the sale. A court date was set for 29 November 2021 and the matter could not proceed due to the farm owner changing legal Council and due to covid 19 pandemic.

The claimant claimed an amount of R 201 341 200 being the agreed purchase price. Therefore, uncertainty exists around the timing of the outflow, if any, dependent on the court's decision, The matter is at pleading stage. The estimated legal costs and disbursements to be paid to Molefe Attorneys is R500 000. There is no possibility of reimbursements at this stage.

9. Lele & Tshidi

Lele and Tshidi have issued a letter of demand, demanding release of retention money, amounting to R668 272,9 for Mogoswane projects. However, the municipality is disputing the release of the retention, because there were poor workmanship and damage to property, whilst Lele and Tshidi were on site. The municipality have therefore requested them to quantify how they arrived at R668 272,70, whereas there are damages incurred at the project. The supplier and the municipality then agreed that the supplier will repair the damages however the supplier failed to such and the municipality then had to undertake the repairs which surpassed the amount claimed by the supplier.

The uncertainty exists around timing and amount of the outflow as this will be determined by the submissions made by the supplier and further court proceedings, if any. The municipality anticipates that the matter will be closed without any payment made due to the strong case the municipality has.

There are no estimated legal costs at this stage as the matter awaits response from the supplier and no case has been instituted legally by the supplier. There is no possibility of reimbursement

10. Quantibuild (Pty) Ltd

"In January 2019 Quantibuild received an arbitration award of R2 527 647 in their favour against the municipality for outstanding payments relating to retentions and suspension of work due to labour unrest for the erection of wastewater treatment plants in Groot Marico. The municipality appealed the judgement and the new judgement from the supreme court of appeal was in favour of the municipality and was only on equitable cost, the final judgement on this matter will be made on 10 Oct 2022.

Uncertainty exists around the timing of the outflow, if any, as this will be dependent on the court's judgement. The estimated legal fees and disbursements to be paid to Semaushu Attorneys is R500 000. There is no possibility of reimbursements at this

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40. Contingencies (continued) stage.

11. Sharon's Maintenance and Electrical

A claim was lodged against Ngaka Modiri Molema District Municipality and Ratlou Local Municipality for failure to pay the invoiced amount of R2 227 898,21 for service rendered by Sharon's Maintenance and Electrical was appointed by the Ratlou Local Municipality for the Upgrading of Bulk Water Supply project in Logageng, the municipality is disputing this matter as the amount was already paid.

Uncertainty exists around the timing of outflow, NMMDM is disputing the matter and there is no possibility of reimbursements for costs

12. IX Engineers

The Municipality received a letter of demand on 10 June 2021 from Ezra Matlala Attorneys on behalf of IX Engineers for outstanding payments, IX Engineers is claiming an amount of R 297032,46 relating to unpaid invoices and 28001,01 for interest from 12 March 2015. The municipality is disputing this matter and does not agree that IX Engineers rendered service for the municipality. Uncertainty exists around the timing of outflow, There's no possible reimbursement.

13. Kgalalelo Veronice Bohilelo

On 08 June 2021 a letter of demand was received from Loliwe attorneys for injuries sustained by a minor child from electrification as a result of a low hanging power cable, the applicant alleges that the municipality officials were negligent. Uncertainty exists around the timing of outflow and there's no possible reimbursement.

14. Hundred Percent Blackstone Supplier Projects

On 08 June 2021 a letter of demand was received from Sebola inc on behalf of Hundred percent Blackstone supply, Blackstone is claiming an unspecified amount of money for an alleged stolen intellectual property by the municipality, the municipality is alleged to have advertised the meter supply, installation and maintenance tender with an intellectual property owned by Hundred percent Blackstone. The municipality is disputing this matter as the presentation by Blackstone was made on 06/12/2017 and the municipal manager was only appointed in February 2019 and the tender was already in the IDP. It was not practicable to estimate the contingent liability amount.

15. Johanna Catharina Taljaard and Another

Takeover of Water Services at Tswaing Local Municipality for both rural and urban.

The Municipality received a summons from Johanna Catharina Taljaard and Afriforum for lack of provision of water at Tswaing Local Municipality and Afriforum and Johanna Taljaard want Ngaka Modiri Molema to take over the provision of water services at Atamelang, Sannieshof, Delareyville and Geysdorp.

There's no financial claim due to failure to comply with constitutional mandate.

16. Maq's Construction and Plant Hire

Maq's Construction has issued a letter of demand for outstanding payment for services rendered in the jurisdictions of Ditsobotla Local Municipality, Ratlou Local Municipality and Tswaing Local Municipality. Uncertainty exists around the timing of outflow and there is no possibility of reimbursement.

17. Kawo Construction CC

On 09 March 2022 the municipality received a letter of demand from Molepo attorneys who were representing their clients Sogika consulting engineers cc, Kawo construction CC, The claims against the municipality were as follows :

1. Road rehabilitation project - Kawo construction invoiced the municipality an amount of R939 988,34 for the construction related service rendered to the municipality for the road rehabilitation programme, the municipality did not pay this amount and a formal letter of demand from the lawyers was received on 19 May 2022.

