



Ngaka Modiri Molema District Municipality
Annual Financial Statements
for the year ended 30 June 2023

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

General Information

Legal form of entity	District municipality
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 & Spatial Planning:	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 Mothusi Cllr. Kathazo Masego Cllr. Gantana Freddy Cllr. Pitso Ernest Cllr. Dala Margaret Cllr. Mogapi Gomotsegang Cllr. Phokompe Mosimagape Cllr. Mabalane Alamitta Cllr. Tlhagale Levy Cllr. Molete Emmah Cllr. Cornel Dreyer Cllr. Laher Yusuf Cllr. Sebolao Brunette Tsholofelo Cllr. Tsagae Motseokae Petrus Cllr. Bamphitile JacobTumelo Cllr. Kekana Bhahare Cllr. Botha Jurie Hendrik Cllr. Gadithulwe Kabelo Cllr. Motlathledi Kgosiemang Cllr. Phokompe Mosimanegape Cllr. Mosiedi Gobusamang Cllr. Nko Keatletse Cllr. Ledikwa Kgomotso Cllr. Annandale Arista-Louise Cllr. Matsheka Semphete Cllr. Molefe Kedibogetse Cllr. Tladi Irene Cllr. Moruapheko Maria Merriam

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General Information

Grading of local authority	Category C
Accounting Officer	OA Losaba
Chief Finance Officer (CFO)	SS Mphato (contract ended 30 June 2023) GP Moroane (effective 1 August 2023)
Registered office	Cnr Carrington Street and 1st Avenue Industrial Site Mahikeng 2745
Postal address	Private Bag X2165 Mahikeng 2745
Bankers	First National Bank ABSA
Auditors	Auditor General of South Africa
Enabling legislation	Municipal Finance Management Act, (Act 56 of 2003) Municipal Systems Act, (Act 32 of 2000) Municipal Structures Act, (Act 117 of 1998) Municipal Property Rates Act, (Act 3 of 2017) Division of Revenue Act (Act 16 of 2019) Municipal Demarcation Act, (Act 27 of 1998)

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Abbreviations used:

AFSA	Arbitration Foundation Southern Africa
COID	Compensation for Occupational Injuries and Diseases
COVID-19	Corona Virus Disease -19
CPI	Consumer Price Index
DBSA	Development Bank of South Africa
FY	Financial Year
GAAP	Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
LM	Local Municipality
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MPAC	Municipal Public Accounts Committee
mSCOA	Municipal Standard Chart of Accounts
NMMDM	Ngaka Modiri Molema District Municipality
SALGA	South African Local Government Association
SARS	South African Revenue Service
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
WWTP	Waste Water Treatment Plant

Ngaka Modiri Molema District Municipality

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Accounting Officer's Responsibilities and Approval

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

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

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

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

The accounting officer is responsible for the preparation of these annual financial statements in terms of Section 126(1) of the Municipal Finance Management Act, (Act 56 of 2003).

The accounting officer certifies that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 24 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act, (Act 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2024 and, in 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.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 6 to 107, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2023 and were signed by:

OA Losaba
Accounting Officer

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Officer's Report

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

1. Review of activities

Main business and operations

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

Net deficit of the municipality was R 277,866,762 (2022: deficit R 17,103,141).

2. Going concern

I draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus of R 5,319,886,348 (2022: R5,519,579,540) and that the municipality's total assets exceed its liabilities by R 5,319,886,348 (2022: R5,519,579,540).

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

The municipality will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act, (Act 4 of 2020).

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.

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Accounting Officer's Report

5. Corporate governance

General

The municipality is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the council 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 council discusses 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:

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:

- 14 July 2022 – Ordinary committee meeting
- 20 July 2022 - Special meeting
- 18 August 2022 - Special meeting
- 23 August 2022 - Ordinary committee meeting
- 07 September 2022 - Special meeting
- 15 September 2022 - Special meeting
- 22 November 2022 - Special meeting
- 02 March 2023 - Special meeting
- 09 March 2023 - Special meeting
- 24 April 2023 - Ordinary committee meeting

Appointed Members of the Audit and Risk Committee:

Mr. S Ngobeni - Chairperson
Mr. T Mokale - Member
Mr. I Motala - Member
Mr. R Mnisi
Mr. F Buys - Member (Resigned 06 June 2022)
Ms. S Chiloane-Nwabueze (Appointed 01 December 2022)
Ms. P Mangoma (Appointed 01 December 2022)

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.

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Position as at 30 June 2023

Figures in Rand	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Inventories	7	243,222,628	176,152,500
Receivables from exchange transactions	8	8,343,393	4,067,929
Receivables from non-exchange transactions	9	26,199	26,199
VAT receivable	10	92,198,225	38,611,141
Cash and cash equivalents	11	159,306,618	454,490,720
		503,097,063	673,348,489
Non-Current Assets			
Investment property	2	20,704,578	21,131,189
Property, plant and equipment	3	5,279,546,666	5,266,941,703
Other financial assets	4	346,478	323,503
		5,300,597,722	5,288,396,395
Total Assets		5,803,694,785	5,961,744,884
Liabilities			
Current Liabilities			
Payables from exchange transactions	5	313,257,023	221,337,157
Employee benefit obligation	6	2,058,954	3,238,339
Unspent conditional grants and receipts	12	31,626,351	459,452
Provisions	13	39,480,765	39,045,213
		386,423,093	264,080,161
Non-Current Liabilities			
Employee benefit obligation	6	97,385,344	99,911,613
Total Liabilities		483,808,437	363,991,774
Net Assets		5,319,886,348	5,597,753,110
Accumulated surplus		5,319,886,348	5,597,753,110
Total Net Assets		5,319,886,348	5,597,753,110

* See Note 39

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	15	54,296	100,985
Commission income		1,670	34,804
Rental of facilities and equipment	16	398,254	195,351
Licences and permits	17	83,019	72,270
Other income	19	1,081,637	2,295,469
Interest received - investment	20	28,875,560	27,642,173
Total revenue from exchange transactions		30,494,436	30,341,052
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	22	1,295,777,176	1,198,909,750
Total revenue	14	1,326,271,612	1,229,250,802
Expenditure			
Employee related costs	23	(407,325,673)	(399,762,083)
Remuneration of councillors	24	(13,899,962)	(12,915,358)
Depreciation and amortisation	25	(231,501,624)	(209,192,214)
Finance costs	27	(14,198,473)	(10,903,996)
Lease rentals on operating lease	18	(1,424,611)	(819,940)
Inventory consumed	29	(11,484,749)	(30,699,526)
Debt impairment	31	-	(3,543,709)
Contracted services	32	(607,457,632)	(269,412,736)
Transfers and subsidies	21	(75,000,000)	(60,000,000)
General expenses	30	(120,853,804)	(104,127,786)
Total expenditure		(1,483,146,528)	(1,101,377,348)
Operating (deficit) surplus	34	(156,874,916)	127,873,454
Loss on disposal of assets		(9,734,159)	-
VIP Transfers to local communities	7	(138,215,219)	(118,894,467)
Actuarial gains/losses	6	22,914,689	28,490,855
Impairment loss	26	-	(46,702,221)
Inventories write downs and reversals of write downs		4,042,843	(7,870,762)
		(120,991,846)	(144,976,595)
Deficit for the year		(277,866,762)	(17,103,141)

* See Note 39

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Balance at 01 July 2021	5,467,914,690	5,467,914,690
Changes in net assets		
Surplus for the year as previously reported	(18,376,673)	(18,376,673)
Prior period errors (note 39)	1,273,532	1,273,532
Total changes	(17,103,141)	(17,103,141)
Opening balance as previously reported	5,450,811,549	5,450,811,549
Adjustments		
Prior year adjustments (note 39)	146,941,561	146,941,561
Restated balance at 01 July 2022	5,597,753,110	5,597,753,110
Changes in net assets		
Surplus for the year	(277,866,762)	(277,866,762)
Total changes	(277,866,762)	(277,866,762)
Balance at 30 June 2023	5,319,886,348	5,319,886,348

* See Note 39

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Cash Flow Statement

Figures in Rand	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		1,618,876	4,631,007
Grants		1,326,944,075	1,199,369,202
Interest income		28,875,560	27,671,263
		<u>1,357,438,511</u>	<u>1,231,671,472</u>
Payments			
Employee costs		(411,307,932)	(396,281,739)
Suppliers		(991,153,344)	(589,421,448)
Finance costs		(767,076)	(130,440)
		<u>(1,403,228,352)</u>	<u>(985,833,627)</u>
Net cash flows from operating activities	33	<u>(45,789,841)</u>	<u>245,837,845</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(249,394,261)	(372,166,161)
Proceeds from sale of investment property	2	-	7,469
Net cash flows from investing activities		<u>(249,394,261)</u>	<u>(372,158,692)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(295,184,102)</u>	<u>(126,320,847)</u>
Cash and cash equivalents at the beginning of the year		454,490,720	580,811,567
Cash and cash equivalents at the end of the year	11	<u>159,306,618</u>	<u>454,490,720</u>

* See Note 39

Ngaka Modiri Molema District Municipality

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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	140,000	(40,000)	100,000	54,296	(45,704)	(a)
Rendering of services	-	-	-	1,670	1,670	(b)
Rental of facilities and equipment	230,000	9,000	239,000	398,254	159,254	(c)
Licences and permits	50,000	30,000	80,000	83,019	3,019	(d)
Other income	1,020,000	(15,500)	1,004,500	1,081,637	77,137	(e)
Interest received - investment	-	19,326,945	19,326,945	28,875,560	9,548,615	(f)
Total revenue from exchange transactions	1,440,000	19,310,445	20,750,445	30,494,436	9,743,991	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	1,326,717,000	478,750	1,327,195,750	1,295,777,176	(31,418,574)	(g)
Total revenue	1,328,157,000	19,789,195	1,347,946,195	1,326,271,612	(21,674,583)	
Expenditure						
Personnel	(428,978,962)	(7,230,069)	(436,209,031)	(407,325,673)	28,883,358	(h)
Remuneration of councillors	(10,357,266)	-	(10,357,266)	(13,899,962)	(3,542,696)	(i)
Depreciation and amortisation	(221,603,965)	-	(221,603,965)	(231,501,624)	(9,897,659)	(j)
Contracted Services	(128,295,100)	(6,062,669)	(134,357,769)	(607,457,632)	(473,099,863)	(k)
Transfers and Subsidies	(75,000,000)	-	(75,000,000)	(75,000,000)	-	
General Expenses	(335,143,086)	251,524,000	(83,619,086)	(147,961,637)	(64,342,551)	(l)
Total expenditure	(1,199,378,379)	238,231,262	(961,147,117)	(1,483,146,528)	(521,999,411)	
Operating deficit	128,778,621	258,020,457	386,799,078	(156,874,916)	(543,673,994)	
Loss on disposal of assets and liabilities	-	-	-	(9,734,159)	(9,734,159)	(m)
VIP Transfers to local communities	-	-	-	(138,215,219)	(138,215,219)	(n)
Actuarial gains/losses	-	-	-	22,914,689	22,914,689	(o)
Inventories losses/write-downs	-	-	-	4,042,843	4,042,843	(p)
	-	-	-	(120,991,846)	(120,991,846)	
Deficit before taxation	128,778,621	258,020,457	386,799,078	(277,866,762)	(664,665,840)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	128,778,621	258,020,457	386,799,078	(277,866,762)	(664,665,840)	

