



Mnquma Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2016

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## General Information

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### Nature of business and principal activities

Mnquma Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no. 117 of 1998). The municipality's operations are governed by:-  
Municipal Finance Management Act 56 of 2003 - Municipal Structure Act 117 of 1998 - Municipal Systems Act 32 of 2000 and various other acts and regulations.

### Executive committee

#### Mayor

Councillor B. Ganjana

#### Speaker

Councillor Z. M. Mnqwazi

#### Chief Whip

Councillor T.P. Ntanga

#### Exco Councillors

Councillor N. Sheleni  
Councillor T. Bikitsha  
Councillor S. Ncetezo  
Councillor T. Madikane  
Councillor L.Mgandela  
Councillor N. Nkamisa  
Councillor N. Skelenge  
Councillor G. Mdudo  
Councillor N. Plaatjie  
Councillor Z. Sogayise

### Councillors

Councillor M. Molosi  
Councillor Y. Mngonyama  
Councillor A.V. Mankune  
Councillor N.Tyala  
Councillor S. Mahlanza  
Councillor N.Q. Sukwana  
Councillor N.Jiya  
Councillor L.M. Mtalo  
Councillor C.N. Makholwa  
Councillor Mnqokoyi  
Councillor N. Luwaca  
Councillor N.S. Tsetse  
Councillor Z. Gobingca  
Councillor Z.Gade  
Councillor N. Phahlane  
Councillor A. Nkaule  
Councillor E. W. Nyengule  
Councillor T. Mbelani  
Councillor M. Buso  
Councillor M.D. Mkhwezo  
Councillor N. Nqata  
Councillor Z. Mqolo  
Councillor T. Dyani  
Councillor X. Nkwatani  
Councillor C. N. Magadla  
Councillor N. Zaba  
Councillor N. Njengele  
Councillor N. Sajini

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## General Information

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Councillor M.S Velaphi  
Councillor N. Mbuku  
Councillor L. K. Ntshebe  
Councillor M. Magqabini  
Councillor N. W. Mzimba  
Councillor Q. A. Mpande  
Councillor V. Bam  
Councillor X. D. Mathanga  
Councillor G. Q. Ngqongolo  
Councillor M.W. Ntongana  
Councillor T. Ntshawuzana  
Councillor T. M. Ntisana  
Councillor M. Zimba  
Councillor Z. D. Solontsi  
Councillor C. K. Mpeluza  
Councillor N. Tandela  
Councillor Z. Bomela  
Councillor M. Nyhontso  
Councillor N. Dayimani  
Councillor X. C. Doko  
Councillor P. Mntwini

### TRADITIONAL LEADERS TO PARTICIPATE IN MNQUMA MUNICIPALITY COUNCIL

S. Mpeta  
S. Sobhekwa  
D. Ndzimela  
T.C. Magodla  
O.M. Tsipa  
Z. Dyantyi  
V.N. Kona  
M. Dondolo  
M. Mcotama

**Grading of local authority**

Medium capacity municipality

**Chief Finance Officer (CFO)**

L. Manjingolo

**Accounting Officer**

Mr S Tantsi

**Registered office**

Corner King & Umtata Street  
Butterworth  
4960

**Postal address**

P.O. Box 36  
Butterworth  
4960

**Bankers**

First National Bank

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## General Information

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### Relevant Legislation

Municipal Finance Management Act (Act no. 56 of 2003)  
Division of Revenue Act 1 of 2015  
Income Tax Act  
Value Added Tax Act 89 of 1991  
Municipal Structures Act (Act no. 117 of 1998)  
Municipal Systems Act (Act no. 32 of 2000)  
Housing Act (Act no. 107 of 1997)  
Municipal Property Rates Act (Act no. 6 of 2004)  
Electricity Act (Act no. 41 of 1987)  
Skills Development Levies Act (Act no. 9 of 1999)  
Employment Equity Act (Act no. 55 of 1998)  
Basic Conditions of Employment Act (Act no. 75 of 1997)  
Supply Chain Management Regulations, 2005

### Jurisdiction

Mnquma Local Municipality is located in the south-eastern part of the Eastern Cape province. This Category B municipality falls under the jurisdiction of the Amathole District Municipality and comprises an amalgamation of the former Butterworth, Ngqamakhwe (previously Ngqamakwe) and Centane Transitional Regional Councils. Mnquma Local Municipality shares borders with three other local municipalities: Mbhashe, Intsika Yethu and Great Kei. It also includes a number of previously administered rural areas.  
Cities/Towns: Butterworth, Centani, Ngqamakhwe.

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Index

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The reports and statements set out below comprise the interim financial statements presented to the council:

<b>Index</b>	<b>Page</b>
Accounting officer's Responsibilities and Approval	5
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10 - 14
Accounting Policies	15 - 44
Notes to the financial statements	45 - 89

### Abbreviations

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

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting officer's Responsibilities and Approval

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

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

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

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

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the interim 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 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

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

The annual financial statements set out on pages 5 to 89, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

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**Mr S Tantsi**  
**Municipal Manager**

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	2	9 109 781	8 333 065
Receivables from exchange transactions	3	534 461	849 520
Receivables from non-exchange transactions	4	3 336 666	4 591 738
VAT receivable	5	11 489 969	3 528 655
Cash and cash equivalents	6	22 252 751	61 179 293
		<b>46 723 628</b>	<b>78 482 271</b>
<b>Non-Current Assets</b>			
Investment property	7	6 572 432	9 632 063
Property, plant and equipment	8	849 954 989	834 447 812
Intangible assets	9	-	4 551
		<b>856 527 421</b>	<b>844 084 426</b>
<b>Total Assets</b>		<b>903 251 049</b>	<b>922 566 697</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	10	263 119	364 186
Payables from exchange transactions	11	24 537 415	26 080 011
Payables from non-exchange transactions	12	1 649 228	1 357 350
Employee benefit obligation	13	19 486 717	15 690 141
Unspent conditional grants and receipts	14	7 658 173	18 479 905
Bank overdraft	6	210 065	-
		<b>53 804 717</b>	<b>61 971 593</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	10	92 068	378 259
Employee benefit obligation	13	8 589 000	7 281 000
		<b>8 681 068</b>	<b>7 659 259</b>
<b>Total Liabilities</b>		<b>62 485 785</b>	<b>69 630 852</b>
<b>Net Assets</b>		<b>840 765 264</b>	<b>852 935 845</b>
<b>Reserves</b>			
Revaluation reserve	15	438 218 005	439 365 635
Accumulated surplus		402 547 259	413 570 210
<b>Total Net Assets</b>		<b>840 765 264</b>	<b>852 935 845</b>

\* See Note 48

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	16	3 624 737	3 590 687
Rental of facilities and equipment	17	2 968 091	2 300 008
Interest on outstanding debtors		5 073 904	3 694 136
Income from agency services	18	2 768 727	2 655 169
Licences and permits		1 093 541	1 029 343
Other income	19	1 144 157	5 001 530
Interest received - investment	20	5 335 609	5 115 932
<b>Total revenue from exchange transactions</b>		<b>22 008 766</b>	<b>23 386 805</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	21	19 902 156	19 384 364
<b>Transfer revenue</b>			
Government grants & subsidies	22	320 305 732	283 142 059
Traffic fines		8 522 293	8 342 257
<b>Total revenue from non-exchange transactions</b>		<b>348 730 181</b>	<b>310 868 680</b>
<b>Total revenue</b>	23	<b>370 738 947</b>	<b>334 255 485</b>
<b>Expenditure</b>			
Employee related costs	24	(161 061 749)	(130 751 637)
Remuneration of councillors	25	(25 897 543)	(22 211 250)
Depreciation and amortisation	27	(51 489 291)	(100 754 890)
Impairment loss	28	(22 919 682)	(28 629 361)
Finance costs	26	(716 628)	(747 542)
Bad debts written off	35	(3 335 292)	-
Collection costs		(43 088)	(47 325)
Repairs and maintenance		(6 922 573)	(7 596 314)
Bulk purchases	29	(9 235 669)	(10 130 635)
Grants and subsidies expenditure	33	(38 149 439)	(19 875 408)
General expenses	30	(55 585 258)	(45 992 322)
<b>Total expenditure</b>		<b>(375 356 212)</b>	<b>(366 736 684)</b>
<b>Operating deficit</b>		<b>(4 617 265)</b>	<b>(32 481 199)</b>
Loss on disposal of assets and liabilities		(1 979 941)	(7 483 825)
Fair value adjustments	31	5 229 657	5 229 778
Actuarial gains/ (losses)		145 827	669 000
		<b>3 395 543</b>	<b>(1 585 047)</b>
Deficit before taxation		(1 221 722)	(34 066 246)
Taxation		-	-
<b>Deficit for the year</b>		<b>(1 221 722)</b>	<b>(34 066 246)</b>

\* See Note 48



# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
<b>Balance at 01 July 2014</b>	<b>444 595 413</b>	<b>433 746 849</b>	<b>878 342 262</b>
Changes in net assets			
Realisation of revaluation surplus	(5 229 779)	-	(5 229 779)
Net income (losses) recognised directly in net assets	(5 229 779)	-	(5 229 779)
Surplus (Defecit) for the year	-	(34 066 246)	(34 066 246)
Total recognised income and expenses for the year	(5 229 779)	(34 066 246)	(39 296 025)
Correction of error note 47	-	13 889 607	13 889 607
Total changes	(5 229 778)	(20 176 639)	(25 406 417)
<b>Restated* Balance at 01 July 2015 - Note 47</b>	<b>439 365 635</b>	<b>413 570 210</b>	<b>852 935 845</b>
Changes in net assets			
Other adjustments	-	(9 801 229)	(9 801 229)
Net income (losses) recognised directly in net assets	-	(9 801 229)	(9 801 229)
Surplus for the year	-	(1 221 722)	(1 221 722)
Total recognised income and expenses for the year	-	(11 022 951)	(11 022 951)
Total changes	-	(11 022 951)	(11 022 951)
<b>Balance at 30 June 2016</b>	<b>438 218 005</b>	<b>402 547 259</b>	<b>840 765 264</b>

\* See Note 48

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Other Receipts		1 144 157	5 350 299
Sale of goods and services		34 793 539	43 242 675
Grants		320 305 732	283 142 059
Interest income		5 335 609	5 115 932
		<u>361 579 037</u>	<u>336 850 965</u>
<b>Payments</b>			
Employee costs		(186 959 292)	(152 962 887)
Suppliers		(144 987 229)	(136 746 932)
Finance cost		(716 628)	(747 542)
		<u>(332 663 149)</u>	<u>(290 457 361)</u>
Total receipts		361 579 037	336 850 965
Total payments		(332 663 149)	(290 457 361)
<b>Net cash flows from operating activities</b>	32	<b><u>28 915 888</u></b>	<b><u>46 393 604</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(68 121 847)	(95 850 036)
Proceeds from sale of property, plant and equipment	8	483 973	19 960 241
<b>Net cash flows from investing activities</b>		<b><u>(67 637 874)</u></b>	<b><u>(75 889 795)</u></b>
<b>Cash flows from financing activities</b>			
Finance lease payments		(414 621)	(247 817)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>(39 136 607)</u></b>	<b><u>(29 744 008)</u></b>
Cash and cash equivalents at the beginning of the year		61 179 293	90 923 301
<b>Cash and cash equivalents at the end of the year</b>	6	<b><u>22 042 686</u></b>	<b><u>61 179 293</u></b>

\* See Note 48

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	4 100 000	-	<b>4 100 000</b>	3 624 737	<b>(475 263)</b>	48.1
Rental of facilities and equipment	2 317 000	-	<b>2 317 000</b>	2 968 091	<b>651 091</b>	48.2
Interest received received from debtors	4 525 000	(500 000)	<b>4 025 000</b>	5 073 904	<b>1 048 904</b>	48.3
Income from agency services	4 283 000	(700 000)	<b>3 583 000</b>	2 768 727	<b>(814 273)</b>	48.4
Licences and permits	1 000 000	(200 000)	<b>800 000</b>	1 093 541	<b>293 541</b>	48.5
Other income	972 085	-	<b>972 085</b>	1 144 157	<b>172 072</b>	48.6
Interest received - investment	4 500 000	900 000	<b>5 400 000</b>	5 335 609	<b>(64 391)</b>	
<b>Total revenue from exchange transactions</b>	<b>21 697 085</b>	<b>(500 000)</b>	<b>21 197 085</b>	<b>22 008 766</b>	<b>811 681</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	19 472 000	-	<b>19 472 000</b>	19 902 156	<b>430 156</b>	48.31
Government grants & subsidies	315 102 000	19 037 000	<b>334 139 000</b>	320 305 732	<b>(13 833 268)</b>	48.33
<b>Transfer revenue</b>						
Traffic fines	2 201 000	4 585 000	<b>6 786 000</b>	8 522 293	<b>1 736 293</b>	48.7
<b>Total revenue from non-exchange transactions</b>	<b>336 775 000</b>	<b>23 622 000</b>	<b>360 397 000</b>	<b>348 730 181</b>	<b>(11 666 819)</b>	
'Total revenue from exchange transactions'	21 697 085	(500 000)	<b>21 197 085</b>	22 008 766	<b>811 681</b>	
'Total revenue from non-exchange transactions'	336 775 000	23 622 000	<b>360 397 000</b>	348 730 181	<b>(11 666 819)</b>	
<b>Total revenue</b>	<b>358 472 085</b>	<b>23 122 000</b>	<b>381 594 085</b>	<b>370 738 947</b>	<b>(10 855 138)</b>	
<b>Expenditure</b>						
Personnel	(146 304 000)	(8 193 000)	<b>(154 497 000)</b>	(161 061 749)	<b>(6 564 749)</b>	
Remuneration of councillors	(24 140 000)	(1 386 000)	<b>(25 526 000)</b>	(25 897 543)	<b>(371 543)</b>	
Depreciation and amortisation	(47 099 000)	(102 901 000)	<b>(150 000 000)</b>	(51 489 291)	<b>98 510 709</b>	48.8
Debt impairment	-	-	-	(22 919 682)	<b>(22 919 682)</b>	48.10
Finance costs	(1 200 000)	(620 000)	<b>(1 820 000)</b>	(716 628)	<b>1 103 372</b>	48.9
Debt impairment	(3 000 000)	(7 000 000)	<b>(10 000 000)</b>	(3 335 292)	<b>6 664 708</b>	
Collection costs	-	-	-	(43 088)	<b>(43 088)</b>	48.11
Repairs and maintenance	(7 455 000)	(450 000)	<b>(7 905 000)</b>	(6 922 573)	<b>982 427</b>	
Bulk purchases	(7 000 000)	(1 650 000)	<b>(8 650 000)</b>	(9 235 669)	<b>(585 669)</b>	
General Expenses	(65 154 000)	(20 958 000)	<b>(86 112 000)</b>	(89 779 791)	<b>(3 667 791)</b>	
<b>Total expenditure</b>	<b>(301 352 000)</b>	<b>(143 158 000)</b>	<b>(444 510 000)</b>	<b>(371 401 306)</b>	<b>73 108 694</b>	
	358 472 085	23 122 000	<b>381 594 085</b>	370 738 947	<b>(10 855 138)</b>	
	(301 352 000)	(143 158 000)	<b>(444 510 000)</b>	(371 401 306)	<b>73 108 694</b>	
<b>Operating deficit</b>	<b>57 120 085</b>	<b>(120 036 000)</b>	<b>(62 915 915)</b>	<b>(662 359)</b>	<b>62 253 556</b>	
Loss on disposal of assets and liabilities	590 000	-	<b>590 000</b>	(1 979 941)	<b>(2 569 941)</b>	48.13
Fair value adjustments	-	-	-	5 229 657	<b>5 229 657</b>	