2. Sogika consulting engineers cc, Kawo construction CC purchased the property - RE OF PTN16(A PTN OF PTN1) on 04 August 2021 and there is currently some municipal service and equipment on this property and the municipality is not paying

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40. Contingencies (continued)

rent or willing to engage with clients and the municipality was instructed to cease the existence of the municipal service and to remove the property.

Uncertainty exists around the timing of outflow and there is no possibility of reimbursement.

18. Department of Agriculture Land Reform and Rural Development

Department of Agriculture Land Reform and Rural Development is interdicting the Municipality from supplying the illegal occupants of farm in Sunnyside Portion 354 JO of Portion 6 at Sekai and in so doing they are of the view that the Government is providing services to them and the illegal occupant are now ± 60. It was not practicable to estimate the contingent liability amount.

19. Monarch protection SA

In February 2009 Monarch Protection Services institutes a civil claim against the NMMDM for alleged unlawful termination of contract. Monarch requested the NMMDM to reinstate their services and complete its works. Uncertainty exists around the timing of outflow and there is no possibility of reimbursement

20. Keitumetsi Moroka and others

On 1 November 2019 a Contempt of Court Application was instituted by Keitumetse Moroka and eight others under Case Number J2230/19 against NMMDM for R5 380 078.

Ms Keitumetse Moroka and eight others brought a contempt of court application to the Labour Court seeking a declaratory order to hold the municipality in contempt of court for failing to implement:

1. The 20th August 2015 Court Order Settlement Agreement under Case No. J1568/2015 - Financial Loss suffered as a result of non-implementation of arbitration award.

2. The 27th May 2016 Court Order Settlement Agreement under Case No. 290/2016 - Pension Fund Benefit Loss during a period of the applicants unfair dismissal.

3. The 26th July 2016 Court Order Settlement Agreement under Case No. J1568/15 – Total losses incurred by the applicants in terms of their various other lost benefits.

4. That the Municipality be ordered to make payment of the outstanding balance in terms of partial payment made to the applicants previous attorneys.

The municipality fully complied with the above settlement agreements (court orders) and paid the settlement agreements into the applicant attorneys bank account, Mr Ramphele. The settlement was in full and final. However, the municipality has opposed the contempt of court application. Both parties have since filed their heads of argument in the matter and we are awaiting a trial date.

Uncertainty exists around the timing of outflow, if any, dependent on the court's ruling. Estimated legal costs and disbursements to be paid to Kgomo Attorneys is R350 000. There is a possibility of reimbursement of costs based on the merits of the case.

21. Imatu obo Lesenyane T vs NMMDM

Mr Lesenyane reported the municipality to the SALGBC and claimed that his salary was not adjusted in line with his experience. The applicant was awarded R480 000 and subsequent salary adjustment by the SALGBC however the R480 000 was transferred to a trust fund as the employer has decided to review the arbitration award in the labour court and this matter is still on-going

Uncertainty exists around the timing of outflow and there is no possibility of reimbursement..

22. Gutta//NMMDM

Mr J.Y Gutta instituted a claim of R2 235 379 against the NMMDM as a 2nd defendant in the matter due to the damage of the damage of his property as a result of fire set by members of the community inclusive of the NMMDM and the Mafikeng Local Municipality during July 2010. Allegedly, the fire was set after a cleaning operation was conducted to commemorate Nelson

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40. Contingencies (continued)

Mandela day. A draft amended of a plea has been prepared and will be served as soon as further action is taken on the matter.

Uncertainty exists around the timing of outflow and there's no possibility of reimbursement at this stage.

23. Sedibeng Water

A letter of demand was issued by Sedibeng Water through its representative, Thipa Attorneys for the non-payment of invoices for operations and maintenance cost on water infrastructure amounting to R 625 783 357. A Ministerial gazette from the Department of Water and Sanitation dated 15 October 2014, effected directive whereby Sedibeng Water were to take over the provision of bulk water, operational, maintenance, war on leaks and water tankering for a period of five (5) years from Ngaka Modiri Molema District Municipality and the municipality's grants were to be diverted to Sedibeng as payments.

Therefore it is against this background that the NMMDM is disputing these invoices and as such no liability is recognized in the 2019/20 financials.

The ultimate outcome of this matter cannot be determined as this will be dependent on on-going mediation between both parties. This matter is being handled by internal legal counsel thus no additional costs or disbursements will be incurred.

Additionally there is no possibility of any reimbursements.

24. Violet Tshetlo // NMMDM

The claimant alleges that her vehicle sustained damages as a result of the potholes in Makgobistad/Bray road, the plaintiff is suing the Municipality an amount of R24618,74 for damages sustained incurred driving over a pothole. NMMDM however applied to Court to re-join the applications in terms of rule 28 Uniform court rules. NMMDM awaited application outcome, the matter was therefore in court on the 24th April 2018, this matter didn't proceed awaiting next step by the applicant to cure an irregular step in this matter, therefore according to NMMDM lawyers Semaushu Attorneys the matter is still pending.

