



Ngwathe Local Municipality
Annual Financial Statements
for the year ended 30 June 2022

Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2022

General Information

Legal form of entity

An organ of state within the local sphere of government exercising executive and legislative authority.

Nature of business and principal activities

The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Waste Management Services (the collection, disposal and purifying of waste, refuse and sewerage); Electricity Services (electricity is bought in bulk from Eskom and distributed to the consumers by the municipality); Water Services (Water is bought in bulk from DWS and distributed to the consumers by the municipality); and rates and general services (all types of services rendered by the municipality, excluding the supply housing to the community, however including the rental of units owned by the municipality to public and staff).

Executive Mayor

Members of the Mayoral Committee

De Beer VE

De Beer VE (Exco member)

Mopedi NP (Speaker)

Khumalo KJ (Corporate Services Committee)

Masooane D (Special programme and IDP Committee)

Mofokeng MD (Infrastructure and LED Committee)

Moloi NS (Public safety and transport Committee)

Mosepedi MTJ (Urban, Planning and Rural Committee)

Sefako ME (Social and Community Development Committee)

Serati MJ (Finance and Budget Committee)

Councillors

De Jager AJ

De Jager SHF

Ferendale RS

Jantjie AA

Kok S

LA Cock M

Magashule IM

Matthysen-Engelbrecht M

Meyer JA

Mokoena BT

Mokoena KJ

Moloi MP

Moroenyane MJ

Moseme SL

Motaung MP

Nteo S

Nthoesane S

Rantsaile MM

Rapuleng MD

Schoonwinkel A

Segoba SJ

Sehume NA

Serfontein C

Sothoane TP

Sotshiva LP

Toyi MS

Ngwathe Local Municipality

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General Information

	Tyumbu MJ Van der Merwe PP
Grading of local authority	Local Medium Capacity Municipality (Grade 3)
Accounting Officer	Baleni T Nhlapo PP (01 July 2022 to 30 September 2022) Kannemeyer BW (01 July 2021 to 31 March 2022) Mokgobu MF (Acting) (01 April 2022 to 30 June 2022)
Chief Finance Officer (CFO)	Lebusa HI
Registered office	12 Liebenbergs Trek Parys 9585
Business address	12 Liebenbergs Trek Parys 9585
Postal address	PO Box 359 Parys 9585
Bankers	ABSA
Attorneys	A full list of attorneys used during the year is available at the municipal offices.
Enabling legislation	Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996) Municipal Finance Management Act, 2003 (Act No. 56 of 2003) Municipal Property Rates Act, 2004 (Act No. 6 of 2004) Municipal Structures Act , 1998 (Act No. 117 of 1998) Municipal Systems Act, 2000 (Act No. 32 of 2000)

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Annual Financial Statements for the year ended 30 June 2022

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Abbreviations used:

SA GRAP	South African Standard of Generally Recognised Accounting Practice
DWS	Department of Water and Sanitation
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MIG	Municipal Infrastructure Grant (Previously CMIP)
SG	Surveyor General
HPI	House Price Indices

Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2022

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2023 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 6 to 96, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2022 and were signed on its behalf by:

Accounting Officer
Ms T Baleni

Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2022

Accounting Officer's Report

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

1. Review of activities

Main business and operations

The municipality is engaged in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: waste management services (the collection, disposal and purifying of waste, refuse and sewerage); electricity services (electricity is bought in bulk from Eskom and distributed to the consumers by the municipality); water services (water is bought in bulk from DWS and distributed to the consumers by the municipality); and rates and general services (all types of services rendered by the municipality, excluding the supply housing to the community, however including the rental of units owned by the municipality to public and staff). and operates principally in South Africa

2. Going concern

We draw attention to the fact that at 30 June 2022, the municipality had accumulated deficits of R (170 447 632) and that the municipality's total liabilities exceeds its assets by R (170 447 632).

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

3. Subsequent events

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

4. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name
Baleni T

Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories	7	10 254 974	12 720 353
Other receivables	6	2 162 335	158 992
Receivables from non-exchange transactions	8	25 993 222	24 825 797
Receivables from exchange transactions	9	122 033 008	105 945 269
VAT receivable	10	288 368 646	253 075 862
Cash and cash equivalents	11	5 204 574	55 744 924
		454 016 759	452 471 197
Non-Current Assets			
Investment property	3	238 299 893	287 212 689
Property, plant and equipment	4	1 358 407 741	1 350 410 325
Other financial assets	5	689 014	954 875
		1 597 396 648	1 638 577 889
Total Assets		2 051 413 407	2 091 049 086
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	2 004 651 537	1 863 762 756
Consumer deposits	13	4 884 153	4 913 167
Employee benefit obligation	14	5 705 793	3 681 842
Unspent conditional grants and receipts	15	71 799 442	48 754 911
Provisions	16	3 931 842	5 086 807
		2 090 972 767	1 926 199 483
Non-Current Liabilities			
Employee benefit obligation	14	35 027 154	33 611 811
Provisions	16	95 861 118	89 816 298
		130 888 272	123 428 109
Total Liabilities		2 221 861 039	2 049 627 592
Net Assets		(170 447 632)	41 421 494
Accumulated (deficit)/surplus		(170 447 632)	41 421 494
Total Net Assets		(170 447 632)	41 421 494

* See Note 42

Ngwathe Local Municipality

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Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	408 209 902	368 019 407
Rental of facilities and equipment	19	108 023	83 746
Other income	20	2 042 813	2 671 388
Interest received	22	44 562 852	46 719 157
Dividends received	22	-	5 885
Total revenue from exchange transactions		454 923 590	417 499 583
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	104 441 186	96 613 910
Transfer revenue			
Government grants and subsidies	24	333 942 470	348 176 368
Fines, penalties and forfeits	25	228 647	259 146
Interest recovered	21	7 683 923	-
Total revenue from non-exchange transactions		446 296 226	445 049 424
Total revenue	17	901 219 816	862 549 007
Expenditure			
Employee related costs	26	(261 750 397)	(250 776 140)
Remuneration of councillors	27	(15 589 001)	(15 492 512)
Depreciation, amortisation and impairments	28	(72 974 057)	(71 814 403)
Finance costs	30	(36 708 986)	(38 447 647)
Debt Impairment	31	(165 818 689)	(163 128 988)
Bulk purchases	32	(310 630 618)	(267 454 909)
Contracted services	33	(52 521 718)	(43 978 908)
General expenses	34	(119 374 528)	(105 407 585)
Repairs and maintenance	35	(10 300 551)	(12 001 558)
Total expenditure		(1 045 668 545)	(968 502 650)
Operating deficit		(144 448 729)	(105 953 643)
Loss on disposal of assets and liabilities		(266 147)	(3 781 240)
Fair value adjustments	36	9 765 516	12 408 750
Actuarial gains / (losses)	14	(2 724 074)	(2 783 479)
(Impairment loss) / Reversal of impairments	29	(74 195 692)	11 932 666
Inventories surplus / (losses)		-	39 573
		(67 420 397)	17 816 270
Deficit for the year		(211 869 126)	(88 137 373)

* See Note 42

Ngwathe Local Municipality

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Annual Financial Statements for the year ended 30 June 2022

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / (deficit)	Total net assets
Opening balance as previously reported	368 955 699	368 955 699
Adjustments		
Correction of errors	(239 396 832)	(239 396 832)
Balance at 01 July 2020 as restated*	129 558 867	129 558 867
Changes in net assets		
Correction of errors	(27 130 151)	(27 130 151)
Net income / (losses) recognised directly in net assets	(27 130 151)	(27 130 151)
Deficit as previously reported	(61 007 222)	(61 007 222)
Total recognised income and expenses for the year	(88 137 373)	(88 137 373)
Total changes	(88 137 373)	(88 137 373)
Restated* Balance at 01 July 2021	41 421 494	41 421 494
Changes in net assets		
Deficit for the year	(211 869 126)	(211 869 126)
Total changes	(211 869 126)	(211 869 126)
Balance at 30 June 2022	(170 447 632)	(170 447 632)

* See Note 42

Ngwathe Local Municipality

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Annual Financial Statements for the year ended 30 June 2022

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from customers		372 732 713	369 081 878
Grants		356 987 001	374 420 699
Interest income		1 407 374	1 084 488
Dividends received		-	5 885
Other receipts		376 140	2 855 288
		<u>731 503 228</u>	<u>747 448 238</u>
Payments			
Employee costs		(276 004 094)	(265 079 954)
Suppliers		(407 043 016)	(312 475 638)
		<u>(683 047 110)</u>	<u>(577 555 592)</u>
Net cash flows from operating activities	37	<u>48 456 118</u>	<u>169 892 646</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(95 580 773)	(130 567 821)
Disposal of financial assets		266 147	56 038
		<u>(95 314 626)</u>	<u>(130 511 783)</u>
Cash flows from financing activities			
Employee benefit obligation payment		(3 681 842)	(3 405 117)
		<u>(3 681 842)</u>	<u>(3 405 117)</u>
Net increase/(decrease) in cash and cash equivalents		(50 540 350)	35 975 746
Cash and cash equivalents at the beginning of the year		55 744 924	19 769 178
Cash and cash equivalents at the end of the year	11	<u>5 204 574</u>	<u>55 744 924</u>

* See Note 42

Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	507 246 383	-	507 246 383	408 209 902	(99 036 481)	51.01
Rental of facilities and equipment	362 123	-	362 123	108 023	(254 100)	51.02
Interest received	1 896 943	-	1 896 943	1 407 374	(489 569)	51.03
Other income	1 531 028	-	1 531 028	2 042 813	511 785	51.04
Interest received - outstanding receivables	43 491 450	-	43 491 450	43 155 478	(335 972)	51.05

Total revenue from exchange transactions	554 527 927	-	554 527 927	454 923 590	(99 604 337)	
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Revenue from non-exchange transactions

Taxation revenue

Property rates	102 877 968	-	102 877 968	104 441 186	1 563 218	51.05
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Fines, penalties and forfeits

Government grants and subsidies	380 293 000	(28 171 432)	352 121 568	333 942 470	(18 179 098)	51.05
Fines, penalties and forfeits	2 145 000	-	2 145 000	228 647	(1 916 353)	51.06
Interest recovered	-	-	-	7 683 923	7 683 923	51.15

Total revenue from non-exchange transactions	485 315 968	(28 171 432)	457 144 536	446 296 226	(10 848 310)	
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Total revenue	1 039 843 895	(28 171 432)	1 011 672 463	901 219 816	(110 452 647)	
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Expenditure

Employee related costs	(257 341 815)	-	(257 341 815)	(261 750 397)	(4 408 582)	51.05
Remuneration of councillors	(17 147 643)	-	(17 147 643)	(15 589 001)	1 558 642	51.05
Transfer payments - Other	(180 000)	(1 700 000)	(1 880 000)	-	1 880 000	51.07
Depreciation and amortisation	(19 973 083)	-	(19 973 083)	(72 974 057)	(53 000 974)	51.08
Impairment	-	-	-	(74 195 692)	(74 195 692)	51.15
Finance costs	(18 409 752)	-	(18 409 752)	(36 708 986)	(18 299 234)	51.09
Debt impairment	(111 177 125)	19 000 000	(92 177 125)	(165 818 689)	(73 641 564)	51.10
Bulk purchases	(348 851 644)	30 000 000	(318 851 644)	(310 630 618)	8 221 026	51.05
Contracted services	(17 479 082)	(8 073 000)	(25 552 082)	(52 521 718)	(26 969 636)	51.12
Repairs and maintenance	(34 952 162)	(2 038 502)	(36 990 664)	(10 300 551)	26 690 113	51.13
General expenses	(76 901 153)	(1 283 267)	(78 184 420)	(119 374 528)	(41 190 108)	51.14

Total expenditure	(902 413 459)	35 905 231	(866 508 228)	(1 119 864 237)	(253 356 009)	
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Operating deficit	137 430 436	7 733 799	145 164 235	(218 644 421)	(363 808 656)	
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Loss on disposal of assets and liabilities	-	-	-	(266 147)	(266 147)	51.15
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Fair value adjustments	-	-	-	9 765 516	9 765 516	51.15
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Actuarial gains	-	-	-	(2 724 074)	(2 724 074)	51.15
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	-	-	-	6 775 295	6 775 295	
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Deficit for the year	137 430 436	7 733 799	145 164 235	(211 869 126)	(357 033 361)	
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Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	137 430 436	7 733 799	145 164 235	(211 869 126)	(357 033 361)	
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Ngwathe Local Municipality

(Registration number FS203)

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Position

Assets

Current Assets

Inventories	41 970 863	(5 588 492)	36 382 371	10 254 974	(26 127 397)	51.16
Receivables from non-exchange transactions	941 795 210	(1 000 000)	940 795 210	25 993 222	(914 801 988)	51.17
Receivables from exchange transactions	-	-	-	122 033 008	122 033 008	51.17
VAT receivable	-	-	-	288 368 646	288 368 646	51.15
Other receivables	-	-	-	2 162 335	2 162 335	51.15
Cash and cash equivalents	44 744 953	(423 640 816)	(378 895 863)	5 204 574	384 100 437	51.18
	1 028 511 026	(430 229 308)	598 281 718	454 016 759	(144 264 959)	

Non-Current Assets

Investment property	-	-	-	238 299 893	238 299 893	51.15
Property, plant and equipment	1 301 527 902	11 936 139	1 313 464 041	1 358 407 741	44 943 700	51.05
Intangible assets	35 022 082	-	35 022 082	-	(35 022 082)	51.19
Other financial assets	-	-	-	689 014	689 014	51.15
	1 336 549 984	11 936 139	1 348 486 123	1 597 396 648	248 910 525	