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

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
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Figures in Rand

Material budget variances

- (a) The actual service charges are less than the budgeted amount. This is due to service delivery protests as well as sewer suction truck which was not operational for 4 months because of repairs that had to be undertaken on it.
- (b) The actual income from the rendering of services is more than the budgeted amount. This results from the commission earned by the municipality on garnishees and this commission is not budgeted for.
- (c) The actual income from the rental of facilities is more than the budgeted amount. This is due to an increase in the rental fees charged by the municipality on their investment property.
- (d) The actual income from the licences and permits is more than the budgeted amount. This is due to an increase in the licence and permits fees charged by the municipality on the issuing of business permits and licences.
- (e) The budgeted other income is less than the actual amount. This is due to discount received from the early settlement of SALGA levies in the current financial year.
- (f) The actual interest income is more than the budgeted amount. This interest income was not initially budgeted for and therefore a budget shift was done during the budget adjustment period. The actual interest income is more than the budgeted income due to more cash reserves that the municipality held during the year.
- (g) Actual government grants is less than the budgeted amount. This is due to less government grants being spent in the current year in comparison to the budgeted amount.
- (h) The actual employee costs are less than the budgeted amount. This is due to vacant posts in the current year.
- (i) The actual remuneration councillors amount is more than the budgeted amount. This is due to retrospective payments relating to upper limits and sitting allowances.
- (j) The actual depreciation is more than the budgeted amount. This is due to additional property, plant and equipment acquired during the year.
- (k) Budgeted contracted services is less than the actual amount. This is due to more projects being undertaken in the current financial year e.g drilling of boreholes.
- (l) Actual general expenses are more than the budgeted amount. This is due to more projects and general expenses being incurred during the year. The funds were shifted during the budget adjustment period based on the expected expenditure for the year.
- (m) Loss on disposal of assets were not budgeted for.
- (n) Transfers to local communities were not budgeted for.
- (o) Actuarial gains and losses were not budgeted for.
- (p) Inventories losses were not budgeted for.

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2023											
Financial Performance											
Service charges	140,000	(40,000)	100,000	-	-	100,000	54,296	-	(45,704)	54 %	39 %
Interest received - investment	-	19,326,945	19,326,945	-	-	19,326,945	28,875,560	-	9,548,615	149 %	DIV/0 %
Transfers recognised - operational	979,164,000	478,750	979,642,750	-	-	979,642,750	978,587,863	-	(1,054,887)	100 %	100 %
Other own revenue	1,300,000	23,500	1,323,500	-	-	1,323,500	28,522,112	-	27,198,612	2,155 %	2,194 %
Total revenue (excluding capital transfers and contributions)	980,604,000	19,789,195	1,000,393,195	-	-	1,000,393,195	1,036,039,831	-	35,646,636	104 %	106 %
Employee costs	(428,978,962)	(7,230,069)	(436,209,031)	-	-	(436,209,031)	(407,325,673)	-	28,883,358	93 %	95 %
Remuneration of councillors	(10,357,266)	-	(10,357,266)	-	-	(10,357,266)	(13,899,962)	-	(3,542,696)	134 %	134 %
Depreciation and asset impairment	(221,603,965)	-	(221,603,965)	-	-	(221,603,965)	(231,501,624)	-	(9,897,659)	104 %	104 %
Finance charges	-	-	-	-	-	-	(14,198,473)	-	(14,198,473)	DIV/0 %	DIV/0 %
Transfers and grants	(75,000,000)	-	(75,000,000)	-	-	(75,000,000)	(75,000,000)	-	-	100 %	100 %
Other expenditure	(463,438,186)	245,461,331	(217,976,855)	-	-	(217,976,855)	(366,970,270)	-	(148,993,415)	168 %	79 %
Total expenditure	(1,199,378,379)	238,231,262	(961,147,117)	-	-	(961,147,117)	(1,108,896,002)	-	(147,748,885)	115 %	92 %
Surplus/(Deficit)	(218,774,379)	258,020,457	39,246,078	-	-	39,246,078	(72,856,171)	-	(112,102,249)	(186)%	33 %

Ngaka Modiri Molema District Municipality

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	347,553,000	-	347,553,000	-		347,553,000	317,189,313		(30,363,687)	91 %	91 %
Surplus (Deficit) after capital transfers and contributions	128,778,621	258,020,457	386,799,078	-		386,799,078	244,333,142		(142,465,936)	63 %	190 %
Surplus/(Deficit) for the year	128,778,621	258,020,457	386,799,078	-		386,799,078	244,333,142		(142,465,936)	63 %	190 %

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

Figures in Rand	2023	2022
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1. Significant account policies

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

1.1 Basis of preparations

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.

1.2 Presentation currency

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

1.3 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.

1.4 Materiality

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

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

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.

1.5 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:

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Accounting Policies

1.5 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. The recoverable service amount of non-cash-generating assets have been determined on the higher of value-in-use calculations and fair value less cost to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

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

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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Employee benefit obligations

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.

1.6 Investment property

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

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

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

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

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

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

Cost is the amount of cash or cash equivalents or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction. Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

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Accounting Policies

1.6 Investment property (continued)

Fair value

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

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

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

Although unlikely, 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.

Derecognition

Items of investment property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

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

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (refer to note 3).

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

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Accounting Policies

1.7 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.

Depreciation and impairment

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.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent to initial recognition, property, plant and equipment on the cost model is carried at cost less accumulated depreciation and any accumulated impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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 years

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

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

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

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

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

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

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Accounting Policies

1.7 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 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

1.8 Intangible assets

An asset is identifiable if it either:

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

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

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.

Subsequent measurement

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.

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Accounting Policies

1.8 Intangible assets (continued)

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

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

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

Amortisation begins when intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management and ceases at the date that the asset is derecognised.

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

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

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

Derecognition

Intangible assets are derecognised:

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

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

1.9 Financial instruments

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

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.

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

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

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

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

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

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.9 Financial instruments (continued)

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

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

A financial asset is:

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

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

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

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

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

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 unutilised 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.

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Accounting Policies

1.9 Financial instruments (continued)

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

Classification

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

Class	Category
Other financial 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

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.

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Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.9 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus, in the case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

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

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

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

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.

Reclassification

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

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

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

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

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

Gains and losses

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

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

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.9 Financial instruments (continued)

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.

The entity assesses financial assets individually, when assets are individually significant, and individually or collectively for financial assets that are not individually significant. Where no objective evidence of impairment exists for an individually assessed asset (whether individually significant or not), an entity includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in the collective assessment of impairment.

For collective assessments of impairment, assets with similar credit risk characteristics are grouped together. The credit risk characteristics are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

In making this assessment management may consider the following indicators as guidance for possible impairment:

- Significant financial difficulty experienced by the borrower/debtor;
- Delays in payments (including interest payments) or failure to pay/defaults;
- For economic or legal reasons, allowing disadvantaged customers who are experiencing financial difficulties to pay as and when they can. The entity would not otherwise have considered this concession. For example, allowing disadvantaged customers to pay their account when they can due to the fact that the water it supplies to the customer is a basic human right;
- It is probable that the borrower/debtor will enter sequestration (bankruptcy) or other financial reorganisation;
- The disappearance of an active market for the financial asset because of financial difficulties
- Observable data, for example historical data, indicating that there is a decrease in the estimated future cash flows that will be received (which can be measured reliably), from a group of financial assets (financial assets with similar credit risk characteristics grouped together) since the initial recognition of those assets. The decrease may not yet be identified for the individual financial assets in the group. These can include:
 - the payment status of borrowers/debtors in the group has deteriorated (e.g. an increased number of delayed payments); or
 - national or local economic conditions that are in line with non-payments in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers/debtors, or adverse changes in market conditions that affect the borrowers/debtors in the group)
- Accounts in arrears for a period longer than the initial estimated repayment period;
- Accounts with arrears of over 90 days showing no repayments in the last financial year;
- Accounts handed over for collection;
- Any negative changes in the ability of debtors and borrowers to repay the amounts due to the entity (e.g. an increased number of late payments);
- A breach in contract, such as a default in interest or capital payments.

Management need not utilize all the indicators given above as guidance but only use the indicators to which management has sufficient information to make the assessment for possible or actual impairment.

Refer to notes 8 and 9 for the impact of the above application.

Financial assets measured at amortised cost:

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

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

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1.9 Financial instruments (continued)

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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.9 Financial instruments (continued)

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 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.

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.

1.10 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
- 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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.10 Statutory receivables (continued)

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, an 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.

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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.10 Statutory receivables (continued)

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.

1.11 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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.12 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.

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

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.

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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.13 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.

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.

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

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.

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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.13 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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.13 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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.14 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.

Useful life is either:

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

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 therefor 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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

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

Value in use

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

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

Depreciated replacement cost approach

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

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized 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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

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

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.

Redesignation

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

1.15 Employee benefits

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

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.

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Accounting Policies

1.15 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.15 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 present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

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

The municipality 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 municipality 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).

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.15 Employee benefits (continued)

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

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

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

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

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

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

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

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.

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.15 Employee benefits (continued)

Other long term employee obligations

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.

The entity determines the present value of long term employee 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 uses the Projected Unit Credit Method to determine the present value of its long service employee benefit and the related current service cost and, where applicable, past service cost. The Projected Unit Credit 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.

Termination benefits

The municipality 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 municipality 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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus.

If a municipality 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 37.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.16 Provisions and contingencies (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.

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;
- 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, an 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 consider 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 1.13 and 1.14.

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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.17 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.

1.18 Revenue from exchange transactions

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

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

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

Measurement

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

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

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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.18 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Interest

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

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

Interest is recognised 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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.19 Revenue from non-exchange transactions

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

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

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

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

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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.19 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.

1.20 Investment income

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

1.21 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.

1.22 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.

Ngaka Modiri Molema District Municipality

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Accounting Policies

1.22 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.

Recognition

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

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

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

1.23 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are 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.

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

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

Detailed disclosures are made in note 43 to the annual financial statements as required by the Municipal Finance Management Act, (Act No. 56 of 2003).

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Accounting Policies

1.25 Fruitless and wasteful expenditure

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

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

Detailed disclosures are made in note to the annual financial statements as required by the Municipal Finance Management Act, (Act No. 56 of 2003).

1.26 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.

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.

Detailed disclosures are made in note 45 to the annual financial statements as required by the Municipal Finance Management Act, (Act No. 56 of 2003).

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.27 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.

1.28 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.

1.29 Budget information

Municipality is 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 2022/07/01 to 2023/06/30.

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. Explanatory comments to material differences are provided in note to the annual financial statements.

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

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

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

1.31 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.

1.32 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.