Uncertainty exists around the timing of outflow, if any, dependent on the sitting Court. There is uncertainty on possibility of reimbursements at this stage as the final decision rests with the president judge.

25. Donald Maebane // NMMDM

NMMDM received a summon regarding a road accident along Zeerust-Lichtenburg road, whereby the claimant and her family melted in a pothole which resulted in the claimant being injured and ending in a wheelchair. The claimant being Donald Maebane is therefore suing the NMMDM an amount of R900 000. NMMDM challenged the validity of the summons and the amount claimed since the main claimant is launched with road accident fund.

Uncertainty exists around the timing of outflow, if any, dependent on the sitting Court. There is uncertainty on possibility of reimbursements at this stage as the final decision rests with the president judge.

26. Tebogo Shomolekae // NMMDM

The claimant alleges that her vehicle sustained damages as a result of the potholes in Makgobistad/Bray road, the plaintiff is suing the Municipality an amount of R15000 for damages sustained incurred driving over a pothole. NMMDM was in court on the 25th April 2018, this matter didn't proceed awaiting next course of action. NMMDM requested Kruger Attorneys with a view of closing this matter, according to the lawyers of NMMDM this matter is still pending.

Uncertainty exists around the timing of outflow, if any, dependent on the sitting Court. There is uncertainty on possibility of reimbursements at this stage as the final decision rests with the president judge.

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41. Related parties

Relationships

Accounting Officer

Members of key management

Refer to accounting officers' report note

O.A. Losaba - Municipal Manager

L.I. Mosiane - Chief Audit Executive

S.S. Mphato - Chief Financial Officer

M.J. Rassool - Technical Services

M.D. Dambuza - Corporate Resource Support Services

SM Nkadimang - Community Services

For the remuneration of the above key management personnel refer to employee related cost note

Related party balances

Remuneration of Councillors 2022	Basic Salary	Car Allowance	Cellphone Allowance	Medical Aid Contribution	Pension Fund Contribution	Total
Executive Mayor	902 367	86 084	44 400	7 595	44 682	1 085 128
Speaker	689 600	68 867	44 400	16 209	61 738	880 814
Chief Whip	648 698	64 563	44 400	12 722	58 202	828 585
MMC	3 118 369	273 902	165 900	31 820	198 360	3 788 351
Councillors	4 961 403	511 721	579 400	114 866	165 086	6 332 476
Subtotal	8 079 772	785 623	745 300	146 686	363 446	10 120 827
	10 320 437	1 005 137	878 500	183 212	528 068	12 915 354

Remuneration of Councillors - 2021

Remuneration of Councillors - 2021	Basic Salary	Car allowance	Cellphone allowance	Medical aid Contribution	Pension Fund Contribution	Total
Executive Mayor	714 926	206 604	44 400	18 228	107 238	1 091 396
Speaker	551 530	165 282	44 400	38 056	82 730	881 998
Chief Whip	519 786	154 953	44 400	32 540	77 968	829 647
MMC	2 581 743	606 341	177 600	75 119	316 640	3 757 443
Councillors	4 144 592	828 545	836 700	171 068	278 978	6 259 883
Subtotal	8 512 577	1 961 725	1 147 500	335 011	863 554	12 820 367
	8 512 577	1 961 725	1 147 500	335 011	863 554	12 820 367

]

Related party transactions

Compensation to accounting officer and other key management

Defined Benefit Contribution plan

- 661 048

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42. Change in estimate

Property, plant and equipment

In the current period management have revised their estimate for useful lives of certain plant and equipment. The effect of this revision has caused the following depreciation charges for the current and future periods to be affected as follows:

Statement of Financial Position

Accumulated depreciation	R2 511 529
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Statement of Financial Performance

Depreciation	R2 511 529
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43. Prior-year adjustments

42.1.1 (A) Inventories

In the 2020/2021 financial year, a journal was processed in order to correct the 2019/2020 prior period error on inventory raw materials, the adjustment was found to be erroneous. The financial impact of the error was determined as follows:

Inventory	2021
Inventories - increase/ (Decrease)	(1 760 740)
Accumulated surplus - Increase/ (decrease)	1 760 740
	-

42.1.1(B) Inventories

In the 2020/2021 financial year, inventory was incorrectly recognised as an expense, the adjustment was found to be erroneous. The financial impact of the error was determined as follows:

	2021
Inventories - increase/ (Decrease)	129 425
Consumable stores - increase/(decrease)	(129 425)
	-

42.1.2 Inventory consumed , Trade Creditors

In the 2020/2021 financial year, an inventory purchased was erroneously recognised in the Trade Creditors vote account. The financial impact of the error is as follows:

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43. Prior-year adjustments (continued)

	2021
Inventory	
Trade Creditors - increase/(decrease)	(389 441)
Accumulated surplus - increase/(decrease)	12 000
Inventory consumed - (increase)/decrease	377 441
	-