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actuarial gain/loss	-	-	-	145 827	<b>145 827</b>	48.14
	<b>590 000</b>	-	<b>590 000</b>	<b>3 395 543</b>	<b>2 805 543</b>	
	57 120 085	(120 036 000)	<b>(62 915 915)</b>	(662 359)	<b>62 253 556</b>	
	590 000	-	<b>590 000</b>	3 395 543	<b>2 805 543</b>	
<b>Surplus before taxation</b>	<b>57 710 085</b>	<b>(120 036 000)</b>	<b>(62 325 915)</b>	<b>2 733 184</b>	<b>65 059 099</b>	
Deficit before taxation	57 710 085	(120 036 000)	<b>(62 325 915)</b>	2 733 184	<b>65 059 099</b>	
Taxation	-	-	-	-	-	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>57 710 085</b>	<b>(120 036 000)</b>	<b>(62 325 915)</b>	<b>2 733 184</b>	<b>65 059 099</b>	

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	5 573 000	3 967 000	<b>9 540 000</b>	9 109 781	<b>(430 219)</b>	
Receivables from non-exchange transactions	11 177 000	13 963 000	<b>25 140 000</b>	3 277 346	<b>(21 862 654)</b>	48.16
VAT receivable	-	-	-	11 489 969	<b>11 489 969</b>	
Receivables from exchange transactions	9 435 000	(2 381 000)	<b>7 054 000</b>	534 461	<b>(6 519 539)</b>	48.18
Cash and cash equivalents	108 065 000	4 717 000	<b>112 782 000</b>	22 252 751	<b>(90 529 249)</b>	48.19
	<b>134 250 000</b>	<b>20 266 000</b>	<b>154 516 000</b>	<b>46 664 308</b>	<b>(107 851 692)</b>	
<b>Non-Current Assets</b>						
Investment property	-	717 000	<b>717 000</b>	6 572 432	<b>5 855 432</b>	48.20
Property, plant and equipment	592 148 000	210 299 000	<b>802 447 000</b>	849 954 989	<b>47 507 989</b>	
Intangible assets	600 000	(467 000)	<b>133 000</b>	-	<b>(133 000)</b>	48.22
	<b>592 748 000</b>	<b>210 549 000</b>	<b>803 297 000</b>	<b>856 527 421</b>	<b>53 230 421</b>	
Non-Current Assets	134 250 000	20 266 000	<b>154 516 000</b>	46 664 308	<b>(107 851 692)</b>	
Current Assets	592 748 000	210 549 000	<b>803 297 000</b>	856 527 421	<b>53 230 421</b>	
Non-current assets held for sale (and) (assets of disposal groups)	-	-	-	-	-	
<b>Total Assets</b>	<b>726 998 000</b>	<b>230 815 000</b>	<b>957 813 000</b>	<b>903 191 729</b>	<b>(54 621 271)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Finance lease obligation	412 000	(32 000)	<b>380 000</b>	263 119	<b>(116 881)</b>	48.23
Payables from exchange transactions	85 764 000	(38 217 000)	<b>47 547 000</b>	24 537 415	<b>(23 009 585)</b>	48.24
Payable from non-exchange transactions	-	-	-	1 649 228	<b>1 649 228</b>	48.25
Employee benefit obligation	24 719 000	(9 029 000)	<b>15 690 000</b>	19 486 717	<b>3 796 717</b>	48.26
Unspent conditional grants and receipts	-	-	-	7 658 173	<b>7 658 173</b>	48.27
Bank overdraft	-	-	-	210 065	<b>210 065</b>	48.27
	<b>110 895 000</b>	<b>(47 278 000)</b>	<b>63 617 000</b>	<b>53 804 717</b>	<b>(9 812 283)</b>	
<b>Non-Current Liabilities</b>						
Finance lease obligation	445 000	(261 000)	<b>184 000</b>	92 068	<b>(91 932)</b>	48.29
Employee benefit obligation	-	7 281 000	<b>7 281 000</b>	8 589 000	<b>1 308 000</b>	48.30
	<b>445 000</b>	<b>7 020 000</b>	<b>7 465 000</b>	<b>8 681 068</b>	<b>1 216 068</b>	
	110 895 000	(47 278 000)	<b>63 617 000</b>	53 804 717	<b>(9 812 283)</b>	
	445 000	7 020 000	<b>7 465 000</b>	8 681 068	<b>1 216 068</b>	
	-	-	-	-	-	
<b>Total Liabilities</b>	<b>111 340 000</b>	<b>(40 258 000)</b>	<b>71 082 000</b>	<b>62 485 785</b>	<b>(8 596 215)</b>	
Assets	726 998 000	230 815 000	<b>957 813 000</b>	903 191 729	<b>(54 621 271)</b>	
Liabilities	(111 340 000)	40 258 000	<b>(71 082 000)</b>	(62 485 785)	<b>8 596 215</b>	
<b>Net Assets</b>	<b>615 658 000</b>	<b>271 073 000</b>	<b>886 731 000</b>	<b>840 705 944</b>	<b>(46 025 056)</b>	

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Revaluation reserve	-	443 448 000	<b>443 448 000</b>	438 218 005	<b>(5 229 995)</b>	
Accumulated surplus	615 658 000	(172 375 000)	<b>443 283 000</b>	402 487 939	<b>(40 795 061)</b>	
<b>Total Net Assets</b>	<b>615 658 000</b>	<b>271 073 000</b>	<b>886 731 000</b>	<b>840 705 944</b>	<b>(46 025 056)</b>	

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Ratepayers and other	19 472 000	-	19 472 000	-	(19 472 000)	
Sale of goods and services	4 100 000	-	4 100 000	-	(4 100 000)	
Government grants	315 102 000	19 036 000	334 138 000	-	(334 138 000)	
Interest income	9 025 000	400 000	9 425 000	-	(9 425 000)	
Other receipts	10 772 000	3 685 000	14 457 000	-	(14 457 000)	
	<b>358 471 000</b>	<b>23 121 000</b>	<b>381 592 000</b>	-	<b>(381 592 000)</b>	
<b>Payments</b>						
Suppliers and employees	(300 153 000)	(142 537 000)	(442 690 000)	-	442 690 000	
Finance costs	(1 200 000)	(620 000)	(1 820 000)	-	1 820 000	
	<b>(301 353 000)</b>	<b>(143 157 000)</b>	<b>(444 510 000)</b>	-	<b>444 510 000</b>	
Total receipts	358 471 000	23 121 000	381 592 000	-	(381 592 000)	
Total payments	(301 353 000)	(143 157 000)	(444 510 000)	-	444 510 000	
<b>Net cash flows from operating activities</b>	<b>57 118 000</b>	<b>(120 036 000)</b>	<b>(62 918 000)</b>	-	<b>62 918 000</b>	
<b>Cash flows from investing activities</b>						
Proceeds from sale of property, plant and equipment	590 000	-	590 000	-	(590 000)	
Purchase of capital assets	(107 807 000)	10 135 000	(97 672 000)	-	97 672 000	
<b>Net cash flows from investing activities</b>	<b>(107 217 000)</b>	<b>10 135 000</b>	<b>(97 082 000)</b>	-	<b>97 082 000</b>	
Net increase/(decrease) in cash and cash equivalents	(50 099 000)	(109 901 000)	(160 000 000)	-	160 000 000	
Cash and cash equivalents at the beginning of the year	90 602 000	(32 134 000)	58 468 000	-	(58 468 000)	
<b>Cash and cash equivalents at the end of the year</b>	<b>40 503 000</b>	<b>(142 035 000)</b>	<b>(101 532 000)</b>	-	<b>101 532 000</b>	

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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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.

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

#### 1.1 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:

##### Trade receivables

The municipality assesses its trade receivables 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 of consumer debtors and other trade receivables exists predominantly due to the possibility that these debts will not be recovered. Receivables were assessed individually and grouped together where applicable at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment. In determining this allowance estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile. The Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

In determining the recoverability of receivables from non-exchange and receivables from exchange transactions, the municipality considers any change in the credit quality of the debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the debtors impairment.

##### Fair value estimation

##### Impairment testing ( Cash and non-cash generating units)

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.

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 intangible and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.



# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Provisions

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

#### Useful lives of property plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges of property, plant and equipment. This estimate is based on industry norm. This estimate is based on industry norm. This estimate is based on the pattern in which an assets future economic benefits or service potential are expected to be consumed by the municipality.

#### 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 government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

#### Effective interest rate

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

#### Receivables

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

### 1.4 Investment property

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

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

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

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

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

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

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.

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.4 Investment property (continued)

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	5-100 years

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 has land and buildings, including vacant land that is classified as investment property. In terms of the Local Government Municipal Properties Rates Act of 2004, the municipality is required to perform general valuation once every four (4) years. The investment property held in the books of the municipality is not actively traded as the mandate of the municipality also includes local economic development. As such properties may be earmarked for local economic development. Thus, their trade value will be based on the proposal that impacts positively on economic growth. Therefore fair value cannot be measured reliably at each reporting date.

### 1.5 Property, plant and equipment

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

Property, plant and equipment is initially measured at cost.

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

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets 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.

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.

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

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.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

#### Subsequent measurement

After initial recognition, infrastructure, community assets and operational buildings are measured using the revaluation method. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. When an asset is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

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

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

The revaluation surplus in equity relating to a specific item infrastructure, community assets and operational buildings is transferred directly to retained earnings when the asset is derecognised.

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

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

<b>Item</b>	<b>Average useful life</b>
Furniture and fixtures	3-23 Years
Office equipment	3-16 Years
Infrastructure	
• Roads and stormwater	5-100 Years
Community Assets	
• Buildings	15-60 Years
• Recreational Facilities	15-80 Years
• Security	5 Years
• Halls	5-80 Years
• Libraries	7-60 Years
• Parks and Gardens	15-80 Years
• Other Assets	20-30 Years
Other property, plant and equipment	
• Buildings	30-60 Years
• Specialised Vehicles	5-10 Years
• Other Vehicles	3-5 Years
• Watercraft	5-15 Years
• Bins and Containers	3-5 Years
• Specialised Plant and Equipment	10-15 Years
• Other items of Property Plant and Equipment	5-23 Years
• Computer Equipment	2-3 Years
• Plant and Machinery	5-31 Years
• Landfill Site	20-50 Years
Finance Lease	
• Motor Vehicles	4-27 Years
• Office Equipment	4-27 Years

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

The residual value, the useful life and depreciation method of each asset are reviewed at least at of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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

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

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

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

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

### 1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.7 Intangible assets (continued)

Intangible assets are initially recognised at cost.

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

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

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

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

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

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

<b>Item</b>	<b>Useful life</b>
Computer software, other	5 years

Intangible assets are derecognised:

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

### 1.8 Financial instruments

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

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

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

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

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

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

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

Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').

It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

It is settled at a future date.

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

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

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

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

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 the municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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

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

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

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

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

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

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

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

#### Classification

The 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:

<b>Financial asset</b>	<b>Classification in terms of GRAP 104</b>
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Bank, cash and cash equivalents	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:

<b>Financial liability</b>	<b>Classification in terms of GRAP 104</b>
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost
Finance lease	Financial liability measured at amortised cost

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

#### Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at amortised 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 municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, 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.

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

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

#### 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 carrying amount of the asset is reduced through the use of an allowance account and the previously recognised impairment loss is reversed by adjusting the allowance account.



# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, 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 municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

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

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

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

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

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit. If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality 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 municipality 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 municipality 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).

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 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.

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

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality 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 municipality does not offset the transferred asset and the associated liability.

### 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 - 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.

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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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 weighted average cost 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 those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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 held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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

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

Useful life is either:

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

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

#### Identification

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

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

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

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.11 Impairment of cash-generating assets (continued)

#### Value in use

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

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

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

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

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

#### 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.

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.11 Impairment of cash-generating assets (continued)

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.11 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

#### Redesignation

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

### 1.12 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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

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

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 held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

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:

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

### 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.

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

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

#### Value in use

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

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approaches, the selection depends on the availability of data and nature of the impairment:

#### Depreciated replacement cost approach

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

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

#### Restoration cost approach

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

#### Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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



# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

#### Reversal of an impairment loss

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

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

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

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

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

#### Redesignation

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

### 1.13 Employee benefits

Employee benefits are all forms of consideration given by the municipality 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 municipality 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 municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, 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 municipality to reimburse it for employee benefits already paid.
- Termination benefits are employee benefits payable as a result of either:
- the municipality'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 postemployment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

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

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.13 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 recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

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

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality 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.

#### Post-employment benefits: Defined contribution plans

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

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money.

The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

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

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

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

### 1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

If the related asset is measured using the revaluation model:

- 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;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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.

### 1.15 Commitments

Items are classified as commitments when a municipality has contractual future capital commitments itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

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

- Contracts should be non-cancellable or only cancellable at significant cost 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.

### 1.16 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.

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

---

### 1.16 Revenue from exchange transactions (continued)

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.

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

#### Investment income

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

### 1.17 Revenue from non-exchange transactions

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

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

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

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

### Recognition

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

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a nonexchange

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. When 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.

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

#### Taxes

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 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

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.

#### Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

#### Fines

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

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

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

Where settlement discount or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discount or reductions being taken up by debtors.

#### 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.

#### Unspent conditional grants

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement



# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

of Financial Performance.

- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

### 1.18 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.11 and 1.12. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.19 Comparative figures

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

### 1.20 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.

### 1.21 Fruitless and wasteful expenditure

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

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.21 Fruitless and wasteful expenditure (continued)

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

### 1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

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

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

### 1.23 Budget information

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

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

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

The approved budget covers the fiscal period from 2015-07-01 to 2016-06-30.

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

The 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.

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.24 Related parties

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

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

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

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

### 1.25 VAT

Value Added Tax on revenue and expenditure transactions are recorded in the books of the municipality on accrual basis of accounting, however South African Revenue Services has registered and permitted the municipality to use the payment basis.

### 1.26 Standards and interpretations issued, but not yet effective

#### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions
- identifying outstanding balances, including commitments, between an entity and its related parties
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that 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. As a minimum, the following are regarded as related parties of the reporting entity:

The standard states that 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. As a minimum, the following are regarded as related parties of the reporting entity

- has control or joint control over the reporting entity;
- has significant influence over the reporting entity;
- is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
- the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
- both entities are joint ventures of the same third party;
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.26 Standards and interpretations issued, but not yet effective (continued)

entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;

- the entity is controlled or jointly controlled by a person identified in (a); and
- a person in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that 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.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2016.