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

2023

2022

2. Investment property

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	33,052,452	(12,347,874)	20,704,578	33,052,452	(11,921,263)	21,131,189

Reconciliation of investment property - 2023

	Opening balance	Depreciation	Total
Investment property	21,131,189	(426,611)	20,704,578

Reconciliation of investment property - 2022

	Opening balance	Disposals	Depreciation	Total
Investment property	21,566,940	(7,469)	(428,282)	21,131,189

Pledged as security

No investment was pledged as security by the municipality.

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.

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	20,588,362	-	20,588,362	20,588,362	-	20,588,362
Buildings	196,817,911	(84,173,339)	112,644,572	201,836,113	(88,121,732)	113,714,381
Other property, plant and equipment	100,992,355	(31,262,817)	69,729,538	95,017,791	(29,557,749)	65,460,042
Infrastructure	11,017,201,017	(5,940,616,823)	5,076,584,194	10,844,073,652	(5,776,894,734)	5,067,178,918
Total	11,335,599,645	(6,056,052,979)	5,279,546,666	11,161,515,918	(5,894,574,215)	5,266,941,703

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Work in progress	Depreciation	Impairment loss	Total
Land	20,588,362	-	-	-	-	-	20,588,362
Buildings	113,714,381	1,604,349	(85,819)	3,679,794	(5,403,456)	(864,677)	112,644,572
Other property, plant and equipment	65,460,042	9,754,198	(1,479,524)	-	(3,906,179)	(98,999)	69,729,538
Infrastructure	5,067,178,918	61,938,294	(10,944,585)	171,868,230	(207,522,427)	(5,934,236)	5,076,584,194
	5,266,941,703	73,296,841	(12,509,928)	175,548,024	(216,832,062)	(6,897,912)	5,279,546,666

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals/ Write-offs	Work in progress	Depreciation	Impairment loss	Total
Land	20,588,362	-	-	-	-	-	20,588,362
Buildings	108,512,014	6,631,557	(22,092)	3,631,619	(5,035,238)	(3,479)	113,714,381
Other property, plant and equipment	38,096,350	30,537,082	-	-	(3,173,390)	-	65,460,042
Infrastructure	5,024,509,492	193,650,973	-	104,736,871	(209,049,237)	(46,669,181)	5,067,178,918
	5,191,706,218	230,819,612	(22,092)	108,368,490	(217,257,865)	(46,672,660)	5,266,941,703

Pledged as security

No property, plant and equipment were pledged as security.

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

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3. 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
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
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

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
There is currently a litigation process with the contractor Beyond Build Construction for non payment of the certificates		
Madibogo Water Supply	-	15,158,496
The Project was placed on hold because there was no source of water.		
Mahikeng South Bulk Water Supply	-	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
Project seeded to Sedibeng project will be handed over to Ngaka Modiri Molema District Municipality after completion		
	-	51,537,007

Reconciliation of Work-in-Progress 2023

	Included within Infrastructure	Included within Buildings	Total
Opening balance	664,548,904	6,214,778	670,763,682
Additions/capital expenditure	233,806,524	5,284,142	239,090,666
Transferred to completed items	(61,938,294)	(1,604,348)	(63,542,642)
	836,417,134	9,894,572	846,311,706

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Buildings	Total
Opening balance	559,812,033	2,583,231	562,395,264
Additions/capital expenditure	298,468,657	10,182,363	308,651,020
Transferred to completed items	(193,731,786)	(6,550,817)	(200,282,603)
	664,548,904	6,214,777	670,763,681

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.

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
4. Other financial assets		
Residual interest at cost		
Momentum Flexible investment	346,478	323,503
Non-current assets		
Residual interest at cost	346,478	323,503

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

5. Payables from exchange transactions

Trade payables	206,599,732	122,619,356
Transfers and subsidy payable	45,926,978	37,164,095
Retention fees	44,590,116	48,531,820
Employee related accruals	2,560,506	2,474,104
Control and clearing accounts	2,703,518	9,380
Bonus accrual	10,876,173	10,538,402
	313,257,023	221,337,157

6. Employee benefit obligations

Defined benefit plan

Post Retirement Medical Aid Benefits

Present value of the fund obligation at the beginning of the year	(80,576,969)	(89,217,878)
Current service cost	(7,091,473)	(8,435,536)
Current interest cost	(10,922,730)	(8,955,355)
Actuarial gain/losses	20,962,534	25,886,399
Payments made	(269,131)	145,401
	(77,897,769)	(80,576,969)

Long service bonus awards

Present value of the fund obligation at the beginning of the year	(23,947,616)	(22,727,595)
Current service cost	(2,052,907)	(2,099,856)
Current interest cost	(2,508,667)	(1,818,202)
Actuarial gain/losses	1,952,155	1,229,808
Payments made	3,097,611	1,468,229
	(23,459,424)	(23,947,616)

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
6. Employee benefit obligations (continued)		
The amounts recognised in the statement of financial position are as follows:		
Total non-current employee benefits		
Opening balance	(103,149,952)	(111,945,473)
Current service cost	(9,144,380)	(10,535,392)
Current interest cost	(13,431,397)	(10,733,557)
Actuarial gain/losses	22,914,689	28,450,840
Payments made	3,366,742	1,613,630
	(99,444,298)	(103,149,952)
Non-current liabilities		
Current liabilities	(97,385,344)	(99,911,613)
	(2,058,954)	(3,238,339)
	(99,444,298)	(103,149,952)
Calculation of actuarial gains and losses		
Actuarial (gains) losses – Post retirement medical aid benefit	20,962,534	27,221,032
Actuarial (gains) losses – Long service award	1,952,155	1,229,808
	22,914,689	28,450,840

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand 2023 2022

6. Employee benefit obligations (continued)

Post Retirement Medical Aid Benefits

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 2023 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 2023	Valuation at 30 June 2022
Current (In Service) members	699	628
Continuation members (e.g. Retirees,widows,orphans)	5	5
	704	633

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

Liability as at 01 July	(80,556,932)	(89,197,841)
Benefits paid	3,366,742	145,401
Net expense recognised in the statement of financial performance	338,912	8,495,508
	(76,851,278)	(80,556,932)

Net expense recognised in the statement of financial performance

Current service cost	(9,144,380)	(8,435,536)
Interest cost	(13,431,397)	(8,955,355)
Actuarial (gains) losses	22,914,689	25,886,399
	338,912	8,495,508

Calculation of actuarial gains and losses

Actuarial (gains) losses	(1,952,155)	(1,229,808)
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Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand 2023 2022

6. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	12.52 %	12.32 %
Expected increase in salaries	7.14 %	7.82 %
Expected increase in healthcare costs	8.64 %	9.32 %
Net discount rates	3.57 %	2.22 %

GRAP 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 2023	Valuation 2022
Female	65	65
Male	65	65
	130	130

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 GRAP 25.

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	One percentage point decrease R
Effect on interest cost	10,922,730	8,995,611
Effect on service cost	7,091,473	6,093,040

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

	2023 R	2022 R	2021 R	2020 R	2019 R
Defined benefit obligation	75,868,309	80,576,969	89,217,878	66,960,723	52,830,195

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand 2023 2022

6. Employee benefit obligations (continued)

The major categories of plan assets as a percentage of total plan assets are as follows:

Key actuarial assumptions used:

Discount rate	12.52 %	12.32 %
CPI	7.14 %	7.82 %
Salary increased rate	8.28 %	8.28 %
Net discount rate	3.57 %	2.74 %

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.

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	648	699
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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:	2023	2022	2021	2020	2019
Present value of the fund obligation	23,459,424	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 5,12% increase and 4,66% decrease in the accrued liability respectively.

	20% Increase R'	30 June 2023 Valuation basis R'	20% Decrease R'
Accrued liability	24,660,347	23,459,424	22,366,500
Current service cost	1,902,756	1,792,976	1,663,997
Expense cost	2,614,580	2,482,925	2,363,139

General Earnings inflation rate:

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

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand 2023 2022

6. Employee benefit obligations (continued)

	20% Decrease R'	30 June 2023 Valuation basis R'	20% Increase R'
Accrued liability	22,018,550	23,459,424	25,041,544
Current service cost	1,674,378	1,792,976	1,923,977
Expense cost	2,324,573	2,482,925	2,656,800

The adjustment will result in a 6,74% increase and 6,14% decrease in the accrued liability respectively.

7. Inventories

Raw materials and components	24,286,582	27,630,847
VIP Toilets	218,887,845	148,473,452
Water for distribution	48,201	48,201
	243,222,628	176,152,500

Inventories recognised as an expense during the year - 157,464,755

Inventory pledged as security

No inventory has been pledged as security.

VIP Toilets inventory reconciliation

Opening balance	148,473,453	125,470,990
Additions	208,629,612	141,896,929
Completed and transferred	(138,215,219)	(118,894,466)
Closing balance	218,887,846	148,473,453

8. Receivables from exchange transactions

Trade creditors with debit balances	671,649	660,758
Deposits	2,087,823	2,085,514
Less: Provision for impairment	(2,085,514)	(2,085,514)
Prepaid expenses	7,188,996	2,926,732
Other receivables	480,439	480,439
Net trade receivables from exchange transactions	8,343,393	4,067,929

Trade and other receivables pledged as security

None of the trade and other receivables were pledged as security.

Trade and other receivables past due but not impaired

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(2,085,514)	-
Less: Impairment losses recognised	-	(2,085,514)
	(2,085,514)	(2,085,514)

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
9. Receivables from non-exchange transactions		
Government grants and subsidies	557,488	557,488
Staff debtors	926,906	926,906
Less: Provision for impairment	(1,458,195)	(1,458,195)
Net total receivable from exchange	26,199	26,199
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 past due but not impaired		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	1,487,570	1,487,570
2 months past due	(1,458,195)	(1,458,195)
Receivables from non-exchange transactions impaired		
The ageing of these loans is as follows:		
Over 6 months	1,479,743	1,479,743
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	(1,479,743)	-
Provision for impairment	-	(1,479,743)
	(1,479,743)	(1,479,743)
10. VAT receivable		
VAT	92,198,225	38,611,141

Ngaka Modiri Molema District Municipality

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Notes to the Annual Financial Statements

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11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	159,306,618	454,490,720
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The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2023	30 June 2022	30 June 2021	30 June 2023	30 June 2022	30 June 2021
FNB Cheque Acc 52910086795	6,793,013	165,055,473	71,192,411	6,756,689	165,007,370	25,636,915
FNB Call Account 62859822374	4,677,397	17,765,531	24,730	4,677,397	17,765,531	24,730
FNB Call Account 62825653016	25,568,999	26,365,768	21,816,146	25,568,999	26,365,768	21,816,146
ABSA Call deposit 160432220101	345,895	329,613	322,504	345,895	329,613	340,526
FNB Call account 62445709746	2,009,828	3,796,149	340,845,396	2,009,828	3,796,149	340,845,386
FNB Call Account 62858604369	1,422,729	30,588,459	29,528,475	1,422,729	30,588,459	29,528,475
FNB Call Account 62860297706	1,855,865	185,346,421	162,719,959	1,855,865	185,346,421	162,719,959
FNB Call Account 62914421087	23,960,020	25,291,409	-	23,960,020	25,291,409	-
FNB Call Account 63011395125	91,143,071	-	-	91,143,071	-	-
FNB Call Account 63012146105	1,566,125	-	-	1,566,125	-	-
Total	159,342,942	454,538,823	626,449,621	159,306,618	454,490,720	580,912,137

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.