42.1.3 PPE, Investment Property

In the 2020/2021, the Municipality erroneously recognised Investment Property as PPE. The financial impact of the error was determined as follows:

	2021
PPE, Investment Property	
Investment Property - Increase/(Decrease)	4 154 226
Property, plant and equipment - Increase/(Decrease)	(4 154 226)
	-

42.1.4 Property, Plant and Equipment and Accumulated surplus:

	2021
Accumulated Depreciation- Infrastructure/ Buildings -Decrease/Increase	11 271 552
Depreciation Increase /Decrease	9 303
Infrastructure Cost - Increase/decrease	(3 902 119)
Accumulated Surplus	(7 378 736)
	-

42.1.5 PPE, Contracted services -Repairs and Maintenance

In the 2020/2021 financial year, the municipality recognised PPE as Repairs and Maintenance. The financial impact of the error was determined as follows:

	2021
PPE, Contracted services -Repairs and Maintenance	
Property, plant and equipment - Increase/(Decrease)	8 414 426
Contracted services repairs and maintenance - increase)/(decrease)	(8 414 426)
	-

42.1.6 PPE and Consumables stores

In the 2020/2021 financial year the purchase of Vacuum cleaners (PPE) was erroneously recognised as general expense; consumables. The financial impact of the error was determined as follows:

	2021
PPE and Consumables stores	
Property, plant and equipment - Increase/(Decrease)	27 675
general expenses: Consumables stores - increase)/(decrease)	(27 675)
	-

42.1.7 Cash and cash equivalent, accumulated surplus

In the 2020/2021 financial year, A mayoral Petrol Card Account which was closed in 2019/2020 financial year was erroneously recognised in the Cash and cash equivalent balance. The financial impact of the error was determined as follows:

	2021
Cash and cash equivalent, accumulated surplus	
Cash and cash equivalent - increase/ (increase)	102 357
Accumulated surplus - increase /(decrease)	(102 357)
	-

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43. Prior-year adjustments (continued)		
42.1.8 Hire Expenses, Trade payables, Vat		
In the 2020/2021 financial year, Hire expenses and Trade Creditors were overstated due to amounts recorded in the General Ledger that was less than the invoice amount. The financial impact of the error was determined as follows:		
Hire Expenses, Trade payables, Vat		2021
Trade creditors - (increase) /decrease		1 560 849
Vat Receivables - Increase/ (decrease)		(203 589)
General expenses(hire)- increase/(Decrease)		(1 357 260)
		-
42.1.9 Control and Suspense Account , Vat Receivables		
In the 2020/2021 financial year, Vat Refunds received from SARS were erroneously posted to Control and suspense account. The error have been adjusted and its financial impact is as follows:		
Control and Suspense Account , Vat Receivables		2021
Vat Receivables - increase/(decrease)		(581 282)
Control and Suspense account -increase/(decrease)		581 282
		-
42.1.10 Trade payables, Control and Suspense account		
In the 2021/2020 financial year, it was discovered that Pension Fund invoice for the month was erroneously recorded twice in the general ledger, as result overstating Trade payables, and control and suspense account. The financial impact was determined as follows:		
Trade payables, Control and Suspense account		2021
Trade Creditors - increase/(decrease)		4 727 107
Control and suspense account - increase/(decrease)		(4 727 107)
		-
42.1.11 Control and Suspense account, Finance cost, accumulated account		
In the 2021/2020 financial year, It was noted that SARS debited the penalties and Interest amount on PAYE, these were erroneously recognised in the Control and Suspense account. The financial impact was determined as follows:		
Control and Suspense account, Finance cost, accumulated account		2021
Finance cost - (increase)/Decrease		(268 245)
Accumulated surplus - Increase/(decrease)		(1 779 235)
Control and Suspense Account - increase/(decrease)		2 047 480
		-
42.1.12 Employee related cost, Control and suspense account		
In the 2020/2021 financial year, Employee related cost were overstated by erroneously recognising the contribution of Municipality contribution to the medical aid for retires that qualifies for Employee Benefit plan. The contribution should have been recognised against the Employee Benefits liability. The financial impact of the error was determined as follows:		
Employee related cost, Control and suspense account		2021
Employee related cost - increase/(decrease)		(129 227)
Accumulated surplus - increase/(decrease)		(298 515)
Salary Control liability - increase/(decrease)		427 742
		-

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43. Prior-year adjustments (continued)

42.1.13 Lease rental , Trade creditors, Vat

In the 2020/2021 financial, a lease rental for the month of June 2021 was erroneously recorded in current financial year. The financial impact of the error was determined as follows:

	2021
Lease rental , Trade creditors, Vat	
Trade creditors - increase/ (decrease)	46 074
Vat receivables - increase/ (Decrease)	(6 010)
Lease rental - increase/(Decrease)	(40 064)
	-

42.1.14 Inventory consumed, Repairs and maintenance, Fuel and Oil

In the 2020/2021 financial year, Inventory issued out/consumed was erroneously recognised in the Repairs and Maintenance vote account. The financial impact of the error was determined as follows:

