Ngaka Modiri Molema District Municipality
Annual Financial Statements
for the year ended 30 June 2018

Index

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

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 3.

The annual financial statements set out on pages 3 to 55, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

MD Dambuza
Municipal Manager

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2018.

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017
Assets			
Current Assets			
Inventories	6	17 403 617	9 996 256
Receivables from exchange transactions	7	60 886	-
Receivables from non-exchange transactions	8	3 912 793	314 040
VAT receivable	9	20 990 323	114 153 047
Cash and cash equivalents	10	100 576 003	13 823 500
		142 943 622	**138 286 843**
Non-Current Assets			
Property, plant and equipment	2	4 494 162 592	4 472 566 065
Other financial assets	4	236 884	236 884
		4 494 399 476	**4 472 802 949**
Total Assets		**4 637 343 098**	**4 611 089 792**
Liabilities			
Current Liabilities			
Payables from exchange transactions	13	149 755 086	248 949 450
Consumer deposits		2 636 575	1 903 832
Employee benefit obligation	5	138 000	153 000
Unspent conditional grants and receipts	11	7 078 265	20 106 406
Provisions	12	706 000	1 056 000
		160 313 926	**272 168 688**
Non-Current Liabilities			
Employee benefit obligation	5	33 901 000	26 870 000
Provisions	12	15 316 000	22 559 000
		49 217 000	**49 429 000**
Total Liabilities		**209 530 926**	**321 597 688**
Net Assets		**4 427 812 172**	**4 289 492 104**
Accumulated surplus		4 427 812 172	4 289 492 104

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017
Revenue			
Revenue from exchange transactions			
Sale of water		601 860	40 210
Rendering of services		1 435 632	941 995
Rental income		215 354	209 360
Donations received		8 000	238 479
Sundry income sewer	16	54 416	118 202
Interest received - investment	17	11 233 629	4 784 006
Total revenue from exchange transactions		**13 548 891**	**6 332 252**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	19	878 883 084	664 202 413
Total revenue	14	**892 431 975**	**670 534 665**
Expenditure			
Employee related costs	20	(310 503 890)	(309 489 709)
Remuneration of councillors	21	(10 153 336)	(8 467 925)
Depreciation and amortisation	22	(199 514 777)	(197 982 992)
Lease rentals on operating lease		(2 487 673)	(277 200)
Repairs and maintenance		(11 212 637)	(27 755 175)
Bulk purchases		(13 739 857)	-
Contracted services	23	(24 458 274)	(56 553 072)
Transfers and Subsidies	18	(12 831 239)	-
General Expenses		(70 096 169)	(41 493 638)
Total expenditure		**(654 997 852)**	**(642 019 711)**
Operating surplus		**237 434 123**	**28 514 954**
Inventories losses/write-downs		(531 268)	8 614 556
Surplus for the year		**236 902 855**	**37 129 510**

Ngaka Modiri Molema District Municipality

Trading as Ngaka Modiri Molema District Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2016	**3 118 407 437**	**3 118 407 437**
Changes in net assets		
Correction of errors	5 014 559	5 014 559
Net income (losses) recognised directly in net assets	5 014 559	5 014 559
Surplus for the year	37 129 510	37 129 510
Total recognised income and expenses for the year	42 144 069	42 144 069
Correction of errors	1 128 940 598	1 128 940 598
Total changes	1 171 084 667	1 171 084 667
Balance at 01 July 2017	**2 894 016 400**	**2 894 016 400**
Changes in net assets		
Surplus for the year	236 902 855	236 902 855
Other	1 296 892 917	1 296 892 917
Total changes	1 533 795 772	1 533 795 772
Balance at 30 June 2018	**4 427 812 172**	**4 427 812 172**

Note(s)

Ngaka Modiri Molema District Municipality

Trading as Ngaka Modiri Molema District Municipality
Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Receipts			
Sale of goods and services		2 307 262	-
Grants		865 854 943	654 502 445
Interest income		11 233 629	4 784 006
Other receipts		8 000	2 273 921
		879 403 834	661 560 372
Payments			
Employee costs		(320 657 226)	(306 936 891)
Suppliers		(27 841 385)	(324 582 290)
Other non cash item		(124 458 629)	144 751 884
		(472 957 240)	(486 767 297)
Undefined difference compared to the cash generated from operations note		**(98 582 787)**	**1 128 604 389**
Net cash flows from operating activities	26	**307 863 807**	**1 303 397 464**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(221 111 304)	(1 206 091 056)
Proceeds from sale of property, plant and equipment	2	-	(85 606 239)
Proceeds from sale of financial assets		-	1 751 389
Net cash flows from investing activities		**(221 111 304)**	**(1 289 945 906)**
Cash flows from financing activities			
Repayment of other financial liabilities		-	(1 431 320)
Net increase/(decrease) in cash and cash equivalents		**86 752 503**	**12 020 239**
Cash and cash equivalents at the beginning of the year		13 823 500	1 803 261
Cash and cash equivalents at the end of the year	10	**100 576 003**	**13 823 500**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service Charge	-	-	**-**	601 860	**601 860**	A
Rendering of services	3 314 000	-	**3 314 000**	3 239 215	**(74 785)**	
Investment Revenue	-	2 045 000	**2 045 000**	8 761 652	**6 716 652**	B
Other Revenue	3 314 000	-	**3 314 000**	3 239 215	**(74 785)**	
Total revenue from exchange transactions	**6 628 000**	**2 045 000**	**8 673 000**	**15 841 942**	**7 168 942**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	926 936 000	236 000	**927 172 000**	878 883 084	**(48 288 916)**	
Total revenue	**933 564 000**	**2 281 000**	**935 845 000**	**894 725 026**	**(41 119 974)**	
Expenditure						
Personnel	(313 591 000)	-	**(313 591 000)**	(310 503 890)	**3 087 110**	
Remuneration of councillors	(13 671 000)	-	**(13 671 000)**	(10 153 336)	**3 517 664**	C
Depreciation and amortisation	(323 478 000)	-	**(323 478 000)**	(199 514 777)	**123 963 223**	D
Finance costs	(800 000)	-	**(800 000)**	-	**800 000**	
Lease rentals on operating lease	-	-	**-**	(2 487 673)	**(2 487 673)**	
Bulk purchases and materials	(38 000 000)	10 500 000	**(27 500 000)**	(25 325 644)	**2 174 356**	
Contracted Services	-	-	**-**	(24 458 274)	**(24 458 274)**	D
Transfers and Subsidies	(13 094 000)	2 000 000	**(11 094 000)**	(10 000 000)	**1 094 000**	E
General Expenses	(92 582 000)	(16 929 000)	**(109 511 000)**	(72 554 258)	**36 956 742**	F
Total expenditure	**(795 216 000)**	**(4 429 000)**	**(799 645 000)**	**(654 997 852)**	**144 647 148**	
Operating surplus	**138 348 000**	**(2 148 000)**	**136 200 000**	**239 727 174**	**103 527 174**	
Inventories losses/write-downs	-	-	**-**	(531 268)	**(531 268)**	
Surplus before taxation	**138 348 000**	**(2 148 000)**	**136 200 000**	**239 195 906**	**102 995 906**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**138 348 000**	**(2 148 000)**	**136 200 000**	**239 195 906**	**102 995 906**	
Reconciliation						

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

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

1.2 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:

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 12 - Provisions.

