Ngaka Modiri Molema District Municipality
Annual Financial Statements
for the year ended 30 June 2019

General Information

Legal form of entity	District Municipality
	DC38
Nature of business and principal activities	Water and Sanitation Service Authority, Fire Fighting and Municipal Health Services
Mayoral committee	
Executive Mayor	Hon. Tshepo Makolomakwa
Speaker	Cllr. Yoliswa Sechoaro
Single Whip	Cllr. Itumeleng Lethoko
Mayoral Committee	Cllr. Pricilla Kwenaite
	Cllr. Molefe Morutse
	Cllr. Mathapelo Tlhako
	Cllr. Segametsi Ntladi
	Cllr. Gilbert Mathakathaka
	Cllr. Phemelo Malebelela
MPAC Chairperson	Cllr. Oabetswe Tselapedi
Councillors	Cllr. Thapelo Mvudisi
	Cllr. Yusuf Laher
	Cllr. Gloria Leepo
	Cllr. Edward Mothibedi
	Cllr. Israel Modibetsane
	Cllr. Tshiamo Kenalemogwe
	Cllr. Daniel Motlhatlhedi
	Cllr. Molefi Moroe
	Cllr. Gosiame Seatlholo
	Cllr. Thembinkosi Mabovu
	Cllr. Klaas Melamu
	Cllr. Israel Moloatoa
	Cllr. Elizabeth Makalela
	Cllr. Ramalepa Phetwe
	Cllr. Tebatso Maibi
	Cllr. Piet Miga
	Cllr. Motlhanka Moreo
	Cllr. Joseph Mekgwa
	Cllr. Maria Tsolo-Mulasi
	Cllr. Mompati Makalela
	Cllr. Lerato Selebogo
	Cllr. Tsholofelo Moreo
	Cllr. Teko Melamu
	Cllr. Peter Mogatwe
	Cllr. Israel Modibetsane
	Cllr. Daddy Tshabalala
	Cllr. Thabo Selepe
	Cllr. Thapelo Mothibi
	Cllr. Maria Ndlovu

General Information

Grading of local authority	Category C
Accounting Officer	OA Losaba
Chief Finance Officer (CFO)	SS Mphato
Registered office	Cnr Carrington Street and 1st Avenue Industrial Site Mafikeng 2745
Postal address	Private Bag X2165 Mafikeng 2745
Bankers	First National Bank
Auditors	Auditor General of South Africa
Tel no	0183819400
Website	www.nmmdm.gov.za

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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)
WSIG	Water Services Infrastructure Grant

Accounting Officer's Responsibilities and Approval

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

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

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

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

The accounting officer is 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 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The annual financial statements set out on pages 5 to 69, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on its behalf by:

Accounting Officer
OA Losaba

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2019.

Main business and operations

1. Going concern

Ngaka Modiri Molema District Municipality earned a surplus of R 430 280 980 (2018: R 214 267 229) during the period ended 30 June 2019 and as at that date, the municipality had an accumulated surplus of R5 338 132 724 (2018: R4 907 851 736).

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.

2. Subsequent events

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

3. Accounting policies

The annual financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

4. Corporate governance

General

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

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

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

Audit and risk committee

In terms of Section 166 of the Municipal Finance Management Act, council must appoint members of the Audit Committee. Council was satisfied that the Audit Committee of the municipality then, constituted by the non-executive directors was properly constituted to fulfil its role and advise the Board of its responsibilities as provided in Section 166 of the Municipal Finance Management Act.
The previous audit committee term ended on the 30th September 2017 and the new audit committee members were appointed on the 27 March 2018.
Audit committee
- 20 August 2018
- 21 August 2018
- 21 September 2018
- 12 November 2018
- 12 April 2019
- 12 March 2019

Chairperson:
1. Mr Sebeelo
Members:
2. Ms Modirapula;
3. Mr Tshimomola
4. Mr Maritz
5. Mr Mokale
6. Mr Mokgobinyane

Accounting Officer's Report

Internal audit

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

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	6	86 258 214	14 655 693
Receivables from exchange transactions	7	1 214 715	1 742 046
Receivables from non-exchange transactions	46	-	3 000 000
VAT receivable	8	44 247 407	13 656 674
Prepayments	9	-	55 195 952
Cash and cash equivalents	10	300 266 239	101 716 219
		431 986 575	**189 966 584**
Non-Current Assets			
Investment property	4	13 837 492	13 837 492
Property, plant and equipment	3	5 249 324 046	4 984 117 607
Other financial assets	5	275 457	255 409
		5 263 436 995	**4 998 210 508**
Total Assets		**5 695 423 570**	**5 188 177 092**
Liabilities			
Current Liabilities			
Payables from exchange transactions	14	266 117 036	167 107 981
Consumer deposits	15	-	882 158
Employee benefit obligation	11	232 896	138 000
Unspent conditional grants	13	19 306 073	62 274 217
Provisions	12	649 244	706 000
		286 305 249	**231 108 356**
Non-Current Liabilities			
Employee benefit obligation	11	52 597 299	33 901 000
Provisions	12	18 388 280	15 316 000
		70 985 579	**49 217 000**
Total Liabilities		**357 290 828**	**280 325 356**
Net Assets		**5 338 132 742**	**4 907 851 736**
Accumulated surplus		5 338 132 742	4 907 851 736

* See Note 44

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	1 211 267	1 496 999
Rental income	19	206 170	200 912
Donations received		-	8 000
Interest received	18	22 278 512	11 416 470
Other income	19	474 130	554 913
Total revenue from exchange transactions		**24 170 079**	**13 677 294**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	20	1 196 894 155	817 525 286
Total revenue	16	**1 221 064 234**	**831 202 580**
Expenditure			
Employee related costs	21	(332 238 908)	(310 657 043)
Remuneration of councillors	22	(10 054 910)	(9 418 903)
Depreciation and amortisation	23	(191 647 674)	(183 173 388)
Contracted services	24	(27 579 335)	(15 451 506)
Bulk purchases	25	(17 865 904)	(14 206 177)
Finance costs		(8 457 329)	(5 725 297)
Impairment loss		(5 619 240)	(2 347 599)
Lease rentals on operating lease	26	(700 041)	(746 816)
Repairs and maintenance	27	(58 392 008)	(9 950 715)
Transfers and Subsidies	28	(15 000 000)	(10 000 000)
General Expenses	29	(107 266 941)	(65 572 609)
Total expenditure		**(774 822 290)**	**(627 250 053)**
Operating surplus		**446 241 944**	**203 952 527**
Loss on write off of assets		(2 778 394)	-
Actuarial gains/(losses)	11&12	(13 182 552)	10 314 702
		(15 960 946)	**10 314 702**
Surplus for the year		**430 280 998**	**214 267 229**

* See Note 44

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	2 903 709 557	2 903 709 557
Adjustments		
Correction of errors	1 789 874 951	1 789 874 951
Balance at 01 July 2017 as restated*	**4 693 584 508**	**4 693 584 508**
Changes in net assets		
Surplus for the year	214 267 229	214 267 229
Total changes	214 267 229	214 267 229
Restated* Balance at 01 July 2018	**4 907 851 745**	**4 907 851 745**
Changes in net assets		
Surplus for the year	430 280 998	430 280 998
Total changes	430 280 998	430 280 998
Balance at 30 June 2019	**5 338 132 743**	**5 338 132 743**

Note(s)