Total Assets

2 365 061 010 (418 293 169) 1 946 767 841 2 051 413 407 104 645 566

Liabilities

Current Liabilities

Payables from exchange transactions	1 698 828 044	149 297 669	1 848 125 713	2 004 651 537	156 525 824	51.05
Consumer deposits	5 708 400	-	5 708 400	4 884 153	(824 247)	51.20
Employee benefit obligation	-	-	-	5 705 793	5 705 793	51.15
Unspent conditional grants and receipts	-	-	-	71 799 442	71 799 442	51.15
Provisions	396 069 461	-	396 069 461	3 931 842	(392 137 619)	51.21
	2 100 605 905	149 297 669	2 249 903 574	2 090 972 767	(158 930 807)	

Non-Current Liabilities

Other financial liabilities	4 128 609	-	4 128 609	-	(4 128 609)	51.22
Employee benefit obligation	-	-	-	35 027 154	35 027 154	51.15
Provisions	-	-	-	95 861 118	95 861 118	51.21
	4 128 609	-	4 128 609	130 888 272	126 759 663	

Total Liabilities

2 104 734 514 149 297 669 2 254 032 183 2 221 861 039 (32 171 144)

Net Assets

260 326 496 (567 590 838) (307 264 342) (170 447 632) 136 816 710

Net Assets

Net Assets Attributable to Owners of Controlling Entity

Reserves

Accumulated (deficit)/surplus	260 326 496	(567 590 838)	(307 264 342)	(170 447 632)	136 816 710	
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Ngwathe Local Municipality

(Registration number FS203)

Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Cash Flow Statement

Cash flows from operating activities

Receipts

Property rates	76 158 476	1 000 000	77 158 476	-	(77 158 476)	51.01
Cash received from customers	432 661 612	(39 672 860)	392 988 752	372 732 713	(20 256 039)	51.01
Government grants and subsidies	380 293 000	(28 171 432)	352 121 568	356 987 001	4 865 433	51.05
Interest income	1 896 943	-	1 896 943	1 407 374	(489 569)	51.03
Other receipts	148 833 864	(110 646 603)	38 187 261	376 140	(37 811 121)	51.04
	1 039 843 895	(177 490 895)	862 353 000	731 503 228	(130 849 772)	

Payments

Suppliers and employee costs	(940 513 459)	185 202 669	(755 310 790)	(683 047 110)	72 263 680	51.11
Net cash flows from operating activities	99 330 436	7 711 774	107 042 210	48 456 118	(58 586 092)	

Cash flows from investing activities

Purchase of property, plant and equipment	(157 403 751)	(11 936 139)	(169 339 890)	(95 580 773)	73 759 117	51.23
Proceeds from sale of financial assets	-	-	-	266 147	266 147	51.15
Net cash flows from investing activities	(157 403 751)	(11 936 139)	(169 339 890)	(95 314 626)	74 025 264	

Cash flows from financing activities

Employee benefit obligation	-	-	-	(3 681 842)	(3 681 842)	51.15
Other financial liabilities	10 000 000	-	10 000 000	-	(10 000 000)	51.24
Net cash flows from financing activities	10 000 000	-	10 000 000	(3 681 842)	(13 681 842)	
Net increase/(decrease) in cash and cash equivalents	(48 073 315)	(4 224 365)	(52 297 680)	(50 540 350)	1 757 330	
Cash and cash equivalents at the beginning of the year	35 171 001	21 694 401	56 865 402	55 744 924	(1 120 478)	
Cash and cash equivalents at the end of the year	(12 902 314)	17 470 036	4 567 722	5 204 574	636 852	

Ngwathe Local Municipality

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

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

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

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

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

Trade receivables / Held to maturity investments and/or loans and receivables

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

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The municipality used the prime interest rate at year end to discount future cash flows.

Ngwathe Local Municipality

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

Value in use of cash generating assets

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

Value in use of non-cash generating assets

The municipality reviews and tests the carrying value of non-cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Provisions for landfill sites

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers are utilised annually to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.
- Interest rates linked to appropriate government bond rates were used to calculate the effect of time value of money.

Useful lives of property plant and equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure assets' useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment:

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides were used to assist with the deemed cost and useful life of infrastructure assets
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

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1.3 Significant judgements and sources of estimation uncertainty (continued)

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. Where there is no market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

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

IGRAP 18 Recognition and Derecognition of Land

In some instances the municipality is not the legal owner or the custodian of land appointed in terms of legislation, but assessed that it controls such land. Key judgements made and assumptions applied to conclude that it controls such land, are as follow (IGRAP 18 par .41):

Land controlled by the municipality as a result of a past event and from which future economic benefit or service potential is expected to flow to the entity are recognised by the municipality. Control is evidenced by the municipality's ability to use, or direct others to use the land and also by the right to direct access to the land, and to restrict or deny access of other to the land.

In some instances the municipality is the legal owner, or the custodian of land appointed in terms of legislation, but concludes that it does not control such land. Key judgements made and assumptions applied to conclude that it does not control such land, are as follow (IGRAP 18 par.40):

Land not controlled by the municipality as a result of a past event and from which future economic benefit or service potential will not flow to the entity. The municipality does not have the ability to use, or direct others to use the land. The municipality does not have right to direct access to the land, and to restrict or deny access of other to the land. There are various housing scheme land parcels where the municipality is still the legal owner per the deeds office, but control and substantive rights were transferred. These land parcels are not recognised by the municipality.

1.4 Investment property

Initial recognition

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.

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Accounting Policies

1.4 Investment property (continued)

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

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

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

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.

Subsequent Measurement - 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.

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.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 3).

1.5 Property, plant and equipment

Initial recognition

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.

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Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

Subsequent measurement - Cost Model

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

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component at cost.

Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits or service potential associated with the asset.

Depreciation and impairment

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

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight-line	50 years
Airport	Straight-line	15 to 20 years
Plant and machinery	Straight-line	05 to 15 years
Furniture and fixtures	Straight-line	05 to 10 years
Motor vehicles	Straight-line	03 to 20 years
Office equipment	Straight-line	03 to 06 years
IT equipment	Straight-line	03 to 06 years
Infrastructure	Straight-line	03 to 100 years

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Accounting Policies

1.5 Property, plant and equipment (continued)

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

Derecognition

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 4).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 4).

1.6 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 effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

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

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

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

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

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

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.6 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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Accounting Policies

1.6 Financial instruments (continued)

Classification

The municipality 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 instruments	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other receivables	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent grants and receipts	Financial liability measured at amortised cost

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.

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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Accounting Policies

1.6 Financial instruments (continued)

Short-term receivables and payables are not discounted when the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Reclassification

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

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

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

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

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

Gains and losses

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

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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Accounting Policies

1.6 Financial instruments (continued)

The entity derecognises a financial asset only when:

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

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

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

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognises 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 removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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

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Accounting Policies

1.6 Financial instruments (continued)

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.

1.7 Statutory receivables

Identification

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

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

Accrued interest

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

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

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Accounting Policies

1.7 Statutory receivables (continued)

Other charges

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

Impairment losses

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

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

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

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

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

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

Derecognition

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

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

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

1.8 Tax

Value Added Tax (VAT)

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1.8 Tax (continued)

The municipality accounts for VAT on cash basis. The municipality is liable to account for VAT at a standard rate of 15% effective from 1 April 2018 in terms of section 7(1)(a) of the VAT Act in respect of supply of goods and services, except where the supplies are specifically zero rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality account for VAT on a monthly basis.

1.9 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.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of/on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

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 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.

1.10 Inventories

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

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

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.

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1.10 Inventories (continued)

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.

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

1.11 Impairment of cash-generating assets

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

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

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

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

Designation

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

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

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

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

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Identification

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

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

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

- (a) External sources of information
- During the period, an asset's market value has declined significantly more than it would be expected as a result of the passage of time or normal use.
 - Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
 - Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- (b) Internal sources of information
- Evidence is available of obsolescence or physical damage of an asset.
 - Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
 - Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Value in use

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

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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Accounting Policies

1.12 Impairment of non-cash-generating assets

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

Identification

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

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

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

- (a) External sources of information
 - Cessation, or near cessation, of the demand or need for services provided by the asset.
 - Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.
- (b) Internal sources of information
 - Evidence is available of physical damage of an asset.
 - Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
 - A decision to halt the construction of the asset before it is complete or in a usable condition.
 - Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

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

Useful life is either:

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

Reversal of an impairment loss

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

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

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

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

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

1.13 Accumulated Surplus / (Deficit)

An equity instrument is any contract that evidences a residual interest in the assets of a municipality after deducting all of its liabilities.

1.14 Employee benefits

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

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

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

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

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

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

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

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

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

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1.14 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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.

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Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

The 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 measures the resulting asset at the lower of:

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

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

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1.14 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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 reimburse 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.

Other post retirement obligations

The municipality has an obligation to provide long service benefits to all of its employees. According to the rules of the long service benefit scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long benefits are accounted for through the statement of financial performance.

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1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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 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.

A contingent liability is:

- a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence and non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that an outflow of resources embodying economic benefits or services potential will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

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

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:

- 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.

1.16 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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Accounting Policies

1.16 Commitments (continued)

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

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

1.17 Revenue from exchange transactions

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

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

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

Measurement

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

Rendering of services

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

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

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

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

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

Interest, royalties and dividends

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

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

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.

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1.18 Revenue from non-exchange transactions

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

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

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

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

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

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.

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.

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

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

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Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Taxes / Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

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

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

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

Gifts and donations, including goods in-kind

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

Services in-kind

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

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

1.19 Investment income

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

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Accounting Policies

1.20 Borrowing costs

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

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

1.21 Comparative figures

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

1.22 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.

1.23 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.

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Accounting Policies

1.24 Irregular expenditure

Irregular expenditure is defined in section 1 of the MFMA as follows:

“irregular expenditure”, in relation to a municipality or municipal entity, means (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act; (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or (d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with a requirement of the supply chain management policy of the municipality or entity or any of the municipality’s by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of “unauthorised expenditure”.

In this context ‘expenditure’ refers to any use of municipal funds that is in contravention of the following legislation:

- (i) Municipal Finance Management Act, Act 56 of 2003, and its regulations;
- (ii) Municipal Systems Act, Act 32 of 2000, and its regulations;
- (iii) Public Office-Bearers Act, Act 20 of 1998, and its regulations; and
- (iv) The municipality’s supply chain management policy, and any by-laws giving effect to that policy in the current financial year.

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

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

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

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

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality’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.

1.25 Segment information

A segment is an activity of an entity:

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

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Accounting Policies

1.25 Segment information (continued)

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

Measurement

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

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

1.26 Budget information

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

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

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

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

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

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

1.27 Related parties

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

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

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

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

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

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

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

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Accounting Policies

1.28 Events after reporting date

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

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

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

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

1.29 Consumer deposits

Consumer deposits are subsequently recorded in accordance with accounting policy of trade and other payables.

1.30 Unspent conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance

The municipality does not envisage the adoption of the guideline until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 25 (as revised): Employee Benefits

Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respect where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS® 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

Key amendments to GRAP 25

The Board agreed to align GRAP 25 with IPSAS 39, but that local issues and the local environment need to be considered. As a result of this decision, there are areas where GRAP 25 departs from the requirements of IPSAS 39. The Board's decisions to depart are explained in the basis for conclusions.

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2. New standards and interpretations (continued)

The amendments to GRAP 25 are extensive and mostly affect the accounting for defined benefit plans. A new renumbered Standard of GRAP (e.g. GRAP 39) will not be issued, but rather a new version of the current GRAP 25.

The effective date of these revisions have not yet been set.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the revisions will have a material impact on the municipality's annual financial statements.

iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction

Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS@ 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

The effective date of these revisions have not yet been set.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the revisions will have a material impact on the municipality's annual financial statements.

Guideline: Guideline on the Application of Materiality to Financial Statements

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP & References to pronouncements used in the Guideline.

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2. New standards and interpretations (continued)

The effective date of the guideline is not yet set by the Minister of Finance

The municipality does not envisage the adoption of the guideline until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 104 (as revised): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the revisions is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

iGRAP 21: The Effect of Past Decisions on Materiality

Background

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

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

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

iGRAP 21 addresses the following two issues:

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

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of this interpretation is 01 April 2023.

The municipality expects to adopt the interpretation for the first time in the 2022/2023 financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 2020: Improvements to the standards of GRAP 2020

Every three years, the Accounting Standards Board undertakes periodic revisions of the Standards of GRAP, in line with best practice internationally among standard setters.

Improvements to Standards of GRAP are aimed at aligning the Standards of GRAP with international best practice, to maintain the quality and to improve the relevance of the Standards of GRAP.