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 5.

1.3 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.

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

Land and building Straight line

Land and Building

Community facilities-Halls/Centres	Min-15	Max-100
Servitudes-Road Reverses	-	-
Operational Facilities-Fire/Ambulance stations	Min-5	Max-100

1.3 Property, plant and equipment (continued)

Operational Facilities-Municipal offices	Min-5	Max-100
Operational Facilities-Workshops/Depots/Yards	Min-5	Max-100
Sports and recreational facilities-Outdoor	Min-15	Max-50
Housing-Staff Housing	Min-15	Max-100
Infrastructure Straight line		
Storm water network- storm water assets	Min- 20	Max-50
Water Supply network- Boreholes	Min-10	Max-100
Water Supply network- Bulk main	Min-40	Max-80
Water Supply network-Dams & weirs	Min-15	Max-50
Water Supply network-Distributions	Min-40	Max-80
Water Supply network-Distributions Points	Min-15	Max-20
Water Supply network-Pump Stations	Min-5	Max-100
Water Supply network-Reservoirs and Towers	Min-7	Max-100
Water Supply network-Water treatment works	Min-5	Max-100
Electricity Network-LV Network (<1000V)	Min-20	Max-20
Electricity Network-MV Network (<33KV)	Min-45	Max-45
Road Network- Roads	Min-5	Max-100
Road Network- Roadside assets	Min-10	Max-50
Sanitation Network-Boreholes	Min-15	Max-50
Sanitation Network-Outfall Sewer	Min-40	Max-80
Sanitation Network- Reservoirs and tower	Min-15	Max-50
Sanitation Network- Reticulation	Min-40	Max-80
Sanitation Network-Sewer pump station	Min-10	Max-100
Sanitation Network-Waste water treatment works	Min-5	Max-100
Bridges-Road bridges	Min-20	Max-100

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.

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

1.4 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.

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

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

Class	**Category**
Other financial liability	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.

Accounting Policies

1.4 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

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

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.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

1.4 Financial instruments (continued)

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

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

If the 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 continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

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

1.4 Financial instruments (continued)

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

Presentation

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

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

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

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

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

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

1.5 Leases

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.6 Inventories

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

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

Accounting Policies

1.6 Inventories (continued)

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

1.7 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

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

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

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

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

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

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

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.8 Employee benefits

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

Accounting Policies

1.8 Employee benefits (continued)

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

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

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

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

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

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

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

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity recognise 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 recognise 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 measure 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 recognise 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.

Accounting Policies

1.8 Employee benefits (continued)

Post-employment benefits

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

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

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

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise 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 contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount 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 obligation.

Accounting Policies

1.8 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 recognise 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 recognise 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 return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

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 measure 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.

Any adjustments arising from the limit above is recognised in surplus or deficit.

1.8 Employee benefits (continued)

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

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

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

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

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

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

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-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

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.

1.8 Employee benefits (continued)

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.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

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 entity 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.

Accounting Policies

1.8 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

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

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

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

1.9 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 deficits.

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

Accounting Policies

1.9 Provisions and contingencies (continued)

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 a 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 28.

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.

1.9 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

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

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 test 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 1.7 and .
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

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

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

1.10 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.

1.11 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.

1.11 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Interest, royalties and dividends

Revenue arising from the use by others of the entity's assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

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

1.12 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an 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.

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

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, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

1.13 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all deficits 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, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.13 Cost of sales (continued)

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Contract costs comprise:
- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract on a systematic and rational basis; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

1.14 Investment income

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

1.15 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.

1.16 Comparative figures

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

1.17 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.

1.18 Fruitless and wasteful expenditure

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

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

1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

Accounting Policies

1.19 Irregular expenditure (continued)

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

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

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

1.20 Budget information

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

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

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

The approved budget covers the fiscal period from 2018/06/30 to 2017/07/01.

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

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

1.21 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

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 considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

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

1.22 Events after reporting date

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

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

Accounting Policies

1.22 Events after reporting date (continued)

- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

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

1.23 Value Added Tax (VAT)

The Municipality is registered with the South African Revenue Service (SARS) for VAT on the payments basis in accordance with Section 15(2) of the Value Added Tax Act No. 89 of 1991.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

2. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	15 739 016	-	15 739 016	15 739 016	-	15 739 016
Buildings	168 606 502	(92 763 607)	75 842 895	168 606 502	(88 785 755)	79 820 747
Furniture and fixtures	6 596 816	(4 138 079)	2 458 737	6 596 816	(3 520 907)	3 075 909
Motor vehicles	28 830 274	(9 921 132)	18 909 142	26 850 274	(8 363 787)	18 486 487
IT equipment	6 932 294	(4 243 354)	2 688 940	6 328 821	(3 464 657)	2 864 164
Infrastructure	8 481 800 704	(4 510 588 488)	3 971 212 216	8 284 617 287	(4 318 244 681)	3 966 372 606
Other property, plant and equipment	1 456 006	(711 140)	744 866	1 456 006	(542 568)	913 438
Other equipment	50 915 567	-	50 915 567	50 915 567	-	50 915 567
Asset found	355 417 358	-	355 417 358	334 072 944	-	334 072 944
Bins and containers	733 572	(499 717)	233 855	733 572	(428 385)	305 187
Total	**9 117 028 109**	**(4 622 865 517)**	**4 494 162 592**	**8 895 916 805**	**(4 423 350 740)**	**4 472 566 065**

