



Mnquma Local Municipality  
Financial statements  
for the year ended 30 June 2020

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## General Information

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### Legal form of entity

The entity functions as a local municipality, established under paragraph 151 of the constitution of the Republic of South Africa.

### 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.

### The following is included in the scope of operation

The following principal activities of the municipality are:

- Provide democratic activities and accountable government
- Ensure sustainable service delivery to communities
- Provide social and economic development
- Provide basic services to the community

### Mayoral committee

Executive Mayor  
Speaker  
Chief Whip  
Exco Councillors

S Ncetezo  
T Bikitsha  
Z Gade  
L Mgandela  
T Nkamisa  
Z Mkiva  
N Layiti  
XI Pupuma  
NR Tshona  
TP Ntanga  
S Matutu  
N Thandaphi  
N Lusizi  
TH Mpeta  
NM Mpambani  
N Ntolosi  
ME Ntshonga  
GT Ntshonga  
Z Sobekwa  
SL Mafanya  
N Monakali  
NN Nqolomlilo  
Z Siyo  
AA Krakri  
LS Sobekwa  
GN Nombila  
B Kave  
ZC Mfazwe  
TZ Xhongwana  
N Lusizi  
T Ntyinkala  
NG Ndongeni  
NP Dube  
C Mtsi  
NH Kendle

### Councillors

# Mnquma Local Municipality

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KG Magwaca  
M Mkhilili  
L Tsipa  
M Ndungane  
M Mxhoko  
SN Tshazi  
WW Mbadlanyana  
WM Ntongana  
N Sheleni  
K Gobeni  
N Jiya  
MZ Mnqwazi  
Z Gade  
ZA Mqolo  
ML Mtaló  
Z Mnqokoyi  
NL Zaba  
NQ Sukwana  
Y Mngonyama  
NH Skelenge  
SM Molosi  
MW Mbeki  
A Finca  
L Mbentsula  
S Lilise  
AB Madikane  
V Nkehle  
T Makeleni

Traditional leaders to participate in Mnquma Municipal Council

NS Ngxiya  
VL Mbasá  
WM Mahlangeni  
BL Ntleki  
ZM Dyantyi  
M Magodla  
N Nyhila  
D Mpangele  
BB Vuso  
M Nguza  
NVG Dondashe  
P Nguza

**Grading of local authority**

Medium Capacity Municipality

**Chief Finance Officer (CFO)**

M Matomane

**Accounting Officer**

S Mahlasela

**Registered office**

Corner King and Umtata Street  
Butterworth  
4960

# Mnquma Local Municipality

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## General Information

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<b>Postal address</b>	P.O. Box 36 Butterworth 4960
<b>Bankers</b>	First National Bank
<b>Auditors</b>	Auditor General of South Africa Registered Auditors
<b>Preparer</b>	The financial statements were internally compiled by: M Matomane
<b>Telephone</b>	(047) 401 2400
<b>E-mali Address</b>	nmatomane@mnquma.go.za
<b>Jurisdiction</b>	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 the former Butterworth, Ngqamakhwe (previously Ngqamakhwe) and Centane Traditional Regional Councils. Mnquma Local Municipality shares borders with Three other local municipalities : Mbhashe,Insika Yethu and Great Kei. It also includes a number of previously administered rural areas.

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## Index

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

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

# Mnquma Local Municipality

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## 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 financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the 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 financial statements and was given unrestricted access to all financial records and related data.

The 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 financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments 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 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 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 2021 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 municipality is wholly dependent on the Department of Local Government and Traditional affairs for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Department of Local Government and Traditional Affairs 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, they are supported by the municipality's internal auditors.

The financial statements set out on pages 6 to 83, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed by him:

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**S Mahlasela**  
Municipal Manager

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Assets</b>			
Current Assets			
Inventories	39&2	7 216 157	7 528 062
Receivables from non-exchange transactions	39&3	15 241 200	11 191 615
VAT receivable	39&4	6 947 620	5 325 002
Receivables from exchange transactions	39&5	986 229	881 466
Cash and cash equivalents	6	50 281 617	16 743 471
		<b>80 672 823</b>	<b>41 669 616</b>
Non-Current Assets			
Investment property	39&7	150 130 261	153 124 188
Property, plant and equipment	39&8	749 968 157	830 283 750
		<b>900 098 418</b>	<b>983 407 938</b>
<b>Total Assets</b>		<b>980 771 241</b>	<b>1 025 077 554</b>
<b>Liabilities</b>			
Current Liabilities			
Payables from exchange transactions	39&9	39 777 896	39 534 059
Employee benefit obligation	46	1 935 000	1 978 000
Unspent conditional grants and receipts	39&10	9 859 945	10 333 215
Provisions	39&12	1 115 017	1 115 017
		<b>52 687 858</b>	<b>52 960 291</b>
Non-Current Liabilities			
Employee benefit obligation	46	10 966 000	10 610 000
<b>Total Liabilities</b>		<b>63 653 858</b>	<b>63 570 291</b>
<b>Net Assets</b>		<b>917 117 383</b>	<b>961 507 263</b>
Reserves			
Revaluation reserve	11	424 344 394	521 503 253
Accumulated surplus		492 772 989	440 004 010
<b>Total Net Assets</b>		<b>917 117 383</b>	<b>961 507 263</b>

\* See Note 39

# Mnquma Local Municipality

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## Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	13	5 163 251	4 655 997
Rental of facilities	14	4 528 782	2 651 041
Interest on outstanding debtors	15	14 621 163	9 225 982
Income from agency fees	16	2 381 204	3 524 624
Licences and permits	3917	1 307 494	1 323 788
Other income	3918	1 378 062	724 260
Interest received - investment	19	5 167 448	5 094 862
<b>Total revenue from exchange transactions</b>		<b>34 547 404</b>	<b>27 200 554</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	20	62 907 479	20 978 293
<b>Transfer revenue</b>			
Government grants & subsidies	21	327 585 899	319 770 691
Traffic Fines	3922	5 298 585	5 907 124
<b>Total revenue from non-exchange transactions</b>		<b>395 791 963</b>	<b>346 656 108</b>
<b>Total revenue</b>		<b>430 339 367</b>	<b>373 856 662</b>
<b>Expenditure</b>			
Employee related costs	39&23	(185 981 981)	(171 645 523)
Remuneration of councillors	24	(28 037 968)	(27 151 325)
Depreciation and amortisation	25	(110 025 693)	(164 465 921)
Impairment loss/ Reversal of impairments	26	(7 483 887)	(123 363 907)
Finance costs	39&27	(1 360 561)	(2 786 575)
Debt Impairment	39&28	(62 274 489)	(35 442 114)
Bulk purchases	29	(2 862 297)	(4 829 257)
Loss on disposal of assets	30	(21 826 874)	(10 432 814)
Repairs and maintenance	31	(3 677 971)	(4 167 553)
Revaluation losses		-	(232 181 084)
General Expenses	39&32	(52 802 273)	(50 790 538)
<b>Total expenditure</b>		<b>(476 333 994)</b>	<b>(827 256 611)</b>
<b>Deficit for the year from continuing operations</b>		<b>(45 994 627)</b>	<b>(453 399 949)</b>
Actuarial gains / (losses)	46	1 784 521	(172 301)
<b>Deficit for the year</b>		<b>(44 210 106)</b>	<b>(453 572 250)</b>