Amendments include,

GRAP 5 – Borrowing Costs

- For general borrowings, borrowing costs eligible for capitalisation determined by applying a capitalisation rate
 - Clarify that borrowings made specifically for purposes of obtaining a qualifying asset are excluded until substantially all the activities necessary to prepare asset for intended use or sale are complete

GRAP 13 – Leases

- Operating leases & Sale and leaseback transactions are currently assessed for impairment in accordance with GRAP 26
- Clarify that these arrangements may also be assessed in accordance with GRAP 21

GRAP 16 – Investment Property

- Clarify that GRAP 21 may be applied to assess investment property for impairment
- Include heading “Classification of property as investment property” (par 6 and 7) & delete existing headings
- Investment property under construction (within scope of GRAP 16)
 - Added heading “Guidance on initially measuring self-constructed investment property at fair value”
 - Added clarification that investment property is measured at fair value at earliest of:
 - o completion of construction or development; or
 - o when fair value becomes reliably measurable
- Clarify requirements on transfers to and from Investment property
 - Change in use involves an assessment on whether:
 - o property meets, or ceases to meet definition of investment property and
 - o evidence exists that a change in use has occurred
 - List of examples of a change in use is regarded as non-exhaustive

GRAP 17 – Property, Plant and Equipment

- Delete example indicating that quarries and land used for landfill may be depreciated in certain instances
 - Land has an unlimited useful life and cannot be consumed through its use

GRAP 20 – Related Party Disclosures

- Clarify that entity, or any member of a group of which it is part, providing management services to reporting entity (or controlling entity of reporting entity) is a related party
 - Disclose amounts incurred by the entity for the provision of management services that are provided by a separate management entity
 - If an entity obtains management services from another entity (“the management entity”) the entity is not required to apply the requirements in paragraph 35 to the remuneration paid or payable by the management entity to the management entity’s employees or those charged with governance of the entity in accordance with legislation, in instances where they are required to perform such functions
 - Management services are services where employees of management entity perform functions as “management” as defined

GRAP 24 – Presentation of Budget Information in Financial Statements

- Terminology amended
 - Primary financial statements amended to “financial statements” or “face of the financial statements”

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Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 31 – Intangible Assets

- Extend requirement to consider whether reassessing useful life of intangible asset as finite rather as indefinite indicates that asset may be impaired
 - Both under cost model or revaluation model

GRAP 32 – Service Concession Arrangements: Grantor

- Clarify disclosure requirement for service concession assets
 - Disclose carrying amount of each material service concession asset recognised at the reporting date

GRAP 37 – Joint Arrangements

- Application guidance clarified
 - When party obtains joint control in a joint operation where activity of joint operation constitutes a function (GRAP 105 or GRAP 106), previous held interest in joint operation is not remeasured

GRAP 106 – Transfer of Functions Between Entities Not Under Common Control

- When party obtains control of joint operation and entity had rights to assets, or obligations to liabilities before acquisition date, it comprises an acquisition received in stages
 - Apply the requirements for an acquisition achieved in stages, including remeasuring previously held interest in joint operation

Directive 7 – The Application of Deemed Cost

- Clarify that bearer plants within scope of Directive

The effective date of these improvements is 01 April 2023.

The municipality expects to adopt the improvements for the first time in the 2022/2023 annual financial statements.

It is unlikely that the improvements will have a material impact on the municipality's annual financial statements.

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

A municipality applies judgement based on past experience, current facts and circumstances.

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Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of this amendment is for years beginning on or after 01 April 2025.

The municipality expects to adopt the amendment for the first time in the 2024/2025 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

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3. Investment property

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	430 468 325	(192 168 432)	238 299 893	420 703 094	(133 490 405)	287 212 689

Reconciliation of investment property - 2022

Investment property	Opening balance	Impairments	Fair value adjustments	Total
	287 212 689	(58 678 027)	9 765 231	238 299 893

Reconciliation of investment property - 2021

Investment property	Opening balance	Fair value adjustments	Total
	274 844 678	12 368 011	287 212 689

Pledged as security

No investment property's carrying value was pledged as security.

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3. Investment property (continued)

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

Details of valuation

The municipality applies the Fair Value model to value and measure investment properties

The fair value of investment property was calculated as follows:

2022:

As recommend by GRAP 16.45, an entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by a valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. Thus a professional valuator was appointed to value the cost of land per square meter according to the location, region and recent sales history. All valuation was done as per the available report of the professional valuator. And in cases where necessary the 2019 valuation roll fair value was applied and indicated by the register. All SG parcels were considered, and after ownership was tested and applied, the rate per square meter was assigned to determine the 2022 fair value for each property.

The HPI (house price indicase) for 2022 had a positive growth of 3.4%.

Valuation was conducted per property at 30 June 2022 by a professional valuator

2021:

As recommend by GRAP 16.45, an entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by a valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

All valuations were done as per the available report of the professional valuator.

All SG parcels were considered, and after ownership was tested and applied, the rate per square meter was assigned to determine the 2021 fair value for each property.

All investment property which includes a building owned by the municipality, the actual cost of the building was considered and a CRC factor was applied to determine the fair value in 2021.

2008 - 2018

As the house price indicator is available and published, the municipality opted to rely on the FNB Economic report on house prices.

This report is performed by an Economist with qualified statisticians. The information can therefore be deemed reliable as the necessary qualifications and experience is presented to achieve a fair value (market) growth rate.

The fair value for each investment property was adjusted according to the factor as per the FNB barometer in the link below:

PropertyBarometerOctober - (fnb.co.za)

Where required the following percentages were applied per year to determine the required adjustments over the said period if required:

2008 (-2.9%)

2009 (-1.8%)

2010 (5.5%)

2011 (2.8%)

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3. Investment property (continued)

2012 (4.7%)

2013 (3.6%)

2014 (8.3%)

2015 (6.4%)

2016 (5.8%)

2017 (4.1%)

2018 (3.8%)

Impairment

In 2018 properties where control was deemed to be lost in terms of iGRAP 18 were impaired.

The municipality inspected each property to determine if the property is vacant as per the initial assumption of the valuator or is now occupied. In total R192,168,432 (2020: R133,490,405) properties were impaired as control could not be confirmed. The fact that control is lost does not constitute a disposal of the property, as the correct legal process was not followed.

Until the legal process has been formalised, these properties will be accounted for but impaired.

No fair value adjustment was applied to impaired properties.

Total impairment valuation is R192,168,432 (2020: R133,490,405)

Properties where the community is illegally occupying the property was then impaired in line with the standard as per the extraction of iGRAP18 below:

iGRAP 18 indicates that land is recognised based on control.

Control of land is evidenced by the following criteria:

- (a) legal ownership; and/or
- (b) the right to direct access to land, and to restrict or deny the access of others to land.

iGRAP 18 outlines the following:

Legal ownership

.18 Legal ownership refers to the owner being the registered title deed holder of the land. Legal ownership also arises where the land is transferred from the legal owner to another entity or party, through legislation or similar means. For example, when a change in ownership is recorded by way of an endorsement on the existing title deed, rather than a formal transfer or change in ownership reflected on the title deed. References to legal owner or legal ownership in this Interpretation include both situations.

.19 In the absence of an entity demonstrating that it has granted the right to direct access to and restrict or deny access of others to the land to another entity, the legal owner controls the land as it retains the right to direct access to land, and to restrict or deny the access of others to land. The legal owner is thus able to demonstrate both criteria in paragraph

.16 The right to direct access to land, and to restrict or deny the access of others to land .20 In assessing whether the rights that have been granted to an entity in a binding arrangement result in control of the land, it is important to distinguish between substantive rights and protective rights. Only substantive rights are considered in assessing whether an entity controls land.

.21 Substantive rights grant the entity the ability to make decisions about, and benefit from, certain rights and assets, such as how to use the land to provide services, and when to dispose of the land, to whom and at what price. For the right to be substantive, the holder of the right must have the present ability to exercise that right.

The accounting for land is based on the rights that an entity is presently able to exercise in terms of its ownership of the land or other rights granted in terms of a binding arrangement.

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3. Investment property (continued)

Derecognise

The invasion of land may be an illegal act. Although the illegal occupants may have certain rights, these rights do not supersede or eliminate the entity's currently exercisable rights in terms of its legal ownership of the land. Land ownership means that the entity has substantive rights to direct or restrict access to the economic benefits or service associated with the land. The fact that the entity may not execute these rights because of political, socio-economic or other factors, is irrelevant in establishing whether control exists for accounting purposes. An entity would need to assess if its ownership rights are subsequently changed through another legal action, such as the outcome of a court process such as the outcome of court case, court order, etc. The illegal occupation of land may indicate that an impairment loss should be recognised. An entity should apply the principles in either GRAP 21 or GRAP 26 when these occupations occur (and throughout their duration).

Amounts recognised in surplus and deficit for the year.

Fair value adjustments	9,765,231	12,368,011
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Refer to note 42 for prior period corrections made to investment property.

Amounts recognised in surplus or deficit

Rental revenue from Investment property	108 023	83 746
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4. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	55 237 490	-	55 237 490	55 237 490	-	55 237 490
Buildings	167 074 418	(76 223 898)	90 850 520	161 616 824	(66 828 490)	94 788 334
Plant and machinery	4 901 038	(3 589 137)	1 311 901	4 136 581	(3 366 646)	769 935
Furniture and fittings	6 570 468	(5 440 444)	1 130 024	6 068 534	(5 241 172)	827 362
Motor vehicles	16 112 898	(12 369 236)	3 743 662	13 681 331	(11 412 856)	2 268 475
Office equipment	84 657	(84 398)	259	84 657	(84 657)	-
Computer equipment	7 026 911	(5 505 249)	1 521 662	5 809 762	(5 182 528)	627 234
Road and storm water	903 209 272	(432 379 905)	470 829 367	891 854 561	(393 990 339)	497 864 222
Community	134 290 857	(62 513 834)	71 777 023	133 097 046	(53 396 198)	79 700 848
Landfill sites	53 711 537	(20 914 355)	32 797 182	52 753 524	(19 477 909)	33 275 615
Electricity network	196 788 015	(94 406 940)	102 381 075	188 839 888	(86 337 850)	102 502 038
Wastewater network	405 695 575	(105 892 454)	299 803 121	390 058 129	(97 249 684)	292 808 445
Water network	279 769 187	(52 744 732)	227 024 455	230 889 024	(41 148 697)	189 740 327
Total	2 230 472 323	(872 064 582)	1 358 407 741	2 134 127 351	(783 717 026)	1 350 410 325

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	WIP additions	Disposals	Transfers received	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	55 237 490	-	-	-	-	-	-	-	-	55 237 490
Buildings	94 788 334	561 063	4 896 531	-	-	-	(5 552 140)	(4 048 479)	205 211	90 850 520
Plant and machinery	769 935	764 456	-	-	-	-	(294 573)	(5 793)	77 876	1 311 901
Furniture and fittings	827 362	501 934	-	-	-	-	(302 932)	(7 852)	111 512	1 130 024
Motor vehicles	2 268 475	-	2 431 567	-	-	-	(817 411)	(317 531)	178 562	3 743 662
Office equipment	-	-	-	-	-	-	-	-	259	259
Computer equipment	627 234	1 217 149	-	-	-	-	(380 539)	(12 399)	70 217	1 521 662
Roads and stormwater	497 864 222	99 950	-	-	11 254 761	-	(36 609 903)	(10 990 753)	9 211 090	470 829 367
Community	79 700 848	-	-	-	1 193 812	-	(4 304 758)	(5 088 766)	275 887	71 777 023
Landfill site	33 275 615	-	-	-	-	958 013	(1 436 446)	-	-	32 797 182
Electricity network	102 502 038	6 999 671	-	-	948 455	-	(8 505 744)	(1 831 712)	2 268 367	102 381 075
Wastewater network	292 808 445	2 616 490	24 354 473	(193 815)	(11 139 702)	-	(9 698 298)	(5 262 166)	6 317 694	299 803 121
Water network	189 740 327	1 797 270	149 600	-	46 933 292	-	(5 071 313)	(9 456 778)	2 932 057	227 024 455
	1 350 410 325	14 557 983	31 832 171	(193 815)	49 190 618	958 013	(72 974 057)	(37 022 229)	21 648 732	1 358 407 741

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	WIP Additions	Disposals	Work-in-progress	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	55 237 490	-	-	-	-	-	-	-	-	55 237 490
Buildings	96 794 772	151 602	3 118 591	-	-	-	(5 521 696)	(135 065)	380 130	94 788 334
Plant and machinery	266 857	716 420	-	-	-	-	(151 211)	(90 979)	28 848	769 935
Furniture and fittings	739 904	332 362	-	-	-	-	(263 150)	(4 209)	22 455	827 362
Motor vehicles	2 951 663	-	-	-	-	-	(964 227)	-	281 039	2 268 475
Computer equipment	553 153	303 590	-	-	-	-	(256 020)	(35 020)	61 531	627 234
Roads and stormwater	529 504 561	-	16 500	-	329 148	-	(38 126 764)	-	6 140 777	497 864 222
Community	81 995 594	1 316 658	-	-	571 455	-	(4 637 225)	-	454 366	79 700 848
Landfill sites	33 493 859	-	-	-	-	1 186 289	(1 404 533)	-	-	33 275 615
Electricity network	96 372 885	579 311	8 526 663	(2 834 839)	4 415 376	-	(5 982 531)	(138 463)	1 563 636	102 502 038
Wastewater network	282 949 196	2 318 987	198 000	(510 050)	12 735 656	-	(9 452 675)	(29 948)	4 599 279	292 808 445
Water network	139 447 384	1 792 365	26 963 119	(436 352)	28 193 897	-	(5 054 371)	(1 966 831)	801 116	189 740 327
	1 320 307 318	7 511 295	38 822 873	(3 781 241)	46 245 532	1 186 289	(71 814 403)	(2 400 515)	14 333 177	1 350 410 325

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Community	Total
Opening balance	98 631 438	1 661 492	100 292 930
Additions/capital expenditure	86 553 347	1 193 811	87 747 158
Disposal of work-in-progress (meters)	(9 305 535)	-	(9 305 535)
Transferred to completed items	(29 251 004)	-	(29 251 004)
	146 628 246	2 855 303	149 483 549

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4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Total
Opening balance	52 957 362	1 090 038	54 047 400
Additions/capital expenditure	82 476 398	1 757 254	84 233 652
Disposal of work-in-progress (meters)	(8 292 516)	-	(8 292 516)
Transferred to completed items	(28 509 806)	(1 185 800)	(29 695 606)
	98 631 438	1 661 492	100 292 930

Expenditure incurred to repair and maintain property, plant and equipment

Repairs and maintenance per class of asset:

Infrastructure	9 531 973	11 342 775
Motor vehicles	400 652	522 730
Moveables	103 228	80 640
Buildings	264 698	55 413
	10 300 551	12 001 558

Refer to note 42 for prior period corrections made to property, plant and equipment

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.

Pledged as security

There is no property, plant and equipment pledged as security for overdraft facilities.