* See Note 44

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		1 891 567	2 252 824
Government grants		1 152 312 946	817 525 286
Interest received		22 278 512	11 233 629
Donation received		-	8 000
		1 176 483 025	831 019 739
Payments			
Employee related costs		(318 319 255)	(320 657 226)
Suppliers		(413 309 746)	(298 829 525)
Finance costs		(8 457 329)	(5 725 297)
		(740 086 330)	(625 212 048)
Net cash flows from operating activities	30	**436 396 695**	**205 807 691**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(237 470 130)	(116 483 653)
Proceeds from sale of property, plant and equipment	3	(356 497)	-
Aquisition of financial assets		(20 048)	-
Net cash flows from investing activities		**(237 846 675)**	**(116 483 653)**
Net increase/(decrease) in cash and cash equivalents		**198 550 020**	**87 892 719**
Cash and cash equivalents at the beginning of the year		101 716 219	13 823 500
Cash and cash equivalents at the end of the year	10	**300 266 239**	**101 716 219**

* See Note 44

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	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	533 865	-	**533 865**	1 211 267	**677 402**	A
Transfer revenue - Recognised	699 511 000	-	**699 511 000**	700 576 751	**1 065 751**	
Rental income	216 000	-	**216 000**	206 170	**(9 830)**	
Other Income	1 458 731	-	**1 458 731**	474 130	**(984 601)**	
Interest received - investment	-	18 521 286	**18 521 286**	22 278 512	**3 757 226**	B
Total revenue from exchange transactions	**701 719 596**	**18 521 286**	**720 240 882**	**724 746 830**	**4 505 948**	
Expenditure						
Personnel	(326 847 762)	-	**(326 847 762)**	(332 238 908)	**(5 391 146)**	C
Remuneration of councillors	(12 106 076)	-	**(12 106 076)**	(10 054 910)	**2 051 166**	
Depreciation and amortisation	(384 823 828)	174 823 828	**(210 000 000)**	(191 647 674)	**18 352 326**	D
Impairment loss	-	-	**-**	(5 619 240)	**(5 619 240)**	E
Finance costs	(500 000)	-	**(500 000)**	(8 457 329)	**(7 957 329)**	F
Lease rentals on operating lease	-	-	**-**	(700 041)	**(700 041)**	
Repairs and maintenance	(17 080 000)	(2 150 200)	**(19 230 200)**	(58 392 008)	**(39 161 808)**	G
Bulk purchases and materials	(18 000 000)	-	**(18 000 000)**	(17 865 904)	**134 096**	
Contracted Services	(20 250 000)	(110 271 913)	**(130 521 913)**	(27 579 335)	**102 942 578**	
Transfers and Subsidies	(15 000 000)	-	**(15 000 000)**	(15 000 000)	**-**	
General Expenses	(87 793 890)	39 653 119	**(48 140 771)**	(111 155 748)	**(63 014 977)**	
Total expenditure	**(882 401 556)**	**102 054 834**	**(780 346 722)**	**(778 711 097)**	**1 635 625**	
Operating deficit	**(180 681 959)**	**120 576 120**	**(60 105 840)**	**(53 964 267)**	**6 141 573**	
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	295 614 000	157 674 000	**453 288 000**	496 317 404	**43 029 404**	
Loss on disposal of assets	-	-	**-**	(2 778 394)	**(2 778 394)**	
Actuarial gains/losses	-	-	**-**	(13 182 552)	**(13 182 552)**	
	295 614 000	**157 674 000**	**453 288 000**	**480 356 458**	**27 068 458**	
Surplus/(Deficit)	**114 932 041**	**278 250 120**	**393 182 161**	**426 392 191**	**33 210 030**	

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.

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 11.

1.3 Investment property

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

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

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

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

Accounting Policies

1.3 Investment property (continued)

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

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

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;

- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);

- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and

- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

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

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

Fair value

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

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

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

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

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

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

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

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

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

Accounting Policies

1.3 Investment property (continued)

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

1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

Accounting Policies

1.4 Property, plant and equipment (continued)

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.

Subsequent Measurement
Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, excluding land and building and including for Infrastructure Assets, are measured at cost, less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

Depreciation
Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. 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. 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 shall be depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

Infrastructure	**Years**		**Years**
		Buildings	15 - 50
Electricity	5 - 50	**Other**	
Water	10 - 100	Specialist Vehicles	1 - 15
Sewerage	10 - 70	Other Vehicles	1 - 10
		Office Equipment	3 - 7
		Furniture and Fittings	7 - 10
		Plant and Equipment	2 - 10

The assets' residual values, estimated useful lives and depreciation method are reviewed based on indicators, and adjusted prospectively if appropriate, at each reporting date.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Incomplete Construction Work
Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

Finance Leases
Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

Land
Land is not depreciated as it is deemed to have an indefinite useful life.

Any land that has been classified as Property, Plant and Equipment will be measured originally at cost price. If the cost price is not available, the comparative sales method will be used to accurately measure and account for land.

The municipality early adopted IGRAP 18 during the 2018/2019 financial year. IGRAP 18 gives guidance on recognition and de-recognition of land based on control, not only legal title. Control is demonstrated by applying the following criteria;
- legal title

Accounting Policies

1.4 Property, plant and equipment (continued)
- and/or right to direct and restrict or deny access of others to land.

The municipality must control the resource. Control of the resource is evidenced by the entity's ability to use the resource, or direct other parties to use it, so as to benefit from the future economic benefits or service potential embodied in the resource. Control is evidenced by the rights and obligations arising from a binding arrangement.

In the absence of a binding agreement with a third party, legal ownership is sufficient to demonstrate control over the land, as the municipality has not transferred the rights or obligations in relation to the land. In such cases the right to direct access to and restrict or deny access of others to the land has been retained.

Infrastructure Assets
Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

Derecognition of property, plant and equipment
The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.4 Property, plant and equipment (continued)

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

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

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

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

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

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

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

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

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

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

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

1.5 Financial instruments

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

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

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

1.5 Financial instruments (continued)

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

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.

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].

Accounting Policies

1.5 Financial instruments (continued)

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Accounting Policies

1.5 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.

1.5 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.

1.6 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.

1.7 Inventories

Initial measurement

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.

1.7 Inventories (continued)

Subsequent Measurement

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

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

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

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

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

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

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

Derecognition

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

1.8 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.

1.9 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity’s own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

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

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

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

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

Short-term employee benefits

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

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

When an employee has rendered service to the entity during a reporting period, the entity 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 measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity 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

1.9 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

1.9 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.

1.9 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.

1.9 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.

1.9 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.

1.10 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.

1.10 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 32.

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.

1.10 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 1.8 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.

1.11 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.

1.12 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.

1.12 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.

1.13 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

1.13 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.

1.14 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.

Accounting Policies

1.14 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.

1.15 Investment income

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

1.16 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.

1.17 Comparative figures

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

1.18 Unauthorised expenditure

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

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

1.19 Fruitless and wasteful expenditure

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

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

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the 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.

1.20 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.

1.21 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 2018/07/01 to 2019/06/30.

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

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

1.22 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.

1.23 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

1.23 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.

1.24 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.