The entity expects to adopt the standard for the first time in the 2017 financial statements.

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

### **DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of Grap**

The objective of this Directive is to permit an entity to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This Directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this Directive allows an entity, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the entity elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the entity made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Subsequent to the application of this Directive, an entity will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The effective date of the standard is for years beginning on or after 01 April 2016.

The entity expects to adopt the standard for the first time in the 2017 financial statements.

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

### **GRAP 32: Service Concession Arrangements: Grantor**

The entity expects to adopt the standard for the first time in the 2017 financial statements

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

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

The entity expects to adopt the standard for the first time when the Minister set the effective date for the standard.

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

### **GRAP 108: Statutory Receivables**

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

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

The entity expects to adopt the standard for the first time when the Minister set the effective date for the standard.

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

### **IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset**

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.26 Standards and interpretations issued, but not yet effective (continued)

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

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

The entity expects to adopt the standard for the first time when the Minister set the effective date for the standard.

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

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statement

### 2. Inventories

Consumable stores	2 477 243	1 700 527
Assets held for distribution	6 632 538	6 632 538
	<b>9 109 781</b>	<b>8 333 065</b>

In the current year an amount of R 8 493 077 (2015: R 3 954 938.49) was expensed with respect to consumable stores.

#### Inventory pledged as security

Assets held for distribution relate to land on which RDP houses are built and are awaiting transfers.  
No Inventory was pledged as security.

### 3. Receivables from exchange

#### Gross balances

Refuse	16 940 521	14 394 563
Housing rental	372 915	73 488
Other receivables	107 115	300 942
	<b>17 420 551</b>	<b>14 768 993</b>

#### Less: Allowance for impairment

Refuse	(16 622 552)	(13 864 812)
Housing rental	(263 538)	(54 661)
	<b>(16 886 090)</b>	<b>(13 919 473)</b>

#### Net balance

Refuse	317 969	529 751
Housing rental	109 377	18 827
Fire levy	107 115	300 942
	<b>534 461</b>	<b>849 520</b>

#### Reconciliation of allowance for impairment

Balance at beginning of the year	13 919 473	34 708 475
Contributions to allowance	2 966 617	19 362 171
Debt impairment written off against allowance	-	(40 151 173)
	<b>16 886 090</b>	<b>13 919 473</b>

#### Refuse

Current (0 -30 days)	288 091	291 070
31 - 60 days	278 588	282 376
61 - 90 days	258 931	255 282
91 - 120 days	257 440	245 383
121 - 365 days	256 113	248 608
> 365 days	15 601 358	13 071 845
	<b>16 940 521</b>	<b>14 394 564</b>

#### Housing rental

Current (0 -30 days)	4 843	675
31 - 60 days	2 629	675
61 - 90 days	3 370	675
91 - 120 days	2 578	675
121 - 365 days	3 094	675
> 365 days	356 401	70 114
	<b>372 915</b>	<b>73 489</b>

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>3. Receivables from exchange (continued)</b>		
<b>Other receivables</b>		
> 365 days	-	300 942
<b>4. Receivables from non-exchange transactions</b>		
<b>Gross balances</b>		
Property rates	57 556 986	44 920 065
Fines	17 550 908	11 549 155
	<b>75 107 894</b>	<b>56 469 220</b>
<b>Less: Allowance for impairment</b>		
Property rates	(56 424 335)	(40 817 983)
Fines	(15 346 893)	(11 059 500)
	<b>(71 771 228)</b>	<b>(51 877 483)</b>
<b>Net balance</b>	<b>3 336 666</b>	<b>4 591 737</b>
	<b>3 336 666</b>	<b>4 591 738</b>

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>4. Receivables from non-exchange transactions (continued)</b>		
<b>Rates</b>		
Current (0-30 days)	1 357 952	1 299 437
31-60 days	1 327 288	1 232 160
61-90 days	1 302 695	1 204 823
91-120 days	1 288 872	1 189 325
121-150 days	1 243 770	1 193 468
>150 days	51 036 409	38 800 852
	<b>57 556 986</b>	<b>44 920 065</b>
<b>Reconciliation of provision for impairment of receivables from non-exchange transactions</b>		
Opening balance	51 877 483	61 418 997
Contributions to allowance	19 893 745	14 093 228
Debt impairment written off against allowance	-	(23 634 742)
	<b>71 771 228</b>	<b>51 877 483</b>
<b>Summary by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	867 554	1 193 165
31 - 60 days	843 576	1 140 929
61 - 90 days	839 046	1 109 712
91 - 120 days	829 852	1 090 575
121 - 365 days	801 058	1 096 014
> 365 days	31 974 701	35 924 982
	<b>36 155 787</b>	<b>41 555 377</b>
<b>Industrial/Commercial</b>		
Current (0 -30 days)	328 185	301 846
31 - 60 days	325 979	284 153
61 - 90 days	311 133	264 135
91 - 120 days	307 866	259 562
121 - 365 days	295 705	262 027
> 365 days	16 252 648	13 278 652
	<b>17 821 516</b>	<b>14 650 375</b>
<b>National and provincial government</b>		
Current (0 -30 days)	116 602	96 171
31 - 60 days	110 717	90 128
61 - 90 days	106 788	86 933
91 - 120 days	106 047	85 244
121 - 365 days	103 971	84 709
> 365 days	3 908 390	2 739 177
	<b>4 452 515</b>	<b>3 182 362</b>
<b>5. VAT receivable</b>		
VAT	11 489 969	3 528 655



# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand 2016 2015

## 6. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	-	1 663 181
Short-term deposits	22 252 751	59 516 112
Bank overdraft	(210 065)	-
	<b>22 042 686</b>	<b>61 179 293</b>
Current assets	22 252 751	61 179 293
Current liabilities	(210 065)	-
	<b>22 042 686</b>	<b>61 179 293</b>

## The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
Primary Bank Account-FNB :62237497872	(275 133)	1 677 668	7 213 424	(210 058)	1 663 181	7 314 169
FNB -MSP 622 402 53188	25 068	25 045	25 036	25 068	25 045	25 036
FNB-MIG 622 402 53542	19 409	3 406 481	19 205 293	19 409	3 406 481	19 205 293
FNB- Nqamakwe Survey 622 402 59615	-	101 419	101 385	-	101 419	101 385
FNB-FMG 622 402 52768	1 068	2 038	35 484	1 068	2 050	35 484
FNB-Centane Survey 622 402 60430	-	43 329	81 088	-	43 330	81 088
FNB-Siyanda Planning 622 402 62105	-	87 853	87 824	-	87 853	87 824
FNB-Centane Planning 622 402 61149	-	3 310	132 123	-	3 310	132 123
FNB-MSIG 622 402 54003	1 238	2 895	1 487	1 238	2 895	1 487
FNB-Siyanda Survey 622 402 59144	-	33 057	353 273	-	33 057	353 273
FNB- T/A Intervention 622 402 58568	23 756	23 735	23 727	23 756	23 735	23 727
FNB-DHLGTA 622 402 54673	-	28 139	28 130	-	28 139	28 130
FNB-Call Acc 622 402 52198	14 524 627	41 298 642	50 739 791	14 524 627	41 298 666	50 740 538
FNB-DEAT 622 402 56471	225 786	225 582	225 505	225 786	225 582	225 505
FNB-INEG 623 617 7559	9 316	5 142 422	3 685 709	9 316	5 142 428	3 685 709
FNB-EPWP 623 456 80195	411	1 057 941	497 777	411	1 057 941	497 777
FNB-EDSMG 623 799 87640	6 904 623	6 897 226	6 896 863	6 904 623	6 897 226	6 896 863
FNB-LGSETA 623 800 69437	517 411	1 136 949	1 166 475	517 411	1 136 955	1 166 475
<b>Total</b>	<b>21 977 580</b>	<b>61 193 731</b>	<b>90 500 394</b>	<b>22 042 655</b>	<b>61 179 293</b>	<b>90 601 886</b>

## 7. Investment property

	30 June 2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	60 143 926	(53 571 494)	6 572 432	60 143 926	(50 511 863)	9 632 063

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand 2016 2015

## 7. Investment property (continued)

### Reconciliation of investment property - 31 December 2016

	Opening balance	Depreciation	Total
Investment property	9 632 063	(3 059 631)	6 572 432

### Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	12 922 963	(3 290 900)	9 632 063

### Details of property

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 has land and buildings, including vacant land that is classified as investment property. In terms of the Local Government Municipal Properties Rates Act of 2004, the municipality is required to perform general valuation once every four (4) years. The investment property held in the books of the municipality is not actively traded as the mandate of the municipality also includes local economic development. As such properties may be earmarked for local economic development. Thus, their trade value will be based on the proposal that impacts positively on economic growth. Land that is sitting as investment properties is not depreciated, only the buildings component of the investment properties is depreciated.

Rental revenue from investment property	2 878 309	2 228 065
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There are no contractual commitments for the acquisition, construction, development or repair and maintenance of investment properties in the municipality.:

## 8. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	21 925 964	-	21 925 964	21 925 964	-	21 925 964
Plant and machinery	15 436 794	(2 477 291)	12 959 503	15 917 314	(3 498 629)	12 418 685
Furniture and fixtures	4 480 048	(2 164 279)	2 315 769	4 915 110	(2 343 374)	2 571 736
Motor vehicles	14 144 156	(3 430 701)	10 713 455	14 418 856	(2 813 209)	11 605 647
Office equipment	6 767 633	(2 375 932)	4 391 701	5 524 085	(1 746 728)	3 777 357
Infrastructure	1 414 824 534	(749 919 163)	664 905 371	1 384 208 532	(708 976 004)	675 232 528
Community	139 167 819	(55 707 471)	83 460 348	125 711 932	(52 865 796)	72 846 136
Other property, plant and equipment	152 469	(58 279)	94 190	152 469	(47 307)	105 162
Work in progress	49 188 688	-	49 188 688	33 964 597	-	33 964 597
<b>Total</b>	<b>1 666 088 105</b>	<b>(816 133 116)</b>	<b>849 954 989</b>	<b>1 606 738 859</b>	<b>(772 291 047)</b>	<b>834 447 812</b>

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 8. Property, plant and equipment (continued)

### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	21 925 964	-	-	-	-	21 925 964
Plant and machinery	12 418 685	1 525 490	(307 800)	-	(676 872)	12 959 503
Furniture and fixtures	2 571 736	325 707	(192 028)	-	(389 646)	2 315 769
Motor vehicles	11 605 647	-	(123 615)	-	(768 577)	10 713 455
Office equipment	3 777 357	1 457 240	(153 245)	-	(689 651)	4 391 701
Infrastructure	675 232 528	-	(498 028)	34 351 214	(44 180 343)	664 905 371
Community	72 846 136	-	-	13 455 886	(2 841 674)	83 460 348
Security Measures	105 162	-	-	-	(10 972)	94 190
Work in progress	33 964 597	62 731 929	-	(47 507 838)	-	49 188 688
	<b>834 447 812</b>	<b>66 040 366</b>	<b>(1 274 716)</b>	<b>299 262</b>	<b>(49 557 735)</b>	<b>849 954 989</b>

### Reconciliation of property, plant and equipment - 2015

Land	21 925 964	-	-	-	-	21 925 964
Plant and machinery	5 916 529	7 058 400	-	-	(556 244)	12 418 685
Furniture and fixtures	2 812 786	371 347	-	-	(612 397)	2 571 736
Motor vehicles	9 869 544	2 711 878	(277 429)	-	(698 346)	11 605 647
Office equipment	3 338 548	1 052 093	(73 038)	-	(540 246)	3 777 357
Infrastructure	721 487 125	-	(27 093 599)	75 173 225	(94 334 223)	675 232 528
Community	75 739 565	-	-	-	(2 893 429)	72 846 136
Security Measures	116 167	-	-	-	(11 005)	105 162
Work in progress	24 481 504	84 656 318	-	(75 173 225)	-	33 964 597
	<b>865 687 732</b>	<b>95 850 036</b>	<b>(27 444 066)</b>	<b>-</b>	<b>(99 645 890)</b>	<b>834 447 812</b>

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.

## 9. Intangible assets

	30 June 2016			30 June 2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	86 510	(86 510)	-	86 510	(81 959)	4 551

### Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software, other	4 551	(4 551)	-

### Reconciliation of intangible assets - 2015

	Opening balance	Disposals	Amortisation	Total
Computer software, other	187 628	(100 111)	(82 966)	4 551

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>10. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	284 355	364 186
- in second to fifth year inclusive	94 719	378 259
	<u>379 074</u>	<u>742 445</u>
less: future finance charges	(23 888)	(70 658)
<b>Present value of minimum lease payments</b>	<b><u>355 186</u></b>	<b><u>671 787</u></b>
<b>Present value of minimum lease payments due</b>		
- within one year	263 118	314 811
- in second to fifth year inclusive	92 068	356 976
	<u>355 186</u>	<u>671 787</u>
Non-current liabilities	92 068	378 259
Current liabilities	263 119	364 186
	<u>355 187</u>	<u>742 445</u>

The average lease term is 6 years. The finance lease is in respect of the motor vehicles and other office equipment. The nominal or effective interest rates varies. The municipality will take ownership when the lease term expires. The lease agreements do not provide for contingency rental payments.

The municipality's obligations under the finance leases are secured by the lessor's charge over the leased assets.

## 11. Payables from exchange transactions

Trade payables	11 078 247	10 944 522
Advance payment - consumer debtors	441 525	421 118
Unclaimed deposits	5 960 254	5 032 631
Payroll control	53 631	3 564 982
Retention provision	7 003 758	6 116 758
	<u>24 537 415</u>	<u>26 080 011</u>

## 12. Payables from non-exchange transactions

Other payables from non-exchange transactions	1 649 228	1 357 350
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Payments received in advance - Property rates and fire levy.

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand 2016 2015

## 13. Employee benefit obligations

### Defined benefit obligation

Bonus accrual	5 960 806	4 931 641
Leave accrual	13 525 910	10 758 499
Provision for long service awards	8 589 000	7 281 000
	<b>28 075 716</b>	<b>22 971 140</b>

The Municipality has a defined benefit obligation in terms of the Long Service Awards. The defined benefit obligation is valued every year by independent qualified actuaries. The most recent valuations have been carried out by ZAQ Consultants and Actuaries ("ZAQ"), a Fellow of the Actuarial Society of South Africa, using the Projected Unit Credit method. The discount rate that reflects the time value of money is best approximated by reference to market yield at the reporting dates on government bonds.