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4. Property, plant and equipment (continued)		
Property, plant and equipment in the process of being constructed or developed		
Cumulative expenditure recognised in the carrying value of property, plant and equipment		
Electricity infrastructure	9 073 624	8 125 169
Community	2 855 303	1 661 492
Roads	11 736 430	481 669
Wastewater network	11 290 567	22 430 268
Water network	114 527 625	67 594 332
	149 483 549	100 292 930
5. Other financial assets		
Designated at fair value		
Sanlam shares	129 638	422 511
2452 shares trading @ R52.87 (2021: R61.37)		
4230 shares of investment U0063385252 were forfeited as these shares were sold by Sanlam		
At amortised cost		
Heilbron Sanlam policy	559 376	532 364
Policy number - 040571573X1		
Total other financial assets	689 014	954 875
Non-current assets		
Designated at fair value	129 638	422 511
At amortised cost	559 376	532 364
	689 014	954 875
Financial assets at fair value		
Fair value hierarchy of financial assets at fair value		
For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:		
Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.		
Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).		
Level 3 applies inputs which are not based on observable market data.		
Level 1		
Class 2	129 638	422 511
Renegotiated terms		
None of the financial assets that are fully performing have been renegotiated in the last year.		
6. Other receivables		
Other receivables	2 162 335	158 992

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7. Inventories		
Water for distribution	100 044	140 661
Stores and material	10 154 930	12 579 692
	10 254 974	12 720 353
Inventory pledged as security		
No Inventory was pledged as security for overdraft facilities.		
8. Receivables from non-exchange transactions		
Property rates	214 338 092	184 229 171
Allowance for impairment - Rates	(188 344 870)	(159 403 374)
	25 993 222	24 825 797
Receivables from non-exchange transactions pledged as security		
None of the receivables from non-exchange transactions were pledged as security for overdraft facilities.		
Credit quality of receivables from non-exchange transactions		
The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:		
Fair value of receivables from non-exchange transactions		
The carrying value of the consumer receivables recorded at amortised cost approximate their fair values.		
Receivables from non-exchange transactions past due but not impaired		
Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2022, R 16 739 591 (2021: R 16 164 252) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	588 713	725 952
2 months past due	2 833 050	2 935 183
3 months and more past due	13 317 829	12 503 118
Rates aging		
Current (0 - 30 days)	8 469 150	6 872 430
31 - 60 days	5 752 400	4 681 087
61 - 90 days	5 261 336	4 248 936
91 - 120 days	5 039 929	4 287 745
121 - 365 days	31 382 521	29 656 542
> 365 days	158 432 756	134 481 882
Less: Impairment	(188 344 870)	(159 402 822)
	25 993 222	24 825 800

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Figures in Rand	2022	2021
8. Receivables from non-exchange transactions (continued)		
Receivables from non-exchange transactions impaired		
As of 30 June 2022, other receivables from non-exchange transactions of R 188 344 870 (2021: R 159 403 374) were impaired and provided for.		
The following factors were considered in determining the impairment:		
- Aging of the outstanding debt.		
- Whether or not any payment was received during the year.		
- Whether the account is active or inactive.		
- Whether the account is that of an owner or a tenant.		
9. Receivables from exchange transactions		
Gross balances		
Consumer debtors - Electricity	160 416 558	149 303 507
Consumer debtors - Water	275 272 034	241 270 379
Consumer debtors - Waste water	178 544 447	151 452 937
Consumer debtors - Waste	133 483 083	114 954 404
Consumer debtors - Sundry receivables	5 153 389	5 058 551
	752 869 511	662 039 778
Less: Allowance for impairment		
Consumer debtors - Electricity	(105 569 384)	(97 563 386)
Consumer debtors - Water	(257 112 218)	(224 874 731)
Consumer debtors - Waste water	(145 205 989)	(125 707 727)
Consumer debtors - Waste	(118 156 969)	(103 229 548)
Consumer debtors - Sundry debtors	(4 791 943)	(4 719 117)
	(630 836 503)	(556 094 509)
Net balance		
Consumer debtors - Electricity	54 847 174	51 740 121
Consumer debtors - Water	18 159 816	16 395 648
Consumer debtors - Waste water	33 338 458	25 745 210
Consumer debtors - Waste	15 326 114	11 724 856
Consumer debtors - Sundry receivables	361 446	339 434
	122 033 008	105 945 269
Electricity		
Current (0 -30 days)	18 150 776	14 532 378
31 - 60 days	4 808 384	4 660 589
61 - 90 days	3 996 393	3 411 808
91 - 120 days	5 458 267	3 291 701
121 - 365 days	22 855 188	27 948 392
> 365 days	105 147 549	95 458 640
Less: Impairment	(105 569 384)	(97 563 384)
	54 847 173	51 740 124

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9. Receivables from exchange transactions (continued)

Water

Current (0 -30 days)	13 939 664	11 763 449
31 - 60 days	8 552 864	6 191 617
61 - 90 days	10 025 599	6 014 974
91 - 120 days	6 047 373	5 809 797
121 - 365 days	39 520 322	50 898 860
> 365 days	197 186 212	160 591 682
Less: Impairment	(257 112 218)	(224 874 731)
	18 159 816	16 395 648

Waste water

Current (0 -30 days)	6 198 734	47 157 366
31 - 60 days	5 333 424	2 936 746
61 - 90 days	5 161 453	3 836 128
91 - 120 days	4 825 843	2 829 378
121 - 365 days	67 410 056	24 173 114
> 365 days	89 614 937	70 520 206
Less: Impairment	(145 205 989)	(125 707 727)
	33 338 458	25 745 211

Waste

Current (0 -30 days)	4 886 972	3 631 720
31 - 60 days	4 190 645	3 043 530
61 - 90 days	4 047 461	3 243 417
91 - 120 days	3 898 553	3 000 988
121 - 365 days	22 378 674	22 693 744
> 365 days	94 080 778	79 341 004
Less: Impairment	(118 156 969)	(103 229 548)
	15 326 114	11 724 855

Sundry receivables

Current (0 -30 days)	49 285	86 596
31 - 60 days	39 187	42 264
61 - 90 days	52 442	40 329
91 - 120 days	36 591	40 363
121 - 365 days	362 856	393 170
> 365 days	4 613 027	4 455 828
Less: Impairment	(4 791 943)	(4 719 117)
	361 445	339 433

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9. Receivables from exchange transactions (continued)		
Summary of receivables by customer classification		
Consumers		
Current (0 -30 days)	21 814 761	53 229 180
31 - 60 days	18 003 731	11 942 835
61 - 90 days	19 201 100	11 458 129
91 days plus	564 784 902	462 630 618
	<u>623 804 494</u>	<u>539 260 762</u>
Less: Allowance for impairment	(602 459 820)	(521 450 080)
	21 344 674	17 810 682
Industrial/ commercial		
Current (0 -30 days)	11 560 357	11 159 494
31 - 60 days	5 109 755	4 669 937
61 - 90 days	3 885 559	3 279 038
91 days plus	114 358 593	106 033 324
	<u>134 914 264</u>	<u>125 141 793</u>
Less: Allowance for impairment	(116 508 485)	(106 926 297)
	18 405 779	18 215 496
Farm and agriculture		
Current (0 -30 days)	2 258 530	1 926 194
31 - 60 days	2 015 055	1 762 152
61 - 90 days	2 093 512	1 711 251
91 days plus	92 006 551	74 348 350
	<u>98 373 648</u>	<u>79 747 947</u>
Less: Allowance for impairment	(97 009 785)	(77 573 961)
	1 363 863	2 173 986
Indigents		
Current (0 -30 days)	140 581	642 894
31 - 60 days	53 196	350 886
61 - 90 days	49 877	144 490
91 days plus	2 959 629	8 408 723
	<u>3 203 283</u>	<u>9 546 993</u>
Less: Allowance for impairment	(3 203 283)	(9 546 993)
	-	-
National and Provincial Government		
Current (0 -30 days)	3 981 772	7 057 591
31 - 60 days	3 495 166	2 829 021
61 - 90 days	3 314 635	4 202 684
91 days plus	84 181 759	68 452 018
	<u>94 973 332</u>	<u>82 541 314</u>
Reconciliation of allowance for impairment		
Balance at beginning of the year	(715 497 330)	(721 944 961)
Contributions to allowance	(165 818 689)	(163 128 988)
VAT provision on impairment	(7 871 350)	2 046 842
Debt impairment written off against the allowance	70 005 997	167 529 777
	(819 181 372)	(715 497 330)

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9. Receivables from exchange transactions (continued)

Receivables from exchange transactions pledged as security

No consumer receivable was pledged as security for any financial liability.

Credit quality of receivables from exchange transactions

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Renegotiated terms:

None of the receivables from exchange transactions that are fully performing have been renegotiated in the last year.

Fair value of consumer debtors

The carrying value of the receivables from exchange transactions recorded at amortised cost approximate their fair values.

Receivables from exchange transactions past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2022, R 71 411 187 (2021: R 55 162 304) were past due but not impaired.

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

1 month past due	3 816 607	2 675 545
2 months past due	22 439 208	21 588 907
3 months and more past due	45 155 372	30 897 853

Receivables from exchange transaction impaired

As of 30 June 2022, receivables from exchange transactions of R 630 836 503 (2021: R 556 094 509) were impaired and provided for.

The following factors were considered in determining the impairment:

- Aging of the outstanding debt.
- Whether or not any payment was received during the year.
- Whether the account is active or inactive.
- Whether the account is that of an owner or a tenant.

10. VAT receivable

VAT	288 368 646	253 075 862
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11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	20 042	5 876
Bank balances	795 195	(154 617)
Short-term deposits	4 389 337	55 893 665
	5 204 574	55 744 924

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2022	30 June 2021	30 June 2020	30 June 2022	30 June 2021	30 June 2020
ABSA BANK - Cheque account - 405-2707-733	789 863	2 000	409 115	795 195	(133 729)	409 115
ABSA BANK - Call account - 925-3832-988	3 053 762	2 071 570	5 116 730	3 053 762	2 071 570	5 116 730
ABSA BANK - Account - 925-3833-502	4 295	52 530 112	2 983 676	4 295	52 530 112	2 983 676
ABSA BANK - Call account - 925-3833-764	12 611	13 972	7 013 643	12 611	13 972	7 013 643
ABSA BANK - Call account - 925-3835-643	1 143	1 133	1 125	1 143	1 138	1 125
ABSA BANK - Call account - 928-6271-086	1 059 902	1 031 904	3 998 977	1 059 902	1 031 904	3 998 977
ABSA BANK - Call account - 928-6271-167	257 623	250 818	245 911	257 623	250 818	245 911
Total	5 179 199	55 901 509	19 769 177	5 184 531	55 765 785	19 769 177

12. Payables from exchange transactions

Trade payables	174 522 859	192 760 882
Payments received in advance	41 649 429	32 386 754
Accrued leave pay	22 438 074	22 549 625
Accrued bonus	5 832 492	5 683 911
Deposits received	195 632	195 632
Other payables	5 887 334	3 923 059
Eskom	1 550 393 726	1 382 593 507
Bulk water supply	170 906 835	139 283 889
Salary suspense account	19 988 000	34 654 163
Unallocated receipts	5 182	5 182
Retention	12 831 974	8 553 647
Guarantee	-	41 172 505
	2 004 651 537	1 863 762 756

13. Consumer deposits

Electricity	4 884 153	4 913 167
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14. Employee benefit obligations

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(22 719 831)	(20 320 337)
Present value of the defined benefit obligation-partly or wholly funded	(18 013 116)	(16 973 316)
	(40 732 947)	(37 293 653)

Non-current liabilities

(35 027 154) (33 611 811)

Current liabilities

(5 705 793) (3 681 842)

(40 732 947) (37 293 653)

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

Opening balance	37 293 653	33 891 040
Net expense recognised in the statement of financial performance	3 439 294	3 402 613
	40 732 947	37 293 653

Net expense recognised in the statement of financial performance

Current service cost	1 335 304	1 188 698
Interest cost	3 061 758	2 835 553
Actuarial (gains) losses	2 724 074	2 783 479
Contributions made	(3 681 842)	(3 405 117)
	3 439 294	3 402 613

Calculation of actuarial gains and losses

Actuarial (gains) losses – Long service award	509 274	1 806 822
Actuarial (gains) losses – Medical aid	2 214 800	976 657
	2 724 074	2 783 479

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14. Employee benefit obligations (continued)

Post-retirement medical aid plan

The municipality has a post-employment medical aid fund for its pensioners. The post-retirement medical aid are in accordance with Resolution 8 of the South African Local Government Bargaining Council (SALGBC), signed on 17 January 2003, which states that an employee who retires from employment with an employer and who immediately prior to his or her retirement, enjoys the benefits of subsidy of his or her medical aid contributions by his or her employer, will continue to receive a subsidy calculated as follows.

- If the employee is 55 years or older on 1 July 2003, his or her subsidy from the employer as at the date of retirement will be 60% to a maximum amount of the norms of the cost of his or her medical aid scheme contributions as at the date immediately prior to the date of his or her retirement.

- If the employee is 50 years or older on 1 July 2003, his or her subsidy will be 50% to a maximum amount of the norms of the cost of his or her medical aid scheme contributions as at the day immediately prior to the date of his or her retirement

The municipality makes monthly contributions for the healthcare arrangements to the following medical aid schemes:

- Bonitas
- Hosmed
- Discovery
- Key Health
- LA Health
- Samwumed.

Long Service benefits.

The municipality's liability for long service benefits relating to vested leave benefits to which employees may become entitled upon completion of five years of service and every five years thereafter. These leave benefits are in accordance with paragraph 11 of South African Government Bargaining Council (SALGBC) collective agreement on conditions of service for the Free State division of SALGA which was signed on July 2010.