2. New standards and interpretations

GRAP 12 (as amended 2018): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

GRAP 16 (as amended 2018): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

GRAP 17 (as amended 2018): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

GRAP 31 (as amended 2018): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

The municipality has adopted the standard for the first time in the 2019 annual financial statements.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecogntion of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality adopted the interpretation for the first time in the 2019 annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The impact of this interpretation is currently being assessed.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

3. Property, plant and equipment

	2019			2018		
	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	228 451 823	(98 096 594)	130 355 229	219 148 868	(94 110 194)	125 038 674
Other property,plant and equipment	49 453 921	(24 551 992)	24 901 929	45 611 907	(19 009 148)	26 602 759
Infrastructure	10 225 425 132	(5 147 097 260)	5 078 327 872	9 780 688 571	(4 963 951 413)	4 816 737 158
Total	**10 519 069 892**	**(5 269 745 846)**	**5 249 324 046**	**10 061 188 362**	**(5 077 070 755)**	**4 984 117 607**

Reconciliation of property, plant and equipment - 30 June 2019

	Opening balance	**Additions**	**Write-Off's**	**Work in Progress**	**Depreciation**	**Impairment loss**	**Total**
Land	15 739 016	-	-	-	-	-	15 739 016
Buildings	125 038 674	123 750	-	9 179 204	(3 986 399)	-	130 355 229
Other property, plant and equipment	26 602 759	4 452 929	(238 746)	-	(2 762 176)	(3 152 837)	24 901 929
Infrastructure	4 816 737 158	232 893 451	(2 183 151)	218 245 915	(184 899 098)	(2 466 403)	5 078 327 872
	4 984 117 607	**237 470 130**	**(2 421 897)**	**227 425 119**	**(191 647 673)**	**(5 619 240)**	**5 249 324 046**

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 30 June 2018

	Opening balance	Additions	Work in Progress	Depreciation	Impairment loss	Total
Land	15 739 016	-	-	-	-	15 739 016
Buildings	131 471 673	-	-	(4 085 400)	(2 347 599)	125 038 674
Other property, plant and equipment	27 589 041	1 593 474	-	(2 579 756)	-	26 602 759
Infrastructure	4 814 800 425	114 890 179	63 554 786	(176 508 232)	-	4 816 737 158
	4 989 600 155	**116 483 653**	**63 554 786**	**(183 173 388)**	**(2 347 599)**	**4 984 117 607**

Pledged as security

No property, plant and equipment were pledged as security.

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

Reconciliation of Work-in-Progress - 2019

	Included within Infrastructure	Included within buildings	Total
Opening balance	389 285 185	45 092 225	434 377 410
Additions/capital expenditure	474 358 224	9 179 206	483 537 430
Transferred to completed items	(256 112 309)	-	(256 112 309)
	607 531 100	**54 271 431**	**661 802 531**

3. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress - 2018

	Included within Infrastructure	Included within buildings	Total
Opening balance	325 730 399	45 092 225	370 822 624
Additions/capital expenditure	226 441 444	-	226 441 444
Transferred to completed items	(162 886 659)	-	(162 886 659)
	389 285 184	**45 092 225**	**434 377 409**

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.

4. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	13 837 492	-	13 837 492	13 837 492	-	13 837 492

Reconciliation of investment property - 2019

	Opening balance	Total
Investment property	13 837 492	13 837 492

Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	13 837 492	13 837 492

Pledged as security

No investment property were pledged as security.

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

5. Other financial assets

	2019	2018
Residual interest at cost		
Momentum Flexible investment	275 457	255 409
At amortised cost		
Momentum Flexible investment	275 457	255 409
Total other financial assets	**275 456**	**255 409**

Figures in Rand	2019	2018

5. Other financial assets (continued)

Non-current assets		
At amortised cost	275 457	255 409

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

The municipality has a flexible investment account with Momentum, the investment yield interest of 7.83% per annum.

6. Inventories

Maintenance	12 376 830	12 864 319
VIP Toilets	72 359 539	-
Consumables	1 483 400	1 755 590
Water	38 445	35 784
	86 258 214	**14 655 693**

No inventory were pledged as security or collateral.

VIP Toilets inventory reconciliation		
Current year additions	72 359 539	-

7. Receivables from exchange transactions

Staff debtors	1 203 067	1 204 416
Other receivables	11 648	11 648
Dividends receivable	-	525 982
	1 214 715	**1 742 046**

Trade and other receivables pledged as security

No trade and other receivables were pledged as security or collateral.

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed.

Trade and other receivables past due but not impaired

Trade and other receivables which are more than 180 days past due are not considered to be impaired. At 30 June 2019, R 1 213 289 (2018: R 1 216 064) were past due but not impaired.

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

180 days past due	1 214 715	1 216 064

8. VAT receivable

VAT	44 247 407	13 656 674

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. VAT is claimed from SARS only once payment is made to creditors.

Figures in Rand	2019	2018

9. Prepayments

Rural Sanitation Programme	-	55 195 952

The R55 195 952 (VAT inclusive) was the payment for material to be used for rural sanitation project however the material was not yet delivered as at 30 June 2018 i.e. risk and rewards were not transferred to the municipality. We have therefore disclosed this payment as prepayment as risk and rewards over ownership of the material was not transferred at year end.

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	83 304	83 304
Bank balances	300 182 935	101 632 915
	300 266 239	**101 716 219**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2019	**30 June 2018**		**30 June 2019**	**30 June 2018**	
First National Bank Cheque Acc 52910086795	18 402 009	1 313 925	-	16 426 866	1 445 847	-
ABSA Call deposit 160432220101	304 740	289 479	-	304 740	289 479	-
ABSA 32 days notice 7064362660	285	286	-	285	286	-
First National Bank 8888886092907007	28 274	2 317	-	28 274	2 317	-
First National Bank Call account 62445709746	283 453 224	2 766 367	-	283 453 224	2 766 367	-
First National Bank Fixed deposit 74738309323	-	97 128 619	-	-	97 128 619	-
Total	**302 188 532**	**101 500 993**		**300 213 389**	**101 632 915**	

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

11. Employee benefit obligation

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 municipality 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 Benefit Obligation were carried out at the 30 June 2019 by One Pangaea Expertise and Solutions, fellow of the Actuarial Society of South Africa. The present value of the Defined Benefit Obligation and the related current service and past service cost were measured using the projected unit credit method.

Categories	**Valuation at 30 June 2019**	**Valuation at 30 June 2018**	**Total**
Retirement Medical Aid plan	652	645	1 297
In service Non members Continuation	7	5	12
	659	**650**	**1 309**

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(34 039 000)	(27 023 000)
Current service cost	(3 687 000)	(2 769 000)
Interest Cost	(3 212 000)	(2 887 000)
Actuarial Gains/(Loss)	(12 041 460)	(1 202 316)
Benefits paid out	149 265	(157 684)
	(52 830 195)	**(34 039 000)**
Non-current liabilities	(52 597 299)	(33 901 000)
Current liabilities	(232 896)	(138 000)
	(52 830 195)	**(34 039 000)**

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

Opening balance	(33 886 000)	(27 023 000)
Benefits paid	138 000	153 000
Net expense recognised in the statement of financial performance	(18 791 195)	(7 016 000)
	(52 539 195)	**(33 886 000)**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

11. Employee benefit obligation (continued)

Net expense recognised in the statement of financial performance

Current service cost	(3 825 000)	(2 769 000)
Interest cost	(3 074 000)	(2 887 000)
Actuarial Gains/(Loss)	(12 041 460)	(1 202 316)
Actual payments	149 265	(157 684)
	(18 791 195)	**(7 016 000)**

Calculation of actuarial gains and losses

Actuarial Gains/(Loss) – Obligation	(12 041 460)	(1 202 316)

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 maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rates for longer maturities by extrapolating current market rates along the yield curves.