A reconciling list is available for inspection, made up of transactions which could not be processed on 30 June 2023.

Cheque (primary) account

Bank statement balance	6,793,013	165,055,473
Cash book balance	6,756,787	165,007,370
Differences	36,226	48,103

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

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Figures in Rand	2023	2022
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12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	30,363,687	-
Rural Roads Asset Management Grant	453	459,452
Financial Management Grant	1,262,139	-
EPWP	72	-
	31,626,351	459,452

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.

See note 22 for reconciliation of grants from National/Provincial Government.

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

Ngaka Modiri Molema District Municipality

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13. Provisions

Reconciliation of provisions - 2023

	Opening Balance	Additions	Utilised during the year	Total
Leave provision	39,045,213	2,991,649	(2,556,097)	39,480,765

Reconciliation of provisions - 2022

	Opening Balance	Additions	Utilised during the year	Total
Leave provision	37,408,769	4,944,953	(3,308,509)	39,045,213

14. Revenue

Rendering of services	1,670	34,804
Service charges	54,296	100,985
Rental of facilities and equipment	398,254	195,351
Licences and permits	83,019	72,270
Other income	1,081,637	2,295,469
Interest received - investment	28,875,560	27,642,173
Government grants & subsidies	1,295,777,176	1,198,909,750
	1,326,271,612	1,229,250,802

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	54,296	100,985
Rendering of services	1,670	34,804
Rental of facilities and equipment	398,254	195,351
Licences and permits	83,019	72,270
Other income	1,081,637	2,295,469
Interest received - investment	28,875,560	27,642,173
	30,494,436	30,341,052

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Transfer revenue		
Government grants & subsidies	1,295,777,176	1,198,909,750

15. Service charges

Sale of water	1,304	23,948
Sewerage and sanitation charges	52,992	77,037
	54,296	100,985

16. Rental of facilities and equipment

Premises	398,254	195,351
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17. Licences and permits

Health Certificates	83,019	72,270
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Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
18. Lease rentals on operating lease		
Premises		
Parking	374,220	366,280
Equipment		
Photocopying	1,050,391	453,660
	1,424,611	819,940
19. Other income		
Sale of tender documents	474,333	470,887
Insurance refunds	372,161	1,824,582
Discount received	235,143	-
	1,081,637	2,295,469
20. Interest received		
Investment interest revenue		
Bank	28,875,560	27,642,173
Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R28,875,560 (2022: R27,642,173).		
21. Transfer and subsidies		
Other subsidies		
Transfers to local municipalities	75,000,000	60,000,000

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

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Figures in Rand

	2023	2022
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22. Government grants & subsidies

Operating grants

Equitable share	974,124,000	873,573,000
Financial Management Grant	1,737,861	2,850,000
EPWP	2,039,928	2,140,000
LG SETA	686,074	637,202
	978,587,863	879,200,202

Capital grants

Rural Roads Asset Management Grant	2,718,000	2,136,548
Municipal Infrastructure Grant	314,471,313	317,573,000
	317,189,313	319,709,548
	1,295,777,176	1,198,909,750

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	320,967,102	324,699,548
Unconditional grants received	974,124,000	873,573,000
Restricted grants received	686,074	637,202
	1,295,777,176	1,198,909,750

Equitable Share

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

Financial Management Grant

Current-year receipts	3,000,000	2,850,000
Conditions met - transferred to revenue	(1,737,861)	(2,850,000)
	1,262,139	-

Conditions still to be met - remain liabilities (see note 12).

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

Expanded Public Works Programme

Current-year receipts	2,040,000	2,140,000
Conditions met - transferred to revenue	(2,039,928)	(2,140,000)
	72	-

Conditions still to be met - remain liabilities (see note 12).

The purpose of the grant is to expand work creation efforts through the use of labour incentives delivery methods in identified focus areas, in compliance with Expanded Public Works Programme (EPWP) guidelines.

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
22. Government grants & subsidies (continued)		
Rural Roads Asset Management Grant		
Balance unspent at beginning of year	459,452	-
Current-year receipts	2,718,000	2,596,000
Conditions met - transferred to revenue	(2,718,000)	(2,136,548)
Surrendered to National Treasury	(458,999)	-
	453	459,452

Conditions still to be met - remain liabilities (see note 12).

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

LG SETA

Current-year receipts	686,074	637,202
Conditions met - transferred to revenue	(686,074)	(637,202)
	-	-

Conditions still to be met - remain liabilities (see note 12).

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.

Municipal Infrastructure Grant

Current-year receipts	344,835,000	317,573,000
Conditions met - transferred to revenue	(314,471,313)	(317,573,000)
	30,363,687	-

Conditions still to be met - remain liabilities (see note 12).

To provide specific capital finance for eradicating basic municipal infrastructure backlogs for the poor.

Ngaka Modiri Molema District Municipality

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Notes to the Annual Financial Statements

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23. Employee related costs		
Basic	243,267,026	231,709,655
Bonus	19,553,354	18,162,846
Medical aid - company contributions	25,148,127	23,947,674
Unemployment Insurance Fund	1,589,801	1,411,106
Leave pay provision charge	2,991,650	5,267,356
COVID-19 Danger Allowance	25,500	3,773,652
Defined contribution plans	10,128,881	10,535,392
Overtime payments	12,996,056	28,814,767
Car allowance	18,057,577	19,395,407
Housing benefits and allowances	1,039,208	1,005,771
Bargaining council	86,919	84,347
Pension fund contributions	44,188,013	43,082,381
Cellphone allowance	571,700	614,200
Stand-by allowance	4,317,977	4,580,153
Shift allowance	23,363,884	7,377,376
	407,325,673	399,762,083
Remuneration of Municipal Manager		
Basic Salary	801,891	696,508
Car Allowance	147,406	168,000
Annual Bonus	48,369	58,042
Contributions to UIF, Medical and Pension Funds	129,730	149,994
Housing Allowance	20,000	60,000
Non-pensionable	78,382	333,744
Leave payout	217,139	-
	1,442,917	1,466,288
Remuneration of Chief Financial Officer		
Annual Remuneration	726,719	573,796
13th Cheque	49,632	47,632
Contributions to UIF, Medical and Pension Funds	180,670	147,699
Cellphone Allowance	12,000	14,000
Non-pensionable	372,124	487,024
	1,341,145	1,270,151
Remuneration of Senior Manager - Corporate Services		
Annual Remuneration	727,122	575,589
Car Allowance	84,000	84,000
13th Cheque	49,632	47,632
Contributions to UIF, Medical and Pension Funds	149,489	117,744
Cellphone Allowance	12,000	14,000
Housing Allowance	165,252	151,381
Non-pensionable	154,079	279,636
	1,341,574	1,269,982

Ngaka Modiri Molema District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

	2023	2022
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23. Employee related costs (continued)

Remuneration of Senior Manager - Community services

Annual Remuneration	727,105	573,404
Car Allowance	168,000	168,000
13th Cheque	49,632	47,632
Contributions to UIF, Medical and Pension Funds	187,893	154,482
Cellphone allowance	12,000	14,000
Non-pensionable	196,244	312,385
	1,340,874	1,269,903

Remuneration of Senior Manager - Technical Services

Annual Remuneration	734,221	587,004
Car Allowance	170,534	160,380
Contributions to UIF, Medical and Pension Funds	149,513	117,602
Housing Allowance	122,118	112,218
Non-pensionable	154,079	279,636
Cellphone Allowance	12,000	14,000
Acting Allowance	18,820	-
	1,361,285	1,270,840

Remuneration of Senior Manager - Chief Audit Executive

Annual Remuneration	740,858	432,692
Car Allowance	168,000	168,000
13th Cheque	49,632	47,632
Contributions to UIF, Medical and Pension Funds	149,315	117,637
Cellphone Allowance	12,000	14,000
Housing Allowance	36,000	36,000
Non-pensionable	185,460	311,017
	1,341,265	1,126,978

Ngaka Modiri Molema District Municipality

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Figures in Rand	2023	2022
24. Remuneration of councillors		
Executive Mayor	1,136,214	2,261,050
Single Whip	861,855	794,551
Mayoral Committee Members	6,885,831	3,294,341
Speaker	916,725	775,818
Councillors	4,099,337	5,789,598
	13,899,962	12,915,358
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.		
25. Depreciation and amortisation		
Property, plant and equipment	231,075,013	208,978,511
Investment property	426,611	213,703
	231,501,624	209,192,214
26. Impairment loss		
Impairments		
Property, plant and equipment	-	46,702,221
27. Finance costs		
Interest on late payments to suppliers	767,076	130,439
Interest on post-retirement benefits	13,431,397	10,773,557
	14,198,473	10,903,996
28. Auditors' remuneration		
Fees	8,426,183	7,644,042
29. Inventory consumed		
Water distribution	11,484,749	8,745,957
Materials and supplies consumed	-	21,953,569
	11,484,749	30,699,526

Ngaka Modiri Molema District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
30. General expenses		
Assessment rates & municipal charges	244,906	2,838,846
Auditors remuneration	8,426,183	7,644,042
Bank charges	292,590	430,222
Consumables	2,901,443	8,549,479
Hire	28,298,483	27,214,721
Insurance	7,304,812	2,478,376
IT expenses	5,643,086	3,055,083
Marketing	1,599,876	4,150,145
Motor vehicle expenses	2,573,531	1,163,757
Fuel and oil	21,391,007	5,482,414
Printing and stationery	2,059,983	928,101
Promotions	2,364,620	847,810
Staff welfare	4,338,887	3,430,334
Subscriptions and membership fees	1,563,482	6,686,046
Telephone and fax	5,230,011	5,862,634
Transport and freight	152,157	1,405,114
Training	1,503,000	1,281,468
Travel - local	1,646,659	297,055
Electricity	20,117,926	13,566,965
Uniforms	614,273	1,736,139
Accommodation	2,135,494	3,868,942
Sitting allowance	451,395	788,448
Local development expenditure	-	421,645
	120,853,804	104,127,786
31. Debt impairment		
Debt impairment	-	3,543,709