Reconciliation of property, plant and equipment - 2018

	Opening balance	**Additions**	**Transfers**	**Depreciation**	**Total**
Land	15 739 016	-	-	-	15 739 016
Buildings	79 820 747	-	-	(3 977 852)	75 842 895
Furniture and fixtures	3 075 909	-	-	(617 172)	2 458 737
Motor vehicles	18 486 487	1 980 000	-	(1 557 345)	18 909 142
IT equipment	2 864 164	603 473	-	(778 697)	2 688 940
Infrastructure	3 966 372 606	-	197 183 417	(192 343 807)	3 971 212 216
Other property, plant and equipment	913 438	-	-	(168 572)	744 866
Other equipment	50 915 567	-	-	-	50 915 567
WIP Infrastructure	334 072 944	218 527 831	(197 183 417)	-	355 417 358
Emergency Equipment	305 187	-	-	(71 332)	233 855
	4 472 566 065	**221 111 304**	**-**	**(199 514 777)**	**4 494 162 592**

Reconciliation of property, plant and equipment - 2017

	Opening balance	**Verification reinstated amount**	**Additions**	**Revaluations**	**Depreciation**	**Total**
Land	16 317 852	(578 836)	-	-	-	15 739 016
Buildings	49 713 092	34 085 506	-	-	(3 977 851)	79 820 747
Furniture and fixtures	1 567 302	2 049 206	75 327	-	(615 926)	3 075 909
Motor vehicles	25 019 619	(5 116 850)	-	-	(1 416 282)	18 486 487
IT equipment	1 909 233	1 287 682	383 564	-	(716 315)	2 864 164
Infrastructure	2 785 381 924	1 360 899 264	-	11 136 523	(191 045 105)	3 966 372 606
Community	19 547 164	(19 547 164)	-	-	-	-
Other property, plant and equipment	400 504	681 506	-	-	(168 572)	913 438
WIP Buildings	-	50 915 567	-	-	-	50 915 567
WIP Infrastructure	471 169 383	(211 107 264)	85 147 348	(11 136 523)	-	334 072 944
Emergency Equipment	52 251	324 268	-	-	(71 332)	305 187
	3 371 078 324	**1 213 892 885**	**85 606 239**	**-**	**(198 011 383)**	**4 472 566 065**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

2. Property, plant and equipment (continued)

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

Notes to the Annual Financial Statements

Figures in Rand

3. Intangible assets

Reconciliation of intangible assets - 2018

Reconciliation of intangible assets - 2017

4. Other financial assets

Residual interest at cost		
Other financial asset	236 884	236 884
At amortised cost		
Other financial asset	236 884	236 884
Total other financial assets	**473 768**	**473 768**
Non-current assets		
Residual interest at cost	236 884	236 884

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The Municipality provides for certain Post Retirement health benefits by funding the medical aid contribution of qualifying retired members of the municipality. According to the rules of the Medical Aid funds, which the municiplity is associated with, a member is entitled to remain a continued member of such medical aid on retirement in which case the municipality is liable for a certain portion of the Medical aid membership fee. The municipality operates an unfunded Defined benefit Plan for these qualifying employees. No other post - retirement benefits are provided to these employees.

The municipality makes monthly 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 Befnefit Obligation were carried out at the 30 June 2018 by One Pangaea Exertise 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.

Categories	**Valuation at 30 June 2018**	**Valuation at 30 June 2017**	**Total**
The Members of the post	645	649	1 294
In service Non members Continuation	5	5	10
	650	**654**	**1 304**

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

	2018	2017
Present value of the defined benefit obligation-wholly unfunded	(34 039 000)	(27 023 000)
Non-current liabilities	(33 901 000)	(26 870 000)
Current liabilities	(138 000)	(153 000)
	(34 039 000)	**(27 023 000)**

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

	2018	2017
Opening balance	27 023 000	27 803 000
Benefits paid	(153 000)	(135 000)
Net expense recognised in the statement of financial performance	7 169 000	(645 000)
	34 039 000	**27 023 000**

Net expense recognised in the statement of financial performance

	2018	2017
Current service cost	2 769 000	2 947 000
Interest cost	2 887 000	2 676 000
Actuarial (gains) losses	1 513 000	(6 268 000)
	7 169 000	**(645 000)**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Employee benefit obligations (continued)

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	1 513 000	(6 268 000)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9,02 %	9,02 %
Expected increase in salaries	7,60 %	7,60 %
Expected increase in healthcare costs	8,09 %	8,09 %

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 maturiry 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 2018	Valuation 2017
Expected Retirement Age - Female	65,00	63,00
Expected Retirement Age - Male	65,00	63,00

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	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	8 105 000	5 926 000
Effect on defined benefit obligation	39 666 000	29 466 000

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

	2018 R	2017 R	2016 R	2015 R	2014 R
Defined benefit obligation	34 039 000	27 023 000	27 803 000	-	-

6. Inventories

Consumable stores	17 403 617	9 996 256

7. Receivables from exchange transactions

Staff debtors	43 900	-
Other receivables	16 986	-
	60 886	**-**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Receivables from non-exchange transactions

Other receivables from non-exchange revenue 1	3 912 793	314 040

9. VAT receivable

VAT	20 990 323	114 153 047

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	94 781	89 246
Bank balances	100 481 222	13 734 254
	100 576 003	**13 823 500**

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grants	-	9 380 912
EPWP	197 311	22 639
WSOG	4 899 303	8 637 303
SETA	1 639 171	2 065 455
RRAMS	110	97
FMG	342 370	-
	7 078 265	**20 106 406**

12. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Difference	Total
Long Service Award	23 615 000	**(7 593 000)**	16 022 000

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Long Service Award	19 775 000	3 840 000	23 615 000

Non-current liabilities	15 316 000	22 559 000
Current liabilities	706 000	1 056 000
	16 022 000	**23 615 000**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

13. Payables from exchange transactions

Trade payables	81 939 045	159 674 656
Trade Payables	4 233 399	8 894 502
Retention fees	19 092 569	19 074 556
Leave provision	33 678 921	22 554 366
Suspense Control Account	1 431 441	-
Third Party Control Account	1 815 084	1 815 084
Bonus Accrual	7 485 132	6 925 968
Grants Agreement Liability	-	30 000 000
Other Creditors	68 477	-
Unknown Deposits	11 018	10 318
	149 755 086	**248 949 450**