In accordance with South African Local Government Bargaining Council (SALGBC) issued circular 1 of 2011 (issued 27 June 2011 with an effective date of 1 March 2011), specific bonuses are payable to employees for long service. Bonuses are payable in the following scale:

Years of service completed	Percentage of annual salary as a bonus	Additional Leave days
> 5 Years	2%	5 days
> 10 Years	3%	10 days
> 15 Years	4%	15 days
> 20 Years	5%	15 days
> 24 - 45 Years	6%	15 days

Key assumptions used

Assumptions used at the reporting date:

CPI (Medical aid)	6,93 %	5,54 %
CPI (Long service awards)	7,20 %	4,23 %
Discount rate (Medical aid)	11,66 %	9,52 %
Discount rate (Long service award)	10,22 %	7,56 %
Medical aid inflation (Medical aid)	8,43 %	7,04 %
Salary increase rate (Long service awards)	8,20 %	5,23 %
Net discount rate (Medical aid)	2,98 %	2,32 %
Net discount rate (Long service awards)	1,87 %	2,21 %
Continuation percentage	100,00 %	100,00 %

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14. Employee benefit obligations (continued)

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
Employer's accrued liability (Long service awards)	19 033 330	17 078 170
Current service cost (Long service awards)	1 375 202	1 229 433
Interest cost (Long service awards)	1 764 418	1 564 601
Employer's accrued liability (Medical aid)	24 578 397	21 060 974
Current service cost (Medical aid)	46 273	36 597
Interest cost (Medical aid)	2 738 873	20 112 983

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

	2022 R	2021 R	2020 R	2019 R	2018 R
Defined benefit obligation	40 732 947	37 293 653	33 891 040	36 251 855	32 363 755

Defined contribution plan

The municipality makes provision for post-retirement benefits to all employees and councillors, who belong to different retirement contribution plans which are administered by various pension funds, provident and annuity funds.

These plans are subject to the Pension Fund Act, 1995 (Act No. 24 of 1956) and include defined contribution plans

The municipality is under no obligation to cover any unfunded benefits. The only obligation of the municipality is to make the specific contributions.

The following are the multi-employer funds and are defined contribution plans:

- South African Local Authorities Pension Fund (SALA)
- Free State Municipal Pension Fund (FSMPF)
- Municipal Councillors Pension Fund (MCPF)

Sufficient information was not available to use defined benefit accounting for the fund and it was accounted for as defined contribution plan due to the following reasons:

- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers;
- One set of financial statements is compiled for all the funds that are not for each participating employer; and
- The same rate of contribution applies to all participating employers and no regard is paid to differences in membership distribution of the participating employers.

This is in line with the exemption in GRAP 25 paragraph 31 which states that where information is required for proper defined benefits accounting is not available in respect of the multi-employer and state plan; these should be accounted for as defined contribution plans.

The amount recognised as an expense for defined contribution plans is 3 439 294 3 402 613

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15. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	4 605 292	2 828 639
Regional Infrastructure Grant (RBIG)	40 045 969	34 687 381
Water Services Infrastructure Grant (WSIG)	13 040 589	7 733 568
Municipal Support Grant (MSG)	5 250 000	3 500 000
Energy Efficiency and Demand Side Management Grant (EEDG)	-	5 323
Intergrated National Electrification Program (INEP)	8 857 592	-
	71 799 442	48 754 911
Movement during the year		
Balance at the beginning of the year	48 754 911	22 510 580
Additions during the year	356 987 000	374 420 690
Income recognition during the year	(333 942 469)	(348 176 359)
	71 799 442	48 754 911

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

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

See note 24 for reconciliation of grants from National/Provincial Government.

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

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16. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Change in Provision	Finance Cost	Total
Environmental rehabilitation	94 903 105	958 013	3 931 842	99 792 960

Reconciliation of provisions - 2021

	Opening Balance	Change in Provision	Finance Cost	Total
Environmental rehabilitation	88 630 010	1 186 288	5 086 807	94 903 105
Non-current liabilities			95 861 118	89 816 298
Current liabilities			3 931 842	5 086 807
			99 792 960	94 903 105

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16. Provisions (continued)

Environmental rehabilitation provision

Ngwathe Local Municipality consists of five (5) towns (Parys, Heilbron, Vredefort, Edenville and Koppies). Heilbron, Vredefort, Edenville and Koppies are located in an area of agricultural significance and Parys is the central business district of Ngwathe Municipality.

Landfill operations continue until all the available permitted airspace has been filled. Once this happens, the site close and capped with a layer of impermeable clay and a layer of the top soil. Grass and other suitable vegetation types are planted to stabilize the soil and improve the appearance. Environmental monitoring continues for a period of up to 30 years after the closure of the site. No appointment for the closure of the sites has been made, and therefore only rough estimates have been compiled without site visits with no detailed inspections or investigations. Basic information on the size and classification of each site was supplied.

Key assumptions used:

Accounting Standard GRAP19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term/life of the landfill site.

The discount rate was deduced from the average of the Zero-Coupon Yield Curve (Nominal Bond) over the entire durations applicable in the future. The annualised long term discount rate at 30 June 2022 was 11.64% p.a.. The consumer price inflation of 7.40% p.a. was obtained from the differential between the averages of the Nominal Bond Yield Curve and the Real Bond Yield Curve (Zero Yield Curves).

The Zero-Coupon Yield Curves were obtained from the Bond Exchange of South Africa after the market closed on 30 June 2022.

Discount rate (D) 11.64%
Consumer price inflation (C) 7.40%
Net discount rate 3.94%

Site life calculation:

Parys Landfill Site:

The landfill site is situated approximately 480 meters from Parys town. Parys is a town in the Free State, and it is situated on the banks of the Vaal River. The Parys landfill site is responsible for accommodating the solid waste of Parys Golf and Country Estate, Parys SP and Vaal de Grace Golf Estate. The total population of the mentioned towns accumulates to 9 466 in 2022. (Census 2011 adjusted to 2022 at 1.46% annually)

The site is accessed by a gravel road and its coordinates are 27.508718E 26.9119039S. The estimated total footprint of the item is approximately 82 000 m² and the fully utilized area is approximately 11 900 m². A total 69 900 m² is partially utilized leaving room for further utilization. The total cubes of fill within the partially utilized area is 44 126.83 m³.

The remaining life is calculated at 30 years, up to 2052 based on the annual population growth and available air space

Heilbron Landfill site:

The landfill site is situated approximately 1.3 km from Sandersville, which is the township of Heilbron. Heilbron is a town in the Free State, and it is situated approximately 50.9 km from Koppies town. The Heilbron landfill site is responsible for accommodating the solid waste of Heilbron SP, Sandersville SP and Phiritona SP. The total population of the mentioned towns accumulates to 32 144 in 2022. (Census 2011 adjusted to 2022 at 1.46% annually)

The site is accessed by a gravel road which is then linked to asphalt road and its coordinates are 27.269488S 27.958318E. The estimated total footprint of the item is approximately 160 500 m² and the fully utilized area is approximately 74 600 m². A total 81 300 m² is partially utilized leaving room for further utilization. The total cubes of fill within the partially utilized area is 138 705,99 m³.

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16. Provisions (continued)

The remaining life is calculated at 3 years, up to 2025 based on the annual population growth and available air space.

Vredefort Landfill site:

The landfill site is situated approximately 800 meters from Vredefort town. Vredefort is a town in the Free State, and it is situated approximately 16.6 km from Parys. The Vredefort landfill site is responsible for accommodating the solid waste of Vredefort SP and Mokwallo which is the township of Vredefort. The total population of the mentioned towns accumulates to 17 146 in 2022. (Census 2011 adjusted to 2022 at 1.46% annually)

The site is accessed by a gravel road which is then linked to asphalt road and its coordinates are 27.000377S 27.353161E. The estimated total footprint of the item is approximately 80 000 m² and the fully utilized area is approximately 31 200 m². A total 48 300 m² is partially utilized leaving room for further utilization. The total cubes of fill within the partially utilized area is 41 616.78 m³.

The remaining life is calculated at 11 years, up to 2033 based on the annual population growth and available air space.

Edenville Landfill site:

The landfill site is situated approximately 410 meters from Edenville town. Edenville is a town in the Free State, and it is situated approximately 51.9 km from Koppies. The Edenville landfill site is responsible for accommodating the solid waste of Edenville SP and Ngwathe SP which is the township of Edenville. The total population of the mentioned towns accumulates to 7 382 in 2022. (Census 2011 adjusted to 2022 at 1.46% annually)

The site is accessed by a gravel road which leads to Edenville town, and its coordinates are 27.562892S 27.672590E. The estimated total footprint of the item is approximately 47 550 m² and the fully utilized area is approximately 4 200 m². A total 1900 m² is partially utilized leaving room for further utilization. The total cubes of fill within the partially utilized area is 430.53 m³.

The remaining life is calculated at 33 years, up to 2055 based on the annual population growth and available air space.

Koppies Landfill site:

The landfill site is situated approximately 1 482 meters from Koppies town. Koppies is a town in the Free State, and it is situated approximately 51.9 km from Edenville. The Koppies landfill site is responsible for accommodating the solid waste of Koppies SP and Kwakwatsi SP which is the township of Koppies. The total population of the mentioned towns accumulates to 16 189 in 2022. (Census 2011 adjusted to 2022 at 1.46% annually)

The site is accessed by a gravel road which links with the R82 asphalt road, and its coordinates are 27.241007°S 27.552804°E. The estimated total footprint of the item is approximately 162 000 m² and the fully utilized area is approximately 10 400 m². A total 13 600 m² is partially utilized leaving room for further utilization. The total cubes of fill within the partially utilized area is 1 353.69 m³.

The remaining life is calculated at 48 years, up to 2070 based on the annual population growth and available air space.

17. Revenue

Service charges	408 209 902	368 019 407
Rental of facilities and equipment	108 023	83 746
Other income	2 042 813	2 671 388
Interest received - investment	44 562 852	46 719 157
Dividends received	-	5 885
Property rates	104 441 186	96 613 910
Government grants & subsidies	333 942 470	348 176 368
Fines, penalties and forfeits	228 647	259 146
Interest recovered	7 683 923	-
	901 219 816	862 549 007

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17. Revenue (continued)		
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	408 209 902	368 019 407
Rental of facilities and equipment	108 023	83 746
Other income	2 042 813	2 671 388
Interest received - investment	44 562 852	46 719 157
Dividends received	-	5 885
	454 923 590	417 499 583
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	104 441 186	96 613 910
Transfer revenue		
Government grants & subsidies	333 942 470	348 176 368
Fines, penalties and forfeits	228 647	259 146
Interest recovered	7 683 923	-
	446 296 226	445 049 424
18. Service charges		
Sale of electricity	233 930 610	216 762 608
Sale of water	74 235 966	54 541 213
Sewerage and sanitation charges	56 317 040	57 358 121
Refuse removal	43 726 286	39 357 465
	408 209 902	368 019 407
19. Rental of facilities and equipment		
Premises		
Buildings and housing	60	60
Venue hire	27 894	7 280
Camps	14 790	3 865
Buildings and housing	65 279	72 541
	108 023	83 746
20. Other income		
Administration fees	-	1
Building plans and inspections	183 738	100 654
Clearance certificates	156 452	124 271
Reconnection / connection fees	695 758	452 450
Grave plots	616 369	721 101
Tender deposits	316 552	394 001
Sundry income	56 271	44 426
Sale of land	17 673	834 484
	2 042 813	2 671 388
21. Interest recovered		
Interest recovered from SARS	7 683 923	-

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Figures in Rand	2022	2021
22. Interest received		
Dividend revenue		
Listed financial assets - Local	-	5 885
Interest revenue		
Other financial asset	1 407 374	1 084 488
Interest charged on trade and other receivables	43 155 478	45 634 669
	44 562 852	46 719 157
	44 562 852	46 725 042

The amount included in Investment revenue arising from exchange transactions amounted to R 33 575 363.

The amount included in Investment revenue arising from non-exchange transactions amounted to R 10 587 996.

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R44,163,359 (PY: R45,634,669).

23. Property rates

Rates received

Property rates	104 441 186	96 613 910
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Valuations

Agriculture	4 973 735 783	4 973 065 783
Business	695 600 182	686 740 002
Churches	102 380 000	101 220 000
Government	547 481 040	547 481 040
Industrial	54 910 000	55 430 000
Municipal	222 548 400	214 273 400
Other	1 188 400	1 188 400
Public Service Infrastructure	16 121 000	16 771 000
Residents	6 019 341 304	5 977 496 303
Schools	3 100 000	3 100 000
	12 636 406 109	12 576 765 928

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2024.

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24. Government grants & subsidies

Operating grants

Equitable share	228 425 345	244 477 741
Local Government Finance Management Grant (FMG)	3 000 000	3 000 000
Local Government Sector Education and Training Authority Grant (LGSETA)	-	220 699
Provincial Treasury Subsidy (Audit fees)	-	600 000
Energy Efficiency and Demand Side Management Grant (EEDG)	-	4 709 254
Expanded Public Works Programme (EPWP)	1 672 000	1 466 000
Municipal Support Grant (MSG)	-	2 706 000
	233 097 345	257 179 694

Capital grants

Department of Mineral and Energy Grant (INEG)	1 142 408	4 754 262
Municipal Infrastructure Grant (MIG)	39 634 707	43 663 361
Regional Bulk Infrastructure Grant (RBIG)	38 875 031	25 312 619
Water Service Infrastructure Grant (WSIG)	21 192 979	17 266 432
	100 845 125	90 996 674
	333 942 470	348 176 368

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	105 517 125	103 477 937
Unconditional grants received	228 425 345	244 698 431
	333 942 470	348 176 368

Equitable Share

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

Equitable share

Current year receipts	190 904 000	241 942 000
Transferred to revenue	(228 425 345)	(244 477 741)
Grants withheld	37 521 345	2 229 394
Grants transferred to equitable share	-	306 347
	-	-

Department of Mineral and Energy Grant (INEG)

Balance unspent at beginning of year	-	254 262
Current-year receipts	10 000 000	4 500 000
Conditions met - transferred to revenue	(1 142 408)	(4 754 262)
	8 857 592	-

Conditions still to be met - remain liabilities (see note 15).