Ngaka Modiri Molema District Municipality

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Figures in Rand	2023	2022
32. Contracted services		
Outsourced Services		
Catering services	954,145	1,959,688
Security Services	25,817,362	26,517,631
Water Tankers	760,150	1,698,054
Consultants and Professional Services		
Business and Advisory	32,923,048	29,775,519
Infrastructure and Planning	1,006,467	2,613,537
Legal cost	21,339,518	6,589,582
Contractors		
Repairs and maintenance of building and facilities	524,656,942	200,258,725
	607,457,632	269,412,736
33. Cash (used in) generated from operations		
Deficit	(277,866,762)	(17,103,141)
Adjustments for:		
Depreciation and amortisation	231,501,624	209,192,214
Gain on sale of assets and liabilities	9,734,159	-
Impairment deficit	-	46,702,221
Debt impairment	-	3,543,709
Movements in retirement benefit assets and liabilities	(3,705,654)	(8,795,536)
Movements in provisions	435,552	6,012,650
Inventory losses or write-downs	(4,042,843)	7,870,762
Changes in working capital:		
Inventories	(67,070,128)	(36,393,970)
Receivables from exchange transactions	(4,275,464)	12,906,480
Other receivables from non-exchange transactions	-	1,464,975
Payables from exchange transactions	91,919,860	33,369,683
VAT	(53,587,084)	(13,391,654)
Unspent conditional grants and receipts	31,166,899	459,452
	(45,789,841)	245,837,845
34. Operating deficit		
Operating deficit for the year is stated after accounting for the following:		
Operating lease charges		
Premises		
• Parking	374,220	366,280
Equipment		
• Printing and photocopying	1,050,391	453,660
	1,424,611	819,940
Loss on sale of property, plant and equipment	(9,734,159)	-
Impairment on property, plant and equipment	-	46,702,221
Depreciation on property, plant and equipment	231,075,013	208,978,511
Depreciation on investment property	426,611	213,703
Employee costs	421,225,635	412,677,441

Ngaka Modiri Molema District Municipality

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35. Financial instruments disclosure

Categories of financial instruments

2023

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	8,343,393	8,343,393
Other receivables from non-exchange transactions	-	26,199	26,199
Cash and cash equivalents	159,306,618	-	159,306,618
Other financial assets	346,478	-	346,478
	159,653,096	8,369,592	168,022,688

Financial liabilities

	At fair value	Total
Trade and other payables from exchange transactions	313,257,023	313,257,023

2022

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	4,005,263	4,005,263
Other receivables from non-exchange transactions	-	26,199	26,199
Cash and cash equivalents	454,490,720	-	454,490,720
Other financial assets	323,503	-	323,503
	454,814,223	4,031,462	458,845,685

Financial liabilities

	At fair value	Total
Trade and other payables from exchange transactions	221,337,157	221,337,157

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	57,476,116	180,304,246
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Total capital commitments

Already contracted for but not provided for	57,476,116	180,304,246
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Ngaka Modiri Molema District Municipality

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37. Contingencies		
Contingent liabilities		
A contingent liability is:		
(a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity;		
(b) a present obligation that arises from past events but is not recognised because:		
(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or		
(ii) the amount of the obligation cannot be measured with sufficient reliability.		
1. T. Gwabeni N	2,021,184	2,021,184
2. JY Gutta	2,235,379	2,235,379
3. Tebogo Shomolekae	8,500	14,640
4. Beyond Build Construction	2,875,303	2,875,303
5. Geldenhuys et al	201,341,200	201,341,200
6. Monarch Protection CC	4,451,008	4,451,008
7. Quantibuild (Pty) Ltd	2,153,631	2,439,850
8. PK Financial Consulting CC	-	-
9. Violet Tshethlo	8,500	24,619
10. Batlhalefi Projects (Sello Mogodiri)	17,722,191	17,722,191
11. Dr Maduo	986,386	986,386
12. Maq's Construction and Plant Hire	5,122,954	5,170,464
13. Kawo Construction CC	9,939,988	9,939,988
14. Ultimate Dynamics and Proper Consulting JV	1,665,496	-
15. AL Jaza Investments (Pty) Ltd	6,185,983	6,185,943
16. Johannes Delpont	28,171	28,171
17. Donald Maebane	908,000	900,000
18. Hundred Percent Blackstone Supplier Projects	500,000,000	-
19. Naphtronics (Pty) Ltd	15,075,406	19,796,158
	772,729,280	276,132,484

1. T. Gwabeni N // NMMDM

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. J. Y Gutta // NMMDM

Mr J.Y Gutta instituted a claim of R2 235 379,00 against the NMMDM as a 2nd defendant in the matter due to 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 Mandela day. A draft amendment 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.

Possibility of reimbursement cannot be confirmed at this stage.

Ngaka Modiri Molema District Municipality

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37. Contingencies (continued)

3. Tebogo Shomolekae // NMMDM Case no:3157/2014

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 R14 640,12 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.

4. Beyond Build Construction JV // NMMDM

A dispute exists over a letter of demand from Beyond Build Construction in May 2015 for the payment of R2 875 302,71 relating to an outstanding payment certificate for the construction of VIP toilets in Dinokana Village. The service provider then changed legal council/legisl representation. The letter of demand from the new legal representation is R2 875 302,71 sighting an increase on Interest rate.

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. The matter is on-going as a pre-trial conference was held on 13th March 2023, parties are considering Pre-trial minutes and preparing for trial.

Uncertainty exists around the timing of any outflow dependent on the outcome of the trial. M.E Tlou attorneys has estimated legal fee and disbursements to the tune of R467 986,74.

There is possibility of reimbursement at this stage.

5. Geldenhuys et al // NMMDM

In September 2007, the NMMDM entered into a purchase agreement with Geldenhuys 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, Geldenhuys 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 Geldenhuys 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 matter had to have been to court on the 17th March 2023 and was removed from court by agreement by both parties due to non-compliance of mandatory court requirements.

The claimant claimed an amount of R201,341,200 being the agreed purchase price. Therefore, uncertainty exists around the timing of the outflow, if any, dependent on the court's decision, currently, the parties would arrange pre-trial conference. The estimated legal costs and disbursements to be paid to Molefe Attorneys is R900 000. There is no possibility of reimbursements at this stage.

Ngaka Modiri Molema District Municipality

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37. Contingencies (continued)

6. Monarch Protection CC // NMMDM

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.

Currently, the Municipal attorneys have filed an application to set aside the civil proceedings due to irregular steps taken by Monarch's attorneys in the matter.

Uncertainty exists around the timing of the outflow, estimated legal costs to be paid to Kgomo attorneys is R340 000.

Possibility of reimbursement is unknown.

7. Quantibuild (Pty) Ltd // NMMDM

In January 2019 Quantibuild received an arbitration award of R2 153 630 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 was supposed to be made on 10 Oct 2022 and no judgement was made, therefore, the matter is pending before court appeal.

Uncertainty exists around the timing of the outflow, if any, as this will be dependent on the sitting court. The estimated legal fees and disbursements to be paid to Semaushu Attorneys is R500 000. Possibility of reimbursements cannot be confirmed at this stage.

8. PK Financial Consulting CC // NMMDM

PK Financial Services alleges that the tender for Tax and Financial Recovery is tailor-made for Maxprof. This matter has been dismissed by the NW High Court with costs. PK Financial Services have appealed the judgement of the 17th of December 2020, awaiting for trial date.

The Municipality has since replied to the other side's papers and they have since been quiet, it appears as if they await outcome of the tender in question. It was not practicable to estimate the contingent liability amount.

9. Violet Tshetlho // 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 R8 500,00 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 but is at final stage.

Uncertainty exists around the timing of outflow, if any, dependent on the sitting Court, estimated legal costs and disbursement to be paid to Semaushu Attorneys is +/-R20 000.

There is uncertainty on possibility of reimbursements at this stage as the final decision rests with the president judge.

10. Batlhalefi Projects (Sello Mogodiri) // NMMDM

The Mahikeng Local Municipality appointed Batlhalefi Projects in December 2011 to upgrade roads and infrastructure in Mahikeng and the contract amount was R 14 000 000,00. Batlhalefi 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 Batlhalefi did not attend the Arbitration hearing. Thus the date of arbitration can not be confirmed due to lack of payment by Batlhalefi 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. There's no possibility of reimbursement at this stage.

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37. Contingencies (continued)

11. Dr Maduo // NMMDM Case no: 108/2012

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 was awaiting further correspondence from Dr Maduo, therefore, the matter is currently pending according to the NMMDM lawyers as the plaintiff has passed on. Uncertainty exists around the ultimate timing of outflow, if any, the estimated legal fees and disbursements to be paid to Semaushu Attorneys is +-R80 000. Possibility of reimbursement cannot be confirmed/is unknown.

12. Maq's Construction and Plant Hire // NMMDM

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. There is no possibility of reimbursement.

13. Kawo Construction // NMMDM

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 R9 939 988,00 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 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. There is no possibility of reimbursement.

14. Ultimate Dynamics and Proper Consulting // NMMDM

The Municipality received Letter of Demand from Ultimate Dynamics and Proper Consulting JV for unlawful termination of contract and failure to pay outstanding invoices.

This matter is currently before court, summons defended., the Municipality has filed Notice of Intention to Defend.

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37. Contingencies (continued)

15. AL Jaza Investments (Pty) Ltd // NMMDM

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. The matter is on-going as consultation with Counsel is scheduled for 30 August 2023 for trial preparation.

Uncertainties exist around the timing of the outflow, if any, as this will be dependent on the outcome of the trial, estimated legal costs and disbursements to be paid to M.E Tlou attorneys are R413 661,78. There is possibility of reimbursements at this stage.

16. Johannes Delpport // NMMDM

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 Delpport approaching the court for a trial date thus uncertainty exists around the timing of an outflow, if any, to Mr Delpport, matter is pending, estimated legal fees and disbursements to be paid to Semaushu Attorneys is R20 000. There is no possibility of reimbursements at this stage."

17. 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 R908 000. NMMDM challenged the validity of the summons and the amount claimed since the main claimant is launched with road accident fund. The matter is still pending.

Uncertainty exists around the timing of outflow, if any, dependent on the sitting Court, estimated legal costs for Semaushu attorneys is R200 000,00.

There is uncertainty on possibility of reimbursements at this stage as the final decision rests with the president judge.

18. Hundred Percent Blackstone Suppliers Projects // NMMDM

Stolen intellectual property

The Municipality received the summons from Black Stone Supply regarding unlawful usage of intellectual property, which is registered and protected by Black Stone Supply. The Municipality received a letter of demand alleging that tender was advertised with their concept, without permission or consent. This matter is before court the NMMDM has responded to the summons. The Municipality has filed Notice of Intention to Defend. Uncertainty exists around the timing of the outflow. There's possibility of reimbursement.

19. Naphtronics (Pty) Ltd // NMMDM

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. The leave was granted on limited issues only, appeal was granted and remitted back to the High Court for determination of the debt outstanding Uncertainty exists around the timing of outflow, estimated legal costs to be paid to Motshabi attorneys is R100 000. There's uncertainty on possibility of reimbursements.

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38. 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 (contract ended June 2023)

G.P Moroane - Chief Financial Officer (appointed August 2023)

M.J. Rassool - Technical Services

M.D. Dambuza - Corporate Resource Support Services

S.M Nkadimang - Community Services

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

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38. Contingencies (continued)

Remuneration of management

Remuneration of Councillors

2023

Name	Basic Salary	Car Allowance	Cellphone Allowance	Medical Aid Contribution	Pension Fund Contribution	Total
Speaker	703,925	130,488	40,800	-	48,945	924,158
Chief Whip	774,065	-	40,800	-	53,866	868,731
MMC	3,089,168	450,026	122,400	-	190,878	3,852,472
Councillors	5,986,903	494,456	428,400	43,028	155,931	7,108,718
Executive Mayor	1,105,083	-	40,800	-	-	1,145,883
	11,659,144	1,074,970	673,200	43,028	449,620	13,899,962

2022

Name	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
	10,320,437	1,005,137	878,500	183,212	528,068	12,915,354

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39. Prior-year adjustments

Prior period errors were identified during the current year and corrected in line with GRAP 3 - Accounting Policies, Changes in Accounting Policies and Errors.