	2021
Inventory consumed, Repairs and maintenance, Fuel	
Repairs and Maintenance - (increase)/ Decrease	30 523 855
Fuel expense - (increase)/decrease	5 919 718
Inventory consumed	(32 812 831)
Inventory gain/loss	(3 630 742)
	-

42.1.15 Receivables from exchange, Control and Suspense Account

In the 2021 financial year a receipt of deposit was incorrectly allocated to control and suspense account. The financial impact of the error was determined as follows:

	2021
Receivables from exchange, Control and Suspense Account	
Control and Suspense Account Increase/(decrease)	3 854
Receivables from exchange transaction Increase/(Decrease)	(3 854)
	-

42.1.16 Stand by Allowance , Accumulated surplus

During the current year it was discovered that the standby allowances rates were understated due to lack of adjustment in line with basic salary in the period of 2018 to 2019 Financial year.

	2021
Heading	
Accumulated Suplus - Increase/Decrease	1 749 855
Payroll Accrual	(1 749 855)
	-

42.1.17 Receivable from exchange and Control and Suspense account.

During the current year it was discovered there was an overpayment of creditors relating to prior year.

	2021
Receivables from exchange transaction Increase/(Decrease)	660 758
Control and Suspense Account Increase/(decrease)	(660 758)
	-

Statement of financial position

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43. Prior-year adjustments (continued)					
2021					
	Note	As previously reported	Correction of error	Re-classification	Restated
CURRENT ASSETS:		-	-	-	-
Inventories		144 040 280	(1 890 165)	-	142 150 115
VAT receivable		21 183 240	(1 594 012)	-	19 589 228
Property, plant and equipment	5	096 253 258	11 632 557	-	5 107 885 815
Investment Properties		13 837 492	4 154 226	-	17 991 718
Cash and cash equivalent		580 912 146	(100 579)	-	580 811 567
Receivables from exchange transaction		15 837 066	656 904	-	16 493 970
Trade Payables		(158 146 415)	9 053 769	-	(149 092 646)
Control Accounts		(30 931)	(1 860 402)	-	(1 891 333)
Payroll accruals		(7 047 967)	(1 749 855)	-	(8 797 822)
Leave accrual (provision)		(27 159 217)	-	27 159 217	-
Provision - Leave pay		-	(10 249 551)	(27 159 217)	(37 408 768)
Provision -Long service Award		(22 727 595)	-	22 727 595	-
Employee Benefits Obligation		89 217 893	-	(22 727 595)	66 490 298
Accumulated surplus		(5 272 167 032)	(4 900 571)	-	(5 277 067 603)
		474 002 218	3 152 321	-	477 154 539

Statement of financial performance

2021

	Note	As previously reported	Correction of error	Re-classification	Restated
REVENUE FROM EXCHANGE TRANSACTIONS:		-	-	-	-
Commission income		-	28 849	-	28 849
Employee related cost	(379 516 651)	(9 596 566)	3 053 815	(386 059 402)	
Remuneration from concillors	(12 925 504)	-	105 137	(12 820 367)	
Bulk purchases	(7 964 786)	-	7 964 786	-	
Lease rentals on operating lease	(828 131)	(40 065)	-	(868 196)	
Finance cost	(11 215 584)	(268 245)	-	(11 483 829)	
Inventory consumed	-	(33 847 299)	(7 964 786)	(41 812 085)	
Contracted Services- Security services	(20 725 743)	1 046 653	-	(19 679 090)	
Contracted services - business advisory	(31 208 613)	3 600	4 600	(31 200 413)	
Contracted services - Maintenance of buildings	(93 278 982)	38 887 786	-	(54 391 196)	
Contracted services: Infrastructure planning	(360 200)	25 000	-	(335 200)	
Accommodation	(516 323)	-	(95 382)	(611 705)	
Asset disposal	(13 928 702)	(207 202)	-	(14 135 904)	
Skills and development levy	-	-	(3 158 952)	(3 158 952)	
Transport and Freight	(151 327)	-	-	(151 327)	
Training	(3 805 966)	58 212	2 646 099	(1 101 655)	
Electricity	(12 668 073)	(658 639)	-	(13 326 712)	
Hire	(19 664 211)	1 357 260	-	(18 306 951)	
Subsistence and traveling	(635 531)	-	90 782	(544 749)	
Consumables stores	(730 048)	64 220	-	(665 828)	
Inventory losses/write-downs	-	(3 630 742)	-	(3 630 742)	
Fuel and oil	(6 023 714)	6 130 469	(2 646 099)	(2 539 344)	
IT Expenses	(4 597 967)	(29 300)	-	(4 627 267)	
Printing and stationery	(876 534)	367 947	-	(508 587)	
Depreciation	(200 885 225)	410 608	-	(200 474 617)	
Surplus for the year		(822 507 815)	102 546	-	(822 405 269)

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43. Prior-year adjustments (continued)

42.2 Reclassifications

The following reclassifications were performed in the current financial year, relating to the prior financial year:

42.2.1 Reclassification of Skills development levy from Employee costs to general expenses

The Skills Development Levy that the municipality contributes has been reclassified to During the current year, we have reclassified Skills development Levy that was erroneously classified as Employee related cost in the prior year, as it does not meet the definition of Remuneration in terms of the 4th Schedule of Income Tax Act. SDL amounting to R 3 158 952 for employees and R105 137 for councillors have been reclassified to general expenses.