Long service awards to eligible employees are paid for services rendered by employees of 5 years and longer in five year intervals. The service awards are paid as per the municipality's policy which complies with the minimum thresholds per the collective agreement of 21 February 2011, signed by the Bargaining Council. The basis on which this was calculated is as follows:

- After 5 Continuous Years of Service - 2% of Basic Annual Salary and 5 days accumulative leave
- After 10 Continuous Years of Service - 3% of Basic Annual Salary and 10 days accumulative leave
- After 15 Continuous Years of Service - 4% of Basic Annual Salary and 15 days accumulative leave
- After 20 Continuous Years of Service - 5% of Basic Annual Salary and 15 days accumulative leave
- After 25 Continuous Years of Service - 6% of Basic Annual Salary and 15 days accumulative leave
- After 30 Continuous Years of Service - 6% of Basic Annual Salary and 15 days accumulative leave
- After 35 Continuous Years of Service - 6% of Basic Annual Salary and 15 days accumulative leave
- After 40 Continuous Years of Service - 6% of Basic Annual Salary and 15 days accumulative leave
- After 45 Continuous Years of Service - 6% of Basic Annual Salary and 15 days accumulative leave

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

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

#### Carrying value

Opening balance	7 281 000	7 043 000
Current service cost - Employee Related Costs	1 225 000	1 066 000
Actuarial interest - Finance Costs	689 000	575 000
Benefits paid	(459 743)	(734 000)
Actuarial loss/ (gain)	(146 257)	(669 000)
	<b>8 589 000</b>	<b>7 281 000</b>

Non-current liabilities	(8 589 000)	(7 281 000)
Current liabilities	(19 486 717)	(15 690 141)
	<b>(28 075 717)</b>	<b>(22 971 141)</b>

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

Opening balance	7 281 000	7 043 000
Benefits paid	(459 743)	(734 000)
Net expense recognised in the statement of financial performance	1 767 743	972 000
	<b>8 589 000</b>	<b>7 281 000</b>

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
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## 13. Employee benefit obligations (continued)

### The amount recognised in the Statement of Financial Performance

Current service cost	1 225 000	1 066 000
Interest cost	689 000	575 000
Actuarial (gains) losses	(146 257)	(669 000)
	<b>1 767 743</b>	<b>972 000</b>

### The principal assumptions for the purpose of valuations are as follows:

Assumptions used at the reporting date:

Discount rates used	9,06 %	8,50 %
Expected rate of return on reimbursement rights	7,35 %	6,23 %
Expected increase in salaries	6,00 %	6,79 %

The expected retirement age is 65 years.  
The SA85-90 mortality table was used.

The basis on which the discount rate has been determined is as follows:

The discount rate has been determined by using the Conventional Bond Rate for each relevant time period and the (yield curve based) inflation linked Bond rate for each relevant time period.

### Withdrawal rates

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20-24	16 %	24 %
25-29	12 %	18 %
30-34	10 %	15 %
35-39	8 %	10 %
40-44	6 %	6 %
45-49	4 %	4 %
50-54	2 %	2 %
55-59	1 %	1 %
60+	-	-

### 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:

	<b>One percentage point increase</b>	<b>One percentage point decrease</b>
Effect on the aggregate of the service cost and interest cost	1 914 000	2 072 000
Effect on defined benefit obligation	8 589 000	7 801 000

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

	2016	2015	2014	2013	2012
Defined benefit obligation	8 589 000	7 281 000	7 043 000	3 708 000	2 988 000

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>14. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Municipal Infrastructure Grant (MIG)	-	3 729 766
Municipal Systems Improvement Grant (MSIG)	-	2 029
Department of Housing (Centane Survey)	-	43 158
Department of Housing (Centane Planning)	1	3 298
Department of Housing (Siyanda Survey)	-	32 927
Dept of Housing (Ngqamakhwe Survey)	-	101 019
Municipal Support Programme (MSP)	24 946	24 946
Dept of Housing (Siyanda Planning)	-	87 506
Intervention	23 623	23 623
Local Government ( LGSETA)	514 871	1 132 371
Department of Housing and Local Government	1	28 029
Municipal Finance Management Grant (FMG)	-	1 131
Expanded Public Works Programme(EPWP)	-	1 052 651
Department of Minerals and Energy (Electrification)	-	5 122 720
Department of Minerals and Energy (Electricity Demandside Management)	6 870 040	6 870 040
DEAT Investment	224 691	224 691
	<b>7 658 173</b>	<b>18 479 905</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	18 479 904	31 788 171
Additions during the year	75 080 631	79 506 792
Income recognition during the year	(85 902 362)	(92 815 058)
	<b>7 658 173</b>	<b>18 479 905</b>
<p>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</p> <p>Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.</p> <p>See note for reconciliation of grants from National/Provincial Government.</p> <p>These amounts are invested in a ring-fenced investment until utilised.</p>		
<b>15. Revaluation reserve</b>		
<p>The revaluation reserve is not distributable, given that this is a municipality.</p>		
Opening balance	443 447 662	443 447 662
<b>16. Service charges</b>		
Refuse removal	3 624 737	3 590 687
<b>17. Rental of facilities and equipment</b>		
<b>Facilities and equipment</b>		
Rental of facilities	2 968 091	2 300 008
<b>18. Income from agency services</b>		
Agency services	2 768 727	2 655 169

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>19. Other revenue</b>		
Other income	1 144 157	5 001 530
Other income comprises of the following accounts:		
<b>Other income</b>		
Miscellaneous income	532 872	4 286 349
Bad debts recovered	85 311	-
Tender fees	243 261	507 671
Building plan fees	113 990	89 444
Commission received	168 723	118 066
	<b>1 144 157</b>	<b>5 001 530</b>
<b>20. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	5 335 609	5 115 932
	-	-
	<b>5 335 609</b>	<b>5 115 932</b>
<b>21. Property rates</b>		
<b>Rates received</b>		
Property rates	21 142 873	20 889 843
Less: Rebates	(1 240 717)	(1 505 479)
	<b>19 902 156</b>	<b>19 384 364</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are conducted at least once on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Tariffs applied are as follows:

#### Residential

A general rate of R0.01178 - (2015:R0.01178 ) is applied to residential property valuations to determine assessment rates.

Rebates are granted to all residential property owners.

#### Business and Commercial

A general rate of R0.01414- (2015: R0.01414) is applied to business and commercial property valuations to determine assessment rates.

#### Vacant

A general rate of R0.01414 - (2015:R0.01414) is applied to vacant and industrial property valuations to determine assessment rates.

#### Public Services

A general rate of R0.00295 - (2015:R0.0029) is applied to vacant and industrial property valuations to determine assessment rates.

#### Small Holdings and Farms

A general rate of R0.00295- (2015: R0.00295) is applied to vacant and industrial property valuations to determine assessment rates.

#### Industrial

A general rate of R0.01414 - (2015:R0.01414) is applied to industrial property valuations to determine assessment rates.

#### Rebates

Rebates are granted to property owners in accordance with a variety of social and economic factors as described in the Municipality's Property Rates Policy.



# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>22. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable Share	234 403 371	190 327 000
Municipal Systems Improvement Grant (MSIG)	932 029	932 972
Department of Housing (Centane Survey)	43 158	37 637
Department of Housing (Centane Planning)	-	128 348
Finance Management Grant	1 601 131	1 623 975
Extended Public Works Programme	1 559 000	963 195
Government Grant	3 297	-
Department of Housing (Siyanda Survey)	32 927	319 070
Nqamakwe Survey	101 019	-
Department of Housing (Siyanda Survey)	87 506	-
Department of Housing and Local Government-(DHLG)	28 028	-
LG SETA	617 500	67 929
	<b>239 408 966</b>	<b>194 400 126</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant (MIG)	65 896 766	85 394 102
Electrification	15 000 000	3 347 831
	<b>80 896 766</b>	<b>88 741 933</b>
	<b>320 305 732</b>	<b>283 142 059</b>

## Equitable Share

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

All registered indigents receive the following subsidies:

1. For paraffin beneficiaries, every ward has 100 beneficiaries at 20 litre person bi-monthly
2. For all electricity beneficiaries, 50 KW per month
3. Rebates of R20,000 are granted to residential property owners.

## Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	3 729 766	19 110 868
Current-year receipts	62 167 000	70 013 000
Conditions met - transferred to revenue	(65 896 766)	(85 394 102)
	<b>-</b>	<b>3 729 766</b>

## Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	2 029	1 000
Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(932 029)	(932 971)
	<b>-</b>	<b>2 029</b>

## Centane Survey

Balance unspent at beginning of year	43 158	80 795
Conditions met - transferred to revenue	(43 158)	(37 637)
	<b>-</b>	<b>43 158</b>

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>22. Government grants and subsidies (continued)</b>		
<b>Centane Planning</b>		
Balance unspent at beginning of year	3 298	131 646
Conditions met - transferred to revenue	(3 297)	(128 348)
	<b>1</b>	<b>3 298</b>
<b>Municipal Support Programme</b>		
Balance unspent at beginning of year	24 946	24 946
<b>Siyanda Survey</b>		
Balance unspent at beginning of year	32 927	351 997
Conditions met - transferred to revenue	(32 927)	(319 070)
	<b>-</b>	<b>32 927</b>
<b>T/A Intervention</b>		
Balance unspent at beginning of year	23 623	23 623
<b>Local government -SETA</b>		
Balance unspent at beginning of year	1 132 370	1 162 506
Current-year receipts	-	37 793
Conditions met - transferred to revenue	(617 500)	(67 929)
	<b>514 870</b>	<b>1 132 370</b>
<b>Dept of Housing and Local Government</b>		
Balance unspent at beginning of year	28 029	28 029
Conditions met - transferred to revenue	(28 028)	-
	<b>1</b>	<b>28 029</b>
<b>Dept of Energy (Electricity Demandside Management)</b>		
Balance unspent at beginning of year	6 870 040	6 870 040
<b>DEAT Investment</b>		
Balance unspent at beginning of year	224 691	224 691
<b>Nqamakwe Survey</b>		
Balance unspent at beginning of year	101 019	101 019
Conditions met - transferred to revenue	(101 019)	-
	<b>-</b>	<b>101 019</b>
<b>Siyanda Planning</b>		
Balance unspent at beginning of year	87 506	87 506
Conditions met - transferred to revenue	(87 506)	-
	<b>-</b>	<b>87 506</b>

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>22. Government grants and subsidies (continued)</b>		
<b>Finance Management Grant (FMG)</b>		
Balance unspent at beginning of year	1 131	25 106
Current-year receipts	1 600 000	1 600 000
Conditions met - transferred to revenue	(1 601 131)	(1 623 975)
	<b>-</b>	<b>1 131</b>
<b>Expanded Public Works Programme (EPWP)</b>		
Balance unspent at beginning of year	1 052 651	493 846
Current-year receipts	1 000 000	1 522 000
Conditions met - transferred to revenue	(1 559 000)	(963 195)
Rollover not approved	(493 651)	-
	<b>-</b>	<b>1 052 651</b>
<b>Department of Energy</b>		
Balance unspent at beginning of year	5 122 720	3 070 551
Current-year receipts	15 000 000	5 400 000
Conditions met - transferred to revenue	(15 000 000)	(3 347 831)
Rollover not approved	(5 122 720)	-
	<b>-</b>	<b>5 122 720</b>
<b>23. Revenue</b>		
Service charges	3 624 737	3 590 687
Rental of facilities and equipment	2 968 091	2 300 008
Interest received Outstanding debtors	5 073 904	3 694 136
Income from agency services	2 768 727	2 655 169
Licences and permits	1 093 541	1 029 343
Other income	1 144 157	5 001 530
Interest received - investment	5 335 609	5 115 932
Property rates	19 902 156	19 384 364
Government grants & subsidies	320 305 732	283 142 059
Fines	8 522 293	8 342 257
	<b>370 738 947</b>	<b>334 255 485</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	3 624 737	3 590 687
Rental of facilities and equipment	2 968 091	2 300 008
Interest received (trading)	5 073 904	3 694 136
Income from agency services	2 768 727	2 655 169
Licences and permits	1 093 541	1 029 343
Miscellaneous income	1 144 157	5 001 530
Interest received - investment	5 335 609	5 115 932
	<b>22 008 766</b>	<b>23 386 805</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	19 902 156	19 384 364
<b>Transfer revenue</b>		
Government grants & subsidies	320 305 732	283 142 059
Fines	8 522 293	8 342 257
	<b>348 730 181</b>	<b>310 868 680</b>

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>24. Employee related costs</b>		
Basic Salary	105 186 140	87 320 218
Performance Bonus	865 099	-
Medical aid	6 677 145	5 904 008
Unemployment Insurance Fund	829 705	717 079
Workmens compensation	3 017 036	(189 630)
Skills Development Levy	1 448 275	1 220 688
Other payroll levies	45 544	40 370
Leave pay provision charge	5 003 128	3 667 431
Pension fund contribution	17 564 092	14 398 455
Travel, motor car, accommodation, subsistence and other allowances	6 361 874	4 967 212
Overtime payments	1 088 189	1 324 310
13th Cheques	8 368 000	6 972 464
Acting allowances	1 482 761	1 663 435
Re-imbursive allowance	3 770	-
Housing benefits and allowances	151 389	106 116
Other allowances	2 408 544	1 917 349
Cellphone allowances	561 058	452 248
Relocation costs	-	269 884
	<b>161 061 749</b>	<b>130 751 637</b>
<b>Remuneration of Municipal Manager - S. Tantsi</b>		
Annual Remuneration	950 552	860 883
Car allowance	105 771	258 085
Pension	658 110	199 297
	<b>1 714 433</b>	<b>1 318 265</b>
<b>Remuneration of Chief Financial Officer - L. Manjingolo</b>		
Annual Remuneration	454 416	417 111
Car Allowance	-	95 794
Acting allowance	-	141 248
Contributions to UIF, Medical and Pension Funds	413 504	42 543
	<b>867 920</b>	<b>696 696</b>
<b>Remuneration of Director of Strategic Management - L. Nonyongo</b>		
Annual Remuneration	594 743	552 000
Car Allowance	174 712	262 455
Contributions to UIF, Medical and Pension Funds	424 962	123 707
	<b>1 194 417</b>	<b>938 162</b>