\* See Note 39

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## Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	114 764 107	838 367 708	953 131 815
Adjustments			
Correction of errors-Note 39	-	9 099 687	9 099 687
<b>Balance at 01 July 2018 as restated*</b>	<b>114 764 107</b>	<b>847 467 395</b>	<b>962 231 502</b>
Changes in net assets			
Correction of error	-	51 221	51 221
Realisation of revaluation reserve on derecognition of assets replaced in 2019	(430 653)	430 653	-
Transfer from revaluation reserve to accumulated surplus - depreciation	(30 606 697)	30 606 697	-
Revaluation losses	(32 906 219)	-	(32 906 219)
Revaluation Gains	485 703 007	-	485 703 007
Transfer to accumulated surplus 2019 - Impairment loss	(15 020 293)	15 020 293	-
Net income (losses) recognised directly in net assets	406 739 145	46 108 864	452 848 009
Surplus (deficit) for the year	-	(453 572 250)	(453 572 250)
Total recognised income and expenses for the year	406 739 145	(407 463 386)	(724 241)
Total changes	406 739 145	(407 463 386)	(724 241)
<b>Restated* Balance at 01 July 2019</b>	<b>521 503 253</b>	<b>439 824 240</b>	<b>961 327 493</b>
Changes in net assets			
Transfer from Revaluation reserve to Accumulated Surplus	(97 158 859)	97 158 859	-
Net income (losses) recognised directly in net assets	(97 158 859)	97 158 859	-
Surplus (deficit) for the year	-	(44 210 106)	(44 210 106)
Total recognised income and expenses for the year	(97 158 859)	52 948 753	(44 210 106)
Total changes	(97 158 859)	52 948 753	(44 210 106)
<b>Balance at 30 June 2020</b>	<b>424 344 394</b>	<b>492 772 993</b>	<b>917 117 387</b>
Note(s)	11		

\* See Note 39

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## Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		16 762 270	24 227 387
Grants		327 112 629	302 874 825
Interest income		5 167 448	5 094 862
Other receipts		19 211 729	11 283 844
		<u>368 254 076</u>	<u>343 480 918</u>
<b>Payments</b>			
Employee costs		(216 664 588)	(202 635 765)
Suppliers		(61 920 040)	(80 597 308)
Finance costs		(104 561)	(572 293)
		<u>(278 689 189)</u>	<u>(283 805 366)</u>
<b>Net cash flows from operating activities</b>	33	<b><u>89 564 887</u></b>	<b><u>59 675 552</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(56 067 875)	(73 401 138)
Proceeds from sale of property, plant and equipment	8	41 134	2 787 113
<b>Net cash flows from investing activities</b>		<b><u>(56 026 741)</u></b>	<b><u>(70 614 025)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>33 538 146</b>	<b>(10 938 473)</b>
Cash and cash equivalents at the beginning of the year		16 743 471	27 681 944
<b>Cash and cash equivalents at the end of the year</b>	6	<b><u>50 281 617</u></b>	<b><u>16 743 471</u></b>

\* See Note 39

# Mnquma Local Municipality

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## 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	Percentage	Reference
Figures in Rand							
<b>Statement of Financial Performance</b>							
<b>Revenue</b>							
<b>Revenue from exchange transactions</b>							
Service charges	5 300 000	19 393 000	<b>24 693 000</b>	5 163 251	<b>(19 529 749)</b>		-
Rental of facilities	2 925 000	-	<b>2 925 000</b>	4 528 782	<b>1 603 782</b>		-
Interest on outstanding debtors	9 237 000	-	<b>9 237 000</b>	14 621 163	<b>5 384 163</b>		-
Income from agency fees	4 500 000	-	<b>4 500 000</b>	2 381 204	<b>(2 118 796)</b>		-
Licences and permits	1 550 000	-	<b>1 550 000</b>	1 307 494	<b>(242 506)</b>		-
Other income	1 707 000	-	<b>1 707 000</b>	1 378 062	<b>(328 938)</b>		-
Interest received - investment	4 770 000	-	<b>4 770 000</b>	5 167 448	<b>397 448</b>		-
<b>Total revenue from exchange transactions</b>	<b>29 989 000</b>	<b>19 393 000</b>	<b>49 382 000</b>	<b>34 547 404</b>	<b>(14 834 596)</b>		-
<b>Revenue from non-exchange transactions</b>							
<b>Taxation revenue</b>							
Property rates	35 234 000	-	<b>35 234 000</b>	62 907 479	<b>27 673 479</b>		-
<b>Transfer revenue</b>							
Government grants & subsidies	266 000 000	-	<b>266 000 000</b>	327 585 899	<b>61 585 899</b>		-
Traffic fines	10 653 000	-	<b>10 653 000</b>	5 298 585	<b>(5 354 415)</b>		-
<b>Total revenue from non-exchange transactions</b>	<b>311 887 000</b>	<b>-</b>	<b>311 887 000</b>	<b>395 791 963</b>	<b>83 904 963</b>		-
<b>Total revenue</b>	<b>341 876 000</b>	<b>19 393 000</b>	<b>361 269 000</b>	<b>430 339 367</b>	<b>69 070 367</b>		-
<b>Expenditure</b>							
Employee related costs	200 318 000	-	<b>200 318 000</b>	(185 981 981)	<b>(386 299 981)</b>		-
Remuneration of councillors	23 253 000	-	<b>23 253 000</b>	(28 037 968)	<b>(51 290 968)</b>		-
Depreciation and amortisation	112 814 000	-	<b>112 814 000</b>	(110 025 693)	<b>(222 839 693)</b>		-
Impairment loss/ Reversal of impairments	-	-	-	(7 483 887)	<b>(7 483 887)</b>		-
Finance costs	-	-	-	(1 360 561)	<b>(1 360 561)</b>		-
Debt Impairment	23 478 000	-	<b>23 478 000</b>	(62 274 489)	<b>(85 752 489)</b>		-
Bulk purchases	-	-	-	(2 862 297)	<b>(2 862 297)</b>		-
General Expenses	47 761 000	-	<b>47 761 000</b>	(52 802 273)	<b>(100 563 273)</b>		-
<b>Total expenditure</b>	<b>407 624 000</b>	<b>-</b>	<b>407 624 000</b>	<b>(450 829 149)</b>	<b>(858 453 149)</b>		-
<b>Operating deficit</b>	<b>749 500 000</b>	<b>19 393 000</b>	<b>768 893 000</b>	<b>(20 489 782)</b>	<b>(789 382 782)</b>		-
Gain/(Loss) on disposal of assets	250 000	-	<b>250 000</b>	(21 826 874)	<b>(22 076 874)</b>		-

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## 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						
Repairs and maintenance	-	-	-	(3 677 971)	(3 677 971)	-
	<b>250 000</b>	-	<b>250 000</b>	<b>(25 504 845)</b>	<b>(25 754 845)</b>	-
<b>Deficit before taxation</b>	<b>749 750 000</b>	<b>19 393 000</b>	<b>769 143 000</b>	<b>(45 994 627)</b>	<b>(815 137 627)</b>	-
<b>Deficit for the year from continuing operations</b>	<b>749 750 000</b>	<b>19 393 000</b>	<b>769 143 000</b>	<b>(45 994 627)</b>	<b>(815 137 627)</b>	-
Actuarial gains	-	-	-	1 784 521	1 784 521	-
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>749 750 000</b>	<b>19 393 000</b>	<b>769 143 000</b>	<b>(44 210 106)</b>	<b>(813 353 106)</b>	-