The grant is used to implement the Integrated National Electrification Programme by providing capital subsidies to municipalities to address the electrification backlog of occupied residential dwellings, and the installation of bulk infrastructure.

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24. Government grants & subsidies (continued)		
COVID19 Support Grant		
Balance unspent at beginning of year	-	277 757
Grants withheld and transferred to equitable share	-	(277 757)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
This grant aims to accelerate the delivery of clean water and sanitation facilities to communities that do not have access to basic water services.		
Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	2 828 639	6 288 442
Current-year receipts	44 240 000	41 192 000
Conditions met - transferred to revenue	(39 634 708)	(43 663 361)
Grants withheld and transferred to equitable share	(2 828 639)	(988 442)
	4 605 292	2 828 639
Conditions still to be met - remain liabilities (see note 15).		
The grant is used to provide specific capital finance for eradicating basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.		
Cooperative Governance and Traditional Affairs(COGTA)		
Balance unspent at beginning of year	-	28 590
Grants withheld and transferred to equitable share	-	(28 590)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
COGTA grant relates to a subsidy for the payment of accounting consulting fees.		
Local Government Finance Management Grant (FMG)		
Current-year receipts	3 000 000	3 000 000
Conditions met - transferred to revenue	(3 000 000)	(3 000 000)
	-	-
The grant is used to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.		

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24. Government grants & subsidies (continued)

Expanded Public Works Programme (EPWP)

Current-year receipts	1 672 000	1 466 000
Conditions met - transferred to revenue	(1 672 000)	(1 466 000)
	<u>-</u>	<u>-</u>

The grant is used to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the Expanded Public Works Programme Guidelines: road maintenance and the maintenance of buildings, low traffic volume roads and rural roads, basic services infrastructure, including water and sewer reticulation, sanitation, pipelines (excluding bulk infrastructure), other economic and social infrastructure, tourism and cultural industries, waste management, parks and beautification, sustainable land-based livelihoods, social services programme, health service programme and community safety programme.

Energy Efficiency and Demand Side Management Grant (EEDG)

Balance unspent at beginning of year	5 323	214 577
Current-year receipts	-	4 500 000
Conditions met - transferred to revenue	-	(4 709 254)
Grants withheld and transferred to equitable share	(5 323)	-
	<u>-</u>	<u>5 323</u>

Conditions still to be met - remain liabilities (see note 15).

This grant relates to municipal expenditure on the provision of electricity on new and residential establishments.

Water Infrastructure Grant (WIG)

Current-year receipts	-	5 000 000
Conditions met - transferred to revenue	-	(5 000 000)
	<u>-</u>	<u>-</u>

The grant is used to assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation.

Provincial Treasury subsidy (water and audit fees)

Current-year receipts	-	600 000
Conditions met - transferred to revenue	-	(600 000)
	<u>-</u>	<u>-</u>

Provincial Treasury paid R600,000 on behalf of Ngwathe as part of their outstanding audit fees owing to the Auditor General in October 2020.

Municipal Support Grant (MSG)

Balance unspent at beginning of year	3 500 000	1 706 000
Current-year receipts	1 750 000	4 500 000
Conditions met - transferred to revenue	-	(2 706 000)
	<u>5 250 000</u>	<u>3 500 000</u>

Conditions still to be met - remain liabilities (see note 15).

The grant is used to assist the municipalities to provide the communities with clean drinking water, repair and provide new additional infrastructure.

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24. Government grants & subsidies (continued)

Local Government Sector Education and Training Authority (LGSETA)

Current-year receipts	-	220 690
Conditions met - transferred to revenue	-	(220 690)
	-	-

LGSETA grant is used for the skills development of the municipal employees as per the skills work plan.

Water Service Infrastructure Grant (WSIG)

Balance unspent at beginning of year	7 733 568	91 508
Current-year receipts	26 500 000	25 000 000
Conditions met - transferred to revenue	(21 192 979)	(17 266 432)
Grants withheld and transferred to equitable share	-	(91 508)
	13 040 589	7 733 568

Conditions still to be met - remain liabilities (see note 15).

This grant aims to accelerate the delivery of clean water and sanitation facilities to communities that do not have access to basic water services.

Regional Bulk Infrastructure Grant (RBIG)

Balance unspent at beginning of year	34 687 381	13 649 444
Current-year receipts	78 921 000	47 500 000
Conditions met - transferred to revenue	(38 875 031)	(25 312 619)
Grants withheld and transferred to equitable share	(34 687 381)	(1 149 444)
	40 045 969	34 687 381

Conditions still to be met - remain liabilities (see note 15).

The purpose of the overall regional bulk programme is to develop an oversight function that will ensure the construction of enabling infrastructure and of operations and maintenance of regional bulk infrastructure in the water sector.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 10 of 2020), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

25. Fines, Penalties and Forfeits

Property Rates Penalties	228 647	259 146
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26. Employee related costs

Basic	155 562 957	150 295 045
Bonus	13 405 250	13 420 559
Medical aid - company contributions	14 654 830	14 063 972
Unemployment insurance fund (UIF)	1 540 898	1 365 863
Other payroll levies	2 214 731	1 741 408
Leave pay provision charge	3 436 692	3 682 439
Defined contribution plans	(1 668 462)	(1 621 902)
Overtime payments	26 242 917	23 727 523
Long-service awards	(678 076)	(594 517)
Pension fund contributions	25 379 955	25 561 307
Car allowance	7 617 297	7 905 929
Housing benefits and allowances	542 055	531 445
Other allowances	11 265 021	8 498 641
Group life insurance	2 234 332	2 198 428
	261 750 397	250 776 140

Remuneration of Municipal Manager (Kannemeyer BW)

Annual Remuneration	903 648	1 164 155
Car Allowance	268 486	370 418
Contributions to UIF, Medical and Pension Funds	12 758	14 103
	1 184 892	1 548 676

The Municipal Manager left the services of the municipality on the 31st of March 2022

Remuneration of Chief Finance Officer (Lebusa HI)

Annual Remuneration	1 003 775	1 027 833
Car Allowance	240 000	240 000
Contributions to UIF, Medical and Pension Funds	14 204	11 962
	1 257 979	1 279 795

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26. Employee related costs (continued)

Remuneration of Director Community Services (Nhlapo PP)

Annual Remuneration	878 140	825 674
Car Allowance	365 887	465 707
Contributions to UIF, Medical and Pension Funds	13 952	11 817
	1 257 979	1 303 198

Remuneration of Director Corporate Services (Mokgobu MF)

Annual Remuneration	622 829	825 300
Car Allowance	293 807	442 548
Contributions to UIF, Medical and Pension Funds	26 934	33 129
	943 570	1 300 977

Remuneration of Acting Municipal Manager (Mokgobu MF)

Annual Remuneration	314 818	-
Car Allowance	60 000	-
Contributions to UIF, Medical and Pension Funds	9 882	-
	384 700	-

Acting Municipal Manager (Mokgobu MF) acted in this position from 01 April 2022 to 30 June 2022

Remuneration of Acting Chief Financial Officer (Mtimkhulu KD)

Annual Remuneration	-	655 133
Car Allowance	-	95 534
Contributions to UIF, Medical and Pension Funds	-	38 742
	-	789 409

Acting Chief Financial Officer (Mtimkhulu KD) acted in this position for the month of May 2021

Remuneration of Director Technical Services (Malunga TR)

Annual Remuneration	754 736	521 433
Car Allowance	413 235	286 085
Contributions to UIF, Medical and Pension Funds	70 944	33 549
	1 238 915	841 067

Remuneration of Acting Director of Corporate Services (Majivolo ZJ)

Annual Remuneration	153 048	-
Car Allowance	28 947	-
Contributions to UIF, Medical and Pension Funds	39 355	-
	221 350	-

Acting Director of Corporate Services (Majivolo ZJ) acted in this position from 01 April 2022 to 31 May 2022

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26. Employee related costs (continued)

Remuneration of Director of Technical Services (Coetzer HW)

Annual Remuneration	-	936 050
Car Allowance	-	256 522
Contributions to UIF, Medical and Pension Funds	-	216 080
	-	1 408 652

Acting Director Technical Services (Coetzer HW) has acted in this position from July 2020 to November 2020.

27. Remuneration of councillors

Executive Major	978 511	899 723
Councillors	9 178 255	8 874 202
Mayoral Committee Members	4 715 680	5 003 509
Speaker	716 555	715 078
	15 589 001	15 492 512

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office, laptop, cell phone and secretarial support at the cost of the Council.

The Executive Mayor and the Speaker each have the use of separate Council owned vehicles and driver for official duties.

The Executive Mayor has one full-time bodyguard.

Salaries, allowances and benefits of political office bearers and councillors of the municipality are within the upper limits of the framework as envisaged by section 219 of the constitution.

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27. Remuneration of councillors (continued)

Councillors 30 June 2022	Allowances Company contributions	Allowances	Company contributions	Total
De Beer VE	404 795	246 391	4 802	655 988
De Jager SHF	146 564	62 130	-	208 694
De Jager AJ	146 564	62 130	-	208 694
Ferendale RS	226 550	100 720	-	327 270
Fieland H	79 986	38 590	-	118 576
Gobidolo SM	79 986	38 590	-	118 576
Jantjie AA	146 564	62 130	-	208 694
Kgantse R	79 986	38 590	-	118 576
Khumalo KJ	252 422	182 324	-	434 746
Kok S	146 564	62 130	-	208 694
LA Cock PJ	79 986	38 590	-	118 576
LA Cock SM	146 564	62 130	-	208 694
Magashule IM	226 550	100 720	-	327 270
Matroos AH	79 986	38 590	-	118 576
Matthysen Engelbrecht ME	146 564	62 130	-	208 694
Masooane D	252 422	182 324	-	434 746
Mbele MA	185 077	73 904	-	258 981
Mehlo LR	79 986	38 590	-	118 576
Meyer JA	146 564	62 130	-	208 694
Miyen MC	79 986	38 590	-	118 576
Mmusi MG	185 077	73 904	-	258 981
Mochela MJ	222 639	78 260	21 622	322 521
Mofokeng MD	332 408	220 914	-	553 322
Mofokeng MM	185 077	73 904	-	258 981
Mofokeng ML	185 077	73 904	-	258 981
Mokoena BT	146 564	62 130	-	208 694
Mokoena KJ	146 564	62 130	-	208 694
Molaphene PM	132 153	56 341	-	188 494
Mopedi NP	544 066	173 421	-	717 487
Moroenyane MJ	146 564	62 130	-	208 694
Moloi NS	252 422	182 324	-	434 746
Moloi MP	146 564	62 130	-	208 694
Mosepedi MTJ	252 422	182 324	-	434 746
Moseme SL	146 564	62 130	-	208 694
Motaung MP	146 564	62 130	-	208 694
Mvulane L	76 574	37 826	4 176	118 576
Ndayi PR	185 077	73 904	-	258 981
Nteo S	226 550	100 720	-	327 270
Nthoesane SE	146 564	62 130	-	208 694
Rapuleng MD	226 550	100 720	-	327 270
Rantsaile MM	146 564	62 130	-	208 694
Schoonwinkel A	225 636	95 703	8 690	330 029
Sehume NA	226 550	100 720	-	327 270
Sefako ME	252 422	182 324	-	434 746
Segoba SJ	79 986	39 270	-	119 256
Serathi M	185 077	73 904	-	258 981
Serfontein C	226 550	100 720	-	327 270
Serati MJ	252 422	182 324	-	434 746
Sotshiva LP	384 793	136 034	-	520 827
Sothoane TP	146 564	62 130	-	208 694
Taje M	79 986	38 590	-	118 576
Tete CF	159 972	75 980	-	235 952
Thene BS	79 986	38 590	-	118 576
Tlhobelo P	79 986	38 590	-	118 576
Toyi MS	299 909	103 152	-	403 061

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27. Remuneration of councillors (continued)

Tyumbu MJ	146 564	62 130	-	208 694
Van Der Merwe PP	226 550	100 720	-	327 270
Vermaak SM	79 072	33 573	5 456	118 101
Vrey AP	79 986	38 590	-	118 576
	10 524 281	5 019 973	44 746	15 589 000

Councillors 30 June 2021

	Allowances Company contributions	Allowances	Company contributions	Total
De Beer VE	211 345	115 925	-	327 270
Ferendale RS	220 761	106 509	-	327 270
Fieland H	220 761	106 509	-	327 270
Gobidolo SM	220 761	106 509	-	327 270
Kgantse R	220 761	106 509	-	327 270
LA Cock PJ	220 761	106 509	-	327 270
Magashule IM	220 761	106 509	-	327 270
Matroos AH	220 761	106 509	-	327 270
Mbele MA	510 813	203 974	-	714 787
Mehlo LR	220 761	106 509	-	327 270
Miyen MC	220 761	106 509	-	327 270
Mmusi MG	510 813	203 974	-	714 787
Mochela MJ	621 644	231 456	46 623	899 723
Mofokeng ML	510 813	203 974	-	714 787
Mofokeng MM	510 813	203 974	-	714 787
Mofokeng MD	220 761	106 509	-	327 270
Molaphane PM	220 761	106 509	-	327 270
Mopedi NP	559 078	156 000	-	715 078
Mvulane L	211 345	115 925	-	327 270
Moseme NA	98 116	48 604	-	146 720
Ndayi PR	510 813	203 974	-	714 787
Nteo S	220 762	106 508	-	327 270
Radebe S	91 984	44 379	-	136 363
Rapuleng MD	220 762	106 509	-	327 271
Schoonwinkel A	219 147	92 662	16 436	328 245
Sehume NA	220 761	106 508	-	327 269
Serathi M	510 813	203 974	-	714 787
Serfontein C	220 761	106 509	-	327 270
Sotshiva LP	510 813	203 974	-	714 787
Taje M	220 762	106 508	-	327 270
Tete CF	220 762	106 508	-	327 270
Thene BS	220 762	106 508	-	327 270
Toyi MS	294 196	113 221	-	407 417
Tlhobedi NP	220 762	106 508	-	327 270
Van Der Merwe PP	220 762	106 509	-	327 271
Vermaak SM	219 147	92 662	16 436	328 245
Vrey AP	220 762	106 509	-	327 271
	10 737 682	4 675 335	79 495	15 492 512

28. Depreciation, amortisation and impairment

Property, plant and equipment

72 974 057

71 814 403

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29. Impairment of assets

Impairments

Property, plant and equipment

15 517 665 (11 932 666)

An 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.