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>24. Employee related costs (continued)</b>		
<b>Remuneration of the Director of Corporate Services - D. Mrwetyana</b>		
Annual Remuneration	594 743	552 000
Car Allowance	187 473	243 738
Contributions to UIF, Medical and Pension Funds	409 806	143 070
	<b>1 192 022</b>	<b>938 808</b>
<b>Remuneration of Director of Infrastructure - K. Clock</b>		
Annual Remuneration	594 743	552 000
Car Allowance	122 827	219 580
Contributions to UIF, Medical and Pension Funds	492 615	192 824
	<b>1 210 185</b>	<b>964 404</b>
<b>Remuneration of the Director of Local Economic Development - V. Madolo</b>		
Annual Remuneration	594 743	552 000
Car Allowance	122 827	158 753
Contributions to UIF, Medical and Pension Funds	445 812	226 365
	<b>1 163 382</b>	<b>937 118</b>
<b>Remuneration of the Director of Community Services - Z. Plata</b>		
Annual Remuneration	594 743	552 000
Car Allowance	122 827	120 385
Performance Bonuses	127 135	-
Contributions to UIF, Medical and Pension Funds	356 759	255 785
	<b>1 201 464</b>	<b>928 170</b>
<b>25. Remuneration of councillors</b>		
Executive mayor	875 641	764 703
Chief whip	700 460	561 157
Speaker	746 303	5 102 915
Mayoral committee members	6 904 383	733 609
Other councillors	16 670 756	15 048 866
	<b>25 897 543</b>	<b>22 211 250</b>
<b>26. Finance costs</b>		
Finance cost-Leases	27 363	172 542
Bank	265	-
Actuarial interest	689 000	575 000
	<b>716 628</b>	<b>747 542</b>
<b>27. Depreciation and amortisation</b>		
Property, plant and equipment	51 489 291	100 754 890
<b>28. Impairment Loss</b>		
Debt impairment	22 919 682	21 979 911
Impairment - Fines	-	6 649 450
	<b>22 919 682</b>	<b>28 629 361</b>

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand 2016 2015

## 28. Impairment Loss (continued)

The debt impairment amount is made up of the following:

Traffic Fines	4 287 393	6 649 450
Rates	15 606 352	21 979 911
Refuse	2 757 740	-
	208 877	-
	<b>22 860 362</b>	<b>28 629 361</b>

## 29. Bulk purchases

Electricity	3 648 331	3 559 711
Paraffin	5 587 338	6 570 924
	<b>9 235 669</b>	<b>10 130 635</b>

## 30. General expenses

Advertising	3 294 291	1 176 544
Auditors remuneration	4 229 994	3 202 146
Bank charges	293 964	151 866
Car licenses and registrations	1 510 131	1 568 861
Civic functions	1 725 512	1 411 884
Cleaning	1 487 922	731 773
Community awareness	140 748	323 142
Community development and training	307 027	869 861
Computer expenses	528 118	83 416
Conferences and seminars	299 456	78 781
Consulting and professional fees	2 498 256	5 678 714
Consumables	1 931 807	987 593
Electricity	1 915 290	2 283 480
Entertainment	16 620	33 272
Fuel and oil	2 984 887	3 047 755
Hire of equipment	403 133	86 630
Insurance	480 389	287 013
Legal fees	2 780 147	2 106 399
Magazines, books and periodicals	30 258	101 236
Membership fees	64 847	90 035
Operating lease	1 401 673	2 075 650
Petty Cash	3 030	5 907
Printing and stationery	3 120 341	2 703 105
Refuse bags	4 894 290	2 038 753
Security	1 390 400	374 479
Subscriptions and membership fees	5 375	9 490
Subsistence and travelling	5 658 997	6 080 466
Sundry expenses	368 903	303 363
Telephone and fax	5 501 508	4 202 022
Training	4 708 692	1 667 668
Uniforms	533 296	562 318
Water	1 075 956	1 668 700
	<b>55 585 258</b>	<b>45 992 322</b>

## 31. Fair value adjustments

Fair value adjustment	5 229 657	5 229 778
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# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>32. Cash generated from operations</b>		
Deficit	(1 221 722)	(35 047 737)
<b>Adjustments for:</b>		
Depreciation and amortisation	52 624 757	100 249 986
Loss on sale of assets	788 304	2 632 250
Fair value adjustments	(5 229 657)	(5 229 778)
Impairment loss	22 919 682	28 629 361
Debt impairment	3 335 292	-
Movements in employee benefit obligation	3 510 385	2 787 729
Movements in provisions	-	(24 718 814)
Actuarial Gains/Losses	145 827	669 000
Other non-cash items	(28 716 631)	(18 280 557)
<b>Changes in working capital:</b>		
Inventories	(776 716)	20 310
Receivables from exchange transactions	315 059	6 842 356
Receivables from non-exchange transactions	1 255 072	1 411 486
Payables from exchange transactions	(1 542 596)	922 417
VAT	(7 961 314)	506 755
Payables from non-exchange transactions	291 878	(1 692 893)
Unspent conditional grants and receipts	(10 821 732)	(13 308 267)
	<b>28 915 888</b>	<b>46 393 604</b>

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>33. Grants expenditure</b>		
Houses infrastructure development	-	345 810
Centane survey	-	128 289
Ngqamakhwe survey	281 842	-
Electricity distribution	86 000	-
Electrification of Ngcisininde	13 167 253	2 936 694
Boardroom furniture: Ngqamakhwe	-	4 500
Establishment of PMO	48 960	(356 659)
Marketing of master plan	-	4 900
IDP review	1 246 051	1 233 011
Implementation of research projects	142 373	6 982
Performance management systems	2 013 825	970 050
Sports development	128 964	99 764
Municipal branding	868 047	400 749
Transport Indaba	707 168	26 300
SCM Awareness	-	8 833
Operation clean audit	5 957 622	4 131 253
Website maintenance	7 915	424 477
Community hall refurbishment	81 497	158 457
Inservice training	3 500	-
Development and review of job descriptions	70 200	1 750
Employee wellness programmes	615 663	507 796
Bursaries	189 228	226 679
Training of councillors	1 147 800	1 942 745
Performance awards	-	494 660
Development of new SDL	557 900	44 760
Investment summit	10 000	221 154
Events planning and development	1 330 822	1 336 166
Support of irrigation schemes	20 000	24 438
Planning survey fees	54 110	158 300
Installation of refuse bins	1 980	-
Renovation of staff houses	393 020	1 036 261
Mayoral Imbizo	369 940	-
Risk management implementation	40 677	9 206
Intergrated transport plan	280 000	-
Climate changes	38 450	-
Budget preparation	-	5 440
Indigent verification	717 937	-
Customer satisfaction survey	195 000	-
Municipal sports	24 000	137 471
Internal audit implementation plan	127 184	262 061
IWMP Implementation	3 200	81 450
Implementation of SPU strategies	2 029 755	839 315
Enterprise development	180 042	233 273
Tourism marketing	50 850	212 121
Tourism event	3 226 927	-
Maintenance of nursery	43 123	-
Maintenance of parks and gardens	126 006	259 973
Training of interns	120 350	119 963
Operation clean audit	1 131 807	746 841
PMS implementation	49 293	92 882
Asset register	-	5 290
Ward based plan and service center	-	352 005
IOperation Clean Audit: Budget	263 158	-
	<b>38 149 439</b>	<b>19 875 410</b>



# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>34. Financial instruments disclosure</b>		
<b>Categories of financial instruments</b>		
<b>2016</b>		
<b>Financial assets</b>		
	At amortised cost	Total
Trade and other receivables from exchange transactions	534 461	534 461
Receivables from non-exchange transactions	1 350 894	1 350 894
Cash and cash equivalents	22 252 751	22 252 751
	<b>24 138 106</b>	<b>24 138 106</b>
<b>Financial liabilities</b>		
	At amortised cost	Total
Finance lease - Short term portion	263 118	263 118
Finance lease - Long term portion	92 068	92 068
Payables from exchange transactions	24 537 415	24 537 415
Payable from non-exchange transactions	1 649 228	1 649 228
	<b>26 541 829</b>	<b>26 541 829</b>
<b>2015</b>		
<b>Financial assets</b>		
	At amortised cost	Total
Receivables from exchange transactions	849 520	849 520
Receivables from non-exchange transactions	4 591 738	4 591 738
Cash and cash equivalents	61 179 293	61 179 293
	<b>66 620 551</b>	<b>66 620 551</b>
<b>Financial liabilities</b>		
	At amortised cost	Total
Finance lease - Short term portion	364 186	364 186
Finance lease - Long term portion	378 259	378 259
Payables from exchange transactions	26 080 011	26 080 011
Payable from non-exchange transactions	1 357 350	1 357 350
	<b>28 179 806</b>	<b>28 179 806</b>
<b>35. Bad debts written off</b>		
Bad debts written off	3 335 292	-
	<b>3 335 292</b>	<b>-</b>
<b>36. Auditors' remuneration</b>		
Fees	4 229 994	3 202 146

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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Figures in Rand	2016	2015
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## 37. Commitments

### Authorised capital expenditure

#### Already contracted for but not provided for

• Property, plant and equipment	58 987 367	71 280 841
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This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

The comparative amount on commitments were restated with the compilation of a detailed commitment register. Commitments are only a disclosure note and do not impact on the rest of the financial statements.

This committed expenditure relates to major capital projects and will be financed by available bank facilities, retained surpluses, government subsidies and grants, existing cash resources, funds internally generated, etc.

### Operating leases - as lessee (expense)

#### Minimum lease payments due

- within one year	585 965	181 524
- in second to fifth year inclusive	479 003	594 733
	<b>1 064 968</b>	<b>776 257</b>

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Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term not exceeding three years. No contingent rent is payable. There are no escalation clauses. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 38. Related parties

### Relationships

Municipal Manager

Chief Financial Officer

Director of Strategic Management

Director of Corporate Services

Director of Infrastructural Planning & Development

Director of Community Services

Director of Local Economic Development

Mayor

Speaker

Chief Whip

Exco Councillor

Exco Councillor

Exco Councillor

Exco Councillor

Exco Councillor

Exco Councillor

Exco Councillor

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Councillor

Councillor

Councillor

Councillor

S. Tantsi

L. Manjingolo

L. Nonyongo

D. Mrwetyana

K. Clock

Z. Plata

V. Madolo

B. Ganjana

Z. M. Mnqwazi

T. P. Ntanga

N. Sheleni

T. Bikitsha

S. Ncetezo

T. Madikane

L. Mgandela

N. Nkamisa

N. Skelenge

G. Mdudo

N. Plaatjie

Z. Sogayise

M. Molosi

Y. Mngonyama

A.V Mankune

N.Tyala

S. Mahlanza

N. Q. Sukwana

N. Jiya

L. M. Mtalo

C. N. Makholwa

Z. Mnqokoyi

N. Luwaca

N. S. Tsetse

Z. Gobingca

Z. Gade

N. Phahlane

A. Nkaule

E. W. Nyengule

T. Mbelani

M. Buso

M. D. Mkhwezo

N. Zaba

N. Njengele

N. Sajini

M. S. Velaphi

N. Mbuku

L. K. Ntshebe

M. Magqabini

N. W. Mzimba

Q. A. Mpande

V. Bam

X. D. Mathanga

G. Q. Ngqongolo

M. W. Ntongana

T. Ntshawuzana

T. M. Ntisana

M. Zimba

Z. D. Solontsi

C. K. Mpeluza

N. Tandela

Z. Bomela

N. Nqata

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 38. Related parties (continued)

Councillor	M. Nyhontso
Councillor	Z. Mqolo
Councillor	N. Dayimani
Councillor	T. Dyani
Councillor	X. C. Doko
Councillor	X. Nkwatani
Councillor	P. Mntwini
Councillor	C. M. Magadla

Transactions with related parties were concluded at arm's length.

Apart from remuneration, no further transactions occurred with councillors and section 57 managers.

Refer to note 24 for a breakdown of councillors' remuneration.

Refer to note 23 for a breakdown of amounts paid to section 57 managers.

## Key management information

### 39. Comparative figures

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

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and / or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

The presentation and classification of items in the current year is consistent with prior years, except as otherwise indicated.

The nature and reasons for the reclassifications and restatements are disclosed in note 46 to the financial statements.

### 40. Risk management

#### Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the municipality. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The municipality provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### 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.

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 40. 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	2016	2015
Receivable from exchange transactions	534 461	849 520
Receivables from non - exchange	1 350 894	4 591 737
Bank, cash and cash equivalents	22 252 751	61 179 293

## 41. Going concern

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

The Accounting Officer is of the opinion that the municipality will continue to as a going concern for the foreseeable future.

## 42. Unauthorised expenditure

Unauthorised expenditure - opening balance	216 694 962	133 110 161
Unauthorised capital expenditure	2 202 713	83 584 801
	<b>218 897 675</b>	<b>216 694 962</b>

Unauthorised expenditure was analysed per vote. The primary driver was cleaning material and refuse bags as the municipality wanted to maintain the cleanliness of the town.

## 43. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - opening balance	3 752 105	3 704 810
Current year	42 694	47 295
	<b>3 794 799</b>	<b>3 752 105</b>

The fruitless and wasteful expenditure amount for the current year is made up of the following:

- Interest overdue on Eskom payments R 35 129,35
- Interest overdue on Telkom payments R 7 547,23
- Interest overdue on ECDC payments R 16,95

## 44. Irregular expenditure

Opening balance	180 990 310	71 855 329
Add: Irregular Expenditure - current year	67 177 948	109 134 981
Less: Amounts written off by council - not recoverable	-	-
	<b>248 168 258</b>	<b>180 990 310</b>

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand 2016 2015

## 44. Irregular expenditure (continued)

### Details of irregular expenditure – 30 June 2016

	<b>Disciplinary steps taken/criminal proceedings</b>	
Opening balance 01 July 2015		214 377 772
No valid Tax clearance certificate	None	611 331
The contract with the other organ of state was for a period from March 2013-February 2015. Mnquma Local Municipality only entered into a contract with the service provider on 23 June 2015, therefore that other contract was not valid at the time of appointment.	None	56 194
The lease agreement had expired, therefore there was no valid contract at the time expenditure was incurred.	None	16 405
The procurement of goods/ works/ services were deliberately split into parts or items of lesser value merely to avoid complying with the requirements of the SCM policy/SCM regulations.	None	5 175
The service provider who met the requirements of the tender quoted over R1m and the tender advert said 80/20 therefore this should have been re-advertised.	None	1 708 785
The winning supplier did not submit a declaration of interest.	None	845 351
There is no B-BBEE certificate attached	None	142 278
There was no SCM representative in the BAC Meeting.	None	53 482 771
This contract is for more than R200 000.00 but it was not procured through a Competitive Bidding process and there was no deviation to support this. This was procured as a Small Bid	None	1 126 617
Written price quotations were not obtained from at least three different prospective suppliers.	None	8 737 169
Written price quotations were not obtained from at least three different prospective suppliers. No documentation to prove that a competitive Bid process was followed or a Small Bid occurred.	None	299 049
Remuneration paid to councillors in contravention with paragraph 16 of Government Gazette No. 39548 of 21 December 2015.	None	3 530 776
		<b>284 939 673</b>