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassification of comparatives had on the amounts disclosed in the annual financial statements, followed by a description of each of the individual prior period error with the amounts involved.

Statement of financial position

2022

	As previously reported	Correction of error	Restated
VAT Receivable	36,501,001	2,110,140	38,611,141
Payables from exchange transactions - Trade payables	(182,729,581)	60,110,225	(122,619,356)
Payables from exchange transactions - Retention fees	(44,635,187)	(3,896,633)	(48,531,820)
Increase in Payables from exchange transactions - Control and clearing accounts	(3,764,340)	3,754,960	(9,380)
Inventory - Maintenance Materials	27,200,247	430,600	27,630,847
Inventory - VIP Toilets	151,295,637	(2,822,185)	148,473,452
Cash and Cash equivalents - Bank balances	454,325,568	165,152	454,490,720
Property plant and equipment - Buildings	116,965,992	(3,251,611)	113,714,381
Property plant and equipment - Other PPE	64,079,777	1,380,265	65,460,042
Investment property	17,777,140	3,354,049	21,131,189
Property plant and equipment - Infrastructure	4,986,506,076	80,672,842	5,067,178,918
Other financial Assets - Momentum flexible investment	326,356	(2,853)	323,503
Employee benefit obligation - Non-current portion	(101,286,261)	1,374,648	(99,911,613)
Provisions - Leave accrual	(43,421,419)	4,376,206	(39,045,213)
Payables from exchange transactions - Employee related accruals	(2,452,952)	(21,152)	(2,474,104)
Receivables from exchange transactions	3,587,490	480,439	4,067,929
Accumulated surplus	(5,449,538,017)	(146,941,558)	(5,596,479,575)

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39. Prior-year adjustments (continued)

Statement of financial performance

2022

	As previously reported	Correction of error	Restated
Other income - Sale of write off assets	(3,751,709)	1,927,127	(1,824,582)
Other income - Sale of tender documents	(475,887)	5,000	(470,887)
Contracted services - Security services	26,693,531	(175,900)	26,517,631
Contracted services - Water tankering	-	1,698,054	1,698,054
General expenses - Cleaning materials	9,078,835	(529,356)	8,549,479
Contracted services - Maintenance of Building and Facilities	198,460,918	1,797,807	200,258,725
Contracted services - Business and Advisory	28,540,219	1,235,300	29,775,519
General expenses - Hire	26,196,059	1,018,662	27,214,721
General expenses - Training	1,528,718	(247,250)	1,281,468
Actuarial gains/losses	(27,116,207)	(1,374,648)	(28,490,855)
Employee related costs - Leave pay provision charge	9,643,562	(4,376,206)	5,267,356
General expenses - Sitting allowance	753,568	34,880	788,448
Contracted services - Catering	2,198,320	(238,632)	1,959,688
General expenses - Accommodation	4,149,723	(280,782)	3,868,941
General expenses - Fuel and oil	5,009,194	473,220	5,482,414
General expenses - IT Expenses	2,907,453	147,630	3,055,083
General expenses - Marketing	4,744,098	(593,953)	4,150,145
General expenses - Motor vehicle expenses	1,166,512	(2,755)	1,163,757
General expenses - Promotions	508,615	339,195	847,810
General expenses - Transport	1,458,989	(53,875)	1,405,114
General expenses - Subscriptions and Membership fees	6,654,757	31,289	6,686,046
Employee related costs - COVID-19 Danger allowance	3,752,500	21,152	3,773,652
Contracted services - Legal cost	5,465,222	1,124,360	6,589,582
Depreciation and amortisation	212,446,067	(3,253,853)	209,192,214

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39. Prior-year adjustments (continued)

39.01 Correction of balance of Momentum investment

Correction of opening balance for momentum statement was wrongly disclose on financial system. Correction of this error made other financial assets overstated by R2 853, and Accumulated surplus was understated by R2 853. This error has been corrected and the opening balances were adjusted with the effect thereof as follows:

Statement of financial position

Decrease in Other financial assets - Momentum Flexible investment	(2,853)
Decrease in Accumulated surplus	2,853
	<u>-</u>

39.02 Reversal of duplicate employees accounted for under continuation members

Reversal of duplicate employees accounted for under continuation members. This error has been corrected and the opening balances were adjusted with the effect thereof as follows:

Statement of financial position

Decrease in Employee benefit obligation - Non-current portion	1,374,648
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Statement of financial performance

Increase in Actuarial gains/(losses)	(1,374,648)
	<u>-</u>

39.03 Correction of retention fees incorrectly calculated

It was noted that retentions were incorrectly calculated not taking into account the total value certified. This error has been corrected and the opening balances were adjusted with the effect thereof as follows:

Statement of financial position

Decrease in Inventories - VIP Toilets	(2,822,185)
Decrease in Property, plant and equipment - Infrastructure	(1,074,448)
Increase in Payables from exchange transactions - Retention fees	3,896,633
	<u>-</u>

39.04 Correction of interest accrued for ABSA and Nedbank accounts

Correction of interest accrued for ABSA and Netbank statement was wrongly disclosed on the financial system. This error resulted in the overstatement of Cash and Cash Equivalent by R165,152, and Accumulated surplus was understated by R165 152. This error has been corrected and the opening balances were adjusted with the effect thereof as follows:

Statement of financial position

Increase in Cash and Cash Equivalents	165,152
Increase in Accumulated surplus	(165,152)
	<u>-</u>

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39. Prior-year adjustments (continued)

39.05 Reversal of 3rd party (Pension Fund) incorrectly processed

This error was as a result of an incorrect pension fund journal which was processed twice on the financial system in the 2019/2020 financial year, the net effect of the reversal will affect the following accounts as illustrated below.

Statement of financial position

Decrease in Payables from exchange transactions - Trade payables	4,404,761
Increase in Payables from exchange transactions - Control and clearing accounts	(1,891,333)
Increase in Accumulated surplus	(2,513,428)
	<u>-</u>

39.06 Bulk purchase disputed

The correction is as a result of Sedibeng water invoices disputed by the municipality, these invoices relate to prior financial years as far as 2018, the net effect of the disputed invoices will affect the following accounts as illustrated below.

Statement of financial position

Decrease in Payables from exchange transactions - Trade payables	60,631,568
Increase in Accumulated surplus	(60,631,568)
	<u>-</u>

39.07 Reversal of third parties raised twice

This error was as a result of an incorrect third party payment transaction which was processed twice on the financial system in the 2020/2021 financial year, the net effect of the reversal will affect the following accounts as illustrated below.

Statement of financial position

Decrease in Payables from exchange transactions - Trade payables	41,651
Increase in Accumulated surplus	(32,271)
Increase in Payables from exchange transactions - Control and clearing accounts	(9,380)
	<u>-</u>

39.08 Invoice less than Order Correction (INV0000034 & INV 47 & Mafoko)

During the assessment of expenditure in the 2020/2021 financial year it was noted that there was expenditure which was raised at the order level instead of the actual invoice thus overstating expenditure and overstating trade payables, the correction of the transactions and the net effect is illustrated below.

Statement of financial position

Decrease in Payables from exchange transactions - Trade payables	11,760
Decrease in Payables from exchange transactions - Trade payables	1,564,281
Increase in Accumulated surplus	(1,372,004)
Decrease in VAT Receivable	(204,037)
	<u>-</u>

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39. Prior-year adjustments (continued)

39.12 FNB Fleet, BlueDot G (INV0002), Maine (MINV000107A), Refund Shuping, Aqua Transport & Exila

During the assesment of expenditure it was noted that these invoices were recorded in the 2022/2023 financial year but the invoices relate to services that were rendered in the 2021/2022 financial year. As as result, these invoices were removed in the 2022/2023 financial year and recorded in the prior year. The correction will affect the below accounts and the net effect is illustrated below.

Statement of financial position

Increase in Payables from exchange transactions - Trade payables	(4,390,560)
Increase in VAT Receivable	474,495

Statement of financial performance

Increase in General Expenditure - Plant Hire	571,390
Increase in Contracted Services - Maintenance of building and facilities	1,510,620
Increase in Contracted Services - Business & Advisory	1,067,600
Increase in General Expenditure - Agency Fees	1,037
Increase in General Expenditure - Accommodation	5,008
Increase in General Expenditure - Fuel & Oil	760,410
	<u>-</u>

39.13 AK Distributors INV407

During the assesment of expenditure it was noted that there was an invoice which was already captured on the system which was subsequently disputed by the municipality, this invoice was later replaced by a new invoice, while recording the new invoice it was noted that an error occured which subsequently lead to the overstatement of payables and expenditure (2020/2021 Financial year) Input vat was however correctly accounted for therefore the net effect of the correction is illustrated below:

Statement of financial position

Decrease in Payables from exchange transactions - Trade payables	31,944
Increase in Accumulated surplus	(31,944)
	<u>-</u>

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39. Prior-year adjustments (continued)

39.14 Recognition of gain on disposed asset

During the current year, it was noted that sale of write off assets was overstated with R1 927 126,71 of carrying value of the disposed assets. It was further noted that the gain on sale of the assets was not calculated and the total cost of R3 377 622,98 received was capitalised as bank and revenue from exchange transaction (sale of write off assets).

Statement of financial position

Increase Property, plant and equipment - Other PPE	(1,927,127)
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Statement of financial performance

Decrease Revenue from exchange transactions - sale of write off assets	1,927,127
	<u>-</u>

39.15 Sale of tender documents

During the current year, it was noted that sale of tender documents was overstated with R5,000, as an unknown deposit was classified as revenue from exchange transactions under sale of tender documents.