42.2.2 Reclassification within general expenses

During the current year, it was discovered that accomodation expense amounting to R90 473 was erroneously classified as subsistence & traveling expense.

42.2.3 Reclassification from Provisions to Employee Benefit Obligation

In the prior years the provision for long term service award has been wrongly classified as provision when it is a defined benefit plan under the standard for Employee benefit obligation. A provision amount of R23 703 801 was reclassified during the current year to employee benefit obligation

42.2.4 Reclassification from Payables from exchange to Provisions

In the prior year the leave accrual has been wrongly classified as accounts payable from exchange instead of provision as the municipality does not pay cash for leave to the employees on retirement.

42.2.5 Reclassification from Training to Fuel and oil in general expenses

In the prior year the expenditure for fuel and oil was incorrectly classified to Training expenditure under general expenses.

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44. Comparative figures

Certain comparative figures have been reclassified as indicated in Notes 61. These reclassifications were made to simplify the presentation and disclosure..

45. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Liquidity risk

The Liquidity risk is the risk that the municipality might not be able to meet its obligations as they fall due. The municipality has a prudent liquidity risk management strategy which ensure that it maintains sufficient cash and cash equivalents to meet its objective as they fall due. The short-term investments are invested over terms that ensure that the municipality has a short term maturing every month to reduce the liquidity risk. The municipality also manages liquidity risk through an ongoing review of future commitments and credit facilities.

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

Financial liabilities	2022	2021
Trade payables	184 149 076	149 092 646
Unspent conditional grants and receipts	459 452	-
	184 608 528	149 092 646

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45. Risk management (continued)

Credit risk

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

Receivables from exchange transactions

Receivables from exchange transactions are amounts owing by customers, and are presented net of impairment losses. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The impact of the COVID-19 pandemic on the economy and consumers will affected the impairment provision for the current year. The provision estimates were adjusted to account for this increase in risk of missed payments or default. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Council. The utilisation of credit limits is regularly monitored.

Cash and cash equivalents and Investments

The municipality limits its exposure to credit risk by investing with only the major commercial banks in South Africa that have a sound credit rating and within the specific guidelines set in the council approved cash management and investment policy. Accordingly, the municipality does not consider its exposure to credit risk significant.

The carrying amount of the financial assets represents the maximum credit exposure and the carrying amount of the financial assets as at 30 June was as follow:

Receivable from non exchange transactions	26 199	1 491 174
Financial assets	2022	2021
Cash and Cash equivalents	454 325 568	580 811 567
Receivable from non exchange transactions	26 199	1 491 174
Receivables from exchange transactions	3 587 490	16 493 970
Other financial assets	326 356	311 141
Receivable from non exchange transactions	26 199	1 491 174

46. Going concern

We draw attention to the fact that at 30 June 2022, the municipality had a deficit of (1 737 641) and that the municipality's total assets exceed its liabilities by 5 476 492 233.

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

Management therefore believes that the going concern assumption under which the financial statements have been prepared is appropriate on the basis of the above financial performance and financial position.

47. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:

- nature of the event.
- estimation of its financial effect or a statement that such an estimation cannot be made.

No events having financial implications requiring disclosure occurred subsequent to 30 June 2022.

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48. Unauthorised expenditure		
Opening balance as previously reported	9 520 397 769	1 853 358 332
Add: Expenditure identified - current	176 598 977	157 857 532
Less: Approved authorised by council - write-off	-	(447 561 717)
Add: Expenditure identified - prior periods	-	7 956 743 622
Closing balance	9 696 996 746	9 520 397 769

Unauthorised expenditure: per vote level

Heading	Operational	Capital
Vote 2 - Municipal Manager	2 996 870	454 448
Vote 3 - Finance	41 359 418	-
Vote 6 - Community Services	2 989 992	16 933 460
Vote 7 - Public Works & Basic Services	-	111 864 788
	47 346 280	129 252 696

Unauthorised expenditure for the periods 2013 to 2020 was adjusted with an amount of R 7 956 743 622 as a result of management's methodology, in line with GRAP 3, to determine the unauthorised expenditure due to not being able to quantify the exact restatement on the opening balance of unauthorised expenditure.