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand 2016 2015

## 44. Irregular expenditure (continued)

### Details of irregular expenditure - 30 June 2015

	<b>Disciplinary steps taken/criminal proceedings</b>	
Opening balance as at 01 July 2014		105 263 311
No valid Tax Clearance certificate.	None	119 245
The amount is more than R200 000.00, an open tender was not followed and no deviation was attached.	None	2 741 988
The company appointed was not the list of companies that submitted their quotations although the deviation letter was there. It should have been retendered.	None	49 641
The contract with the other organ of state was for a period from March 2013-February 2015. Mnquma Local Municipality only entered into a contract with the service provider on 23 June 2015, therefore that other contract was not valid at the time of appointment.	None	793 657
The lease agreement had expired, therefore there was no valid contract at the time expenditure was incurred.	None	32 655
The procurement of goods/ works/ services were deliberately split into parts or items of lesser value merely to avoid complying with the requirements of the SCM policy/SCM regulations	None	53 929
The service provider who met the requirements of the tender quoted over R1m and the tender advert said 80/20 therefore this should have been re-advertised.	None	1 425 036
The supplier with the lowest price was not selected and no deviation was attached to justify that.	None	10 773
The winning supplier did not submit a declaration of interest.	None	3 173 519
There was no SCM representative in the BAC Meeting.	None	91 664 336
This contract is for more than R200 000.00 but it was not procured through a Competitive Bidding process and there was no deviation to support this. This was procured as a Small Bid.		501 313
Two price quotations were received from only two suppliers but the deviation was only approved by the Acting SCM manager and not the CFO.	None	20 546
Written price quotations were not obtained from at least three different prospective suppliers.	None	8 274 779
Written price quotations were not obtained from at least three different prospective suppliers. No documentation to prove that a competitive Bid process was followed or a Small Bid occurred.	None	253 043
		<b>214 377 771</b>

Detailed explanations of the irregular expenditure as at 30 June 2016 will be found on the attached appendix A

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>45. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	1 521 261	1 221 847
Amount paid - current year	(1 521 261)	(1 221 847)
	-	-
<b>Audit fees</b>		
Opening balance	46 561	22 257
Current year subscription / fee	4 822 193	3 594 628
Amount paid - current year	(4 866 688)	(3 570 324)
	<b>2 066</b>	<b>46 561</b>
<b>PAYE, SDL and UIF</b>		
Opening balance	1 803 238	1 421 177
Current year subscription / fee	26 198 316	20 022 516
Amount paid - current year	(26 198 316)	(19 640 455)
	<b>1 803 238</b>	<b>1 803 238</b>
<b>Pension and Medical Aid Deductions</b>		
Opening balance	2 049 824	513 380
Current year subscription / fee	40 522 337	33 339 934
Amount paid - current year	(40 522 337)	(31 803 490)
	<b>2 049 824</b>	<b>2 049 824</b>
<b>VAT</b>		
<b>VAT</b>		
Opening balance	3 528 671	2 981 900
Amount received	(5 669 490)	(12 494 040)
Amount claimed - current year	13 414 086	16 368 415
Amount disallowed & penalties	-	1 735 974
	<b>11 273 267</b>	<b>8 592 249</b>
VAT receivable	11 489 969	3 528 655

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



# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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Figures in Rand 2016 2015

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## 45. 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 2016:

<b>30 June 2016</b>	<b>Outstanding less than 90 days</b>	<b>Outstanding more than 90 days</b>	<b>Total</b>
Matanga X.	-	1 372	1 372
<hr/>			
<b>30 June 2015</b>	<b>Outstanding less than 90 days</b>	<b>Outstanding more than 90 days</b>	<b>Total</b>
Councillor Bikitsha	-	51	51
Councillor Mathanga	-	8 362	8 362
Councillor Mgandela	-	6 411	6 411
Councillor Mngonyama	-	2 207	2 207
Councillor Ntshebe	382	2 809	3 191
	<b>382</b>	<b>20 154</b>	<b>20 536</b>

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# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 46. Deviation from supply chain management regulations

MONTH	DEPARTMENT	GOODS/SERVICES REQUESTED	SERVICE PROVIDER	REASON FOR DEVIATION	AMOUNT
July	B.T.O	Service for BVD 301 EC	Universal Equipment	This TLB is the product of Universal Equipment and has been booked for a service and is still under warranty. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	22193.38
July	Corporate	Annual renewal of Franking Machine	Frama (pty) Ltd	The Franking machine is the product of frama (Pty) Ltd and is renewed annually. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	2188.06
July	B.T.O	Service for Mnqum 4 EC	Buffalo Toyota	It is the product of toyota and the vehicle has been booked for a service and its still under the maintenance plan. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	4768.05
July	Infrastructure	Fire fighting Services	Coetzer Fire Services	Coetzer Fire Services is the only service provider that supplies the fire fighting equipment. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	25912.2
July	Infrastructure	Cable for PTI in Butterworth	Siyavuya Construction	Siyavuya is the available local service provider that is capable of rendering these services since this is an urgent matter. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (i) that allows the accounting officer to deviate in emergency cases.	83481.72
July	Infrastructure	Repairs for Winch	Magnitude Motor Winders	Magnitude is the only company that does repairs on winch which is the tool that is used for maintenance of High Mast. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	25912.2
July	Community	Tuition Fees N.T Phongolo	Mancosa	Mancosa is the institution from which the employee is registered for the certificate in senior certificate in Public Management. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	14450
July	B.T.O	Service for FCX 565 EC	Buffalo Toyota	It is the product of toyota and the vehicle has been booked for a service and its still under the maintenance plan. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	2512.9
July	B.T.O	Repairs for FLW 699 EC	TFM	TFM is the only company specialising with hydraulic leaks. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	16746.6

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 46. Deviation from supply chain management regulations (continued)

August	Strategic	Guest speaker, facilitators for womens month celebration	Bhonelihe Production	it is the only service provider that has guest speaker and facilitators available on that day. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	144720
August	B.T.O	Repairing of Volvo Grader	Peugair Border	The grader is the product of Peugair Border and is due for service. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 12,289.20
August	MM	Trellidor for office no.08 New Building	Trellidor	It is the only company that provides trellidor burglars as per the request. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only. This is the only approved agent for Trelidor in Butterworth.	R 5,400.00
August	MM	Trellidor for office no.12 New Building	Trellidor	It is the only company that provides trellidor burglars as per the request. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only. This is the only approved agent for Trelidor in Butterworth.	R 5,200.00
August	Strategic	Procurement for 500 t-shirt for clean-up campaign	Greendot	In light of the quantity of t-shirts required (500) and time factor as the event is very close and the cost is above R30 000. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (i) that allows the accounting officer to deviate in emergency cases .	R 39,900.00
August		FMS Server for ICT	Sebata	The deviation is due to that the supply chain management policy provides that the Accounting Officer may dispense or deviate from normal procurement processes as per regulation 36 (1) (ii) where such goods or services are produced or available from a single provider only.	R 3,250.00
August	Corporate	Procurement for a course with mictech skills solutions	Mictech skills solutions	It is the only service provider that would be conducting this course this year in the Eastern Cape at Port Elizabeth. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 95,400.00
August	B.T.O	Repairing of Volvo Escavator	Universal Equipment	The escavator is the product of Universal Equipment and has been booked for a service and is still under warranty. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 39,900.00
August	B.T.O	Repairs for Blackhoe press	Universal Equipment	The machine/grader is the product of universal equipment and is due for a service and is still under warranty. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 5,194.17
August	B.T.O	Repairs for Komatsu TLB	Universal Equipment	The TLB is the product of Universal Equipment and is due for a service and is still under warranty. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 27,807.60

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 46. Deviation from supply chain management regulations (continued)

August	B.T.O	Service for FCX 279 EC	Buffalo toyota east london	it is the product of Buffalo Toyota and has a service plan with them and is due for a service and is still under warranty. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 4,582.40
August	B.T.O	Service for FCX 568 EC	Buffalo toyota east london	it is the product of Buffalo Toyota and has a service plan with them and is due for a service and is still under warranty. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 9,416.80
August	B.T.O	Service for FGR 541 EC	Fleet Dynamics east london	it is the product of Fleet Dynamics and has a service plan with them, it is due for a service and is still under warranty.. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 8,411.50
August	B.T.O	Service for FXZ 836 EC	East london Truck & Bus	it is the product of Truck & bus and has a service plan with them, it is due for a service and is still under warranty.. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 10,507.01
August	B.T.O	Service for Mnqum 3 EC	Buffalo toyota east london	it is the product of Buffalo Toyota and has a service plan with them, it is due for a service and is still under warranty. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 8,414.40
August	B.T.O	Service for Roller	Babcock	it is the product of Buffalo Toyota and has a service plan with them and is due for a service and is still under warranty. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 9,142.38
August	Strategic	Publication on Pondo news Newspaper for SOMA	Pondo News Newspaper	The purpose of publishing on the pondo news is to publish entirely the publication of SOMA into the newspaper. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 28,000.00
September	Fleet	Service for TLB	Bell Equipment	The above mentioned TLB is the product of Bell Equipment and is still under warranty and is due for service, therefore the reason for deviation is based in terms of the SCM regulation 36 (1) (a) (ii) that is when goods or services are produced or available only from a single provider.	R 10,110.58
September	Fleet	Service for Mnqum 3 EC	Buffalo Toyota East London	The above mentioned vehicle is the product of Toyota and is still under warranty and is due for service, therefore the reason for deviation is based in terms of the SCM regulation 36 (1) (a) (ii) that is when goods or services are produced or available only from a single provider.	R 8,414.40
September	Fleet	Service for FXZ 839 EC	Kempston Motor Group Trust	The above mentioned vehicle is the product of Toyota and is still under warranty and is due for service, therefore the reason for deviation is based in terms of the SCM regulation 36 (1) (a) (ii) that is when goods or services are produced or available only from a single provider.	R 10,507.01

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 46. Deviation from supply chain management regulations (continued)

September	Fleet	Service for FCX 279 EC	Buffalo Toyota East London	The above mentioned vehicle is the product of Toyota and is still under warranty and is due for service, therefore the reason for deviation is based in terms of the SCM regulation 36 (1) (a) (ii) that is when goods or services are produced or available only from a single provider.	R 4,582.40
September	Fleet	Repairs of TLB HCH 28 EC	Bell Equipment	The above mentioned plant is the product of Bell Equipment and is still under warranty and is due for service, therefore the reason for deviation is based in terms of the SCM regulation 36 (1) (a) (ii) that is when goods or services are produced or available only from a single provider.	R 8,499.84
September	Fleet	Service of a Roller	Bell Equipment	The grid roller is the product of Bell Equipment and has been taken for service, therefore the reason for deviation is based in terms of the SCM regulation 36 (1) (a) (ii) that is when goods or services are produced or available only from a single provider.	R 17,013.67
September	Fleet	Repairs of a Grid Roller	Bell Equipment	The grid roller is the product of Bell Equipment and has been taken for service, therefore the reason for deviation is based in terms of the SCM regulation 36 (1) (a) (ii) that is when goods or services are produced or available only from a single provider.	R 18,741.15
October	Fleet	Procurement of repairs for Low Bed	Man-Kempston Motor Group Trust	The above mentioned Low Bed is the product of Man-Kempston Motor Group Trust, therefore the reason for deviation is based in terms of the SCM regulation 36 (1) (a) (ii) that is when goods or services are produced or available only from a single provider.	R 19,722.57
October	Fleet	Service of a Grader Machiner- FNY 738 EC	Peugair Border	Peugair Border is the only service provider that specializes in grader machinery services, therefore the reason for deviation is based in terms of the SCM regulation 36(1)(a)(ii) that is when goods or services are produced or available only from a single provider.	R 17,646.92
October	Fleet	Procurement for service of Grader-HKP 022 EC	Bell Equipment	The above mentioned Low Bed is the product of Bell Equipment, therefore the reason for deviation is based in terms of the SCM regulation 36 (1) (a) (ii) that is when goods or services are produced or available only from a single provider.	R 21,651.05
October	Fleet	Repairs for Truck and Bus- FXZ 839 EC	Kempston Motor Group Trust	The motor vehicle is the product of Truck and Bus, therefore the reason for the deviation is based in terms of SCM regulation 36(1)(a)(ii) that is when goods or services are produced or available only from a single provider.	R 17,935.05
November	Community Services	Service for connection of electricity at Tafalofefe TRC hall	Eskom	Eskom is the only company that renders the service of electricity connection. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 5,150.00
November	Expenditure and Payroll	Procurement of payslips and clock card	Lithotech	Lithotech is the only service provider that has the required NCR pay slips and clock cards. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 21,148.68
November	Fleet	Repairs of key-FGR 541 EC	Fleet Dynamics	The motor vehicle is the product of Fleet Dynamics. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 5,409.98

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 46. Deviation from supply chain management regulations (continued)

November	Skills	Tuition of Konwaba Maxaba	SA Collage	SA Collage is s the institution from which the employee is registered with. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 28,360.00
December	BTO	Service for BSD 077 EC	Malcomess Tempe Agric	The motor vehicle is the product of Malcomess Tempe Agric and is due for a service. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 16,955.00
December	BTO	Repairs for HLH 282 EC	Bell Equipment	The motor vehicle is the product of Bell. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 6,505.07
December	Corporate Service	Tuition fees for Mqai Phakama	Walter Sisulu University	Walter Sisulu University is the institution from which the employee is registered with. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 14,760.00
December	Corporate Service	Tuition fees for Mavatulana Mzoxolo	Intec College	Intec College is the institution from which the employee is registered with. The reason for deviation is based in terms of the SCM regulation 36(1)( a) (ii) that allows the accounting officer to deviate only if such goods or services are produced or available from a single provider only.	R 19,923.00
December	Corporate Service	Vouchers for Performance Awards	Vincent Park	"The reason for deviation is based in terms of the SCM regulation 36(1)( a) (v) that allows the accounting officer to deviate in any exceptional case where it is impractical or impossible to follow the official procurement processes. These vouchers are availbale at Vincent Park and Hemmingways but because they are of the same values, we had to choose one as it is impractical to evaluate the suppliers based on any other criteria."	R 265,000.00
December	Community Services	Private Security Services	Masakhane Security Services	Due to identified security threats against the institution, it is therefore important to procure services of the private security to assist on minimizing the level of risk and safeguarding of Municipal Assets against anything that may arise; the reason for deviation is based in terms of SCM regulation 36(i)(a)(i) that allows the accounting officer to deviate only when in emergency cases.	R 239,826.70
December	Corporate Service	Vouchers for Performance Awards	Vincent Park	"The reason for deviation is based in terms of the SCM regulation 36(1)( a) (v) that allows the accounting officer to deviate in any exceptional case where it is impractical or impossible to follow the official procurement processes. These vouchers are availbale at Vincent Park and Hemmingways but because they are of the same values, we had to choose one as it is impractical to evaluate the suppliers based on any other criteria."	R 30,000.00
December	Community Services	Re-imbursement on Subsistence and Accomodation	Traffic Officer - Majiki O	The reason for deviation is based in terms of the SCM regulation 36(1)( a) (v) that allows the accounting officer to deviate in any exceptional case where it is impractical or impossible to follow the official procurement processes. These are reimbursive payments for SnT and accomodation claims for trafic officers when they attended training in Port Elizabeth.	R 76,500.00

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 46. Deviation from supply chain management regulations (continued)