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	4 898 000	2 872 000	<b>7 770 000</b>	7 216 157	(553 843)
Receivables from non-exchange transactions	-	2 108 000	<b>2 108 000</b>	15 241 200	13 133 200
VAT receivable	-	-	-	6 947 620	6 947 620
Receivables from exchange transactions	9 736 000	-	<b>9 736 000</b>	986 229	(8 749 771)
Cash and cash equivalents	(1 305 000)	38 901 000	<b>37 596 000</b>	50 281 617	12 685 617
	<b>13 329 000</b>	<b>43 881 000</b>	<b>57 210 000</b>	<b>80 672 823</b>	<b>23 462 823</b>

##### Non-Current Assets

Investment property	421 610 000	(268 478 000)	<b>153 132 000</b>	150 130 261	(3 001 739)
Property, plant and equipment	1 630 292 000	(794 947 000)	<b>835 345 000</b>	749 968 157	(85 376 843)
	<b>2 051 902 000</b>	<b>(1 063 425 000)</b>	<b>988 477 000</b>	<b>900 098 418</b>	<b>(88 378 582)</b>
<b>Total Assets</b>	<b>2 065 231 000</b>	<b>(1 019 544 000)</b>	<b>1 045 687 000</b>	<b>980 771 241</b>	<b>(64 915 759)</b>

#### Liabilities

##### Current Liabilities

Payables from exchange transactions	5 000 000	35 000 000	<b>40 000 000</b>	39 777 896	(222 104)
Employee benefit obligation	-	-	-	1 935 000	1 935 000
Unspent conditional grants and receipts	-	-	-	9 859 945	9 859 945
Provisions	-	1 978 000	<b>1 978 000</b>	1 115 017	(862 983)
	<b>5 000 000</b>	<b>36 978 000</b>	<b>41 978 000</b>	<b>52 687 858</b>	<b>10 709 858</b>

##### Non-Current Liabilities

Employee benefit obligation	-	-	-	10 966 000	10 966 000
Provisions	9 106 000	1 504 000	<b>10 610 000</b>	-	(10 610 000)
	<b>9 106 000</b>	<b>1 504 000</b>	<b>10 610 000</b>	<b>10 966 000</b>	<b>356 000</b>

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## 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>Total Liabilities</b>	<b>14 106 000</b>	<b>38 482 000</b>	<b>52 588 000</b>	<b>63 653 858</b>	<b>11 065 858</b>	
<b>Net Assets</b>	<b>2 051 125 000</b>	<b>(1 058 026 000)</b>	<b>993 099 000</b>	<b>917 117 383</b>	<b>(75 981 617)</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Revaluation reserve	438 825 000	-	<b>438 825 000</b>	424 344 394	<b>(14 480 606)</b>	
Accumulated surplus	1 624 910	993 099 000	<b>994 723 910</b>	492 772 989	<b>(501 950 921)</b>	
<b>Total Net Assets</b>	<b>440 449 910</b>	<b>993 099 000</b>	<b>1 433 548 910</b>	<b>917 117 383</b>	<b>(516 431 527)</b>	

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1. Presentation of Financial Statements

The 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 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 financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are therefore as follows:

### Standards Issued and Effective

- GRAP 1 - Presentation of Financial Statements (as revised in 2010)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
- GRAP 4 - The Effects of changes in Foreign Exchange Rates (as revised in 2010)
- GRAP 5 - Borrowing Costs
- GRAP 6 - Consolidated and Separate Financial Statements
- GRAP 7 - Investments in Associates
- GRAP 8 - Interests in Joint Ventures
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2010)
- GRAP 10 - Financial Reporting in Hyperinflationary Economies (as revised in 2010)
- GRAP 11 - Construction Contracts (as revised in 2010)
- GRAP 12 - Inventories (as revised in 2010)
- GRAP 13 - Leases (as revised in 2010)
- GRAP 14 - Events After the Reporting Date (as revised in 2010)
- GRAP 16 - Investment Property (as revised in 2010)
- GRAP 17 - Property Plant and Equipment (as revised in 2010)
- GRAP 18 - Segment Reporting
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
- GRAP 20 - Related Party Disclosures
- GRAP 21 - Impairment of non-cash-generating assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 – Employee Benefits
- GRAP 26 - Impairment of cash-generating assets
- GRAP 27 - Agriculture
- GRAP 31 - Intangible Assets
- GRAP 100 - Non-current Assets held for Sale and Discontinued Operations (as revised in 2010)
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments
- GRAP 105 - Transfer of functions between entities under common control
- GRAP 106 - Transfer of functions between entities not under common control
- GRAP 107 - Mergers
- GRAP 108 - Statutory Receivables
- GRAP 109 - Accounting by Principals and Agents

### Standards Issued, Not Yet Effective Date

- GRAP 32 - Service Concession Arrangements: Grantor
- GRAP 34 - Separate Financial Statements
- GRAP 35 - Consolidated Financial Statements
- GRAP 36 - Investments in Associates and Joint Ventures
- GRAP 37 - Joint Arrangements
- GRAP 38 - Disclosures of Interests in Other Entities
- GRAP 110 - Living and Non-living Resources

### Interpretations - Approved and effective

- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning Restoration and Similar Liabilities
- IGRAP 3 - Determining Whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 5 - Applying the Restatement Approach under the Standard of GRAP on Financial Reporting In hyperinflationary

### Economies

- IGRAP 6 - Loyalty Programmes
- IGRAP 7 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 9 - Distributions of Non-cash Assets to Owners
- IGRAP 10 - Assets Received from Customers
- IGRAP 11 - Consolidation - Special Purpose Entities
- IGRAP 12 - Jointly Controlled Entities - Non-Monetary Contributions

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- IGRAP 13 - Operating Leases - Incentives
- IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 15 - Revenue - Barter Transactions Involving Advertising Services
- IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)
- IGRAP 17 - Service Concession Arrangements where Grantor Controls Significant Residual Interest
- IGRAP 18 - Recognition and Derecognition of Land
- IGRAP 19 - Liabilities to Pay Levies

Interpretations – Approved and not yet effective

- IGRAP 1 - Applying the Probability Test on Initial Recognition of Revenue
- IGRAP 20 - Accounting for Adjustments to Revenue

### 1.1 Presentation currency

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

### 1.2 Going concern assumption

These 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 financial statements, management is required to make estimates and assumptions that affect the amounts represented in the 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 financial statements. Significant judgements include:

#### Trade receivables

The municipality assesses its trade 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 judgments 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 are 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 is 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 will 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 believes that there is no further credit provision required in excess of the debtor's impairment. 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.

#### Fair value estimation

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

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

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

#### Impairment testing

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

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.

#### 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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 46.

#### Effective interest rate

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

### 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.

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## Accounting Policies

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### 1.4 Investment property (continued)

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.

#### 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

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

- All properties held to earn market related rentals or for capital appreciation, or for both and are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties.
- Land held without determined future use.

### 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 period.

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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

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

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

#### 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. 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 in 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:

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<b>Item</b>	<b>Depreciation method</b>	<b>Average useful life</b>
Furniture and fixtures	Straight line	3-23 Years
Office equipment	Straight line	3-16 Years
Infrastructure Roads and Storm Water	Straight line	5-100 Years
Buildings	Straight line	20-30 Years
Recreational facilities	Straight line	20-30 Years
Security	Straight line	5 Years
Halls	Straight line	30 Years
Libraries	Straight line	30 Years
Parks and Gardens	Straight line	30 Years
Other community assets	Straight line	20-30 Years
Specialised vehicles	Straight line	5-10 Years
Other Vehicles	Straight line	3-5 Years
Watercraft	Straight line	5-15 Years
Bins and Containers	Straight line	3-5 Years

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Financial Statements for the year ended 30 June 2020

## Accounting Policies

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

Specialised Plant and Equipment	Straight line	10-15 Years
Other items of Property, plant and Equipment	Straight line	5-23 Years
Computer equipment	Straight line	2-3 Years
Plant and Machinery	Straight line	5-31 Years
Landfill Site	Straight line	20-50 Years
Leased vehicles	Straight line	4-27 Years
Leased office Equipment	Straight line	4-27 Years

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

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

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

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

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

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

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

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

### 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 the 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.

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## Accounting Policies

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### 1.6 Site restoration and dismantling cost (continued)

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 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.