Infrastructure assets - GRAP 26.(23) states: In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

(g) - Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. Due to significant budget constraints, the municipality could not maintain the maintenance plan as required for the infrastructure assets. This led to the value in use being lower than the economic value of the assets. Assets were therefore impaired to a condition grade lower based on physical assessment of these assets.

Land - IGRAP 18 indicates that land is recognised based on control. Control of land is evidenced by the following criteria:

(a) legal ownership; and/or

(b) the right to direct access to land, and to restrict or deny the access of others to land. During the prior year it was identified that control over land has been lost. The most significant part of this was rural development for housing. As the land was not yet transferred to the legal new owner's name, the land was impaired.

Method

Carrying value – Value in Use = Impairment Loss

Significant assumptions applied

Value in use is directly related to a calculated current replacement cost considering the national CPI history factor.

Investment property

58 678 027

-

Investment property - IGRAP 18 indicates that land is recognised based on control. Control of land is evidenced by the following criteria:

(a) legal ownership; and/or

(b) the right to direct access to land, and to restrict or deny the access of others to land. During the prior year it was identified that control over land has been lost. The most significant part of this was rural development for housing. As the land was not yet transferred to the legal new owner's name, the land was impaired.

Method

Carrying value – Value in Use = Impairment Loss

Significant assumptions applied

Value in use is directly related to a calculated current replacement cost considering the national CPI history factor.

74 195 692 (11 932 666)

Refer to note 42 for prior period corrections made to impairment of assets.

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30. Finance costs		
Trade and other payables	29 715 386	30 525 287
Provision (Landfill site)	3 931 842	5 086 807
Employee benefits	3 061 758	2 835 553
	36 708 986	38 447 647
31. Debt impairment		
Contributions to debt impairment provision	165 818 689	163 128 988
Reconciliation of allowance for impairment		
Balance at the beginning of the year	(715 497 330)	(721 944 961)
Debt impairment written off against the allowance	70 005 997	167 529 777
VAT provision on impairment	(7 871 350)	2 046 842
Contribution to allowance	(165 818 689)	(163 128 988)
	(819 181 372)	(715 497 330)
32. Bulk purchases		
Electricity - Eskom	273 182 304	232 040 525
Water	37 448 314	35 414 384
	310 630 618	267 454 909
Electricity losses		
Units purchased	(257 772 183)	(187 700 004)
Units sold	114 358 216	125 270 015
Total loss	(143 413 967)	(62 429 989)
Percentage Loss: Technical losses	(56)%	(33)%
Water losses		
Units purchased	(2 908 998)	(2 530 517)
Units sold	1 513 309	1 310 747
Total	(1 395 689)	(1 219 770)
Percentage Loss: Technical losses	(48)%	(48)%

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33. Contracted services		
Presented previously		
Commission paid	9 706 199	7 973 492
Specialist Services	-	3 091 469
Outsourced Services		
Administrative and Support Staff	9 315 691	8 700 544
Meter Management	7 990 446	5 896 457
Consultants and Professional Services		
Legal Cost	6 404 094	2 010 099
Contractors		
Other Contractors	12 469 041	12 803 925
Safeguard and Security	6 636 247	3 502 922
	52 521 718	43 978 908
34. General expenses		
Accommodation cost	635 228	326 220
Advertising	969 425	1 761 600
Auditors remuneration	7 429 318	8 657 374
Bank charges	841 320	1 146 391
Cleaning	386 462	410 887
Consumables	17 048 842	13 755 318
Donations	150 000	165 000
Entertainment	178 818	143 985
Hire	57 963 447	42 631 194
Insurance	89 349	1 031 561
Fuel and oil	2 443 761	2 908 208
Postage and courier	1 277 015	1 255 891
Printing and stationery	1 102 414	1 874 525
Protective clothing	430 245	1 636 823
Financial systems (BCX)	2 689 464	3 337 770
Subscriptions and membership fees	2 967 328	2 773 801
Telephone and fax	6 830 438	5 870 637
Transport and freight	108 860	163 015
Training	225 308	975 612
Travel - local	884 924	1 181 873
Chemicals	9 557 763	8 406 011
Employee wellness	4 275	90 800
Youth development	341 400	87 930
Licenses	890 534	947 279
Other expenses	3 928 590	3 867 880
	119 374 528	105 407 585
35. Repairs and maintenance		
Repairs and maintenance	10 300 551	12 001 558

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36. Fair value adjustments			
Investment property	9 765 231	12 368 011	
Other financial assets			
• Other financial assets (Designated as at FV through P&L)	(26 727)	16 237	
• Other financial assets (At amortised cost)	27 012	24 502	
	9 765 516	12 408 750	
37. Cash generated from operations			
Deficit	(211 869 126)	(88 137 373)	
Adjustments for:			
Depreciation and amortisation	72 974 057	71 814 403	
Loss on sale of assets and liabilities	-	(39 573)	
Loss on disposal of assets	193 815	3 781 240	
Fair value adjustments	(9 765 516)	(12 408 750)	
Finance costs - Trade and other payables	29 715 386	30 525 287	
Interest received on receivables	(43 155 478)	(45 634 669)	
Impairment of assets	74 051 524	(11 932 666)	
Debt impairment	165 818 689	163 128 988	
Movements in retirement benefits and employee provisions	1 335 304	1 188 698	
Movements in provisions	3 931 842	5 086 807	
Actuarial gains / losses	2 724 074	2 783 479	
Employee benefit obligations - Finance cost	3 061 758	2 835 553	
Interest recovered from SARS	(7 683 923)	-	
Changes in working capital:			
Inventories	2 465 379	(9 057 864)	
Receivables from exchange transactions	(109 809 454)	(96 754 708)	
Receivables from non-exchange transactions	(30 108 921)	1 203 269	
Other receivables	(2 003 343)	(158 992)	
Payables from exchange transactions	118 857 318	147 409 104	
VAT	(35 292 784)	(21 857 900)	
Unspent conditional grants and receipts	23 044 531	26 244 331	
Consumer deposits	(29 014)	(126 018)	
	48 456 118	169 892 646	
38. Financial instruments disclosure			
Categories of financial instruments			
2022			
Financial assets			
	At fair value	At amortised cost	Total
Other receivables	-	2 162 335	2 162 335
Receivables from non-exchange transactions	-	25 993 222	25 993 222
Receivables from exchange transactions	-	122 033 008	122 033 008
Other financial assets	129 638	559 376	689 014
Cash and cash equivalents	-	5 204 574	5 204 574
	129 638	155 952 515	156 082 153

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38. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	2 004 651 537	2 004 651 537
Unspent conditional grants receipts	71 799 442	71 799 442
Consumer deposits	4 884 153	4 884 153
	2 081 335 132	2 081 335 132

2021

Financial assets

	At fair value	At amortised cost	Total
Other receivables	-	158 992	158 992
Receivables from non-exchange transactions	-	24 825 797	24 825 797
Receivables from exchange transactions	-	105 945 269	105 945 269
Other financial assets	422 511	532 364	954 875
Cash and cash equivalents	-	55 744 924	55 744 924
	422 511	187 207 346	187 629 857

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	1 863 762 756	1 863 762 756
Unspent conditional grants receipts	48 754 911	48 754 911
Consumer deposits	4 913 167	4 913 167
	1 917 430 834	1 917 430 834

39. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	99 997 401	137 813 207
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Total capital commitments

Already contracted for but not provided for	99 997 401	137 813 207
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Total commitments

Total commitments

Authorised capital expenditure	99 997 401	137 813 207
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This committed expenditure relates to plant and equipment and will be financed by available bank facilities, funds internally generated and grants received.

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40. Contingencies

Contingent liabilities

The following cases were against the municipality in the 2022 financial year as confirmed by the Attorneys. The nature and amount of the different litigations are as follows:

J.H Joost - Applicant seeks a *rule nisi* order for the Municipality to restore the electricity supply at his home and to prohibit the Municipality from disconnecting until an alleged dispute regarding the arrears on his account has been resolved. Application is set down for hearing on 01 September 2022. Estimate of financial implication amounts to R250 000.

Afriforum NPC - Afriforum seeks orders *inter alia* to compel the Municipality to restore electricity and water supply in the town of Parys. Failing which they seek an order to procure equipment to restore electricity in the town and water trucks at the Municipality's expense. Estimate of financial implication amounts to R298 085.87.

JWC Booysen - Plaintiff seeks to claim damages from the Municipality for bodily injuries suffered as a result of the Municipality's purported/alleged failure to ensure that the roads under the Municipality's jurisdiction are properly inspected and maintained. Estimate of financial implications amounts to R800 000

Anna Tshepe - Civil litigation pending in court. Estimate of financial implications amounts to R1 400 000

Antonio Pereira - Civil litigation pending in court. Estimate of financial implications amounts to R50 807.71

P.F Viviers - Applicant seeks a *rule nisi* order for the Municipality to restore the electricity supply at his home and to prohibit the Municipality from disconnecting until an alleged dispute regarding the arrears on his account has been resolved. Estimate of financial implications is unknown.

Nature of litigation	Possible rand	Possible rand	Number of cases 2022	Number of cases 2021
	value of claim 2022	value of claim 2021		
Civil Litigation	2 798 894	150 000	6	1

41. Related parties

Relationships

Members of key management

Refer to note 26

Members of council

Refer to note 27

42. 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:

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42. Prior-year adjustments (continued)

Investment properties:

During the financial year updated aerial footage was obtained and utilised to apply iGRAP 18 and investment properties where control was deemed to be lost were impaired based on the interpretation note. Refer to note 3 for additional disclosure.

Movement on occupancy was applied as properties which were previously occupied have been vacated and vice versa.

Due to prior year inconsistencies in the valuation of investment properties, all properties have been revalued by a 3rd party property valuator to ensure accuracy.

Property, plant and equipment:

Buildings

Additions were identified due to year end payments that were paid in the 2022 financial year, information was only available now in the 2022 financial year.

During the compilation of the buildings and community asset register in 2021, the incorrect cost prices for multiple line items were applied. This error was corrected in the 2022 financial year, as the correct costs were applied where applicable. Physical buildings where the square meters were used to calculate the cost, remains unchanged. New found buildings were added at the same rate as per all other measured buildings on the register.

Electricity network

A verification of movement and conditions on the electrical infrastructure was conducted in the financial year by means of on site verification, 360 imaging and HD Drone footage.

As all electrical metres are considered to be the property of the consumer once the meter is installed, the municipality transfers ownership of the meter to the property owner and will therefore not consider domestic electrical meters as an asset. All installed meters are however placed on a control list.

Roads and stormwater

All surface types and areas were assessed and corrected individually retrospectively and incorrect unit costs per surface were adjusted. Missing roads were added to ensure completeness and no road section is assured to be double accounted for. Class 1 and 2 roads which are considered to be either national or provincial roads were excluded from the register.

Areas where stormwater completeness was found to be an issue, the said assets were identified, measured, valued and capitalized according to the most recent and accurate information available.

Water and waste water network

All newly identified errors and duplicates were corrected from the register which have not been addressed in the prior year.

Incompleteness of water reticulation network was corrected and updated. As built drawings, drone imaging and physical on site verification was applied to do corrections retrospectively. Any new found asset was capitalized according to the most recent and accurate information available.

All consumer water meters are considered to be the property of the consumer once the meter is installed, the municipality transfers ownership of the meter to the property owner and will therefore not consider domestic water meters as an asset. All installed meters are however placed on a control list.

Moveable assets

Additional moveable assets were identified during 2022 financial year payments that were incorrectly classified, incorrect cut off dates and information (invoices and statements) not available during 2021 financial year.

A change of policy was approved to not consider moveable assets with a EUL of less than one year or a low value item as an asset. These items will be recorded on a control list and will not be included within the FAR.

Work in progress

Work in progress was restated due to year end payments that were incorrectly classified, incorrect cut off dates and information (invoices and statements) was not available at year end.

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42. Prior-year adjustments (continued)

VAT receivable

VAT receivable was restated due to the accrual of payments that relate to the 2021, 2020, 2019 and 2018 financial years that were made in the 2022 financial year and therefore the VAT on these payments were accounted for.

Payables from exchange transactions:

Trade payables

Payables were restated due to payments that relate to the 2021, 2020, 2019 and 2018 financial years that were made in the 2022 financial year, however were not accrued for in the previous financial years.

Retentions

Retentions were restated due to year end payments that were incorrectly classified, incorrect cut off dates and information (invoices and statements) was not available at year end.

Landfil sites

Recalculation of landfill site remaining useful life, considering the total volume of estimated waste per town population for each site which was accurately calculated by means of stockpiling software. All physical dimension errors and assumptions were corrected to ensure accurate disclosure within the statements.

Depreciation/impairment:

Due to additional assets identified and capitalised, depreciation was recalculated and accounted for. Impairment was accounted for in terms of condition assessments done to determine the value in use of each asset.

Depreciation and impairment formulas were corrected and updated to consider the impact of impairment on depreciation and align with the recommended standards.