December	Community Services	Re-imbusement on Subsistence and Accomodation	Traffic Officer - Gcilitshana T	The reason for deviation is based in terms of the SCM regulation 36(1)( a) (v) that allows the accounting officer to deviate in any exceptional case where it is impractical or impossible to follow the official procurement processes. These are reimbursive payments for SnT and accomodation claims for trafic officers when they attended training in Port Elizabeth.	R 76,500.00
December	Community Services	Re-imbusement on Subsistence and Accomodation	Traffic Officer - Bomela B	The reason for deviation is based in terms of the SCM regulation 36(1)( a) (v) that allows the accounting officer to deviate in any exceptional case where it is impractical or impossible to follow the official procurement processes. These are reimbursive payments for SnT and accomodation claims for trafic officers when they attended training in Port Elizabeth.	R 48,000.00
December	Community Services	Re-imbusement on Subsistence and Accomodation	Traffic Officer - Gudla N	The reason for deviation is based in terms of the SCM regulation 36(1)( a) (v) that allows the accounting officer to deviate in any exceptional case where it is impractical or impossible to follow the official procurement processes. These are reimbursive payments for SnT and accomodation claims for trafic officers when they attended training in Port Elizabeth.	R 48,000.00
December	Community Services	Re-imbusement on Subsistence and Accomodation	Traffic Officer - Habe A	The reason for deviation is based in terms of the SCM regulation 36(1)( a) (v) that allows the accounting officer to deviate in any exceptional case where it is impractical or impossible to follow the official procurement processes. These are reimbursive payments for SnT and accomodation claims for trafic officers when they attended training in Port Elizabeth.	R 48,000.00
December	Community Services	Re-imbusement on Subsistence and Accomodation	Traffic Officer - Nomnganga S	The reason for deviation is based in terms of the SCM regulation 36(1)( a) (v) that allows the accounting officer to deviate in any exceptional case where it is impractical or impossible to follow the official procurement processes. These are reimbursive payments for SnT and accomodation claims for trafic officers when they attended training in Port Elizabeth.	R 48,000.00
January	BTO - Fleet	Repairs for Compactor Truck HDR494EC	Fleet Dynamics- East London	The above mentioned motor vehicle is the product of Fleet Dynamics and is due for a service, therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 26,090.00
January	BTO - Fleet	Repairs for Truck HBN 429 EC	Fleet Dynamics- East London	The Truck is the product of Fleet Dynamics and is due for a service, therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 23,269.37
January	BTO - Fleet	Repairs for Path Finder HDP 583 EC	Automall- East London	The path finder is the product of Automall therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 13,172.06
January	BTO - Fleet	Repairs for Hauler Roller 2304	Bell Equipment	This mentioned vehicle is the product of Bell Equipment, therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 7,402.54
January	BTO - Fleet	Repairs for Volvo Roller	Babcock Equipment	Volvo Roller is the product of Babcock Equipment. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 9,142.38

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 46. Deviation from supply chain management regulations (continued)

January	Strategic Management	Jingle on Umhlobo Wenene FM For Mnquma Youth Council Education	SABC Radio	SABC Radio is the only National Radio Broadcaster with the FM station that broadcasts live reads in isiXhosa language, hence the Municipality has chosen Umhlobo Wenene FM so that all our viewers can be able to understand the message conveyed to Live Reads Campaign. The reason for deviation is based in terms of the SCM regulation 36(1)(a)(ii) that allows the Accounting Officer to deviate only if such good or services are produced or available from a single provider only	R 34,966.08
January	Strategic Management	MC for Educational Indaba	Flexible Promotions	Flexible Promotions is the only available service provider on that day that renders services, therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 25,000.00
January	Corporate Services	Training for 62 Councillors on Interpretation of Municipal Legislations and Audit Outcomes	Ikhaya Training and Consulting	A need was identified to train Councillors on matters relating to their understanding of Municipal Legislation, the Audit Report and Audit Findings that were to be released on the 30th November 2015. Ikhaya Training and Consulting was the only service provider available and their available date was the 20th November 2015. Therefore the reason for deviation is based in terms of SCM Regulation 36(1)(a)(i) that allows the Accounting officer to deviate only when in emergency cases.	R 30,000.00
January	BTO - Fleet	Service for FCW 699 EC	Fleet Dynamics- East London	The mentioned motor vehicle is the product of Fleet Dynamics and is due for service, therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 30,994.39
January	Infrastructure	External Bursary Award - Tuition Fees for T Sukwana	Nelson Mandela Metropolitan University	Nelson Mandela Metropolitan University is the preferred institution that provides National Diploma in Electrical Engineering where the learner has registered to undergo his studies for Engineering Services, therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 37,027.41
January	Infrastructure	Internal Bursary Award - Tuition Fees N Nozaza	Line-Up Communication Services	Line-Up Communication Services is the preferred local service provider that provides certificates in Basic Computer Skills studies, therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 14,450.00
February	BTO - Fleet	Repairs for Compactor Truck HDR494EC	Fleet Dynamics- East London	The truck is the product of Fleet Dynamics and is due for a service. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 26,090.52
February	BTO - Fleet	Repairs for DFH 677 EC	Datnis Nissan	The motor vehicle is the product of Datnis Nissan and is due for a service. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 16,108.59
February	Community Services	Private Security Services	Tyekes Security Services cc	Due to identified security threats against the institution the municipality had to use additional security services, it is therefore important to procure services of the private security to assist on minimizing the level of risk and safeguarding of Municipal Assets against anything that may arise; the reason for deviation is based in terms of SCM regulation 36(i)(a)(i) that allows the accounting officer to deviate only when in emergency cases.	R 320,000.00



# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 46. Deviation from supply chain management regulations (continued)

February	Strategic Management	Tuition Fees T.Ndabeni	Walter Sisulu University	Walter Sisulu University is where the learner has registered to further his studies for BTech in Public Management. The student is enrolled at WSU and has been awarded a bursary by the municipality; therefore the reason for deviation is based in terms of the SCM regulation 36(i)(a)(v) that allows the accounting officer to deviate due to an exceptional case where it was impractical to follow SCM processes.	R 21,050.00
February	Community Services	Private Security Services	Masakhane Security Services	Due to identified security threats against the institution, it is therefore important to procure services of the private security to assist on minimizing the level of risk and safeguarding of Municipal Assets against anything that may arise; the reason for deviation is based in terms of SCM regulation 36(i)(a)(i) that allows the accounting officer to deviate only when in emergency cases.	R 239,826.7
February	Community Services	Private Security Services	Masakhane Security Services	Due to identified security threats against the institution, it is therefore important to procure services of the private security to assist on minimizing the level of risk and safeguarding of Municipal Assets against anything that may arise; the reason for deviation is based in terms of SCM regulation 36(i)(a)(i) that allows the accounting officer to deviate only when in emergency cases.	R 283,203.42
February	Municipal Managers Office	Security Access Control	TKS/TRACKO S Project Pty Ltd	In line with the security upgrade and control measures within the Executive building where high authorities of the institution are based, it is important to procure such services as to reduce the level of risk in the premises whereby there has been security threats; the reason for deviation is based in terms of SCM regulation 36(i)(a)(i) that allows the accounting officer to deviate only when in emergency cases.	R 45,189.6
February	Strategic Management	Tuition Fees S. Phikelela	Walter Sisulu University	Walter Sisulu University is where the learner has registered to further his studies for BTech in Public Management. The student is enrolled at WSU and has been awarded a bursary by the municipality; therefore the reason for deviation is based in terms of the SCM regulation 36(i)(a)(v) that allows the accounting officer to deviate due to an exceptional case where it was impractical to follow SCM processes.	R 21,050.00
February	Strategic Management	Tuition Fees N. Mtotywa	Lyceum College	Lyceum College is where the learner has registered to further his studies for Diploma in Traffic Policing. The student is enrolled at Lyceum College and has been awarded a bursary by the municipality; therefore the reason for deviation is based in terms of the SCM regulation 36(i)(a)(v) that allows the accounting officer to deviate due to an exceptional case where it was impractical to follow SCM processes.	R 8,700.00
March	BTO - Fleet	Hydraulic Leakage HBN 412 EC	Fleet Dynamics- East London	The mentioned Compactor truck - is the product of Fleet Dynamics and is due for a service. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 15,800.00
March	BTO - Fleet	Repairs for Compactor Truck HDR494EC	Fleet Dynamics- East London	The mentioned Compactor truck is the product of Fleet Dynamics and is due for a service. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 26,090.52

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 46. Deviation from supply chain management regulations (continued)

	BTO - Fleet	Private Security Services	Masakhane Security Services	Due to identified security threats against the institution , it is therefore important to procure services of a private security to assist on minimizing the level of risk and safeguarding of Municipal Assets against anything that may arise; the reason for deviation is based in terms of SCM regulation 36(i)(a)(ii) that allows the Accounting Officer to deviate only when in emergency cases	R 63,949.19
March	BTO - Fleet	Repairs for DFH 677 EC	Datnis Nissan King Williams TN	The Motor Vehicle is the product of Fleet Dynamics and is due for a service.therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 16,108.59
March	Corporate Services	Municipal By -Laws	Sabinet	Sabinet is the institution that gazetting the By-Laws , therefore the reason for the deviation is based in terms of SCM regulation 36(1) (a) (ii) that is when goods or services are produced or available from the single provider only	R 8,015.11
March	Community Services	Private Security Services	Tyeks Security Services	Due to identified security threats against the institution , it is therefore important to procure services of a private security to assist on minimizing the level of risk and safeguarding of Municipal Assets against anything that may arise; the reason for deviation is based in terms of SCM regulation 36(i)(a)(ii) that allows the Accounting Officer to deviate only when in emergency cases	R320,000.00
March	Community Services	Tuition Fees G. Mahlathini	Lyceum College	Lyceum College is where the learner has registered to further his studies for National Diploma in Traffic Policing. The student is enrolled at Lyceum College and has been awarded a bursary by the municipality; therefore the reason for deviation is based in terms of the SCM regulation 36(i)(a)(v) that allows the accounting officer to deviate due to an exceptional case where it was impractical to follow SCM processes.	R 13,500.00
March	Community Services	Private Security Services	KSA Security Services	Due to identified security threats against the institution , it is therefore important to procure services of a private security to assist on minimizing the level of risk and safeguarding of Municipal Assets against anything that may arise; the reason for deviation is based in terms of SCM regulation 36(i)(a)(ii) that allows the Accounting Officer to deviate only when in emergency cases	R 192,660.00
March	Corporate Services	Tuition Fees O. Mafanya	Walter Sisulu University	Walter Sisulu University is where the learner has registered to further her studies for National Diploma in Human Resources. The student is enrolled at Walter Sisulu University and has been awarded a bursary by the municipality; therefore the reason for deviation is based in terms of the SCM regulation 36(i)(a)(v) that allows the accounting officer to deviate due to an exceptional case where it was impractical to follow SCM processes.	R 27,940.00
April	BTO - Fleet	Service Grader - HKP 022 EC	Bell Equipment	The Grader is the product of Bell Equipment and is due for service. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 32,351.85
April	BTO - Fleet	Repairs for Vehicle - HML 537 EC	Buffalo Toyota	The Grader is the product of Bell Equipment and is due for service. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 7,531.75
April	BTO - Fleet	Service of Roller - FNN 778 EC	Kemach Equipment	The Roller is the product of Kemach Equipment and is due for service. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 34,632.4

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 46. Deviation from supply chain management regulations (continued)

April	BTO - Fleet	Service of Grader - FNY 738 EC	Peugair Border CC	Peugair Border CC is the only company that services Grader. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 35,311.86
April	BTO - Fleet	Repairs for Truck- FLW 695 EC	TFM Manufacturing (Pty) Ltd	TFM Manufacturing is the only company dealing with hydraulic leakage. Therefore the reason for deviation is based in terms of SCM regulation 36(i) (a)(ii) when goods or services are produced or available from a single provider only	R 11,263.2
April	BTO - Fleet	Repairs of Corrola - HML 533 EC	Buffalo Toyota	The mentioned vehicle is the product of Buffalo Toyota and it has brakes problem. Therefore the reason for deviation is based in terms of SCM regulation 36 (i) (a) (ii) when goods and services are produced or available from a single provider only.	R 7,264.95
April	BTO - Fleet	Service of TLB - HLH 282 EC	Bell Equipment	The TLB is the product of Bell Equipment and is due for service. Therefore the reason for deviation is based in terms of SCM regulation 36 (i) (a) (ii) when goods or services are produced or available from a single provider only.	R 9,606,95
April	Strategic	Medical Assessment on person with disability	Dr P. N Mafuya & Associates	Dr Mafuya & Associates is the preferred local Medical Practitioner to perform aforesaid Assessment. Therefore the reason for deviation is based in terms of SCM regulation 36 (i) (a) (ii) when goods or services are produced or available from a single provider only	R 4,560.00
April	BTO - Fleet	Service of Grader - FNY 738 EC	Peugair Border CC	Peugair Border CC is the only company that Services Grader. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 27,594.54
April	Corporate	Medical Assessment	Dr P. N Mafuya & Associates	Dr Mafuya & Associates is the preferred local Medical Practitioner to perform aforesaid Assessment. Therefore the reason for deviation is based in terms of SCM regulation 36 (i) (a) (ii) when goods or services are produced or available from a single provider only	R 7,400.00
April	Strategic	Delivery costs - Municipal Banners	Flash Design Projects	Flash Design Projects was appointed by the institution for the design and printing of municipal banners, delivery costs were not included in the project pricing and services were rendered timeously. The reason for deviation is based in terms of the SCM regulation 36(1)(a) (v) that allows the accounting officer to deviate in any exceptional case where it is impractical or impossible to follow the official procurement processes.	R 2,959.92
May	BTO - Fleet	Service Truck- HRP 737 EC	Hino Buffalo Truck	The truck is the product of Hino Buffalo Trucks and is due for service. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 12,125.1
May	STRATEGIC	Decoration at Msobomvu Hall for State of the Municipal Address (SOMA)	MS Development & Projects	MS Developments is appointed by the institution for Full Decoration at Msobomvu Hall for SOMA due to time constraints it was Impractical to follow scm process therefore the reason for deviation is based in terms of scm regulation 36 (i)(a)(i) that allows the accounting officer to deviate only when in emergency case	R 53,400.00
May	Corporate	Tuition fees	Walter Sisulu University	Walter Sisulu University is the Institution from which the employee is registered for B-Tech Management. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 8,820.00

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 46. Deviation from supply chain management regulations (continued)