49. Fruitless and wasteful expenditure

Opening balance as previously reported	18 805 661	22 062 230
Prior period corrections	-	1 112 619
Add: Fruitless and wasteful expenditure - current	3 904 345	27 219
Add: Fruitless and wasteful expenditure - Identified in the current year relating to the prior year	2 785 966	-
Less: Fruitless and wasteful expenditure - written off 2016/2017	-	(4 396 407)
Closing balance	25 495 972	18 805 661

Fruitless and wasteful expenditure is presented inclusive of VAT

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49. Fruitless and wasteful expenditure (continued)

Details of fruitless and wasteful expenditure

	2022	2021
Interest and penalties on late payment	189 223	27 219
Covid Allowance Current Year	3 747 500	-
Late filling of SARS returns	130 568	-
Covid Allowance - prior year error - Identified in the current year relating to the prior year Meetings not attended	2 596 500	-
	26 530	-
	6 690 311	27 219

Disciplinary steps taken/criminal proceedings

Analysis of expenditure awaiting write-off.

There were no expenditure awaiting to be written as the investigation is still underway for the current year. Amount of R 4 396 406,73 relating to Financial year end 30 June 2017 was erroneously written off by R1 194 514 however the correct amount was R3 201 892.

Details

Interest on overdue accounts in the current financial year relates to interest charged on Eskom and Local Municipalities accounts due to late payments made on these accounts.

Amounts written off

There were no expenditure awaiting to be written as the investigation is still underway for the current year 2016-17 financial year 4 396 407

50. Irregular expenditure

Opening balance as previously reported	3 765 194 453	3 563 972 802
Prior period error corrections	-	1 126 972
Add: Irregular expenditure - current	355 034 947	334 390 145
Add: Irregular expenditure identified in the current year relating to the prior year	54 598 379	-
Less: Amounts written off by Council - Irrecoverable	-	(134 295 466)
Closing balance	4 174 827 779	3 765 194 453

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50. Irregular expenditure (continued)

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

	2022	2021
Disciplinary steps taken/criminal proceedings		
No consequence management followed	147 466 981	87 594 280
No consequence management followed	21 248 808	-
No consequence management followed	50 176 356	3 456 373
No consequence management followed	27 906 964	18 399 497
No consequence management followed	4 366 317	133 944 595
No consequence management followed	318 270	301 741
No consequence management followed	78 732 873	66 462 012
No consequence management followed	12 608 305	89 285
No consequence management followed	1 879 390	22 383 494
No consequence management followed	258 505	1 758 864
No consequence management followed	10 072 178	-
	355 034 947	334 390 141

Cases under investigation

There were no council committee investigations conducted into the irregular expenditure during the 2021/22 financial year

51. Covid-19 Pandemic

During the 2021/22 financial year, the impact of covid 19 was minimal bringing some improvement in the economic outlook of the country and the municipality. The municipality incurred expenses of R3 747 500 in the 2021/2022 financial year related to covid-19 danger allowance.

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52. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government (SALGA)		
Current year subscription / fee	3 948 149	3 933 093
Amount paid - current year	(3 948 149)	(3 933 093)
	-	-
Audit fees		
Opening balance	167 779	1 261 934
Current year subscription / fee	7 644 042	7 871 136
Amount paid - current year	(7 533 616)	(8 965 291)
	278 205	167 779
PAYE and UIF		
Current year subscription / fee	70 768 596	65 919 705
Amount paid - current year	(64 356 336)	(65 919 705)
	6 412 260	-
Pension and Medical Aid Deductions		
Current year subscription / fee	100 541 982	33 848 996
Amount paid - current year	(100 541 982)	(33 848 996)
	-	-
VAT		
VAT receivable	36 501 001	19 589 227

VAT is received and paid as required per the Value Added Tax Act No. 89 of 1991 (VAT Act).

VAT is applied to all relevant goods and services as stated in the VAT Act and the amount thereof is determined in terms of the VAT Act. VAT is submitted and paid on a monthly basis.

Supply chain management regulations

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

Investments as at the end of the financial year

The entity had the following investments as at the end of the financial year

Non-compliance with the Municipal Finance Management Act

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53. 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 and includes a note to the annual financial statements.

The majority of items mentioned had to be addressed to emergency circumstances. The balance of items were due to procurement from sole providers ;

Class	2022	2021
Emergency	52 483 563	43 706 720
Sole providers/Accredited agents	-	313 162
	52 483 563	44 019 882

54. Segment information

General information

Identification of segments

The district municipality is organised and reports to management on the basis of five major functional areas: Public Works & Basic Services, Community Services, Development and Town Planning, Corporate Services and Finance, Economy & Enterprise Development. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. The only Segment identified is Public Works & Basic Services area where the rest of the functional areas 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 District municipality does not have geographical segments as it operates within its area of jurisdiction in the North West Province. Segments were aggregated on the basis of services delivered to its residents.