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

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.7 Financial instruments (continued)

- 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.

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 unutilised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of the 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 the 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;

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.7 Financial instruments (continued)

- 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
Cash and bank	Financial asset measured at amortised cost
Short-term deposits (Call accounts)	Financial asset measured at amortised cost

The municipality 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 liability	Financial liability measured at amortised cost

#### 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.

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Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.7 Financial instruments (continued)

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

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

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the 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.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.7 Financial instruments (continued)

#### Impairment and uncollectibility of financial assets

Financial assets measured at amortised cost:

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.

#### 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.

### 1.8 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.

### 1.9 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.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.9 Inventories (continued)

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

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

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

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

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.

### 1.10 Impairment of cash-generating assets

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

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

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

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

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:

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

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

#### Identification

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

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

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.10 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

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.10 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

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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

Useful life is either:

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

#### 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 tests 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.

#### Value in use

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

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach, 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 current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

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

#### Restoration cost approach

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

#### 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.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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

#### 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.

#### Reversal of an impairment loss

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

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

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

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

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

#### Redesignation

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

### 1.12 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.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.12 Employee benefits (continued)

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

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

A constructive obligation is an obligation that derives from 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.

#### 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 cell phones) for current employees.

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

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the 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 measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality 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 the municipality 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.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.12 Employee benefits (continued)

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

Defined contribution plans are post-employment benefit plans under which an 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, an 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

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.12 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.12 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.12 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

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 post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from 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.

### 1.13 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.

# Mnquma Local Municipality

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## Accounting Policies

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### 1.13 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating surplus (deficit).

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.

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.13 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 tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

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.

### 1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

### 1.15 Revenue from exchange transactions

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

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

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.15 Revenue from exchange transactions (continued)

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.

#### Interest, royalties and dividends

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

### 1.16 Revenue from non-exchange transactions

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

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

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

Exchange transactions are transactions in which one municipality 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 party in exchange.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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

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

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

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

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

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

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

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

#### Recognition

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

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

#### Measurement

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

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

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.16 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 municipality.

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.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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

#### 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 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.

### 1.17 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

Expenses will be recognized when these are incurred and measured at cost excluding VAT.

### 1.18 Borrowing costs

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

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.

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.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.22 Irregular expenditure

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

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.

### 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 the 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 2019/07/01 to 2020/06/30.

The budget for the economic municipality 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.

### 1.24 Related parties

In terms of GRAP 20 for related party disclosure, a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

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

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

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.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.24 Related parties (continued)

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

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

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

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

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

### 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.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>2. Inventories</b>		
Consumable stores	799 855	1 111 760
Assets held for distribution	6 416 302	6 416 302
	<b>7 216 157</b>	<b>7 528 062</b>
In the current year an amount of R 2 691 850 (2019: R 3 339 791) was expensed with respect to consumable stores.		
<b>Inventory held for distribution</b>		
Assets held for distribution relate to land on which RDP houses are built and are awaiting transfers.		
No inventory was pledged as security.		
<b>3. Receivables from non-exchange transactions</b>		
Traffic Fines	10 674 310	5 722 160
Allowance for impairment - Traffic Fines	(10 674 310)	(5 722 160)
Property Rates	142 129 134	93 769 224
Allowance for impairment - Property Rates	(126 887 934)	(82 577 609)
	<b>15 241 200</b>	<b>11 191 615</b>
<b>Rates</b>		
Current 0-30 days	1 735 649	814 074
31-60 days	4 580 943	1 901 297
61-90 days	4 581 569	1 588 592
91-120 days	4 674 433	1 553 845
121-150 days	4 581 298	1 558 294
>150 days	121 975 242	85 264 810
	<b>142 129 134</b>	<b>93 769 224</b>
<b>Traffic Fines</b>		
Current 0-30 days	419 900	339 500
31-60 days	361 300	637 500
61-90 days	363 900	545 500
91-120 days	469 600	355 500
>150 days	9 059 610	3 844 160
	<b>10 674 310</b>	<b>5 722 160</b>
<b>4. VAT receivable</b>		
VAT	6 947 620	5 325 002

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>5. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Refuse	35 018 812	29 117 505
Housing rental	11 890 508	7 475 786
Other receivables	14 536	94 083
	<b>46 923 856</b>	<b>36 687 374</b>
<b>Less: Allowance for impairment</b>		
Refuse	(34 213 296)	(28 436 430)
Housing rental	(11 724 331)	(7 369 478)
	<b>(45 937 627)</b>	<b>(35 805 908)</b>
<b>Net balance</b>		
Refuse	805 516	681 075
Housing rental	166 177	106 308
Other receivables	14 536	94 083
	<b>986 229</b>	<b>881 466</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at the beginning of the year	35 805 908	23 642 018
Contributions to allowance	10 131 718	12 163 890
	<b>45 937 626</b>	<b>35 805 908</b>
<b>Net balance</b>	<b>45 937 626</b>	<b>35 805 908</b>
<b>Refuse</b>		
Current (0 -30 days)	727 789	748 788
31 - 60 days	723 401	685 279
61 - 90 days	742 859	677 957
91 - 120 days	754 633	667 267
121 - 150 days	735 541	660 899
> 150 days	31 334 589	25 677 315
	<b>35 018 812</b>	<b>29 117 505</b>
<b>Housing rental</b>		
Current (0 -30 days)	459 279	257 346
31 - 60 days	439 516	225 838
61 - 90 days	431 052	222 747
91 - 120 days	432 586	220 100
121 - 150 days	427 819	218 750
> 150 days	9 700 256	6 331 005
	<b>11 890 508</b>	<b>7 475 786</b>
<b>Other</b>		
Current (0 -30 days)	14 536	94 083

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand 2020 2019

### 6. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	1 928 233	2 827 768
Short-term deposits	48 353 384	13 915 703
	<b>50 281 617</b>	<b>16 743 471</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
Primary Bank Account	2 032 843	2 686 200	266 729	1 928 233	2 827 768	352 000
FNB-MIG Call Acc: 62240253542	28 012	958 733	19 214 629	28 012	958 733	19 214 629
FNB-FMG: 62240252768 FMG	1 501	1 313	288 357	1 501	1 313	288 357
FNB-T/A	-	-	-	-	18	-
FNB-Call Acc: 62240252198	13 430 414	9 820 425	7 891	13 430 414	9 820 425	7 891
FNB-INEP: 62326177559	1 274	1 854 920	197 609	1 274	1 854 920	197 609
FNB-EPWP: 62345680195	1 763	415	406	1 763	415	407
FNB-EDSMG: 62379987640	-	-	6 869 798	-	-	6 869 798
FNB-LG SETA: 62380069437	1 070 221	418 028	362 324	1 070 221	418 028	362 324
FNB-TOA: 74737909900	1 457 292	856 453	388 929	1 457 292	856 454	388 929
FNB-ENATIS: 62772809904	2 168 198	5 397	-	2 168 198	5 397	-
FNB-DSRAC: 62823144233	782 212	-	-	782 212	-	-
FNB-VAT: 62823142774	29 412 479	-	-	29 412 479	-	-
<b>Total</b>	<b>50 386 209</b>	<b>16 601 884</b>	<b>27 596 672</b>	<b>50 281 599</b>	<b>16 743 471</b>	<b>27 681 944</b>