14. Revenue

Sale of water	601 860	40 210
Rendering of services	1 435 632	941 995
Rental income	215 354	209 360
Donations received	8 000	238 479
Sundry income - Sewer	54 416	118 202
Interest received - investment	11 233 629	4 784 006
Government grants & subsidies	878 883 084	664 202 413
	892 431 975	**670 534 665**

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

Sale of water	601 860	40 210
Rendering of services	1 435 632	941 995
Rental income	215 354	209 360
Donations received	8 000	238 479
Sundry Income - Sewer	54 416	118 202
Interest received - investment	11 233 629	4 784 006
	13 548 891	**6 332 252**

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

Transfer revenue		
Government grants & subsidies	878 883 084	664 202 413

15. Other revenue

Rental income	215 354	209 360
Donations received	8 000	238 479
Sundry Income - Sewer	54 416	118 202
	277 770	**566 041**

16. Other income

Other income - Sewer	54 416	118 202

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
17. Investment revenue		
Interest revenue		
Bank	11 233 629	4 784 006
18. Grants and subsidies paid		
Other subsidies		
Bulk Water Purchases - Local Municipalities	12 831 239	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

19. Government grants and subsidies

Operating grants		
Equitable share	616 267 000	551 464 166
Finance Management Grants	1 452 630	1 460 000
WSOG	-	262 386
EPWP	1 124 328	1 578 361
SETA	850 960	216 510
Municipal Disaster Recovery Grant	990 000	-
Human Settlement	6 309 315	-
	626 994 233	**554 981 423**
Capital grants		
Rural Roads Assets Management	2 534 987	2 380 903
Municipal Infrastructure Grants	249 353 864	106 840 087
	251 888 851	**109 220 990**
	878 883 084	**664 202 413**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	262 616 084	126 066 775
Unconditional grants received	616 267 000	551 464 166
	878 883 084	**677 530 941**

Equitable Share

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

Municipal Infrastructure Grants

Balance unspent at beginning of year	9 380 912	81 918 390
Current-year receipts	235 040 000	116 221 000
Conditions met - transferred to revenue	(244 420 912)	(106 840 088)
Other	-	(81 918 390)
	-	**9 380 912**

EPWP

Balance unspent at beginning of year	22 639	444 342
Current-year receipts	1 299 000	1 601 000
Conditions met - transferred to revenue	(1 124 328)	(1 578 361)
Other	-	(444 342)
	197 311	**22 639**

Conditions still to be met - remain liabilities (see note 11).

WSOG

Balance unspent at beginning of year	8 637 303	4 899 688
Current-year receipts	-	4 000 000
Conditions met - transferred to revenue	-	(262 385)
Offset prior Unspent portion to equitable share	(3 738 000)	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

19. Government grants and subsidies (continued)

	2018	2017
	4 899 303	**8 637 303**

Conditions still to be met - remain liabilities (see note 11).

SETA

	2018	2017
Balance unspent at beginning of year	2 065 455	1 878 190
Current-year receipts	424 676	403 775
Conditions met - transferred to revenue	(850 960)	(216 510)
	1 639 171	**2 065 455**

Conditions still to be met - remain liabilities (see note 11).

RRAM

	2018	2017
Balance unspent at beginning of year	97	896 212
Current-year receipts	2 535 000	2 381 000
Conditions met - transferred to revenue	(2 534 987)	(2 380 903)
Set off	-	(896 212)
	110	**97**

Conditions still to be met - remain liabilities (see note 11).

FMG

	2018	2017
Current-year receipts	1 795 000	1 460 000
Conditions met - transferred to revenue	(1 452 630)	(1 460 000)
	342 370	**-**

Conditions still to be met - remain liabilities (see note 11).

Human Settlement

	2018	2017
Current-year receipts	5 080 421	-
Conditions met - transferred to revenue	(5 080 421)	-
	-	**-**

Municipal Disaster Recovery Grant

	2018	2017
Current-year receipts	990 000	-
Conditions met - transferred to revenue	(990 000)	-
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

20. Employee related costs

Basic	185 465 884	160 536 826
Holiday Shift Allowance	26 309 790	28 812 054
Medical aid - company contributions	26 088 805	15 579 225
UIF	1 309 551	1 247 464
SDL	2 494 417	2 006 183
Leave pay provision charge	-	1 543 752
Travel, motor car, accommodation, subsistence and other allowances	12 232 340	9 057 593
Overtime payments	22 297 574	19 371 399
Long-service awards	(7 593 000)	3 840 000
Transport Allowance (Bus Coupons)	-	1 667 125
Housing benefits and allowances	774 197	514 326
Industrial Council	152 938	54 464
Shift Allowance	34 507 833	25 108 214
Cellphone Allowance	1 284 391	5 367 189
Post-employment Benefit Plan movements	2 769 514	8 285 462
Long Service Award movement	-	5 141 586
	308 094 234	**288 132 862**

21. Remuneration of councillors

Executive Mayor	581 697	478 097
Mayoral Committee Members	4 356 443	4 144 651
Speaker	764 323	621 691
Councillors	3 986 964	2 758 615
Councillors' pension contribution	186 959	187 931
Seating Allowance	276 950	276 940
	10 153 336	**8 467 925**

22. Depreciation and amortisation

Property, plant and equipment	199 514 777	197 982 992

23. Contracted services

Security Services	14 494 520	11 640 817
Dislodging	2 751	3 786 754
Drought Relief	7 427 203	39 477 691
Other Contractors	2 533 800	1 647 810
	24 458 274	**56 553 072**

24. Operating Leases

Operating Leases	565 583	2 330 876

25. Auditors' remuneration

Fees	7 990 244	7 006 180

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

26. Cash generated from operations

Surplus	236 902 855	37 129 510
Adjustments for:		
Depreciation and amortisation	199 514 777	197 982 992
Movements in retirement benefit assets and liabilities	7 016 000	(780 000)
Movements in provisions	(7 593 000)	3 840 000
Other non-cash items	(98 582 787)	1 128 604 389
Changes in working capital:		
Inventories	(7 407 361)	5 334 154
Receivables from exchange transactions	(60 886)	184 484
Other receivables from non-exchange transactions	(3 598 753)	(314 040)
Payables from exchange transactions	(99 194 364)	5 140 147
VAT	93 162 724	(5 291 367)
Unspent conditional grants and receipts	(13 028 141)	(70 336 637)
Consumer deposits	732 743	1 903 832
	307 863 807	**1 303 397 464**

27. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	125 598 197	320 434 181
• Prior year adjustments	-	174 431 636
	125 598 197	**494 865 817**

Total capital commitments		
Already contracted for but not provided for	125 598 197	494 865 817

Total commitments

Total commitments		
Authorised capital expenditure	125 598 197	494 865 817

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

28. Contingencies

A Contingent Liability is a possible obligation depending on whether some uncertain future event occurs, or a present obligation but payment is not probable or the amount cannot be measured reliably. A contingent liability is recorded in the accounting records if the contingency is probable and the amount of the liability can be reasonably estimated.