Expected Retirement Age	**Valuation 2019**	**Valuation 2018**
Expected Retirement Age - Female	65,00	65,00
Expected Retirement Age - Male	65,00	65,00

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	12 160 155	8 539 017
Effect on defined benefit obligation	62 953 642	44 837 496

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

	2019 R	**2018 R**	**2017 R**	**2016 R**	**2015 R**
Defined benefit obligation	52 830 195	34 039 000	27 023 000	27 803 000	-

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

12. Provisions

Reconciliation of provisions - 30 June 2019

	Opening Balance	Additions	Utilised during the year	Interest	Actuarial loss	Total
Long Service Award	16 022 000	1 628 000	(1 171 568)	1 418 000	1 141 092	19 037 524

Reconciliation of provisions - 30 June 2018

	Opening Balance	Additions	Utilised during the year	Interest	Actuarial loss	Total
Long Service Award	23 615 000	2 820 000	(1 405 982)	2 510 000	(11 517 018)	16 022 000

	2019	2018
Non-current liabilities	18 388 280	15 316 000
Current liabilities	649 244	706 000
	19 037 524	**16 022 000**

The most recent Actuarial Valuation of the Present value of the Defined Benefit Obligation were carried out at the 30 June 2019 by One Pangaea Expertise and Solutions, fellow of the Actuarial Society of South Africa. The present value of the Defined Benefit Obligation and the related current service and past service cost were measured using the projected unit credit method.

13. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2019	2018
Municipal Infrastructure Grants	-	55 195 952
EPWP	8 316	197 311
WSIG	17 055 897	4 899 303
SETA	2 231 798	1 639 171
RRAMS	10 062	110
FMG	-	342 370
	19 306 073	**62 274 217**

14. Payables from exchange transactions

	2019	2018
Trade payables	173 982 416	110 106 002
Grant payable - Ratlou Local Municipality	5 000 000	2 000 000
Retention fees	42 767 462	18 173 608
Leave accrual	31 389 222	25 225 143
Suspense Control Account	3 968 095	3 165 416
Bonus accrual	9 009 841	8 437 812
	266 117 036	**167 107 981**

15. Consumer deposits

	2019	2018
Water yard connections	-	882 158

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

16. Revenue

Service Charges	1 211 267	1 496 999
Rental income	206 170	200 912
Donations received	-	8 000
Other income	474 130	554 913
Interest received	22 278 512	11 416 470
Government grants & subsidies	1 196 894 155	817 525 286
	1 221 064 234	**831 202 580**

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

Service Charges	1 211 267	1 496 999
Rental income	206 170	200 912
Donations received	-	8 000
Other income	474 130	554 913
Interest received - Investment	22 278 512	11 416 470
	24 170 079	**13 677 294**

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

Transfer revenue		
Government grants & subsidies	1 196 894 155	817 525 286

17. Service charges

Sale of water	351 356	518 630
Sewerage and sanitation charges	859 911	978 369
	1 211 267	**1 496 999**

18. Interest received

Interest received		
Bank	22 278 512	11 416 470

19. Other income

Rental income	206 170	200 912
Donations received	-	8 000
Sale of tender documents	474 130	554 913
	680 300	**763 825**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

20. Government grants and subsidies

Operating grants		
Equitable Share	696 369 640	616 267 000
Finance Management Grant	1 865 000	1 452 630
EPWP	1 268 724	1 124 328
SETA	-	850 960
Municipal Disaster Recovery Grant	-	990 000
Human Settlement	1 073 387	5 080 421
	700 576 751	**625 765 339**
Capital grants		
Water Service Infrastructure Grant	145 517 405	-
Rural Roads Assets Management	2 530 047	2 534 987
Municipal Infrastructure Grants	348 269 952	189 224 960
	496 317 404	**191 759 947**
	1 196 894 155	**817 525 286**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	500 444 593	201 258 286
Unconditional grants received	696 369 640	616 267 000
	1 196 814 233	**817 525 286**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. The equitable shares allocations was R696 369 681 however we have received R695 830 000 due to withheld R539 681 unspent grants from 2017/18 financial period.

Municipal Infrastructure Grants

Balance unspent at beginning of year	55 195 952	9 380 912
Current-year receipts	293 074 000	235 040 000
Conditions met - transferred to revenue	(348 269 952)	(189 224 960)
	-	**55 195 952**

Conditions still to be met - remain liabilities (see note 13).

EPWP

Balance unspent at beginning of year	197 311	22 639
Current-year receipts	1 277 000	1 299 000
Conditions met - transferred to revenue	(1 268 684)	(1 124 328)
Paid back to NT	(197 311)	-
	8 316	**197 311**

Conditions still to be met - remain liabilities (see note 13).

WSIG

Balance unspent at beginning of year	4 899 303	8 637 303
Current-year receipts	157 674 000	-

Figures in Rand	2019	2018

20. Government grants and subsidies (continued)

Conditions met - transferred to revenue	(145 517 406)	-
Paid back to NT	-	(3 738 000)
	17 055 897	**4 899 303**

Conditions still to be met - remain liabilities (see note 13).

SETA

Balance unspent at beginning of year	1 639 171	2 065 455
Current-year receipts	592 627	424 676
Conditions met - transferred to revenue	-	(850 960)
	2 231 798	**1 639 171**

Conditions still to be met - remain liabilities (see note 13).

RRAM

Balance unspent at beginning of year	110	97
Current-year receipts	2 540 000	2 535 000
Conditions met - transferred to revenue	(2 530 048)	(2 534 987)
	10 062	**110**

Conditions still to be met - remain liabilities (see note 13).

FMG

Balance unspent at beginning of year	342 370	-
Current-year receipts	1 865 000	1 795 000
Conditions met - transferred to revenue	(1 865 000)	(1 452 630)
Paid back to NT	(342 370)	-
	-	**342 370**

Conditions still to be met - remain liabilities (see note 13).

Human Settlement

Current-year receipts	-	6 309 315
Conditions met - transferred to revenue	-	(6 309 315)
	-	**-**

Municipal Disaster Recovery Grant

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

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

21. Employee related costs

Basic salary	195 599 213	186 294 806
Medical aid - company contributions	20 388 431	19 132 069
UIF	1 313 849	1 138 616
SDL	2 586 231	1 653 527
Leave pay provision charge	6 736 109	4 182 620
Bonus	13 901 652	14 626 073
Defined contribution plans	5 303 735	5 746 684
Travel, motor car, accommodation, subsistence and other allowances	15 710 274	12 710 262
Overtime payments	18 303 823	16 283 556
Housing benefits and allowances	924 771	737 480
Industrial Council	78 323	80 705
Pension fund	36 075 357	35 773 942
Cellphone Allowance	506 500	400 650
Standby allowance	2 339 106	2 769 514
Shift Allowance	6 545 565	6 014 018
	326 312 939	**307 544 522**

Remuneration of Municipal Manager: OA Losaba

Annual Remuneration	300 510	-
Car Allowance	70 577	-
Contributions to UIF, Medical and Pension Funds	59 151	-
Bargain Council	44	-
	430 282	**-**

Mr OA Losaba was appointed on 15 February 2019 as the Municipal Manager of Ngaka Modiri Molema Municipality

Remuneration of Municipal Manager: MJ Mohlakoana

Annual Remuneration	119 926	619 464
Contributions to UIF, Medical and Pension Funds	22 672	105 407
Cellphone allowance	3 000	22 500
Housing allowance	7 728	19 319
Car allowance	30 000	150 000
	183 326	**916 690**

Mr MJ Mohlakoana resigned on the 31 August 2018.