### 7. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	206 030 594	(55 900 333)	150 130 261	206 030 594	(52 906 406)	153 124 188

#### Reconciliation of investment property - 2020

	Opening balance	Depreciation	Impairments	Total
Investment property	153 124 188	(2 993 592)	(335)	150 130 261

#### Reconciliation of investment property - 2019

	Opening balance	Depreciation	Total
Investment property	158 658 116	(5 533 928)	153 124 188

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.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

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Figures in Rand

2020

2019

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### 7. Investment property (continued)

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 ( Act 6 of 2004), the municipality is required to perform a 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.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand

### 8. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	50 394 300	-	50 394 300	50 394 300	-	50 394 300
Plant and machinery	13 237 204	(9 200 097)	4 037 107	13 208 875	(9 031 373)	4 177 502
Furniture and fixtures	11 662 384	(8 835 061)	2 827 323	11 004 010	(9 397 917)	1 606 093
Motor vehicles	12 414 469	(7 046 062)	5 368 407	12 414 469	(6 549 093)	5 865 376
Infrastructure	1 671 991 054	(1 055 812 029)	616 179 025	1 676 158 341	(975 416 304)	700 742 037
Buildings	76 511 741	(48 411 581)	28 100 160	73 025 962	(45 386 888)	27 639 074
Other property, plant and equipment	174 586	(161 319)	13 267	174 586	(159 966)	14 620
Work in progress	43 048 568	-	43 048 568	39 844 748	-	39 844 748
<b>Total</b>	<b>1 879 434 306</b>	<b>(1 129 466 149)</b>	<b>749 968 157</b>	<b>1 876 225 291</b>	<b>(1 045 941 541)</b>	<b>830 283 750</b>

### Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers received	Transfers made	Depreciation	Impairment loss	Total
Land	50 394 300	-	-	-	-	-	-	50 394 300
Plant and machinery	4 177 502	59 149	(2 436)	-	-	(197 108)	-	4 037 107
Furniture and fixtures	1 606 093	1 574 310	(106 419)	-	-	(246 661)	-	2 827 323
Motor vehicles	5 865 376	-	-	-	-	(496 969)	-	5 368 407
Infrastructure	700 742 037	-	(21 754 562)	47 822 152	-	(103 219 703)	(7 322 504)	616 179 025
Buildings	27 639 074	-	(4 396)	3 408 444	-	(2 870 308)	(161 049)	28 100 160
Other property, plant and equipment	14 620	-	-	-	-	(1 353)	-	13 267
Work in progress	39 844 748	64 396 440	-	(51 230 596)	(9 962 024)	-	-	43 048 568
	<b>830 283 750</b>	<b>66 029 899</b>	<b>(21 867 813)</b>	<b>-</b>	<b>(9 962 024)</b>	<b>(107 032 102)</b>	<b>(7 483 553)</b>	<b>749 968 157</b>

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Revaluation Losses	Revaluation Gains	Depreciation	Impairment loss	Total
Land	73 495 057	-	-	-	(38 273 216)	15 172 459	-	-	50 394 300
Plant and machinery	5 777 325	37 800	(690 544)	-	-	-	(947 079)	-	4 177 502
Furniture and fixtures	2 628 781	261 546	(132 668)	-	-	-	(1 151 566)	-	1 606 093
Motor vehicles	5 473 854	2 743 209	(1 342 002)	-	-	-	(1 009 685)	-	5 865 376
Infrastructure	605 844 421	-	(6 468 277)	49 830 912	(171 106 734)	464 639 454	(147 671 036)	(94 292 924)	700 742 037
Buildings	104 381 006	-	(18 369)	10 302 310	(55 707 353)	5 911 416	(8 103 826)	(29 070 983)	27 639 074
Other property, plant and equipment	105 846	-	(38 307)	-	-	-	(52 919)	-	14 620
Work in progress	34 149 147	70 358 583	(4 529 760)	(60 133 222)	-	-	-	-	39 844 748
	<b>831 855 437</b>	<b>73 401 138</b>	<b>(13 219 927)</b>	<b>-</b>	<b>(265 087 303)</b>	<b>485 723 329</b>	<b>(158 936 111)</b>	<b>(123 363 907)</b>	<b>830 283 750</b>

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand 2020 2019

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

#### Revaluations

The effective date of the revaluations was Saturday, 15 June 2019. Revaluations were performed by independent valuer, Mr Stafford Leyds [Professional Associated Valuer (Registered In Terms of Section 2 of the Property Valuers Professions Act, 2000)], of SAPIG Prop Dev CC. SAPIG Prop Dev CC is not connected to the municipality.

Infrastructure, community assets and operational buildings are re-valued independently every 4 years.

The valuation was performed using the following methods:

a) Comparable Sales Approach:

This approach the analysis of recent comparable sales of physically and legally similar properties in the general vicinity of the subject property. This method typically applies to single family homes and land.

b) Depreciated Replacement Cost Approach:

The Cost approach values a property based on what it would cost to build the property today, taking into consideration the depreciation by various factors. The current cost of reproduction or replacement of an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

c) The Income Capitalization Approach:

This approach considers the value of the income stream that a property generates or could generate. This method typically applies to commercial or income-generating properties.

These assumptions were based on current market conditions.

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. Payables from exchange transactions

Trade payables	11 217 643	16 935 626
Advance payment- consumer debtors	2 983 855	2 360 824
Unallocated deposit	915 242	894 425
Payroll control	(2 070 431)	(2 341 333)
Retention payable	4 756 797	2 354 366
Bonus Accrual	4 270 964	5 443 803
Leave Accrual	17 703 826	13 886 348
	<b>39 777 896</b>	<b>39 534 059</b>

### 10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG)	-	920 171
Disaster Grant - Covid 19	1 670 534	-
Department of sports, recreation and culture (DSRAC)	685 475	400 000
Local Government (LGSETA)	633 896	472 988
Integrated National Electrification Programme (INEP)	-	1 670 016
Department of Energy (EDM)	6 870 040	6 870 040
	<b>9 859 945</b>	<b>10 333 215</b>

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>10. Unspent conditional grants and receipts (continued)</b>		
<b>Movement during the year</b>		
Balance at the beginning of the year	10 333 215	26 829 081
Additions during the year	70 847 628	76 103 808
Income recognition during the year	(68 730 710)	(85 403 082)
Roll-over not approved	(2 590 188)	(7 196 592)
	<b>9 859 945</b>	<b>10 333 215</b>

The above note represents the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 21 for reconciliation of grants from National/Provincial Government.

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

### 11. Revaluation reserve

The revaluation reserve is not distributable, given that this is a municipality.