1. P Semenya R3 000 000
In February 2012 Ms. Semenya instituted a civil claim against the NMMDM for defamation of character as well as unlawful termination of contract. The matter is still pending and is in the pleading state.

2. Gwabeni R2 021 184
In February 2011 Mr. Gwabeni (the then Executive Mayor of the NMMDM) instituted a claim against the NMMDM for outstanding term payment and legal fees incurred for his defence on an allegation faced in a criminal case in 2011. At the time he instituted the claim, his contract had already expired and he was no longer an employee of the municipality.

3. Monarch Protection R4 451 007
In February 2009 Monarch Protection Services institutes a civil claim against the NMMDM for alleged unlawful termination of contract. Monarch requested the Municipality to reinstate their services and so they could complete their work. The Municipal attorneys have filed an applicaion to set aside the civil proceedings due to irregular steps taken by Monarch Protection's attorney in the matter. The matter is still pending.

4. Panchia R51 079
In November 2011 a Letter of Demand was received from the Attorneys of Ms Panchia alleging monies owed for damages on her leased property.

5. Al Jaza Investments R6 185 942
On the 12th of February 2015, the Municipality received a letter from Ditsobotla Local Municipality informing that the Attorneys for Al Jara Investments (Pty) Ltd had issued a letter of demand claiming that their property was damaged by Fire due to the NMMDMs failure to provide adequate water tanker and equipment to oust off the fire. Personnel didn't have sufficent protective clothing as a result, their client suffered damages to the tune of R 2 408 530

6. Civils 2000 R49 282 200
Civils 2000 was appointed to complete Bodibe Ward 17 project which is subject to dispute but the then administration (Mr R.G Nair) appointed Civils 2000 and signed the so called tripartite agreement that they will secure funds for the project but the said tripartite agreement is not signed by all parties to the dispute. The dispute remains unresolved.

7. Sedibeng Water R362 034 894,80
There was a ministerial gazette from the Department of Water and Sanitation dated 15 October 2014, which effected a directive whereby,Sedibeng Water were to take over the provision of bulk water,operational,maintenance,war on leaks and water tankering for a period of five(5) years for NMMDM and NMMDM's grants were diverted to Sedibeng as payments.NMMDM should therefore not have been paying Sedibeng Water for the above services and as such no liability is recognised in 2017/18 financials.As a result,the municipality has disclosed the amount of R362 034 894.80 as a contigent liability following Sedibeng's response through its representative,Thipa Attorneys Inc disputing the none payment by the municipality..

8. Violet Tsethlo R15 000
The claimant alleges that her vehicle sustained damages as a result of the potholes in Makgobistad/ Bray road.

9. Pelken CC R938 858
We received a notice requesting an appointment of an Arbitrator in order to facilitate alternative dispute resolution mechanism in this matter regarding the alleged outstanding interest from the capital amount from the farm that was purchased by the municipality from Mr Derik Pelser.

10. Mags Construction & Plant Hire R18 256 876,97
Maqs Construction and Plant Hire is undergoing liquidation and the Liquidator has approached the NMMDM for payment of all outstanding invoices owed to Maqs.

11. Sharon's R2 227 898,21
Sharon’s Maintenance and Electrical was appointed by the Ratlou Local Municipality for the Upgrading of Bulk Water Supply – Logageng. The RLM and the Municipality entered into a Memorandum of Understanding for the project and had budgeted R10

28. Contingencies (continued)

000 000. Sharon's Maintenance and Electrical has now approached the NMMDM for the payment of the outstanding amount. NMMDM paid the budgeted amount.

12. Ad hoc Deputy Sheriff R533 595,16
The Ad Hoc Deputy Sheriff appointed in May 2016 by the High Court was responsible for the attachment and removal of the NMMDM Assets for matters relating to the Azranite matter. He is now claiming costs incurred by him due to the attachment and removal of assets.

13. TDH Ramphele R4 608 954
Mr Ramphele was appointed as the Municipal Manager of the NMMDM since or about 14 June 2007. On or about 02 February 2009 Mr Ramphele was dismissed as the Municipal Manager. Mr Ramphele lodged and application before the Labour Court of South Africa (Johannesburg) under case number JR977/09 to set aside the decision to dismiss him as the Municipal Manager of the NMMDM.

14. Q.S. Sam R1 800 000
Q.S. Sam and Associates averse that the municipality is owing him outstanding invoices for services rendered. Documents are still being collated to ascertain the authenticity of the claim.

15. Batlhalefi Projects R17 722 190
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 extended the scope of their project to upgrade roads and infrastructure that were not part of the agreement.and claim and excessive amount of R17 722 190.92

16. Mvula Trust R1 625 927, 99
On or about May 2003, the CDM (NMMDM) represented by Mr T.T Mose called upon Mr T. Humo representing Mvula Trust, to submit a business plan for the procurement of funds from the Department of Local Government and Housing, North West Province for the erection of VIP toilets for various schools in the North West province. Mvula Trust did not complete any of the toilets and they submitted fraudulent receipts.

17. JY Gutta R2 235 379
Mr J.Y Gutta instituted a claim 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. It is alleged that the fire was set after a cleaning operation to commemorate Nelson Mandela Day.

18. Sidwell Shabangu No estimate made
Sydwel Shabangu is disputing unlawful termination of his contract at Majemantsho Water Treatment Plant.

19. Bagorosi Project R3 387 950
Non-payment of invoices for services rendered.

20. Fresh Harvest R700 000
Non payment of invoices for services rendered.

21. Kebothale Mafoko R480 000
Alleged unlawful keeping of earth moving equipment.

22. Bokgabane Initiative R190 000
Non-payment of invoices for services rendered.

23. Tebogo Shomolekae R15 000
The claimant alleges that her vehicle sustained damages as a result of the potholes in Makgobistad/ Bray road

25. Bigen Africa Consulting Engineers R475 635,73
Bigen Africa allege to have provided Professional Services for the Waste Water Treatment Plants around Mahikeng and Ramotshere Moiloa Local Municipalities.