Statement of financial position

Increase in Payables from exchange transactions - Trade payables	(5,000)
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Statement of financial performance

Decrease in Revenue from exchange transactions - sale of tender documents	5,000
	<u>-</u>

39.16 Property Plant and Equipment incorrectly classified as contracted services - security services

During the current financial year, it was noted that security services were incorrectly recognised inclusive of capital expenditure. This error resulted in an overstatement of Contracted services - security services. This error has been corrected and the closing balance of transport has been adjusted with effect thereof as follows:

Statement of financial position

Increase in Property, Plant and Equipment	175,900
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Statement of financial performance

Decrease in Contracted services - security services	(175,900)
	<u>-</u>

39.17 Cleaning Materials to Inventory

During assessment of general expenditure we noted that multiple invoices from different suppliers were incorrectly classified under cleaning materials. This error resulted in cleaning materials overstated and inventory understated. This error has been corrected and the closing balance of transport has been adjusted with effect thereof as follows:

Statement of financial position

Increase in Inventory - Maintenance materials	430,600
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Statement of financial performance

Decrease in General expenses - Cleaning materials	(430,600)
	<u>-</u>

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39. Prior-year adjustments (continued)		
39.18 Decrease in provision for leave		
Correction of leave provision and employee related cost due to leave relating to 2022 financial year not captured in 2022 and this resulted in differences in closing balance per 2021/22 leave register and opening balances per 2022/23 opening balances		
Statement of financial position		
Decrease in Provisions - Leave accrual		4,376,206
Statement of financial performance		
Decrease in Employee related cost - Leave pay provision charge		(4,376,206)
		<u>-</u>
39.19 Clearing of control and clearing accounts		
Correction of clearing and control accounts due to third party statements processed twice in the previous years		
Statement of financial position		
Decrease in Payables from exchange transactions - Control and clearing accounts		453,514
Decrease in Payables from exchange transactions - Control and clearing accounts		3,782,666
Increase in Accumulated surplus		(453,514)
Increase in Accumulated surplus		(3,782,666)
		<u>-</u>
39.20 Correction of sitting allowance incorrectly recognised as VAT receivable		
Correction of sitting allowance incorrectly recognised as VAT receivable.		
Statement of financial position		
Decrease in VAT receivable		(34,880)
Statement of financial performance		
Increase in General expenditure - Sitting allowance		34,880
		<u>-</u>
39.21 Contracted services - Business and advisory was understated		
During the current financial year, it was noted that Business and advisory was incorrectly classified as IT expense. This error has therefore been corrected and the closing balance of Maintenance of Building and Facilities has been adjusted with effect thereof as follows:		
Statement of financial performance		
Increase Contracted services - Business and advisory		167,700
Decrease General expenditure - IT expense		(167,700)
		<u>-</u>

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39. Prior-year adjustments (continued)

39.22 Contracted services - Maintenance of Building and Facilities incorrectly classified as Cleaning material (Electrical materials & Tools and Carpentry material & Tools)

During the current financial year, it was noted that Maintenance of Building and Facilities was incorrectly classified as Cleaning materials. This error has therefore been corrected and the closing balance of Maintenance of Building and Facilities has been adjusted with effect thereof as follows:

Statement of financial performance

Decrease General expenditure - Cleaning material	(98,756)
Increase Contracted services - Maintenance of building and facilities	98,756
	<u>-</u>

39.23 Contracted services - Maintenance of Building and Facilities incorrectly classified as Fuel and oil

During the current financial year, it was noted that Maintenance of Building and Facilities and Agency fees was incorrectly classified as fuel and oil. This error has therefore been corrected and the closing balance of Maintenance of Building and Facilities has been adjusted with effect thereof as follows:

Statement of financial performance

Decrease General expenditure - Fuel and Oil	(188,431)
Increase Contracted services - Maintenance of building and facilities	188,431
	<u>-</u>

39.24 Agency fees

During the assessment of the whole population of general expenditure we noted that Multiple invoice from different suppliers were incorrectly classified under Catering. This error resulted in the following:

Statement of financial performance

Increase in General Expenditure - Agency Fees	1,087,377
Decrease in General Expenditure - Accomodation	(285,790)
Decrease in General Expenditure - Fuel and Oil	(133,102)
Decrease in General Expenditure - Marketing	(580,006)
Decrease in General Expenditure - Promotions	174,010
Decrease in General Expenditure - Transport and freight	(53,875)
Decrease Contracted services - Maintenance of building and facilities	(15,967)
Decrease Contracted services - Catering	(84,914)
Decrease in General Expenditure - Training	(107,733)
	<u>-</u>

39.25 Hire

During assessment of general expenditure we noted that invoice of Dumalizwe African Couizane incorrectly classified under Hire. This error resulted in the following:

Statement of financial performance

Decrease in General Expenditure - Hire	(4,050)
Increase in Contracted Services - Catering	4,050
	<u>-</u>

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39. Prior-year adjustments (continued)

39.26 Catering

During the assessment of the whole population of general expenditure we noted that Multiple invoice from different suppliers were incorrectly classified under Catering. This error resulted in the following:

Statement of financial position	
Decrease in VAT Receivable	(18,811)
Statement of financial performance	
Increase in General Expenditure - IT Expenses	150
Increase in General Expenditure - Promotions	157,185
Increase in General Expenditure - Agency Fees	22,000
Decrease in Contracted - Catering	(160,524)
	<u>-</u>

39.27 Training

During the assessment of the whole population of general expenditure we noted that multiple invoices were wrongly recorded in 2022 - 2023 FY but related to 2021 - 2022 FY. This error resulted in the following:

Statement of financial position	
Increase in Property plant and equipment - Other PPE	182,648
Statement of financial performance	
Decrease in General Expenditure - Training	(182,648)
	<u>-</u>

39.28 Motor vehicle expenses

During assessment of general expenditure we noted that invoice of Express refrigeration and air conditioning incorrectly classified under Motor Vehicles. This error resulted in the following:

Statement of financial performance	
Decrease in General Expenditure - Motor vehicle expenses	(2,755)
Increase in Contracted Services - Catering	2,755
	<u>-</u>

39.29 Fuel and Oil

During the assessment of the whole population of general expenditure, it was noted that VAT from multiple invoices was incorrectly recorded. This error resulted in the following:

Statement of financial position	
Decrease in VAT Receivable	(34,326)
Statement of financial performance	
Increase in General Expenditure - Fuel and Oil	34,326
	<u>-</u>

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39. Prior-year adjustments (continued)

39.30 IT Expenses and PPE Other Assets

During the assessment of the whole population of general expenditure, it was noted that Journal (Reversalmod JNL00996) was reversed from PPE to IT Expenses. This error resulted in the following:

Statement of financial position	
Increase in Property plant and equipment - Other PPE	(315,180)
Statement of financial performance	
Increase in General Expenditure - IT Expenses	315,180
	<u>-</u>

39.31 Subscriptions and Membership fees

During the assessment of the whole population of general expenditure, it was noted that Journal (JNL01040) was reversed from VAT to Subscriptions and Membership fees. This error resulted in the following:

Statement of financial position	
Decrease in VAT Receivable	(31,289)
Statement of financial performance	
Increase in General Expenditure - Subscriptions and Membership fees	31,289
	<u>-</u>

39.32 VAT And Accumulated Surplus

During the current year, it was noted that VAT Journal (JNL01041) was reversed from VAT to Accumulated surplus due to VAT being incorrectly charged on both exempt and zero-rated supplies. This error resulted in the following:

Statement of financial position	
Decrease in VAT Receivable	(15,720)
Decrease in Accumulated Surplus	15,720
	<u>-</u>

39.33 Increase in COVID19 danger allowance and employee related accrual

Correction of employee related cost and employee related accrual due to COVID19 allowance relating to 2020/21 financial year but only paid in the current year

Statement of financial position	
Increase in Payables from exchange transactions - Employee related accruals	(21,152)
Statement of financial performance	
Increase in Employee related cost - Leave pay provision charge	21,152
	<u>-</u>

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39. Prior-year adjustments (continued)

39.34 Increase in receivables from exchange transactions and accumulated surplus

In the 2021 financial year, receivables from exchange transactions were incorrectly recognised as legal expenses. This resulted in legal expenses being overstated and receivables from exchange transactions being understated.

Statement of financial position

Increase in receivables from exchange transactions	480,439
Increase in accumulated surplus	(417,773)
Decrease in VAT input	(62,666)
	<u>-</u>

39.35 Property, plant and equipment - Infrastructure, Other PPE and Investment property

In the 2021/2022 financial year, the property, plant and equipment (infrastructure and other PPE), as well as investment property were understated. As a result, depreciation was also understated. The error has been corrected retrospectively.

Statement of financial position

Increase in Property, plant and equipment - Infrastructure	80,672,842
Increase in Property, plant and equipment - Other PPE	1,380,265
Decrease in Property, plant and equipment - Buildings	(3,251,611)
Increase in Investment property	3,354,049
Increase in opening accumulated surplus	(83,611,591)

Statement of financial performance

Decrease in Depreciation	3,253,853
Increase in contracted services - maintenance of buildings and facilities	(1,797,807)
	<u>-</u>

40. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus of R 5,319,886,348 and that the municipality's total liabilities exceed its assets by R 5,319,886,348.

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.

41. 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.

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41. Risk management (continued)

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 derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amount 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

Payables from exchange transactions	313,257,023	221,337,157
Unspent conditional grants and receipts	31,626,351	459,452
	344,883,374	221,796,609

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 follows:

Financial assets	2023	2022
Cash and cash equivalents	159,306,618	454,490,720
Receivables from non-exchange transactions	26,199	26,199
Receivables from exchange transactions	8,343,393	4,067,929
Other financial assets	346,478	323,503

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41. Risk management (continued)

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from short term deposits. Short term deposits issued at variable rates expose the municipality to cash flow interest rate risk. On the other hand, short term deposits issued at fixed rates expose the municipality to fair value interest rate risk. As at 30 June 2023 and 30 June 2022, the municipality's deposits and bank balances at fixed rate were denominated in the Rand.

Bank

First National Bank (B)	159,306,618	454,490,720
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42. Events after the reporting date

No events having financial implications requiring disclosure occurred subsequent to 30 June 2023.

43. Unauthorised expenditure

Opening balance as previously reported	9,696,996,746	9,520,397,769
Add: Unauthorised expenditure - current	417,214,349	176,598,977
Closing balance	10,114,211,095	9,696,996,746

Unauthorised expenditure: per vote level

2023

	Operational	Capital
Vote 1 - Executive & Council	590,986	-
Vote 3 - Finance	39,328,825	-
Vote 4 - Corporate Services	31,610,230	-
Vote 7 - Public Works & Basic Services	345,684,308	-
	417,214,349	-

2022

	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

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44. Fruitless and wasteful expenditure		
Opening balance as previously reported	25,495,972	18,805,661
Add: Fruitless and wasteful expenditure identified - current	747,885	3,904,345
Add: Fruitless and wasteful expenditure - identified in the current year relating to the prior year	1,246	2,785,966
Closing balance	26,245,103	25,495,972

Fruitless and wasteful expenditure is presented inclusive of VAT.