Opening balance	521 503 252	114 764 107
Change during the year	(97 158 858)	406 739 145
	<b>424 344 394</b>	<b>521 503 252</b>

### 12. Provisions

#### Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Total
Performance bonus	1 115 017	977 781	(977 781)	1 115 017

#### Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Performance bonus	-	1 115 017	1 115 017

### 13. Service charges

Refuse removal	5 163 251	4 655 997
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### 14. Rental of facilities

Rental of flats	4 528 782	2 651 041
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### 15. Interest on outstanding debtors

Interest on debtors	14 621 163	9 225 982
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# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>16. Income from agency fees</b>		
Income from agency fees	2 381 204	3 524 624
<b>17. Licences and permits</b>		
Licences and permits	1 307 494	1 323 788
<b>18. Other Income</b>		
Building plan fees	69 591	80 973
Cemetery fees	39 203	46 563
Clearance certificate fees	1 328	1 130
Commissions received	203 560	85 963
Other Income	10 935	10 915
Tender fees	583 192	498 716
Retentions realised	470 253	-
	<b>1 378 062</b>	<b>724 260</b>
<b>19. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	5 167 448	5 094 862

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>20. Property rates</b>		
<b>Rates received</b>		
Property rates	62 907 479	20 978 293

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2019. 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. Valuations were performed by independent valuer, Mr Tshepo Mokhuwa (Registration number 7006/9. Tariffs are applied as follows:

### Residential

A general rate of R0.01178 - (2019 - 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 R0.01519 - (2019 - R0.01414) is applied to business and commercial property valuations to determine assessment rates.

### Vacant

A general rate of R0.02917 - (2019 - R0.01414) is applied to vacant property valuations to determine assessment rates.

### State Owned

A general rate of R0.02466 - (2019 - R0.00295) is applied to state owned property valuations to determine assessment rates.

### Small Holdings and Farms

A general rate of R0.00311 - (2019 - R0.00295) is applied to small holdings and farm property valuations to determine assessment rates.

### Industrial

A general rate of R0.0149 - (2019 - 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

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand 2020 2019

### 21. Government grants and subsidies

#### Operating grants

Equitable share	258 855 188	234 367 609
Finance Management Grant	1 700 000	1 985 926
Extended Public Works Programme	1 740 000	1 308 000
Department of sports, recreation and culture (DSRAC)	214 525	-
Disaster Grant - Covid 19	266 466	-
LG SETA	700 720	93 200
	<b>263 476 899</b>	<b>237 754 735</b>

#### Capital grants

Municipal Infrastructure Grant (MIG)	62 609 000	72 545 972
Integrated National Electrification Programme (INEP)	1 500 000	9 469 984
	<b>64 109 000</b>	<b>82 015 956</b>
	<b>327 585 899</b>	<b>319 770 691</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.

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 all electricity beneficiaries, 50 KW per month
2. Rebates of R20,000 are granted to residential property owners.

#### Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	920 172	19 114 144
Current-year receipts	62 609 000	61 352 000
Conditions met - transferred to revenue	(62 609 000)	(72 545 972)
Roll-over not approved	(920 172)	(7 000 000)
	<b>-</b>	<b>920 172</b>

Conditions still to be met - remain liabilities (see note 10).

#### Local Government (LGSETA)

Balance unspent at beginning of year	472 988	362 380
Current-year receipts	861 628	203 808
Conditions met - transferred to revenue	(700 720)	(93 200)
	<b>633 896</b>	<b>472 988</b>

Conditions still to be met - remain liabilities (see note 10).

#### Finance Management Grant (FMG)

Balance unspent at beginning of year	-	285 926
Current year - receipts	1 700 000	1 700 000
Conditions met - transferred to revenue	(1 700 000)	(1 985 926)
	<b>-</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 10).

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>21. Government grants and subsidies (continued)</b>		
<b>Extended Public Works Programme (EPWP)</b>		
Current-year receipts	1 740 000	1 308 000
Conditions met - transferred to revenue	(1 740 000)	(1 308 000)
	-	-
Conditions still to be met - remain liabilities (see note 10).		
<b>Integrated National Electrification Programme (INEP)</b>		
Balance unspent at beginning of year	1 670 016	196 609
Current-year receipts	1 500 000	11 140 000
Conditions met - transferred to revenue	(1 500 000)	(9 469 984)
Roll-over not approved	(1 670 016)	(196 609)
	-	<b>1 670 016</b>
Conditions still to be met - remain liabilities (see note 10).		
<b>Department of sports, recreation and culture (DSRAC)</b>		
Balance unspent at beginning of year	400 000	-
Current-year receipts	500 000	400 000
Conditions met - transferred to revenue	(214 525)	-
	<b>685 475</b>	<b>400 000</b>
Conditions still to be met - remain liabilities (see note 10).		
<b>Disaster Grant - Covid 19</b>		
Current-year receipts	1 937 000	-
Conditions met - transferred to revenue	(266 466)	-
	<b>1 670 534</b>	-
Conditions still to be met - remain liabilities (see note 10).		
Provide explanations of conditions still to be met and other relevant information.		
<b>22. Traffic Fines</b>		
Traffic Fines	5 298 585	5 907 124

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>23. Employee related costs</b>		
Basic salary	127 585 634	123 183 943
Medical aid	9 289 925	8 935 711
Unemployment Insurance Fund	815 209	836 161
Skills Development Levy	1 670 799	1 636 317
SALGA Levy	50 869	49 998
Leave pay provision charge	4 343 263	687 576
Pension fund contributions	22 661 683	21 029 683
Travel, motor car, accommodation, subsistence and other allowances	1 214 809	2 728 798
Overtime payments	1 478 004	1 947 737
13th Cheques	14 371 109	9 611 100
Acting allowances	289 586	269 029
Housing benefits and allowances	142 520	128 855
Other allowances	92 872	88 435
Cell phone allowances	1 975 699	512 180
	<b>185 981 981</b>	<b>171 645 523</b>

### Remuneration of Municipal Manager - S Mahlasela

Annual Remuneration	809 321	792 044
Backpay	-	28 794
Performance bonus	161 864	-
Cell phone allowance	108 953	106 466
Contributions to Pension Fund	218 310	213 731
Travel allowance	212 285	207 833
UIF	1 785	1 785
	<b>1 512 518</b>	<b>1 350 653</b>

### Remuneration of Chief Finance Officer - M Matomane

Annual Remuneration	661 554	647 432
Back pay	-	23 537
Performance bonus	132 311	-
Cell phone Allowance	36 654	35 720
Contributions to Pension Fund	178 450	174 708
Contributions to Medical Aid	42 710	41 814
Travel Allowance	183 222	179 379
UIF	1 785	1 785
	<b>1 236 686</b>	<b>1 104 375</b>

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand

	2020	2019
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### 23. Employee related costs (continued)

#### Remuneration of Director of Corporate Services - S Caga

Annual Remuneration	661 554	647 432
Backpay	-	23 537
Performance bonus	143 337	-
Cell phone allowance	78 016	76 215
Contributions to Pension Fund	132 185	129 413
Contributions to Medical Aid	41 295	40 428
Travel Allowance	189 540	185 565
UIF	1 785	1 785
	<b>1 247 712</b>	<b>1 104 375</b>

#### Remuneration of Directors of Infrastructure - Z Ntile

Annual Remuneration	661 554	647 432
Backpay	-	23 537
Performance bonus	132 311	-
Cell phone allowance	80 880	79 018
Contributions to Pension Funds	178 450	174 708
Contributions to Medical Aid	42 710	41 814
Travel allowance	138 996	136 081
UIF	1 785	1 785
	<b>1 236 686</b>	<b>1 104 375</b>

#### Remuneration of Director of Community Services - M Kibi

Annual Remuneration	661 554	647 432
Backpay	-	23 537
Performance bonus	132 311	-
Cell phone allowance	62 449	60 974
Contributions to Pension Fund	170 093	166 525
Travel allowance	208 494	204 122
UIF	1 785	1 785
	<b>1 236 686</b>	<b>1 104 375</b>