26. Distant Star Trading 55 R300 000
The matter is still ongoing and it at pleading stage.

28. Contingencies (continued)
27. Dr Madou R986 385,87
Doctor Maduo's employment contract was terminated following the end of term of the then Executive Mayor - T Gwabeni. he is now claiming the contractual amount and argues that he was on a fixed term contract and his appointment was not linked to that of the Executive Mayor.

28. Sunrise Electrical Wholesalers R5 000 000
Sunrise instituted a claim for outstanding payment for outstanding payment due and payable for the construction of First street and the Regional Office building.

29. Eric Louw Attorneys R171 178, 80
Eric Louw Attorneys issued Summons against the NMMDM claiming that on or around 2009 they were appointed by the then Executive Mayor – Themba Gwabeni as delegated on an urgent basis to set aside the decision the Provincial Government on the invocation of section 139 (1) (b) of the Constitution of the Republic of South Africa, 1996.

30. Johannes Delpoort R28 171,40
Damage sustained as a result of the potholes in Ditsobotla Local Municipality.

31. Geldenhuys et al R201 341 200
Appointment not in line with Supply Chain Management process.

32. Ruth Medupe R528 000
Arbitration SALGBC unfair labour practice - provision of Benefit (Vehicle Allowance.

33. Kgomo Attorneys R354 665
Arbitraion NMMDM Metswamere and 1 other unfair labour practice (Cost of Living adjustment)

34. K Motshwane R350 000
Unfair labour practice (Promotion)

35. De Swart Vogel Myambo R 690 000
Labour Court N Mahomed Application for Rescission of Judgement

Contingent assets

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A Contingent assets should not be recognised – but should be disclosed where an inflow of economic benefits is probable. When the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

1. Tshenolo Resources R11 228 653
In Novemberr 2013 a claim for the termination of the contract and claim of additional payments made in respect of the tender was identified by the NMMDM. Consultation were held for purpose of drawing up Summons in order to claim the amount owed to the NMMDM. Summons were prepared and the matter is still pending
.
2. NEP Consulting and Mosegedi Engineers R4 639 457,11
The defendants were appointed to render services and claim is for no delivery services. The Municipality issued a civil claim for R4 639 457,11. The matter is stagnant due to lack of documentation.

3. Naphtronics (Pty) Ltd R500 000
This was an application to set aside the appointment of Naphtronics on the basis that the procedure used to appoint them did not comply with the SCM of the municipality. The order setting aside the contract was granted. Naphtronics have applied for leave to appeal and the matter has been allocated the 14 September 2018.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

29. Related parties

Relationships

Accounting Officer	Refer to Accounting Officer's report note
Related Government Entities	Ramotshere Moiloa Local Municipality
	Tswaing Local Municipality
	Ditsobotla Local Municipality
	Mafikeng Local Municipality
	Ratlou Local Municipality
Members of key management	Mphatho SS
	Mohlakoana MJJ
	Dambuza MD
	Nkadimeng SM
	Mahlobo K
	Rassol MJ

Related party balances and transactions

	2018	2017
Members of Key Management		
Mphato SS	-	-
Mohlakoana MMJ	-	-
Dambuza MD	-	-
Nkadimeng MD	-	-
Mahlobo K	-	-
Rassol MJ	-	-
Amounts included in transactions regarding related parties		
Ramotshere Moiloa Local Municipality	2 000 000	-
Tswaing Local Municipality	4 000 000	-
Distsobotla Local Municipality	2 000 000	-
Mafikeng Local Municipality	2 000 000	-
Ratlou Local Municipality	-	-
Compensation to accounting officer and other key management		
Short-term employee benefits	6 192 534	34 703 950
Defined contribution plans	1 759 790	6 025 655
	7 952 324	**40 729 605**

Remuneration of management

29. Related parties (continued)

Councillors & Mayoral committee members

2018

Name	Basic salary	Pension Contributions	Medical Aid Contributions	Motor vehicle allowances	Cellphone	Seating allowance	Other benefits received	Total
Mayoral Committee Members	3 097 314	386 021	71 703	1 137 802	221 000	-	24 300	4 938 140
Councillors	3 054 767	247 533	108 068	961 600	523 678	276 950	42 600	5 215 196
	6 152 081	**633 554**	**179 771**	**2 099 402**	**744 678**	**276 950**	**66 900**	**10 153 336**

2017

Name	Basic salary	Pension Contributions	Medical Aid Contributions	Motor vehicle Allowances	Cellphone Allowances	Seating Allowance	Other benefits received	Total
Mayoral Committe Members	2 893 959	421 729	59 295	1 061 250	147 842	-	38 700	4 622 775
Councillors	2 200 571	247 201	61 879	782 192	245 467	276 940	30 900	3 845 150
	5 094 530	**668 930**	**121 174**	**1 843 442**	**393 309**	**276 940**	**69 600**	**8 467 925**

Senior Management

2018

Name	Basic salary	Car Allowance	Contributions to UIF, Medical & Pension	Acting Allowances	Housing Allowances	Cell phone Allowance	Other	Lumpsum	Total
Senior Manager - Planning	269 067	36 000	179 264	-	60 678	9 000	4 110	-	558 119
Chief of Finance	280 476	-	301 805	-	-	9 000	4 110	791 945	1 387 336
Senior Manager - Corporate	272 883	30 000	174 018	45 718	66 678	9 000	4 110	-	602 407
Senior Manager - Infrastructure	273 092	75 000	179 012	-	42 358	9 000	4 110	-	582 572

Notes to the Annual Financial Statements

Figures in Rand

29. Related parties (continued)

Municipal Manager	594 594	150 000	370 430	41 681	19 319	22 500	24 870	-	1 223 394
Senior Manager - Community	272 894	66 678	-	25 721	-	9 000	4 110	344 448	722 851
	1 963 006	**357 678**	**1 204 529**	**113 120**	**189 033**	**67 500**	**45 420**	**1 136 393**	**5 076 679**

2017

Name	Basic salary	Car Allowance	Contributions to UIF, Medical & Pension	Acting Allowance	Housing Allowance	Cellphone Allowance	Other	Total
Acting Municipal Manager	-	-	-	67 446	-	1 800	22 120	91 366
Senior Manager Municipal Health, Fire & Emergency	847 198	144 000	226 591	-	96 000	24 000	-	1 337 789
Chief Audit Executive	576 626	47 950	103 300	-	42 000	10 500	-	780 376
	1 423 824	**191 950**	**329 891**	**67 446**	**138 000**	**36 300**	**22 120**	**2 209 531**