Remuneration of Chief Financial Officer

Annual Remuneration	790 420	382 806
Contributions to UIF, Medical and Pension Funds	108 283	64 283
Cellphone allowance	18 000	9 000
	916 703	**456 089**

Mr SS Mphato was appointed as the Chief Financial Officer of Ngaka Modiri Molema Municipality on 1 February 2018.

Figures in Rand	2019	2018

21. Employee related costs (continued)

Remuneration of Senior Manager-Corporate Services

Annual Remuneration	612 616	276 993
Car Allowance	-	30 000
Cellphone Allowance	18 000	9 000
Contributions to UIF, Medical and Pension Funds	108 283	52 247
Housing allowance	135 090	-
Other benefits	41 774	66 678
	915 763	**434 918**

Mrs M D Dambuza was appointed as the Corporate Services Senior Manager of Ngaka Modiri Molema Municipality on 1 February 2018. She was an Acting Municipal Manager from 1 September 2018 to 30 November 2018.

Remuneration of Senior Manager: Community Services

Annual Remuneration	582 396	277 004
Car Allowance	133 355	66 677
Cellphone Allowance	18 000	9 000
Contributions to UIF, Medical and Pension Funds	128 086	52 205
Other benefits	41 774	30 000
Housing allowance	76 111	-
	979 722	**434 886**

Ms SM Nkadimang was appointed as the Community Services senior manager of Ngaka Modiri Molema Municipality on 1 February 2018.

Remuneration of Senior Manager-Technical services

Annual Remuneration	584 832	277 203
Car Allowance	150 000	75 000
Contributions to UIF, Medical and Pension Funds	107 797	52 366
Housing allowance	35 298	-
Cellphone Allowance	18 000	9 000
Other benefits	-	42 358
	895 927	**455 927**

Mr MJ Rassool was appointed as the Senior Manager: Technical Services of Ngaka Modiri Molema Municipality on 1 February 2018.

Remuneration of Senior Manager : Planning and Development

Annual Remuneration	600 374	273 177
Car Allowance	72 000	36 000
Cellphone allowance	18 000	9 000
Contributions to UIF, Medical and Pension Funds	123 884	56 051
Housing Allowance	129 377	60 678
	943 635	**434 906**

Mrs K Mahlobo was appointed as the Planning and Development Senior Manager of Ngaka Modiri Molema Municipality on 1 February 2018. She was an Acting Municipal Manager from 1 December 2018 to 14 February 2019.

Reconciliation of employee related costs

Municipal Staff	326 973 550	307 523 626
Municipal Manager, CFO and other Senior Managers	5 265 358	3 133 416

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

21. Employee related costs (continued)

	332 238 908	**310 657 042**

22. Remuneration of Councillors

Executive Mayor	910 916	877 720
Single Whip	694 430	672 924
Mayoral Committee Members	3 774 789	3 764 174
Speaker	737 767	707 805
Councillors	3 937 008	3 396 280
	10 054 910	**9 418 903**

23. Depreciation and amortisation

Property, plant and equipment	191 647 674	183 173 388

24. Contracted services

Security Services	14 282 830	13 703 497
Water Tankering	13 296 505	1 748 009
	27 579 335	**15 451 506**

25. Bulk purchases

Water	17 865 904	14 206 177

The district municipality purchases portable water from Sedibeng Water.

26. Lease rentals on operating lease

Operating lease expenses		
Parking	277 200	277 200
Photocopying	422 841	469 616
	700 041	**746 816**

Within one year	442 122	442 122
Between two - five years	405 279	847 400
	847 401	**1 289 522**

1. Operating leases are recognised on a straight-line basis with lease terms of between one to 3 years. The Municipality entered into operating leases for the rental of printing equipment. The lease agreement is between Konica Minolta and Ngaka Modiri Molema District Municipality. The Municipality does not have an option to purchase the leased asset at the expiry of the lease period however the municipality has an option to renew the lease after expiry at lower rental rates.

2. The municipality entered into an operating lease for the rental of parking space. The lease agreement is a month to month lease between Aliangy Enterprise CC and Ngaka Modiri Molema District Municipality. The Municipality does not have an option to purchase the leased asset.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

27. Repairs and maintenance

Plant hire	8 269 082	1 000 490
Maintenance of Water and Sewer pumps	93 354	-
Repairs of vehicles	6 308 126	5 713 536
Data loggers equipment	-	118 773
Emergency repairs	6 068 443	-
Internal stock consumed	36 968 536	1 965 490
Other repairs and maintenance	684 467	1 233 691
	58 392 008	**10 031 980**

28. Transfers and subsidies

Transfers to Local Municipalities	15 000 000	10 000 000

29. General expenses

Accounting fees	29 484 650	5 612 775
Assessment rates & Municipal charges	1 156 301	2 346 401
Auditors remuneration	3 070 435	4 411 560
Bank charges	1 000 688	1 849 039
Catering	1 934 010	706 625
Consulting and professional fees	32 474 582	10 756 252
Consumables	1 337 448	2 562 089
Electricity	9 422 793	7 530 887
Fuel and oil	3 220 225	7 829 863
Hire	1 334 855	264 269
IT expenses	1 579 465	272 600
Insurance	732 179	851 279
Magazines, books and periodicals	-	119 501
Marketing	983 196	452 759
Motor vehicle expenses	385 608	295 398
Placement fees	381 700	343 444
Printing and stationery	258 950	196 360
Protective clothing	2 799 332	1 747 528
Subscriptions and Membership fees	6 913 558	5 016 419
Subsistence and Travelling	2 430 823	1 583 809
Telephone	4 107 471	4 236 840
Training	1 142 507	6 026 572
Transport	1 116 165	560 340
	107 266 941	**65 572 609**

Accounting Fees - The increase in accounting fees is as a result of appointment of VAT consultants and implementation of mSCOA

Consulting and Professional Fees - Increase in consulting and professional fees is as a result of high legal fees.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

30. Cash generated from operations

Surplus	430 280 998	214 267 229
Adjustments for:		
Depreciation and amortisation	191 647 674	183 173 388
Gain on sale of assets and liabilities	2 778 394	-
Impairment deficit	5 619 240	2 347 599
Movements in retirement benefit assets and liabilities	18 791 195	7 016 000
Movements in provisions	3 015 524	(7 593 000)
Changes in working capital:		
Inventories	(71 602 521)	(4 659 437)
Receivables from exchange transactions	527 331	(1 428 006)
Other receivables from non-exchange transactions	3 000 000	(3 000 000)
Prepayments	55 195 952	(55 195 952)
Payables from exchange transactions	(128 416 057)	(138 803 720)
VAT	(30 590 733)	(31 462 547)
Unspent conditional grants	(42 968 144)	42 167 811
Consumer deposits	(882 158)	(1 021 674)
	436 396 695	**205 807 691**

31. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	273 750 296	194 495 390

Total capital commitments		
Already contracted for but not provided for	273 750 296	194 495 390

Total commitments

Total commitments		
Authorised capital expenditure	273 750 296	194 495 390

32. Contingencies

A Contingent Liability is a possible obligation depending on whether some uncertain future event occurs, or a present obligation whereby 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. 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 Jaza Investments (Pty) Ltd had issued a letter of demand claiming that their property was damaged by Fire due to the Ngaka Modiri Molema District Municipality's failure to provide adequate water tanker and equipment to oust off the fire and that personnel did not have sufficient protective clothing; as a result, their client is claiming for damages due to negligence of R6 185 942.00.