#### Remuneration of Director of Local Economic Development and Planning - M Dilika

Annual Remuneration	661 554	647 432
Backpay	-	23 537
Performance bonus	132 311	-
Cell phone allowance	79 719	77 881
Contributions to Medical Aid	50 190	49 138
Contributions to Pension Fund	178 449	174 707
Travel allowance	132 678	129 895
UIF	1 785	1 785
	<b>1 236 686</b>	<b>1 104 375</b>

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>23. Employee related costs (continued)</b>		
<b>Remuneration of Director of Strategic Management-S Benya</b>		
Annual Remuneration	661 554	647 432
Backpay	-	23 537
Performance bonus	143 337	-
Cell phone allowance	27 447	26 706
Contributions to Pension Fund	178 449	174 707
Contributions to Medical Aid	85 546	83 752
Travel Allowance	149 594	146 456
UIF	1 785	1 785
	<b>1 247 712</b>	<b>1 104 375</b>
<b>24. Remuneration of councillors</b>		
Executive Mayor	905 259	879 461
Chief Whip	671 446	665 213
Speaker	733 088	715 001
Mayoral Committee Members	6 422 600	4 653 577
Other Councillors	19 305 575	20 238 073
	<b>28 037 968</b>	<b>27 151 325</b>
<b>25. Depreciation and amortisation</b>		
Property, plant and equipment	107 032 101	158 931 439
Investment property	2 993 592	5 534 482
	<b>110 025 693</b>	<b>164 465 921</b>
<b>26. Impairment of assets</b>		
Property, plant and equipment	7 483 887	123 363 907
<b>27. Finance costs</b>		
Interest on overdue accounts	104 561	446 345
Actuarial interest	1 256 000	2 340 230
	<b>1 360 561</b>	<b>2 786 575</b>
<b>28. Debt impairment</b>		
Receivables from non-exchange transactions	44 310 325	15 993 390
Receivables from exchange transactions	10 131 719	11 017 890
Bad debts written off	7 832 445	8 430 834
	<b>62 274 489</b>	<b>35 442 114</b>
<b>29. Bulk purchases</b>		
Electricity	2 862 297	4 829 257
<b>30. Gain/(Loss) on disposal of assets</b>		
Gain or (loss) on disposal of assets during the year	(21 826 874)	(10 432 814)

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>31. Repairs and maintenance</b>		
Repairs and maintenance	3 677 971	4 167 553
<b>32. General expenses</b>		
Advertising	1 039 728	806 633
Auditors remuneration	2 584 322	4 746 165
Bank charges	487 147	406 495
Computer expenses	4 224 997	96 607
Professional fees	6 276 447	4 361 435
Consumables	1 725 734	3 336 167
Legal fees	4 213 156	4 386 915
Discount allowed	1 251 090	-
Civic functions	184 077	163 170
Car licences and registrations	(1 675 898)	8 682 298
Workmen's compensation	905 149	-
Hire	292 570	267 105
Insurance	107 590	-
Refuse bags	2 250 810	1 517 533
Remuneration to Section 79 Committee Members	108 200	-
Fuel and oil	2 067 722	1 828 930
Uniform and protective clothing	835 588	107 680
Security	888 678	847 081
Post and telecommunications	1 692 555	4 237 202
Electricity	5 288 101	2 787 875
Operating project expenditure	4 599 592	2 480 137
Subsistence and travelling	2 599 262	857 315
Sundry expenses	6 043	7 386 613
Operating lease	699 744	1 487 182
Entrance fees	161 730	-
Electrification projects	9 962 024	-
Signage	26 115	-
	<b>52 802 273</b>	<b>50 790 538</b>
<b>33. Cash generated from operations</b>		
Deficit	(44 210 106)	(453 572 250)
<b>Adjustments for:</b>		
Depreciation and amortisation	110 025 693	164 465 921
Loss on sale of assets and liabilities	21 826 874	10 432 814
Fair value adjustments	-	232 181 084
Impairment deficit	7 483 887	123 363 907
Debt impairment	-	35 442 114
Movements in employee benefit obligation	313 000	1 910 669
Movements in provisions	-	1 115 017
Actuarial (gains)/ losses	-	172 301
<b>Changes in working capital:</b>		
Inventories	311 905	-
Consumer debtors	-	4 483 519
Other receivables from non-exchange transactions	(4 334 315)	12 392 537
Debt impairment	-	(40 007 467)
Payables from exchange transactions	243 837	(4 048 323)
VAT	(1 622 618)	(2 666 627)
Taxes and transfers payable (non-exchange)	-	(1 108 742)
Unspent conditional grants and receipts	(473 270)	(24 880 922)
	<b>89 564 887</b>	<b>59 675 552</b>

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand

2020

2019

### 34. Auditors' remuneration

Fees	2 584 322	4 746 165
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### 35. Financial instruments disclosure

#### Categories of financial instruments

#### 2020

##### Financial assets

	<b>At amortised cost</b>	<b>Total</b>
Receivables from exchange transactions	986 229	986 229
Receivables from non-exchange transactions	15 241 200	15 241 200
Cash and cash equivalents	50 281 617	50 281 617
	<b>66 509 046</b>	<b>66 509 046</b>

##### Financial liabilities

	<b>At amortised cost</b>	<b>Total</b>
Payables from exchange transactions	39 777 896	39 777 896

#### 2019

##### Financial assets

	<b>At amortised cost</b>	<b>Total</b>
Receivables from exchange transactions	881 466	881 466
Receivables from non-exchange transactions	11 191 615	11 191 615
Cash and cash equivalents	16 743 471	16 743 471
	<b>28 816 552</b>	<b>28 816 552</b>

##### Financial liabilities

	<b>At amortised cost</b>	<b>Total</b>
Payables from exchange transactions	39 534 059	39 534 059

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>36. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Capital	31 966 662	9 999 615
<b>Total capital commitments</b>		
Authorised Capital Expenditure	31 966 662	9 999 615
<b>Authorised operational expenditure</b>		
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	31 966 662	9 999 615
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	537 113	617 679
- in second to fifth year inclusive	134 278	1 029 465
	<b>671 391</b>	<b>1 647 144</b>

Operating lease payments represent rentals payable by the municipality for photocopying machines leased from Konica Minolta. 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

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand

2020

2019

### 37. 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  
Executive Mayor  
Speaker  
Chief Whip  
Exco Councillors

S Mahlasela - refer to note 23  
M Matomane - refer to note 23  
S Benya - refer to note 23  
S Caga - refer to note 23  
Z Ntile - refer to note 23  
M Kibi - refer to note 23  
M Dilika - refer to note 23  
S Ncetezo - refer to note 24  
T Bikitsha - refer to note 24  
NR Tshona - refer to note 24  
L Mgandela - Refer to Note 24  
T.Nkamisa - Refer to Note 24  
Z Mkiva - refer to note 24  
N.Layiti - Refer to Note 24  
XI Pupuma - refer to note 24  
NR Tshona - refer to note 24  
TP Ntanga - refer to note 24  
S Matutu - refer to note 24  
N Thandaphi - refer to note 24  
N Lusizi - refer to note 24  
TH Mpeta - refer to note 24  
NM Mpambani - refer to note 24  
N Ntolosi - refer to note 24  
N Thandaphi - refer to note 24  
Z Sobekwa - refer to note 24  
SL Mafanya - refer to note 24  
N Monakali - refer to note 24  
NN Nqolomlilo - refer to note 24  
Z Siyo - refer to note 24  
AA Krakri - refer to note 24  
LS Sobekwa - refer to note 24  
GN Nombila - refer to note 24  
B Kave - refer to note 24  
ZC Mfazwe - refer to note 24  
TZ Xhongwana - refer to note 24  
NH Kendle - refer to note 24  
T Ntyinkala - refer to note 24  
KG Magwaca - refer to note 24  
NG Ndongeni - refer to note 24  
M Mkhilili - refer to note 24  
L Tsipa - refer to note 24  
M Ndungane - refer to note 24  
M Mxhoko - refer to note 24  
SN Tshazi - refer to note 24  
WW Mbadlanyana - refer to note 24  
XI Pupuma - refer to note 24  
WM Ntongana - refer to note 24  
MZ Mnqwazi - refer to note 24  
Z Gade - refer to note 24  
ZA Mqolo - refer to note 24  
ML Mtalo - refer to note 24  
Z Mnqokoyi - refer to note 24  
NL Zaba - refer to note 24  
NQ Sukwana - refer to note 24  
Y Mngonyama - refer to note 24  
NH Skelenge - refer to note 24  
S Matutu - refer to note 24  
S Ncetezo - refer to note 24