30. Prior-year adjustments

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

Statement of financial position

30. Prior-year adjustments (continued)

2017

	As previously reported	Correction of error	Restated
Cash and Cash Equivalents	18 252	(5 942)	12 310
Deferred income	7 929 957	(6 026 125)	1 903 832
Property, Plant and Equipment	3 459 768 756	1 012 768 920	4 472 537 676
VAT	114 240 392	(87 345)	114 153 047
Leave accrual	22 140 556	(413 825)	21 726 731
Trade Payables	456 979 044	(292 641 168)	164 337 876
Intangible Assets	2 214 129	(2 214 129)	-
	4 063 291 086	**711 380 386**	**4 774 671 472**

Statement of finanical performance

2017

	As previously reported	Correction of error	Restated
General expenditure - Depreciation	382 823 828	(186 840 836)	195 982 992
Contracted Services - Bulk Water Purchases	68 482 380	(68 482 380)	-
Surplus for the year	**451 306 208**	**(255 323 216)**	**195 982 992**

Errors

30. Prior-year adjustments (continued)

1. Cash and Cash Equivalents
The closing balance of the Petrol Card as at year end 30 June 2017 was disclosed as R18 252,25 in the trial balance. However, the actual balance as per the Bank Statement was R12 309,89. There were no reconciling items as all purchased were made through Point-Of-Sale card swipes. The R5 942,36 adjustment was to agree the cashbook to the bank statement balance

2. Deferred Income
The deferred income account relating to receipts of yard connection fees from customers still awaiting connection was disclosed as R7 108 278,95 as at year end 30 June 2017, however, the waiting list for yard connections supported by management as at that date had 576 customers awaiting connection, the yard connection fees for those on this waiting list totalled R1 903 831,58.
The adjustment is to agree the Deferred Income opening balance to the official waiting list. Furthermore, an unsupported balance of 821 228,00 was disclosed in the financial statements and classified as a Deferred Income account for Yard Connections. As per Prior Year Audit Finding, the account was erroneous and had to be reversed

3. Property, Plant and Equipment
During the 2018 financial year the municipality engaged with consultants to perform a full verification of the Municipality fixed asset register, with the review of the asset register a new asset methodology was adopted. All the assets belonging to NMMD were verified and variances were identified. All the variances related to the opening balances and were corrected in prior year resulting to the restatement of prior year Annual Financial Statement Property, Plant, Equipment and intangible assets

4. VAT
VAT for the prior year was incorrectly calculated for invoices relating to the Mafikeng local Municipality and the Auditor General. The correction of the error related to the recalculation of that VAT.

5. Leave Accrual
Leave Accrual for the prior year was incorrectly calculated because incorrect leave days were used in the computation of leave provision in the prior year.

6. Trade Payables
There was a ministerial gazette from the Department of Water and Sanitation dated 15 October 2014, which effected a directive whereby,Sedibeng Water were to take over the provision of bulk water,operational, maintenance,war on leaks and water tankering for a period of five(5) years for the Municipality.The Municipal grants were diverted to Sedibeng as payments. An amount of R292 641 168 was raised as a creditor to Sedibeng and R68 482 380 Bulk Water purchases expense recognised in 2017. However, there was no agreement in place as a result, no obligation for the municipality to pay Sedibeng. This transaction has been reversed as these funds are not due to Sedibeng.

7. Intangible Assets
Prior period error arose during the 2018 asset verification process where it was identified that the intangible assets previously disclosed in the 2017 Annual Financial Statements did not meet the minimum requirements of an intangible asset as per GRAP 31. The expense recognised and disclosed as an intangible asset was relating to licence fees.

8.

The following prior period errors adjustments occurred:

31. Comparative figures

Certain comparative figures have been reclassified.

In the 2017/2018 Financial Year, as per the National Treasury Directive, all Municipalities have moved to the Municipal Standard Chart of Accounts (mSCOA). mSCOA, necessitated different charts of accounts compared to what existed previously and therefore the reclassifications.

The effects of the reclassification are as follows:

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

32. Risk management

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

33. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had accumulated deficits of R 4 427 812 172 and that the municipality's total liabilities exceed its assets by R 4 427 812 172.

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.

34. Unauthorised expenditure

	2018	2017
Recalculated opening balance	1 704 192 565	1 562 125 979
Add Unauthorised expenditure - Current year	595 774 821	142 066 586
Add Unauthorised expenditure relating to prior years	1 733 788 901	-
	4 033 756 287	**1 704 192 565**

35. Fruitless and wasteful expenditure

	2018	2017
Recalculated fruitless and wasteful expenditure opening balance	9 980 680	5 584 273
Add Fruitless & Wasteful expenditures from Prior years	3 567 248	-
Add Fruitless and Wasteful expenditure Current year	676 300	4 396 407
Interest Written off	(1 906 829)	-
	12 317 399	**9 980 680**

36. Irregular expenditure

	2018	2017
Opening balance	1 487 557 347	659 716 803
Less: Opening balance correction	(6 255 952)	-
Add: Prior year corrections	(461 128 616)	3 734 206
Irregular expenditure - Current year	113 197 537	164 389 535
Irregular expenditure identified in Current year relating to Prior years	32 895 822	659 716 803
Commitments overpaid - Current year	5 135 727	-
	1 171 401 865	**1 487 557 347**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

36. Irregular expenditure (continued)

Analysis of Irregular Expenditure - Quotations

Non-submission of Tax Clearance	609 410	173 700
Non Declaration of Interest	6 537 172	434 511
Non adherence to three written quotations	940 898	423 323
	8 087 480	**1 031 534**

Analysis of Irregular Expenditure - Assessment for Tender

Limitation of full and complete Tender documentation	759 991	114 805 365
No evaluation and adjudication reports	-	24 287 781
Procurement process not followed	24 228 379	16 244 442
Advertised for less than 30 days	55 198 212	8 020 413
	80 186 582	**163 358 001**

37. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

Current year subscription / fee	3 181 380	2 910 118

Audit fees

Current year fee	8 317 187	7 483 540

PAYE and UIF

Current year amounts	43 858 679	38 651 456

Pension and Medical Aid Deductions

Current year deductions	82 403 031	61 748 367

VAT

VAT receivable	20 990 323	114 153 047

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

38. 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.