3. Sedibeng Water R392 752 729
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 tinkering for a period of five (5) years from Ngaka Modiri Molema District Municipality and Ngaka Modiri Molema District Municipality grants were diverted to Sedibeng as payments. Ngaka Modiri Molema District Municipality should therefore not have been paying Sedibeng Water for the above services and as such no liability is recognized in the 2018/2019 financials. Following Sedibeng's response through its representative Thipa Attorneys, the municipality has disclosed the amount of R392 752 729 as a contingent liability relating to Operation and Maintenance cost Sedibeng claims is due from Ngaka Modiri Molema District Municipality.Of this amount R275 438 429 relates to the period after the takeover by Sedibeng Water and R117 314 300 relates to the period before the takeover.

4. 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.

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

6. 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

7. Tebogo Shomolekae R8 850.00
The claimant alleges that her vehicle sustained damages as a result of the potholes in Makgobistad/ Bray road

8. 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.

9. Johannes Delpoort R28 171
Claim is for damages sustained on motor vehicle due to potholes. Parties are currently at pleading stage.

10.Florida Nshwe R24 514
Accident claim against the municipality allegedly caused by one of the municipality's employees.

11. Distant Star Trading 55 R190 000
Claim is for payment due for services rendered. The matter is still ongoing and it at pleading stage.

Figures in Rand	2019	2018

32. Contingencies (continued)

12. Bagorosi Civil projects
In August 2014, Bagorosi Civil projects instituted a claim against the municipality for unpaid outstanding invoices. The matter is pending.

13. IWYZE Valuables Insurance R125 039
In June 2012, IWYZE valuables insurance instituted a claim against the municipality for damages to an insured vehicle caused by rocks thrown in the road by striking municipal workers

14. Quantibuild (Pty) Ltd R527 648
Claim against municipality is for outstanding payment for retentions and suspension of work, and labour unrest.

15. Geldenhyus R201 341 200
Claim against municipality is for water services rendered and not paid for.

16. Gwabeni R1 800.00
In November 2014, Mr Gwabeni instituted a claim against the municipality for unfair termination of work contract.

17. Khethwayo Construction CC R2 275 959
Khethwayo Construction CC instituted the claim against the municipality for outstanding payment for services rendered.

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 November 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. Fire & Emergency Vehicles (Pty) Ltd R1 476 278.50
Fire and Emergency Vehicle Pty (Ltd) was appointed during or about February 2010 to Supply Fire and Emergency vehicles and equipment to the NMMDM. As a consequence, the NMMDM effected payment to the tune of R 1 476 278.50. Fire and Emergency Vehicle Pty (Ltd) failed to deliver one of the five Fire and Emergency Vehicles that were pre-paid for. The Municipal Manger tried to negotiate for the delivery of the Fire and Emergency vehicle but to no avail. The Municipal Manager terminated the agreement between the NMMDM and Fire and Emergency Vehicles Pty (Ltd) that was entered into during or about February 2010. Fire and Emergency Vehicles fully liquidated and we are now awaiting liquidator’s cost estimate

3. Naphtronics (Pty) Ltd R15 075 406
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.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

33. 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	Losaba OA
	Mphato SS
	Dambuza MD
	Nkadimang SM
	Mahlobo K
	Rassool MJ

Related parties include close family member of key management.

Related party balances and transactions

Transactions with Members of Key Management - Salaries refer to note 20		
Losaba OA	430 282	-
Mphato SS	916 703	456 089
Dambuza MD	915 763	434 918
Nkadimang SM	979 722	434 886
Mahlobo K	943 635	434 906
Rassool MJ	895 927	455 927
Mohlakoana MJ	183 326	916 690
	5 265 358	**3 133 416**

Amounts included in Transfer and subsidies to local Municipality		
Ramotshere Moiloa Local Municipality	3 000 000	2 000 000
Tswaing Local Municipality	3 000 000	2 000 000
Ditsobotla Local Municipality	3 000 000	2 000 000
Mahikeng Local Municipality	3 000 000	2 000 000
Ratlou Local Municipality	3 000 000	2 000 000

Amounts included in balances with related parties		
Tswaing Local Municipality	-	3 000 000
Ratlou Local Municipality	(5 000 000)	(2 000 000)

Compensation to accounting officer and other key management		
Defined contribution plans	752 630	325 359

33. Related parties (continued)

Remuneration of management

Councillors & Mayoral committee members

2019

Name	Basic salary	Travel allowance	Cellphone allowance	Pension fund contribution	Medical fund contribution	SDL and Sitting allowance	Total
Executive Mayor	547 303	211 424	44 400	82 422	18 322	7 045	910 916
Speaker	417 341	169 139	44 400	62 861	38 234	5 792	737 767
Single Whip	400 633	158 568	44 400	60 339	25 063	5 427	694 430
Mayoral committee members	2 285 516	866 937	218 300	301 898	72 090	30 048	3 774 789
Other Councillors	2 453 382	697 833	399 600	132 620	87 378	166 195	3 937 008
	6 104 175	**2 103 901**	**751 100**	**640 140**	**241 087**	**214 507**	**10 054 910**

2018

Name	Basic salary	Travel allowance	Cellphone allowance	Pension fund contribution	Medical fund contribution	SDL	Office bearer allowance	Sitting allowance	Total
Executive Mayor	538 104	194 881	40 800	73 682	19 747	6 906	3 600	-	877 720
Speaker	408 399	155 904	40 800	55 633	41 192	5 677	3 600	-	711 205
Single Whip	395 705	146 161	40 800	54 081	23 864	5 313	3 600	-	669 524
Mayoral committee members	2 330 645	832 790	222 900	281 413	66 115	30 312	-	-	3 764 175
Other Councillors	1 988 616	576 147	392 578	117 695	31 968	27 625	-	261 650	3 396 279
	5 661 469	**1 905 883**	**737 878**	**582 504**	**182 886**	**75 833**	**10 800**	**261 650**	**9 418 903**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

34. 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.

35. Risk management

Financial risk management

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

The municipality's activities expose it to a variety of financial risks: market risk(including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The accounting officer provides written principles in the form of policies to manage for overall risk management, as those covering specific areas, such as liquidity risk, credit risk and market risk.

Liquidity risk

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

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.

Cash flow forecasts are prepared and adequate cashflows primarily obtained from government grants are utilised through the approved budget and monitored via monthly cashflow assessments.

The table below analyses the municipality’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. Furthermore, balances taht are due for more than 12 months as indicated on the face of the financial statements have been discounted as disclosed in the relevant notes to the financial statements and are

Financial liabilities that are exposed to liquidity risk at period end were as follows:

Financial Liabilities	**30 June 2019**	**30 June 2018**
Payables from exchange transactions	R 266 117 036	R 167 107 981
Employee benefit obligation	R 232 896	R 138 000
Unspent conditional grants and receipts	R 19 306 073	R 62 274 217
Provisions	R 649 244	R 706 000
	R 286 305 249	**R 230 226 198**

These balances represent the maximum exposure to liquidity risk.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

35. Risk management (continued)

Credit risk

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

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

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

Financial instrument	**2019**	**2018**
Cash and cash equivalents	300 249 250	101 716 219
Receivables from exchange transactions	1 214 715	1 742 046
Prepayments	-	55 195 952
Receivables from non-exchange transactions	-	3 000 000
Other financial assets	275 458	255 409

These balances represent the maximum exposure to credit risk.

Market risk

Interest rate risk

The municipality’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Price risk

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified a available-for-sale.