Contracted services

Contracted services was restated as a result of payments relating to contracted services that were made in the 2022 financial year. These payments were made in the 2022 financial year, however these payments relate to the 2021, 2020, 2019 and 2018 financial years.

General expenses

General expenses was restated as a result of payments relating to general expenses that were made in the 2022 financial year. These payments were made in the 2022 financial year, however these payments relate to the 2021, 2020, 2019 and 2018 financial years.

Repairs and maintenance

Repairs and maintenance was restated as a result of payments relating to repairs and maintenance that were made in the 2022 financial year. These payments were made in the 2022 financial year, however these payments relate to the 2021, 2020, 2019 and 2018 financial years.

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42. Prior-year adjustments (continued)

Statement of financial position

2021

	Note	As previously reported	Correction of error	Restated
Investment property	3	490 852 963	(203 640 274)	287 212 689
Property, plant and equipment	4	1 341 000 234	9 410 090	1 350 410 324
Inventories	7	4 427 837	8 292 516	12 720 353
VAT receivable	10	251 441 805	1 634 057	253 075 862
Payables from exchange transactions	12	(1 846 957 047)	(16 805 712)	(1 863 762 759)
Provisions (Current)	16	(1 580 421)	(3 506 386)	(5 086 807)
Provisions (Non-current)	16	(27 905 024)	(61 911 274)	(89 816 298)
		211 280 347	(266 526 983)	(55 246 636)

Statement of financial performance

2021

	Note	As previously reported	Correction of error	Restated
Depreciation	28	72 502 169	(687 766)	71 814 403
Impairment of assets	29	(13 074 439)	1 141 773	(11 932 666)
Finance costs	30	34 941 261	3 506 386	38 447 647
Contracted services	33	41 887 918	2 090 990	43 978 908
General expenses	34	92 666 582	12 741 003	105 407 585
Repairs and maintenance	35	10 674 481	1 327 077	12 001 558
Fair value adjustment	36	(19 419 438)	7 010 688	(12 408 750)
Surplus for the year		220 178 534	27 130 151	247 308 685

43. Comparative figures

Comparative figures were restated due to prior period errors and reclassifications as and when the need arise.

For a detailed list on errors refer to prior period error note.42

44. Risk management

Financial risk management

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

Liquidity risk

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

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44. Risk management (continued)

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

Financial instrument	2022	2021
Other financial assets	689 014	954 875

Market risk

Interest rate risk

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

45. Going concern

The annual financial statements indicates that the municipality incurred a net loss of R211 869 126 during the year ended 30 June 2022 and, as of that date, the municipality's current liabilities exceeded its current assets by R1 636 956 008.

In addition, the municipality owed Eskom R1 501 864 136 (2021: R1 341 767 553) and the Department of Water and Sanitation R150 792 523 (2021: R138 162 028) as at 30 June 2022, which was long overdue. These events or conditions, along with other matters as set forth in note 45, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

46. Unauthorised expenditure

Opening balance as previously reported	99 115 148	931 285 277
Add: Expenditure identified - current	180 719 619	99 115 148
Add: Unspent grants (Non cash backed)	70 722 633	-
Less: Approved/condoned/authorised by council 2020	-	(197 716 696)
Less: Approved/condoned/authorised by council 2019	-	(169 315 082)
Less: Approved/condoned/authorised by council 2018	-	(168 145 340)
Less: Approved/condoned/authorised by council 2017	-	(396 108 159)
Closing balance	350 557 400	99 115 148

Municipal Public Account Committee did not recommend to the council of Ngwathe Local Municipality to condone and/or write off the unauthorised expenditure in line with paragraph 32.2(b) of the MFMA.

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47. Fruitless and wasteful expenditure		
Opening balance as previously reported	31 968 218	303 998 064
Less: Approved/condoned/authorised by council	-	(261 087 659)
Less: Approved/condoned/authorised by council (prior year)	-	(42 910 405)
Less: Written off (current year) - SARS	(6 479 211)	-
Less: Written off (current year) - AGSA	(280 052)	-
Less: Written off (current year) - SARS VAT201	(924 660)	-
Auditor General of South Africa (AGSA)	66 212	280 052
Eskom	20 322 559	14 824 066
Eskom NMD	13 436	10 850
Rand water	675 257	431 251
OFS pension fund	9 082	3 454
Department of Water and Sanitation	7 203 625	8 286 318
SALA Pension Fund	74 220	61 824
MWRF	25 825	31 936
SARS - EMP (Interest and penalties)	830 221	5 780 041
SARS - VAT (Interest and penalties)	313 813	699 171
Telkom	53 965	44 807
NFMW	67 983	54 819
Councillors pension fund	261	1 614
Sanlam pension fund	-	3 919
Phambili	-	3 340
Mcdermotte (Legal fees)	-	7 484
Free State provident fund	29 236	-
Value for Money	-	941 000
Lwasi Business Enterprise	-	502 272
RSK Consulting Engineers	3 858 389	-
Mathanda Civil Engineering	40 175	-
Mofomo Construction	514 309	-
Project: Vredefort refurbishment of water works	3 349 043	-
Project: Refurbishment of old Parys water treatment works	8 159 134	-
Project: Heilbron wastewater treatment works	16 983 590	-
Closing balance	86 874 630	31 968 218

The Municipal Public Account Committee did not recommend to Council of Ngwathe Local Municipality to condone and/or write off any fruitless and wasteful expenditure in line with paragraph 32,2(b) of the MFMA.

48. Irregular expenditure

Opening balance as previously reported	269 954 974	267 191 929
Add: Irregular expenditure identified during the audit	31 678 770	2 763 045
Closing balance	301 633 744	269 954 974

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	2 651 982	2 830 654
Current year subscription / fee	2 891 615	2 567 691
Amount paid - previous years	(2 585 433)	(2 746 363)
	2 958 164	2 651 982

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49. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Audit fees		
Opening balance	4 536 417	6 399 026
Current year subscription / fee	8 554 947	8 403 781
Interest charges	143 193	280 052
Amount paid - current year	(8 005 059)	(3 162 230)
Amount paid - previous years	(3 567 959)	(7 384 212)
	1 661 539	4 536 417
PAYE , SDL and UIF		
Opening balance	31 649 759	31 362 387
Current year subscription / fee	41 804 246	38 606 403
Interest	42 094	1 966 697
Penalties	788 127	3 813 343
Amount paid - previous year	(20 189 741)	(31 362 387)
Amount paid - current year	(17 612 889)	(12 736 684)
Condone and/or write off by Council: Item 20 (20/12/2020)	(22 337 368)	-
Interest and penalties written off by SARS	(5 924 386)	-
	8 219 842	31 649 759
Pension and Medical Aid Deductions		
Opening balance	8 450 240	8 004 217
Current year subscription / fee	63 797 096	63 086 646
Interest and penalties	218 268	157 568
Overpayment to Hosmed November 2021	600 000	-
Amount paid - previous year	(8 450 240)	(8 004 216)
Amount paid - current year	(61 579 364)	(54 793 975)
	3 036 000	8 450 240
VAT		
VAT receivable	288 368 646	253 075 862

VAT output payables and VAT input receivables are shown in note 10.

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2022:

30 June 2022	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
De Beer VE	720	-	720
Mosepedi MTJ	1 142	-	1 142
Mofokeng MD	776	-	776
Serati MJ	5 814	-	5 814
Khumalo KJ	2 883	38 662	41 545
Masooane D	1 847	1 748	3 595
Schoonwinkel A	2 723	-	2 723
Sehume A	1 534	-	1 534
Magashule IM	1 230	-	1 230
Moroenyane MJ	1 533	1 135	2 668
La Cock SM	5 056	-	5 056
Jantjie AA	3 527	66 430	69 957
Matthysen Engelbrecht ME	4 795	1 813	6 608
Kok S	1 926	-	1 926
Nteo S	1 337	431	1 768
Moseme SL	4 242	44 625	48 867
Rapuleng MD	1 692	16 259	17 951
Sothoane TP	1 244	1 026	2 270
Sotshiva L	1 958	-	1 958
Toyi MS	719	-	719
Tyumbu MJ	1 651	9 857	11 508
Rantsaile MM	2 266	18 391	20 657
Mokoena BT	2 837	34 160	36 997
Meyer JA	470	-	470
Motaung MP	2 002	759	2 761
	55 924	235 296	291 220
30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Fieland H	225	-	225
Mbele MA	553	-	553
Mofokeng MD	271	-	271
Mofokeng ML	1 158	-	1 158
Mvulane L	448	-	448
Sehume NA	452	-	452
Serathi J	501	-	501
Sotshiva LP	306	-	306
Taje ME	1 451	-	1 451
Vermaak SM	1 472	-	1 472
	6 837	-	6 837

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50. Deviation from supply chain management regulations

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

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

The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

	Sole suppliers	Emergency	Impractical	Strip and code	Total
June 2022	-	10 191 830	-	530 679	10 722 509

	Sole suppliers	Emergency	Impractical	Strip and code	Total
June 2021	-	10 579 496	-	333 424	10 912 920

51. Budget differences

Material differences between budget and actual amounts

Management considers any variance above 10% to be significant.

51.01 - The Municipality collected less than what was budgeted for, this might be due to changes in the systems that started in the 2020 financial year.

51.02 - The Municipality collected less on the rental of facilities in the 2022 financial year as the municipality is unable to collect rent on some of municipal properties due to unemployment and hostel dwellers.

51.03 - Less was collected during the 2022 financial year on investments that were made with financial institutions. This will be as a result of fluctuations in the interest earned as and when the funds are utilised for the respective grants.

51.04 - The Municipality anticipated to collect less on other income due to the fact that there are no revenue enhancement strategies in the 2022 financial year.

51.05 - The variance is less than 10%, therefore it is immaterial.

51.06 - The Municipality budgeted more on fines and penalties based on growing number of debtors with illegal connections.

51.07 - The variance is due to the unspent grant as disclosed in the payables section.

51.08 - The Municipality budgeted less on depreciation with the intention of keeping the budget under control.

51.09 - The Municipality budgeted less on finance cost without taking in to account the payables book value of R1 billion inclusive of Eskom and DWS.

51.10 - The Municipality budgeted less without taking into account that there is no credit control and collection strategies in place or arrangements for long outstanding receivables as at 30 June 2022 and that the community has a high number of indigents applications.

51.11 - The Municipality budgeted more for this line item taking into account the amounts owing to suppliers such as Eskom and DWS in the prior financial year.

51.12 - The Municipality budgeted less on contracted services with the intention of keeping the expenditure under control and that less of the municipal daily activities is being outsourced.

51.13 - The Municipality managed to spend less than what was budgeted for with the goal of cost saving.

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51. Budget differences (continued)

51.14 - The Municipality budgeted less with the intention of spending less on its day to day operations.

51.15 - The Municipality does not budget for these line items.

51.16 - The Municipality budgeted more for inventories with the expectation that more inventories would be purchased and utilised. Less inventory was purchased as at year end than had been expected. Water inventory was also taken into consideration in the budgeting of inventory.

51.17 - The Municipality budgeted for both types of receivables on one line item "receivables from non exchange". The Municipality budgeted more for receivables from non exchange transactions and receivables from exchange transactions taking into account the current economic conditions, rise in living costs and the possibility of long standing debtors.

51.18 - The Municipality budgeted for cash and cash equivalents based on the expectancy that the main account would be in an overdraft. As at year end all bank balances have positive balances.

51.19 - The Municipality budgeted more on this line item with the intention of acquiring more, for the current financial year there were no acquisition of Intangible assets.

51.20 - The Municipality budgeted more on consumer deposit with expectation of new accounts being opened by business owners.

51.21 - The Municipality has budgeted more on landfill site. The intention is to reach a desirable compliance status in the next few financial years.

51.22 - The Municipality budgeted for long term financial liabilities however there is no actual financial liabilities in current financial year.

51.23 - The Municipality budgeted more with the expectation that more assets would be purchased during the financial year and expected to have additional assets completed during the financial year.

51.24 - The Municipality budgeted for other financial liabilities with the expectation that financial liability additions would occur during the financial year. No other financial liabilities were prevalent during the financial year.

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52. Segment information

General information

Identification of segments

In the identification of segments the Municipality applied the definition of a "segment" included in Paragraph 5 of GRAP 18, on Segment Reporting:

A segment is an activity of an entity:

(a) That generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);

(b) Whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and

(c) For which separate financial information is available.

In the identification of a segment, paragraph (b) above did not meet the definition of a segment due to the fact that the Municipality does not budget and monitor per vote/department. Based on this the Municipality does not have any identifiable segments and therefore there is only one reportable segment which is the Municipality as a whole.

Aggregated segments

The municipality operates throughout the Free State Province in 5 towns. Segments were aggregated on the basis of services delivered.

Types of goods and/or services by segment

These reportable segment as well as the goods and/or services for the segment is set out below:

Reportable segment
Ngwathe Local Municipality

Goods and/or services
Please refer to the Statement of Financial Position and the Statement of Financial Performance

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52. Segment information (continued)

Segment surplus or deficit

2022

Information about segment surplus/deficit:

Revenue - Please refer to the Statement of Financial Performance for information about the reportable segment

Expenditure - Please refer to the Statement of Financial Performance for information about the reportable segment.

Information about segment assets and liabilities:

Assets - Please refer to the Statement of Financial Position for information about the reportable segment

Liabilities - Please refer to the Statement of Financial Position for information about the reportable segment

Net Assets - Please refer to the Statement of Financial Position for information about the reportable segment

Measurement of segment surplus or deficit, assets and liabilities

Basis of accounting for transactions between reportable segments

The Municipality does not have any identifiable segments and as such there are not transactions between segments.

Information about geographical areas

The municipality's operations are in the Free State Province.

The municipality does not report on a geographical basis, therefore information is not available and it is therefore impractical to report on a geographical basis.