Notes to the Annual Financial Statements

38. Deviation from supply chain management regulations (continued)

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

1. Edy's Electrical R14 717,40
An electrical fault finding assessment, and the necessary repairs were made to the Municipality's OHS offices due to power outages. Edy's Electrical - Mafikeng cc was appointed to carry out the repairs on the 31st of October 2017.

2. Business Connection R67 686,70
The Municipality appoined Business Connexion (BCX) to assist with the retrieval of Financial information from the Venus System which was not properly retrieved during migration to Pastel in 2012.

3. Midvaal Water Company R54 917,22
An amount of R54 917,22 was paid to the Midvaal Water Company for the Inspections and Sampling for Bactiriological and chemical analysis of water performed in 2016 but no payment was made. The non-payment had resulted in the Laboratory withholding analysis reports. No further water quality analysis was performed since 2016 as a result, the quality of the water was not known and the risks of water borne diseases could not be mitigated until the payment was made.

4. Astra Media World R35 872,00
On the 27th of June 2017, Astra Media World invoiced the Municipality R35 872,00 for the printing of a Council Agenda document for which, due to time limits, no other quotations were received.

5. Rabotapi Construction R2 994 766,63
An urgent need to address the maintenance of community water schemes in areas with high water shortages as well as to curb the backlog of Yard Connections in the Peri - Urban Areas led to the approval of the contract of R2 994 766,63 (Invoice date 5 February 2018) to supply water material by Rabotapi Construction (Pty) Ltd. This was an emergency as some communities had already started protesting the shortages of water due to non-functioning boreholes, burst pipes, leakages and non fulfilment of yard connection applications.

6. High point Trading 609 cc R186 211,93
was awarded a tender for the repair and maintenance of water engines, stands, storage tanks, building of pump houses and fencing on as and when required basis. This tender was extended in 2016. Their invoice dated 31 October 2016 of R186 211,93 was only paid on the 1st August 2017.

7. High Point Trading 609 cc R199 986,94
This entity was appointed in order to attend to the water shortages in the districts caused by non-functional boreholes, among other things. At the time this appointment was made, the previous contracts had ended and the Municipality was in the process of finalising Supply Chain Management procurement processes to appoint a new service provider.

8. Langu Electrical & Refrigeration R190 825,00
Appointment made to perform immediate work to two boreholes (number 6 and 7) withing the Geysdorp (Delareyville) which had been vandalised. At the time of the appointment, there was no contract in place and the process of awarding a tender was still underway.

9. Langu Electrical & Refrigeration R197 900,00
Appointment made to perform work on the Majemantsho, Bodibe, Itsoseng, Dithakong, Matile and Lichtenburg Boreholes which needed urgent attention due to varying causes. The repairs were needed in order to curb water shortages.

10. Langu Electrical & Refrigeration R174 900,00
Appointment made to perform work on the Leewfontein, Morotolong, Resevoir Boreholes, which needed urgent attention due to varying causes. The repairs were needed in order to curb water shortages which had been the cause of demonstrations for service delivery.

11. Legacy Auto T/A Zambesi Auto (Pty) Ltd R131 033,21
Amount incurred for the repairs of the Mayor's vehicle (BMW X5 drive 5.0.I) whose motor service plan had lapsed and needed an overhaul and repairs.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

38. Deviation from supply chain management regulations (continued)

12 Bathosi Funeral cc & United Burial Services R40 000,00
(Leather Gold Black) Ruby Red Dome Casket for the Burial of the late Councillor M. J. Thabeng whose funeral was declared a Council Funeral. Procured in terms of Council Resolution SC 75/2017.

13 King Laws Electrical (Pty) Ltd R12 900,00
The service provider was appointed to repair electrical faults at the Municipal Head Office as well as at the Molopo Fire Station. The service provider was paid only for services performed at the Head Office. This payment relates to the electrical repairs made to the Molopo fire station.

14. Murnau Motors Rustenburg (Pty) Ltd R110 258,48
This expense was incurred in respect of further repairs made to the Mayoral Vehicle (BMW X5) as a result of the negligence on the part of the driver.

15. King Laws Electrical (Pty) Ltd R157 800,00
IT appointed this service provider after they experienced electricity blackout for some days. On arrival, their scope was extended to allow them to attend to all electrical problems including HR and Finance sections which had also not had electricity for a while.

16. Langu Electrical & Refrigeration (Pty) Ltd R196 310,00
The service provider was appointed to perform electro-mechanical Repairs of boreholes at Coligny to curb the water shortages that were being experienced as a result of the non functioning boreholes.

17. Lebomax Construction and Project (Pty) Ltd R26 500,00
This expense was incurred in respect of the purchase of the brake disc and rear brake pads for the Executive Mayor's car.

39. Distribution Water Losses

Material Water Losses	15 632 521	13 393 916

40. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 15% (25% over approved budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final budget and the actual amounts.

A - Investment Revenue increased because of the funds excess funds invested in Call Accounts in the current year.
B - Decrease is due to the fact that the Municipality stopped collecting money for Yard connections until the backlog was cleared. In addition, the selling of tender documents was stopped.

C - The difference is because the budged included the Upper limits. However, in reality, upper limits are not automatically reached. Councillors have to submit an application for them. In the current year, they were mostly declined.

D - Overbudgeting of depreciation was due to a misassessment of asset base during the formulation of the budget
E - The difference occurred as a result of one of the Local Municipalities' institutional arrangement that was not concluded.
F - General expenditure differences are due to the implementation of cost containment measures and the shift in focus to basic service delivery.

Differences between budget and actual amounts basis of preparation and presentation

40. Budget differences (continued)

The budget and the accounting bases differ. The annual financial statements for the whole-of-government are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The annual financial statements are consolidated statements that include all controlled entities, including government business enterprises for the fiscal period from to . The annual financial statements differ from the budget, which is approved on the cash basis and which deals only with the general government sector that excludes government business enterprises and certain other non-market government entities and activities.

The amounts in the annual financial statements were recast from the accrual basis to the cash basis and reclassified by functional classification to be on the same basis as the final approved budget. In addition, adjustments to amounts in the annual financial statements for timing differences associated with the continuing appropriation and differences in the entities covered (government business enterprises) were made to express the actual amounts on a comparable basis to the final approved budget. The amounts of these adjustments are identified in the following table.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to pages to in the annual report.

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to pages to in the annual report