Details of fruitless and wasteful expenditure

	Disciplinary steps taken/criminal proceedings		
Interest and penalties on late payment	No consequence management followed	747,885	189,223
Covid Allowance Current Year	No consequence management followed	-	3,747,500
Late filling of SARS returns	No consequence management followed	-	130,558
Covid Allowance - prior year error - Identified in the current year relating to the prior year	No consequence management followed	-	2,596,500
Meetings not attended	No consequence management followed	-	26,530
		747,885	6,690,311

45. Irregular expenditure

Opening balance as previously reported	4,174,830,779	3,765,197,453
Add: Irregular expenditure - current	485,898,277	355,034,947
Add: Irregular expenditure - prior period	-	54,598,379
Closing balance	4,660,729,056	4,174,830,779

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45. Irregular expenditure (continued)

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

	Disciplinary steps taken/criminal proceedings		
Bid adjudication and evaluation committee composition incorrect	No consequence management followed	-	147,466,981
Advertisement not submitted	No consequence management followed	-	21,248,808
Shorter day advertisement period	No consequence management followed	2,408,944	50,176,356
Statement of municipal rates not submitted	No consequence management followed	12,102,428	27,906,964
Regulation 32 appointment non-compliance	No consequence management followed	-	4,366,317
Supplier not tax compliant	No consequence management followed	4,252,928	318,270
No Supply Chain Management processes were followed	No consequence management followed	190,791,278	78,732,873
Irregular extension of contracts	No consequence management followed	10,954,332	12,608,305
Other non compliance with SCM Regulations	No consequence management followed	262,070,533	1,879,390
Declaration of interest not submitted	No consequence management followed	2,081,019	258,505
Three quotations not submitted	No consequence management followed	1,236,815	10,072,178
		485,898,277	355,034,947

Cases under investigation

There were no council committee investigations conducted into the irregular expenditure during the 2022/23 financial year

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46. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government (SALGA)		
Current year subscription / fee	5,463,909	3,948,149
Amount paid - current year	(5,463,909)	(3,948,149)
	-	-
Audit fees		
Opening balance	278,205	167,779
Current year subscription / fee	9,690,185	7,644,042
Amount paid - current year	(9,690,185)	(7,533,616)
Amount paid - previous years	(278,205)	-
	-	278,205
PAYE and UIF		
Opening balance	6,412,260	-
Current year subscription / fee	70,870,559	70,768,596
Amount paid - current year	(65,376,100)	(64,356,336)
Amount paid - previous years	(6,412,260)	-
	5,494,459	6,412,260
Pension and Medical Aid Deductions		
Current year subscription / fee	104,066,424	100,541,982
Amount paid - current year	(104,066,424)	(100,541,982)
	-	-
VAT		
VAT receivable	92,198,225	38,611,141

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.

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47. Deviation from supply chain management regulations

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

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

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

Class	Month	Supplier	Description	2023
The area Deelpal experienced heavy rainfalls or floods and the Municipality had to supply the community with VIP toilets	02/06/2022	Kutloane Trading	Supply of VIP toilets	65,100
The area Deelpal experienced heavy rainfalls or floods and the Municipality had to supply the community with VIP toilets	14/12/2022	Kutloane Trading	Supply of VIP toilets	128,100
				<hr/> 193,200 <hr/>

48. MFMA disclosure on SCM Regulation 45

The details listed below is disclosed in terms of Regulation 45 of the Municipal Supply Chain Regulation 2005 that determines that the municipality must disclose particulars of any award of more than R2,000 to a person who is a spouse, child or parent of a person in service of the state or has been in service of the state in the previous twelve months.

Supplier name	2023	2022
Motshabi & Associates	1,452,615	132,080

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49. Segment information

General information

Identification of segments

The district municipality is organised and reports to management on the basis of eight major functional areas: Executive & Council, Municipal Manager, Community Services, Corporate Services, Governance / Internal Audit, Development & Town Planning, Public Works & Basic Services and Finance. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives.

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.

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49. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2023

	Executive & Council	Municipal Manager	Community Services	Corporate Services	Governance / Internal Audit	Development & Town Planning	Public Works & Basic Services	Finance	Total
Revenue									
Service charges	-	-	-	-	-	-	-	54,296	54,296
Commission income	-	-	-	-	-	-	-	1,670	1,670
Inter-segment transfers	-	-	-	-	-	-	-	398,254	398,254
Licences and permits	-	-	83,019	-	-	-	-	-	83,019
Other income	-	-	-	235,143	-	-	-	846,494	1,081,637
Interest received - investment	-	-	-	-	-	-	-	28,875,560	28,875,560
Government grants & subsidies	-	-	-	-	-	2,039,928	318,451,452	976,547,935	1,297,039,315
Total segment revenue	-	-	83,019	235,143	-	2,039,928	318,451,452	1,006,724,209	1,327,533,751
Municipality's revenue									1,327,533,751

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	Executive & Council	Municipal Manager	Community Services	Corporate Services	Governance / Internal Audit	Development & Town Planning	Public Works & Basic Services	Finance	Total
49. Segment information (continued)									
Expenditure									
Employee related costs	(16,710,033)	(11,724,464)	(154,117,879)	(64,788,114)	(9,348,596)	(26,611,706)	(99,236,528)	(24,788,353)	(407,325,673)
Remuneration of councillors	(13,899,962)	-	-	-	-	-	-	-	(13,899,962)
Depreciation and amortisation	-	-	-	-	-	-	-	(231,501,625)	(231,501,625)
Finance costs	-	-	(13,431,397)	-	-	-	-	(767,076)	(14,198,473)
Lease rentals on operating leases	-	-	-	(1,424,611)	-	-	-	-	(1,424,611)
Inventory consumed	-	-	-	-	-	-	(11,484,749)	-	(11,484,749)
Debt impairment	-	-	-	-	-	-	-	-	-
Contracted services	(249,705)	(250,661)	(51,528)	(64,001,724)	(1,621)	(136,521)	(510,813,291)	(31,952,581)	(607,457,632)
Transfers and subsidies	-	-	-	-	-	-	(75,000,000)	-	(75,000,000)
General expenses	(5,152,419)	(1,964,627)	(4,260,938)	(47,192,346)	(772,431)	(1,559,911)	(49,157,262)	(10,793,870)	(120,853,804)
VIP transfers to local communities	-	-	-	-	-	-	(138,215,219)	-	(138,215,219)
Actuarial gains and losses	-	-	-	-	-	-	22,914,689	-	22,914,689
Gains and losses on disposals of assets	-	-	-	-	-	-	-	(9,734,159)	(9,734,159)
Inventories losses/write-downs	-	-	-	-	-	-	-	4,042,843	4,042,843
Total segment expenditure	(36,012,119)	(13,939,752)	(171,861,742)	(177,406,795)	(10,122,648)	(28,308,138)	(860,992,360)	(305,494,821)	(1,604,138,375)
Total segmental surplus/(deficit)	(36,012,119)	(13,939,752)	(171,778,723)	(177,171,652)	(10,122,648)	(26,268,210)	(542,540,908)	701,229,388	(276,604,624)

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49. Segment information (continued)

2022

	Executive & Council	Municipal Manager	Community Services	Corporate Services	Governance / Internal Audit	Development & Town Planning	Public Works & Basic Services	Finance	Total
Revenue									
Service charges	-	-	-	-	-	-	-	100,985	100,985
Commission income	-	-	-	-	-	-	-	34,804	34,804
Rental of facilities and equipment	-	-	-	-	-	-	-	195,351	195,351
Licences and permits	-	-	72,270	-	-	-	-	-	72,270
Other income	-	-	-	-	-	-	-	2,295,469	2,295,469
Interest received - investment	-	-	-	-	-	-	-	27,642,173	27,642,173
Government grants & subsidies	-	-	-	-	-	2,140,000	319,709,548	877,060,202	1,198,909,750
Total segment revenue	-	-	72,270	-	-	2,140,000	319,709,548	907,328,984	1,229,250,802
Entity's revenue									1,229,250,802
Expenditure									
Employee costs	(12,093,724)	(13,526,840)	(155,251,460)	(62,751,277)	(8,871,311)	(25,104,358)	(96,174,288)	(25,988,825)	(399,762,083)
Remuneration of councillors	(12,915,358)	-	-	-	-	-	-	-	(12,915,358)
Depreciation and amortisation	-	-	-	-	-	-	-	(209,192,214)	(209,192,214)
Impairment losses	-	-	-	-	-	-	-	(46,702,221)	(46,702,221)
Finance costs	-	-	(10,773,557)	-	-	-	(130,439)	-	(10,903,996)
Lease rentals on operating leases	-	-	-	(819,940)	-	-	-	-	(819,940)
Inventory consumed	-	-	-	-	-	-	(30,699,526)	-	(30,699,526)
Debt impairment	-	-	-	(3,543,709)	-	-	-	-	(3,543,709)
Contracted services	(363,474)	(1,475,140)	(66,270)	(52,677,251)	-	(341,800)	(184,713,282)	(29,775,519)	(269,412,736)
Transfers and subsidies	-	-	-	-	-	-	(60,000,000)	-	(60,000,000)
VIP Transfers to local communities	-	-	-	-	-	-	(118,894,467)	-	(118,894,467)
Actuarial gains and losses	-	-	-	-	-	-	28,490,855	-	28,490,855
Inventory losses and write downs	-	-	-	-	-	-	-	(7,870,762)	(7,870,762)
General expenses	(3,080,700)	(7,017,050)	(11,515,904)	(30,055,359)	(952,076)	(505,672)	(41,623,325)	(9,377,700)	(104,127,786)
Total segment expenditure	(28,453,256)	(22,019,030)	(177,607,191)	(149,847,536)	(9,823,387)	(25,951,830)	(503,744,472)	(328,907,241)	(1,246,353,943)
Total segmental surplus/(deficit)	(28,453,256)	(22,019,030)	(177,534,921)	(149,847,536)	(9,823,387)	(23,811,830)	(184,034,924)	578,421,743	(17,103,141)

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50. Accounting by principals and agents

The district municipality is a party to principal-agent arrangements.

Details of the arrangements 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	2023	2022
Mahikeng Local Municipality	30,000,000	12,000,000
Ditsobotla Local Municipality	19,130,435	12,000,000
Ramotshere Local Municipality	4,078,238	12,000,000
Ratlou Local Municipality	-	12,000,000
Tswaing Local Municipality	13,028,444	12,000,000
Transfers and subsidies payable	8,762,883	-
	75,000,000	60,000,000

51. New standards and interpretations

51.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has not adopted any standards and interpretations that are effective for the current financial year and that are relevant to its operations.

51.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2023 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 25 (as revised): Employee Benefits	01 April 2023	Unlikely there will be a material impact
• iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	01 April 2023	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	No effective date	Unlikely there will be a material impact
• GRAP 104 (as revised): Financial Instruments	01 April 2025	Unlikely there will be a material impact
• iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact
• GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	Unlikely there will be a material impact

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52. Change in estimate

Property, plant and equipment

For the following classes of property, plant and equipment, the remaining useful lives were adjusted to a minimum remaining useful life of 1 year.

The effect of the change has resulted in a decrease of depreciation expense of R1,894,778.

It is impracticable to estimate the effect on future periods as the remaining useful lives are reviewed at each reporting date.

	Depreciation (Before change in estimate 2022/2023)	Depreciation (After change in estimate 2022/2023)	Increase/(Decrease) in Depreciation
Infrastructure - Water supply	1,224,305	155,098	(1,069,207)
Infrastructure - Sanitation	742,997	389,259	(353,738)
Investment Property	4,940	2,869	(2,071)
Operational Buildings	5,794	2,270	(3,524)
Community	55,651	33,366	(22,285)
Other property, plant and equipment - Furniture And Office Equipment	203,799	44,010	(159,789)
Other property, plant and equipment - Computer Equipment	279,251	66,905	(212,346)
Other property, plant and equipment - Machinery And Equipment	66,137	11,161	(54,976)
Other property, plant and equipment - Transport Assets	21,898	5,056	(16,842)
	2,604,772	709,994	(1,894,778)