Potential concentrations of credit risk and interest rate risk consist mainly of notice deposit investments, receivables from exchange transactions, other financial assets, short-term investment deposit and bank and cash balances. The municipality limits its counterparty exposure from its money market investment operations by only dealing with well-established financial institutions of high credit standing.

36. Going concern

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.

Ngaka Modiri Molema District Municipality earned a surplus of R430 280 980 (2018: R214 267 229) during the period ended 30 June 2019 and as at that date, the municipality had an accumulated surplus of R5 338 132 724 (2018: R4 907 851 736).

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

Figures in Rand	2019	2018

37. Unauthorised expenditure

Recalculated opening balance	3 771 650 130	1 704 192 565
Add Unauthorised expenditure - Current year	11 425 099	44 814 301
Add Unauthorised expenditure relating to prior years	-	2 022 643 265
	3 783 075 229	**3 771 650 131**

Unauthorised Expenditure - Breakdown		
Vote 3 - Budget and Treasury	-	34 983 936
Vote 4 - Corporate Support Services	11 425 099	-
Vote 6 - Community Services	-	9 830 365
	11 425 099	**44 814 301**

There is lesser amount of unauthorised Expenditure in the current year because of the calculation made on the Vote level and not longer in the sub-vote level. This is also the reason for 2.5 billion correction in prior year.

38. Fruitless and wasteful expenditure

Recalculated fruitless and wasteful expenditure opening balance	12 536 167	9 980 680
Add Fruitless & Wasteful expenditure from prior years	-	3 645 098
Add Fruitless & Wasteful expenditure current year	7 673 712	817 218
Interest written off	-	(1 906 829)
	20 209 879	**12 536 167**

Fruitless and wasteful expenditure incurred in the current year was due to interest charges on Telkom, Eskom, SARS and penalties on late renewal of vehicle licenses.

The increase in fruitless and wasteful expenditure was due to a legal cases and settlements amounting to R7 673 712 meaning the Fruitless and Wasteful Expenditure from interests and penalties were significantly reduced.

Fruitless and Wasteful	**2019**	**2018**		
Interest on late payment	87 391	694 640	-	-
Penalties	66 277	85 648	-	-
Late filling of SARS returns	10 246	36 928	-	-
Unfair Dismissal costs	3 476 203	-	-	-
Fruitless legal costs	4 033 595	-	-	-
	7 673 712	**817 216**		

39. Irregular expenditure

Opening balance	2 321 638 969	1 487 557 347
Add: Prior years corrections	-	260 107 097
Irregular expenditure identified in current year	309 757 915	153 115 528
Commitments overpaid - Current year	-	9 376 494
Employees outside organisational structure-prior year	-	313 427 155
Employees outside organisational structure-current year	99 465 974	98 055 347
	2 730 862 858	**2 321 638 968**

Figures in Rand	2019	2018

39. Irregular expenditure (continued)

Details of irregular expenditure – 2019

	Disciplinary steps taken/criminal proceedings	
Employees outside organisational structure	None	99 465 974
Irregular Expenditure resulting from invoices less than R200 000	None	41 106 671
Irregular Expenditure resulting from Competetive Bidding	None	268 651 245
		409 223 890

Details of irregular expenditure - 2018

	Disciplinary steps taken/criminal proceedings	
Employees outside organisational structure	None	98 055 347
Irregular Expenditure resulting from invoices less than R200 000	None	14 619 344
Irregular Expenditure resulting from Competetive Bidding	None	138 496 184
Commitments overpaid	None	9 376 494
		260 547 369

40. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

Current year subscription / fee	3 625 760	3 181 380

Audit fees

Current year fee	3 070 435	4 411 560

PAYE and UIF

Pension and Medical Aid Deductions

Amount paid - current year	55 855 357	54 906 011

VAT

VAT receivable	44 247 407	13 656 674

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

Supply chain management regulations

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

Incident		
Deviations	21 535 377	-

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

41. Deviation from supply chain management regulations

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

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements. The accounting officer has approved the deviations amounting to R 21 535 377 .25 in the 2018/2019 financial year. The municipality has kept the deviations register.

42. Distribution Water Losses

Material Water		
Units Purchased (kl)	2 208 712	1 886 600
Units Sold (kl)	26 872	55 137
Free Basic Services	373 925	369 157
Average cost per unit purchased (rands per kl)	8.09	7.53
Net loss	1 807 914	1 462 305
% Net loss	81.85%	77.51%

The Municipality's water losses for 2018/19 and 2017/18 are 81.85% and 77.51% respectively.The losses are due to illegal connections and unmetered water consumption.

43. Financial instruments disclosure

Categories of financial instruments

Irregular and unauthorised expenditure

Financial assets

	At fair value	Total
Other financial assets	275 458	275 458
Trade and other receivables from exchange transactions	1 214 715	1 214 715
Cash and cash equivalents	300 249 250	300 249 250
	301 739 423	**301 739 423**

Financial liabilities

	At fair value	Total
Trade and other payables from exchange transactions	266 117 036	266 117 036

2018

Financial assets

	At fair value	Total
Other financial assets	255 409	255 409
Trade and other receivables from exchange transactions	1 742 046	1 742 046
Other receivables from non-exchange transactions	3 000 000	3 000 000
Prepayments	55 195 952	55 195 952
Cash and cash equivalents	101 716 219	101 716 219
	161 909 626	**161 909 626**

Financial liabilities

	At fair value	Total
Trade and other payables from exchange transactions	167 107 981	167 107 981

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

43. Financial instruments disclosure (continued)

Consumer deposits	882 158	882 158
	167 990 139	**167 990 139**

44. 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

2018

	Note	As previously reported	Prior year adjustments	Restated balance
Receivables from exchange transactions	7	60 886	1 681 160	1 742 046
Inventory	6	17 403 618	(2 747 922)	14 655 696
VAT Receivables	8	20 990 323	(7 333 649)	13 656 674
Receivables from non-exchange transactions		3 912 793	(3 912 793)	-
Cash and cash equivalents	10	100 576 003	1 140 224	101 716 227
Property, plant and equipment	3	4 494 162 592	489 955 015	4 984 117 007
Investment property	4	-	13 837 492	13 837 492
Other financial assets	5	236 884	18 525	255 409
Accumulated surplus		4 427 812 172	480 039 564	4 907 851 736
Prepayment	9	-	58 195 952	58 195 952
Payables from exchange transactions	14	149 755 086	(17 352 895)	167 107 981
Consumer deposit	15	2 636 575	(1 754 417)	882 158
Unspent conditional grants and receipts		7 078 265	55 195 952	62 274 217
		9 224 625 197	**1 066 962 208**	**10 326 292 595**

Statement of finanical performance

2018

	Note	As previously reported	Prior year adjustments	Restated balance
Service Charge		-	1 496 999	1 496 999
Interest received	18	11 233 629	182 841	11 416 470
Rendering of services		1 435 632	(1 435 632)	-
Employee related costs	21	310 503 890	153 152	310 657 042
Sale of water		601 860	(601 860)	-
Rental income		215 354	(14 442)	200 912
Other income		-	554 913	554 913
Sundry income sewer		54 416	(54 416)	-
Government grants & subsidies		878 883 084	(61 357 798)	817 525 286
Remuneration of councilors		10 153 336	(734 433)	9 418 903
Impairment loss		-	2 347 599	2 347 599
Depreciation and amortisation	23	199 514 777	(16 341 389)	183 173 388
Bulk purchases	25	13 739 857	466 320	14 206 177
Contracted services	24	24 458 274	(9 006 768)	15 451 506
General Expenses	29	70 096 169	(4 523 560)	65 572 609
Transfers and Subsidies	28	12 831 239	(2 831 239)	10 000 000
Repairs and maintenance	27	11 212 637	(1 261 922)	9 950 715
Lease rentals on operating lease	26	2 487 673	(1 740 857)	746 816
Finance cost		-	5 725 297	5 725 297
Inventory write down		(531 000)	531 000	-
Actuarial gains/losses		-	10 314 702	10 314 702
Surplus for the year		**1 546 890 827**	**(78 131 493)**	**1 468 759 334**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