Types of goods and/or services by segment

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54. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2022

	Public Works & Basic Services	Other	Total
Revenue			
Revenue from exchange	-	4 631 007	4 631 007
Revenue from Non exchange	319 709 548	879 200 275	1 198 909 823
Interest revenue	-	27 642 173	27 642 173
Total revenue	319 709 548	911 473 455	1 231 183 003
Entity's revenue			1 231 183 003
Expenditure			
Salaries and wages	96 174 286	307 942 851	404 117 137
Finance cost	130 439	10 773 557	10 903 996
Depreciation	-	212 446 067	212 446 067
All other expenses	395 450 594	217 477 714	612 928 308
Actual Expenditure	491 755 319	748 640 189	1 240 395 508
Total segmental surplus/(deficit)			(9 212 505)
Assets			
Property, plant and equipment	163 247 482	5 057 656 206	5 220 903 688
Cash and cash equivalents	-	454 308 943	454 308 943
Other 2	-	204 015 415	204 015 415
Total segment assets	163 247 482	5 715 980 564	5 879 228 046
Total assets as per Statement of financial Position			5 879 228 046

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	Public Works & Basic Services	Other	Total
	459 453	520 066 481	520 525 934
			520 525 934

54. Segment information (continued)

Liabilities

Segment liabilities

Total liabilities as per Statement of financial Position

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.

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55. Budget differences

Material differences between budget and actual amounts

The reasons for the material variances between the approved budget and the final budget are explained below. A variance is considered material if it is 10% or more and if the amount exceeds R5 million.

The adjustments made between the approved budget and the final budget include virements that were made after the approval of the final adjustment budget.

Presented below are those items contained in the statement of financial position and statement of financial performance that have been assessed to have material variances:

58.1 Statement of Financial Performance

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55. Budget differences (continued)

Description	Variance	%	Reasons
Commission income	34 804	100,00 %	Municipality earned 2.5% and 5% from Gamishee and loans from third parties.
Employee Related costs	8 163 558	(2,07)%	The variance is due to cost containment measures
Depreciation and amortisation	10 180 944	(4,56)%	Less asset were depreciated than anticipated when the budget was prepared.
Inventory consumed	236 194 969	(1 423,28)%	The variance is due to under spending on spares and materials as the municipality contracted out majority of repairs and maintenance
Impairment loss	(46 702 221)	- %	This relates to assets which could not be verified at year-end by the municipality
Contracted Services	(31 359 432)	11,19 %	The variance is due to municipality an increase in contracting out of repairs and maintenance to contractors.
Transfer and Subsidies	9 164 095	(18,03)%	Unclaimed funds from local municipalities
Finance costs	(10 812 857)	100,00 %	This relates to finance cost as calculated by actuaries on employee benefits.
General Expenses	27 017 820	(24,29)%	The variance is due to expenses such as professional services and catering is budgeted under general expenses however due to mScoa disclosure requirements these expenses were classified to contracted services leading to under budgeting
	-	- %	

58.2 Statement of Financial Position

Description	Variance	%	Reasons
Inventories	395 516 057	274,54 %	The variance is due to under spending on spares and materials as the municipality contracted out majority of repairs and maintenance
Cash and cash equivalents	68 144 075	15,00 %	Lower capital expenditure resulted in more cash available than budgeted.
Investment property	3 903 647	21,96 %	The increase is due to flats that where previously recognised as PPE instead of Investment Property
Property, plant and equipment	(114 989 732)	(2,50)%	Delays on the completion of projects and implementation of approved capital projects
Payable from exchange	78 174 674	31,39 %	Payables from exchange transactions was less than anticipated when budgeted

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	2022	2021
55. Budget differences (continued)		
Unspent Conditional grants and receipts	(459 452)	100,00 % This relates to Road Asset Management System not spent at year-end and not budgeted for.
Receivables from exchange transactions	3 587 490	100,00 % This relates to Prepayment for SALGA Membership paid in March and was not budgeted for
Receivables from non-exchange transactions	26 199	100,00 % This relates to overpayment of employee relates cost that was not budgeted for.
Employee Benefit Obligation	20 693 824	100,00 % No actual - provision mapped to employee benefits obligation
	-	- %

56. Accounting by principals and agents

The entity is a party to a principal-agent arrangement(s).

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56. Accounting by principals and agents (continued)

Details of the arrangement(s) is/are as follows:

The district municipality entered into a water services agreement/contract with the following local municipalities within the jurisdiction whereby the district, as the Water Service Authority and a principal to the arrangement, appointed the local municipalities, as Water Service Providers and agents to the arrangement, for the supply of retail water services in their respective areas in accordance with and subject to the provisions of chapter 8 of the Municipal Systems Act:

Mahikeng Local Municipality
Ditsobotla Local Municipality
Ramotshere Local Municipality
Ratlou Local Municipality
Tswaing Local Municipality

During the financial year, the following direct and indirect transactions took place between the district and the local municipalities:

Amounts included in Transfers and Subsidies	2022	2021
Mahikeng Local Municipality	12 000 000	10 000 000
Ditsobotla Local Municipality	12 000 000	10 000 000
Ramotshere Local Municipality	12 000 000	25 000 000
Ratlou Local Municipality	12 000 000	10 000 000
Tswaing Local Municipality	12 000 000	10 000 000
	60 000 000	65 000 000

Resources (including assets and liabilities) of the entity under the custodianship of the agent