May	Corporate	Tuition fees for O. Fani	Regent Business School	Walter Sisulu University is the Institution from which the employee is registered for B-Tech Management. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 24,950.00
May	BTO - Fleet	Repairs for Vehicle - FCX 277 EC	Buffalo Toyota	The vehicle is the product of Buffalo Toyota and it needs repairs. Therefore the reason for deviation is based in terms of SCM regulation 36(i) (a)(ii) when goods or services are produced or available from a single provider only	R 3,322.7
May	BTO - Fleet	Service for FXZ 839 EC	East London Truck and Bus	The vehicle is the product of East London Truck and Bus. Therefore the reason for deviation is based in terms of SCM regulation 36 (i) (a) (ii) when goods and services are produced or available from a single provider only.	R 11,656.1
May	BTO - Fleet	Reconditioning of an engine - HDR 494 EC	Fleet Dynamics	The compactor Truck is the product of Fleet Dynamics and it needs reconditioning of an engine. Therefore the reason for deviation is based in terms of SCM regulation 36 (i) (a) (ii) when goods or services are produced or available from a single provider only.	R 267,365.31
May	BTO - Fleet	Service for HBN 424 EC	Fleet Dynamics	The truck is the product of Fleet Dynamics and is due for service. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 42,308.58
May	BTO - Fleet	Service of Grader - FNY 738 EC	Peugair Border CC	Peugair Border CC is the only company that Services Grader. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 27,594.54
May	STRATEGIC	Printing of Backdrop Banner for Investment Summit	MS Development & Projects	MS Developments was appointed by the institution for the printing of municipal banner for the Investment Summit but due to time constraints it was Impractical to follow scm process therefore the reason for deviation is based in terms of scm regulation 36 (i)(a)(i) that allows the accounting officer to deviate only when in emergency case	R 80,000.00
May	BTO - Fleet	Repairs for Vehicle - FCX 568 EC	Buffalo Toyota	The vehicle is the product of Buffalo Toyota and it needs repairs. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 7,711.15
June	BTO - FLEET	Service of Built in trailer for FXZ 839 EC	TFM Manufacturing	The water tanker truck is the product of TFM Manufacturing and is due for service. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R10,146.00
June	MM'S OFFICE	Publication of the State Municipal Address on Pondo Newspaper	Pondo News	The purpose of publicizing on the Pondo News is to publish SOMA into the newspaper that circulates entirely the lower Eastern Cape Region, from Butterworth to Bizana. The reason for deviation is based in terms of the SCM regulation 36(1)(a)(v) that allows the accounting officer to deviate in any exceptional case where it is impractical or impossible to follow procurement processes.	R 29,500.00
June	COMMUNITY SERVICES	Procurement of a Close Protection Security	Isikhwili Promotions	Due to identified security threats against the institution, it is important to procure services of the private security to assist on minimizing the level of risk and safeguarding of Municipal Assets against anything that may arise; the reason for deviation is based in terms of SCM regulation 36(i)(a)(i) that allows the accounting officer to deviate only when in emergency cases.	R 120,000.00

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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Figures in Rand 2016 2015

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## 46. Deviation from supply chain management regulations (continued)

June	BTO - PAYROLL	Procurement of payslips	Lithotec	The Mnquma Local Municipality payslips template is only designed by Lithotec. therefore the reason for deviation is based in terms of SCM regulation 36(i) (a) (ii) when goods or services are produced or available from a single provider only.	R 24,445.57
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# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand	2016	2015
<b>47. Contingencies</b>		
As at 30 June 2016, the municipality had the following contingent assets and contingent liabilities:		
<b>Cases against the municipality</b>		
<b>Case 1087/08 Langulabantu Construction vs Municipality</b> Claim for construction done and not paid. Case pending awaiting trial date from the Register of the High Court (File 14/16/68)	292 920	292 920
<b>Case 1152/07 Atlas Construction vs Municipality</b> Claim for services rendered. No further action by the applicant, file closed until further action taken. (File 14/16/76)	238 572	238 572
<b>Case No Letter of demand A.K. Gqiba vs Mnquma Municipality</b> Claim for monies not paid after retirement. On trial and proceeding with evidence.	9 100	9 100
<b>Case No 744/2012 Thozamile Kenneth Semekazi vs Mnquma Municipality</b> Costs of the application made by the applicant. Matter was heard and postponed sine die.	85 000	85 000
<b>Case No. 803/2013- D. Poncana vs Mnquma Municipality</b> Suing the Municipality for damages after his car was impounded by traffic Officer Ngalo. Filed notice on intention to defend. Plaintiff's Attorneys are yet to furnish us with the local address for service of further pleadings.	18 000	18 000
<b>Case No. RC 539/2012 Buyile George vs Eskom &amp; Mnquma Local Municipality</b> Claim for loss of support on behalf of the minor children of the deceased E.N. Joni and for funeral expenses. Filed notice of intention to defend. Plaintiff's Attorneys are yet to furnish us with local address for service of pleadings.	240 655	240 655
<b>Case No. 2524/2012 : Bongile Maxam vs Mnquma Municipality</b> Suing the municipality for unlawful arrest, detention and assault by traffic officers. Filed of intention to defend. Further pleadings are to be exchanged.	250 000	250 000
<b>EC/MTHA/RC/1023/12 N. Mbangeni vs Mnquma Municipality &amp; Others</b> Plaintiff's claim is for suffering resulting from unlawful arrest and detention. Exchanging pleadings	300 000	300 000
<b>Case No. 84/12 MC : Siyephu vs Mnquma Municipality &amp; Others</b> Claim for damages as a result of assault of assault by traffic officers. Ready for trial	100 000	100 000
<b>Case No. 90/13 : Thamsanqa Mcatshulwa vs Mnquma Local Municipality</b> Claim against the municipality for damages to plaintiff's immovable property. Exchanging pleadings.	21 795	21 795
<b>Case No: 329/14 John Okyne vs Mnquma Local Municipality.</b> Claim against the municipality for damages. Pleading stage	100 000	100 000
<b>Case No: 1289/12 Khayaletu Buso &amp; Mzuxolile Mbiko vs Minister of Police &amp; Constable Nkukwana</b> Case of a joinder application joining the traffic office Buso on the proceedings. Case on the pleading stage.	100 000	100 000
<b>Case No. 10/2015 : Lizo Mkhathshane and Others v Mnquma</b> Urgent application by applicants for an interdict at Ngqamakwe. Postponed on the 5th march 2015 and referred to an opposed roll.	150 000	150 000
<b>Case No. PR285/15: Ntshatsheli Nogcantsi v Mnquma</b> This a review application before the labour Court wherein the applicant seeks the review of the arbitration award. Matter is still at the pleading stage and the hears of argument are to be filed.	-	-
<b>Case No. 3461/15: Zolile Mshumpela v Mnquma</b> Plaintiff issued combined summons claiming for alleged unlawful arrest and detention. Matter is still at the pleading stage.	1 008 000	-
<b>Case No. RC 451/15: Tembela Van Der Berg v Mnquma</b> Plaintiff issued summons claiming for alleged unlawful arrest and detention. Matter is still at the pleading stage.	360 000	-
<b>Case No. 1406/15: Geoffery Whittal v Mnquma</b> Plaintiff issued combined summons claiming for alleged unlawful arrest and detention. Matter is still at the pleading stage.	1 064 000	-
<b>Case No. 2608/2012: Mnquma Municipality vs Nobanda &amp; 8 Others</b> This the matter of land invasions. Waiting for the trial date from the registrar of the high court.	150 000	150 000
	<b>4 488 042</b>	<b>2 056 042</b>

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand 2016 2015

## 48. Prior period errors

2015 Closing balances and 2016 opening balances.

Statement of financial position	Previously restated	Adjustment	As restated	Reference
Investment Property	717 334	8 914 729	9 632 063	1
VAT receivable	5 194 895	(1 666 240)	3 528 655	2
Property plant and equipment	828 612 056	10 260 341	838 872 397	3
Intangible assets	134 754	(130 203)	4 551	4
Payables from exchange transactions	26 881 890	(801 879)	26 080 011	5
Accumulated surplus	395 732 262	9 265 783	404 998 045	6
	Previously restated	Adjustment	As restated	Reference
Income from agency services	2 744 414	(89 245)	2 655 169	7
Other income	4 986 810	14 720	5 001 530	8
Employee related costs	130 821 838	(70 201)	130 751 637	9
Remuneration of councillors	22 141 051	70 199	22 211 250	10
Depreciation and amortisation	107 242 494	(4 380 697)	102 861 815	11
Repairs and maintenance	7 559 218	(37 096)	7 596 314	12
Grants and subsidies expenditure	-	19 875 408	19 875 408	13
General expenses	66 159 105	(20 173 900)	45 985 205	14
Loss on disposal of assets and liabilities	682 779	1 949 471	2 632 250	15
	<b>342 337 709</b>	<b>(2 841 341)</b>	<b>339 570 578</b>	<b>-</b>

1. Housing flats rented out have been reclassified from property plant and equipment to investment property
2. The VAT balance was overstated in the prior year due to input VAT that was incorrectly claimed.
3. There were duplicated assets in the prior year which were not verified as per last year's verification, therefore such assets were written off in the prior year. There was also an error in last year's depreciation calculation and that has been corrected in the opening balance.
4. Licences expired and were never renewed in the prior year, therefore those intangibles needed to be written off in that period.
5. The adjustment was due to journals passed to the salaries control account as well as the correction of misclassifications in other income. There were corrections in the prior year relating to incorrect balances on the Enatis Votes as well as errors corrected on the payroll account. There were corrections in the prior year relating to incorrect balances on the Enatis Votes as well as errors corrected on the payroll account.
6. This is an aggregate of the above movements
7. Items that were previously mapped as agency fees were re routed to other income. Also an adjustment was made to the Enatis account.
8. This is due to amounts that were incorrectly mapped as agency fees as well as assets recorded at deemed cost in the FAR.
9. Cellphone allowances for councillors were incorrectly mapped under general employee related costs in the prior year and that was corrected in the current year.
10. Cellphone allowances for councillors were incorrectly mapped under general employee related costs in the prior year and that was corrected in the current year.
11. There were an errors on the residual values that were used in the prior year as well as changes in the useful lives that resulted in the decrease in prior year depreciation.
12. This relates to items that were previously mapped under general expenses which in actual fact were repairs and maintenance.

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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Figures in Rand	2016	2015
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## 48. Prior period errors (continued)

13. The grants expenditure was previously mapped under general expenses and has since been mapped in the correct vote.

14. This relates to corrections in mapping, mainly grants, as well as repairs and maintenance and adjustments made to VAT Input.

15. There was a road that was derecognised, intangibles that were derecognised in the prior year as well as the duplicated assets that were written off.



# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 49. Budget differences

### Material differences between budget and actual amounts

#### Statement of Financial Performance

48.1 The revenue enhancement strategy that was aimed to increase the collection rate and expand the revenue base of the municipality was approved by council on the 29<sup>th</sup> March 2016. The implementation only started in April 2016.

48.2 There was an implementation of clauses in the lease agreements of the commercial properties led to the increase in revenue.

48.3 Management planned to implement a revenue enhancement strategy during the financial year. The objective of this programme is to increase the collection rate and reduce the debtors book leading to a decrease in interest income from debtors accounts.

48.4 The municipality anticipated that there will be many vehicles to be registered during the financial year in line with the incremental budget approach which is appropriate for budgeting for such revenue items.

48.5 The variance is caused by the increase in the number of people that came to book for Learners Licences. Throughout the financial year the municipality has been conducting traffic awareness campaigns that have assisted in terms of making communities aware of these services rendered by the municipality.

48.6 The variance is caused by PPE

48.7 The municipality took a zero tolerance approach to offenders which increased the revenue recognised from traffic tickets.

48.8 The municipality reviewed the useful lives of the infrastructure assets which led to a decrease in depreciation against the budget.

48.9 The difference is caused by the fact that there were finance leases that the municipality finished paying during the year. The municipality also intended to purchase municipal fleet on a finance lease but ended up buying this fleet in cash; hence We did not incur the additional finance charges that were budgeted

48.10 There was an increase in the bad debts provided for due to the accounting for traffic fines from cash to accrual basis. The bulk of the tickets are not paid.

48.11 This is budgeted under general expenditure.

48.12

48.13 This is attributable to the de-recognition of infrastructure assets as new assets are constructed.

48.14 This is an actuarial valuation on employee long service awards performed at year end and is not budgeted for.

The municipality does not budget for this transaction as this is a calculation that is outside our influence. The fair value adjustments are due to the market conditions and are determined by the Actuary at year end and thus the municipality has accounted for these in line GRAP 25

48.15 This is an actuarial valuation on employee long service awards performed at year end and is not budgeted for.

The municipality does not budget for this transaction as this is a calculation that is outside our influence. The fair value adjustments are due to the market conditions and are determined by the Actuary at year end and thus the municipality has accounted for these in line GRAP 25

48.16 In there has been an increase in the provision for debt impairment which has led to the decrease in debtors balances at year end.

48.17 The budget for VAT receivables is included on the receivables from non-exchange transactions. Furthermore, there are returns due that have not yet been paid by SARS after assessments.

48.18 In there has been an increase in the provision for debt impairment which has led to the decrease in debtors balances at year end.

# Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Figures in Rand

2016

2015

## 49. Budget differences (continued)

48.19 This has been over budgeted for. In the current year management implemented programmes that ensured that service delivery projects are fast-tracked through investing in new plant and equipment and other basic infrastructure projects.

48.20 This was caused by the reclassification of PPE into investment property during the year.

48.21 In the current year the municipality reviewed the useful lives of some of the infrastructure assets which led to a decrease in the depreciation charge for the year.

48.22 This is due to the de-recognition of intangible assets during the year.

48.23 Management had planned to pay off the motor vehicles during the financial year but ended up not settling them and choosing to settle them over their finance period.

48.24 When reporting during the 2013/2014 financial year the municipality did not accrue for the retention liability. This was corrected during the 2014/2015 financial year however it was not budgeted for since this was a yearend journal.

48.25 This municipality received payments in advance from its rates and services consumers. Due to the nature of the this balance the municipality does not budget for it since it is an unlikely occurrence that consumers would overpay for services given the collection rates the municipality has experienced over the years.

48.26 The leave and bonus provisions went up due to increase in salaries. The leave days average leave days accrued per individual also went up leading to an increase in the liability.

48.27 The municipality planned to spend all the conditional grants as per the capital and operating budget of the municipality

48.28 Payments were authorised on the 30<sup>th</sup> of June and the corresponding withdrawal from the call account was only effected on the 1<sup>st</sup> of July 2016 by the bank.

48.29 Management had planned to pay off the motor vehicles during the financial year but ended up not settling them and choosing to settle them over their finance period.

48.30 This is budgeted for under provisions. In terms of the MFMA: Municipal Budget and Reporting Regulations Gazette No. 32141 budget tables issued the National Treasury there is no provision for Employee Benefit Obligation hence it is common practice to budget for this liability under provisions.

48.31 Management planned to implement a revenue enhancement strategy during the financial year. The objective of this programme is to increase the collection rate and expand the revenue base of the municipality however there were challenges in implementing the strategy. These will be addressed in the 2015/2016 financial year.

48.32 On the budget tables that are issued by the National Treasury in terms of the MFMA: Municipal Budget and Reporting Regulations, Gazette No. 32141 there is no provision for this line item therefore it is budgeted under "Ratepayers and other".

48.33 The municipality over-budgeted for transfers and grants from the national fiscus.

48.34

48.35

48.36 The difference is caused by the fact that there were finance leases that the municipality finished paying during the year. The municipality also intended to purchase municipal fleet on a finance lease but ended up buying this fleet in cash; hence we did not incur the additional finance charges that were budgeted.

48.37

48.38