44. Prior-year adjustments (continued)

Irregular and unauthorised expenditure

	Note	As previously reported
Opening balance as previously reported		1 171 401 865

Opening Balance as previously reported	1 487 557 347	-
Correction of error	(182 176 014)	-
	1 305 381 333	**-**
Less: Opening Balance Correction		
Less: Opening Balance Correction	(6 255 952)	-
Restated amount	6 255 952	-
	-	**-**
Add Prior year corrections	(461 128 616)	-
Correction of error	869 138 937	-
	408 010 321	**-**
Irregular Expenditure - Current Year	113 197 537	-
Correction of error	102 401 465	-
	215 599 002	**-**
Irregular Expenditure identified in the current year relating to prior years	32 895 822	-
Correction of error	(32 895 822)	-
	-	**-**
Commitments overpaid -Current year	5 135 727	-
Correction of error	4 240 767	-
	9 376 494	**-**
Unauthorised Expenditure		
Opening balance	595 774 821	-
Correction of error	(550 960 520)	-
	44 814 301	**-**
Add Unauthorised Expenditure Prior Years	1 733 788 901	-
Correction of error	288 854 364	-
	2 022 643 265	**-**
Fruitless and Wasteful Expenditure		
Current Year as previously reported	676 300	-
Correction of error	3 001	-
Adjustment	137 916	-
	817 217	**-**
Prior year correction as previously reported	3 567 248	-
Correction of error	77 850	-

Figures in Rand	2019	2018

44. Prior-year adjustments (continued)

	3 645 098	**-**

Cash flow statement

2018

	Note	As previously reported	Prior year adjustments	Restated balance
Cash flow from operating activities				
Grants		865 854 943	48 329 657	817 525 286
Sale of goods and services		2 307 262	54 438	2 252 824
Payments to suppliers		27 841 385	270 988 132	298 829 517
Finance cost		124 458 629	(118 733 332)	5 725 297
		1 020 462 219	**200 638 895**	**1 124 332 924**
Cash flow from investing activities				
Purchase of property, plant and equipment		221 111 304	(104 627 651)	116 483 653

Errors

1. 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. Property plant and equipment increased.

During the 2018 financial year the council approved, resolution No: SC 08/05/2019 the removal of roads infrastructure from property, plant equipment of the District to Local Municipalities as MEC Promulgation of roads to Local Municipality

During the financial year management received additional information pertaining to the work in Progress amount disclosed in the previous financial years. Management revisited the full population to correct any mistatements identified. The above was corrected retrospectively.

2. Investment Properties
Prior period error adjustment during the 2018 asset verification processthe municipality identified Investment Properties whiucgh were not previously accounted for.

3. Cash and Cash Equivalents
Prior period adjustment arose during the 2018 where amount disclosed in the financial statements did not agree to the bank confirmation letter.

4. Payables from exchange
An amount of R582 000 payable to Ruth Medupe for vehicle allowance was disclosed as contingent liability in the 2018 financial year.

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

Purchases for bulk water from sedibeng Water was not recognised for 2018 financial year and other previous years.

5. Consumer deposit
Prior period adjustment arose during the 2018 audit fees accruals which were incorrectly classified as consumer deposit and revenue realised for yard connections was not recognised.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

44. Prior-year adjustments (continued)

6. Interest received
Prior period adjustment arose during 2018 when interest received during the prior year was not recorded. Interest received and cash and cash equivalents increased.

Figures in Rand	2019	2018

44. Prior-year adjustments (continued)

7. Prepayments
Prior period adjustment arose during 2018 were loan to Tswaing Local Municipality was incorrectly classified as expenditure. Prepayments increased by R3000 000 and expenses decreased by R3000 000. Rural Sanitation programme was incorrectly accounted for as WIP instead of prepayments.

8. Receivable from exchange transaction
Prior period error arose as cellphone allowance excess was not recognised.

9. Receivable from non - exchange transactions
Prior period adjustment arose were payment for suppliers were incorrectly recorded as receivable. Garnish orders were incorrectly recorded as receivables.

10. Other financial assets
Prior period adjustment arose were interest and transaction fees were recorded in an incorrect account.

11. Bulk water purchase
Prior period adjustment arose where an invoice for June 2018 was not recorded in the general ledger for financial year 2017/18.

12. Contracted services
Invoices for water tankering and security services 2016/17 were recorded in 2017/18 general ledger.

13.Transfers and subsidies
Prepayment of R3000 000 and payments for compensations fund was incorrectly recorded as expensed.

14. Lease rentals on operating lease
Operating lease expenses for 2016/17 was incorrectly recorded in 2017/18 general ledger.

15. Employees costs
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.

16. Remunerations of councilors
SDL for councilors was incorrectly mapped to municipal staff employees cost.

17. Depreciation
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

18. Service charges
Revenue from yard connections was not recognised in the 2017/18 financial year. The following line items have been reclassified to service charges: Sale of Water, rendering of services and sundry income sewer.

19. Repairs and maintenance
Operating lease rental invoice was incorrectly recorded as repairs and maintenance in the 2018 financial year.

20. General expenses
Payments for compensations fund was incorrectly recorded as transfer and subsidies in 2018 financial year.

21. Finance cost
Reclassification of finance cost incorrectly recognised as employees cost in the 2018 financial year.

22. VAT receivable
There was an incorrect write off to VAT to the statement amount i.e that is cash basis instead of accrual basis.

23. Inventory
There were duplicates in the inventory recognised in the inventory control account which resulted in overstatement of

Figures in Rand	2019	2018

44. Prior-year adjustments (continued)
inventory balance.

24. Unspent conditional grants and receipts
Revenue was incorrectly recognised for the Rural Sanitation programme before all the conditions of the MIG grant had been met resulting in the understatement of unspent conditional grants.

25. Government grants & subsidies
Revenue was incorrectly recognised for the Rural Sanitation programme before all the conditions of the MIG grant had been met resulting in the overstatement of Government grants & subsidies.

26. Impairment loss
There was fire at Molopo regional office building which resulted in impairment loss.

27. Actuarial gains/losses
Actuarial gain which was incorrectly classified as employee cost resulted in understatement of actuarial gains.

45. Budget differences

Material differences between budget and actual amounts

Revenue
A - Service charges - Due to new water yard connections done in the current year.
B - Interest received - Excess funds invested in Call Accounts.

Expenditure
C - Employee costs - New positions filled in the current year including the following positions MPAC personnel, CRO & Public Participation personnel.
D - Depreciation increase is as a result of completed projects capitalised.
E - Impairment of damaged and broken assets
F - Finance cost - Interest on acturial valuations
G - Repairs and maintenance - increase due to vandalism and ageing infrastructure
H - Transfers and subsidies - Transfer of rural sanitations and subsidies of Sedibeng Water infrastructure drought relief

46. Receivables from non-exchange transactions

Loan to Tswaing Local Municipality	-	3 000 000