Councillors

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand 2020 2019

### 37. Related parties (continued)

	NW Mbeki - refer to note 24
	A Finca - refer to note 24
	L Mbentsula - refer to note 24
	AB Madikane - refer to note 24
	V Nkehle - refer to note 24
	T Makeleni - refer to note 24
	T Nkamisa - refer to note 24
	N Jiya - refer to note 24
	TP Ntanga - refer to note 24
	NP Dube - refer to note 24
	C Mtsi - refer to note 24
	N Layiti - refer to note 24
	Z Mkiva - refer to note 24
	ME Ntshonga - refer to note 24
	GT Ntshonga - refer to note 24
	N Lusizi - refer to note 24
	L Mgandela - refer to note 24
	N Sheleni - refer to note 24
	NR Tshona - refer to note 24
	S Lilise - refer to note 24
	SM Molosi - refer to note 24
	K Gobeni - refer to note 24
	T Bikitsha - refer to note 24
Traditional leaders	NS Ngxiya - refer to note 24
	VL Mbaso - refer to note 24
	M Magodla - refer to note 24
	M Nguza - refer to note 24
	N Nyhila - refer to note 24
	WM Mahlangeni - refer to note 24
	B Vuso - refer to note 24
	ZM Dyantyi - refer to note 24
	D Mpangele - refer to note 24
	Nomlindelo VG Dondashe - refer to note 24
	BL Ntleki - refer to note 24
	P Nguza - refer to note 24

### Related party transactions

#### Purchases from (sales to) related parties

N Langa Ward Committee is a business partner in Beetroot Trading & Projects	-	6 302
N Langa Ward Committee is a business partner in Themba Labafazi Primary Co-Op	588 813	253 000
N Layiti full-time Mayoral Committee Member is a business partner in Great 7 Trading Property Limited	1 700	1 600
Z Mbikwana the debtors' clerk - Her brother, Z Makuala owns Tokizone	-	29 800
N Layiti, a full-time Mayoral Committee Member is a business partner with PL Tshevu who owns Notha Business Enterprise	-	9 000
Mxolelanisi Manxiwa is a brother of Clayton Mkhulisi Manxiwa who was a manager of the legal department at Mbashe Municipality.	134 260	-
Thobela T - is a CIPC member, his wife Sitofile is a director of Siyavuya Construction	800 239	-

#### Related parties within the institution

T Bikitsha is an Ordinary Councillor and is the wife of BGS Bikitsha, the Land Use Planning Manager	-	719 433
N Plaatjie is an Ordinary Councillor and the sister of SIR Plaatjie, the Helpdesk Operator	-	235 669
N Sheleni is a Full-time Mayoral Committee Member and is the mother of N Sheleni, a General Assistant	-	147 410

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

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### 38. Risk management

#### Financial risk management

##### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through maintenance of cash balances..

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Receivables from non exchange transactions	15 241 200	-	-	-	15 241 200
Receivables from exchange transactions	986 229	-	-	-	986 229
Vat Receivable	6 947 620	-	-	-	6 947 620
Cash and cash equivalents	50 281 617	-	-	-	50 281 617
Payables from exchange transactions	39 777 896	-	-	-	39 777 896
Unspent conditional grants and receipts	9 859 945	-	-	-	9 859 945
	<b>123 094 507</b>	-	-	-	<b>123 094 507</b>

As at 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Receivables from non exchange transactions	11 191 615	-	-	-	11 191 615
Receivables from exchange transactions	881 466	-	-	-	881 466
Vat Receivable	5 325 002	-	-	-	5 325 002
Cash and cash equivalents	16 743 471	-	-	-	16 743 471
Payables from exchange transactions	39 534 059	-	-	-	39 534 059
Unspent conditional grants and receipts	10 333 215	-	-	-	10 333 215
	<b>84 008 828</b>	-	-	-	<b>84 008 828</b>

##### 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	2020	2019
Receivables from non exchange transactions	15 241 200	11 191 615
Receivables from exchange transactions	986 229	881 466
Cash and cash equivalents	50 281 617	16 743 471

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>38. Risk management (continued)</b>		
<b>Rates</b>		
Current (0-30 days)	1 735 649	814 074
31-60 days	4 580 943	1 901 297
61-90 days	4 581 569	1 588 592
91-120 days	4 674 433	1 553 845
121-150 days	4 581 298	1 558 294
>150 days	121 975 242	85 264 810
	<b>142 129 134</b>	<b>93 769 224</b>
<b>Fines</b>		
Current (0-30 days)	419 900	339 500
31-60 days	361 300	637 500
61-90 days	363 900	545 500
91-120 days	469 600	355 500
>150 days	9 059 610	3 844 160
	<b>10 674 310</b>	<b>5 722 160</b>
<b>Refuse</b>		
Current (0-30 days)	727 789	748 788
31-60 days	723 401	685 297
61-90 days	742 859	677 957
91-120 days	754 633	667 267
121-150 days	735 541	660 899
> 150 days	31 334 589	25 677 315
	<b>35 018 812</b>	<b>29 117 505</b>
<b>Housing rental</b>		
Current (0-30 days)	459 279	257 346
31-60 days	439 516	225 838
61-90 days	431 052	222 747
91-120 days	432 586	220 100
121-150 days	427 819	218 750
> 150 days	9 700 256	6 331 005
	<b>11 890 508</b>	<b>7 475 786</b>

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

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<b>39. Prior period errors</b>		
<b>Inventories</b>		
As previously stated	-	7 769 828
Decrease in inventory due to overstatement of stock	-	(241 766)
	-	<b>7 528 062</b>
<b>Receivables from non-exchange transaction</b>		
As previously stated	-	2 856 296
Decrease in receivables from non-exchange transactions due to an overstatement of traffic fines	-	(500 716)
Increase in receivables from non-exchange transactions due to an overstatement of traffic fines impairment	-	569 012
Increase in receivables from non-exchange transactions due to an overstatement of traffic fines impairment in 2018/17 financial year	-	315 043
Decrease in receivables from non-exchange transactions due to traffic fines written off - gross debtors	-	(4 370 170)
Increase in receivables from non-exchange transactions due to traffic fines written off - impairment	-	4 370 170
Increase in receivable from non-exchange due to property rate impairment that was erroneously overstated	-	5 711 353
Increase in receivable from non-exchange due to reversal of duplicated journals in debtors subsystem	-	1 171 073
Decrease in receivables from non-exchange due to correction of error	-	(18 731)
Decrease in receivables from non-exchange transactions due to debtors incorrectly identified as having credit balances	-	(851 532)
Decrease in receivables from non-exchange due to reallocation of advance payments recognised in gross debtor account on GL instead of advance payments account	-	1 919 839
Decrease in receivables from non-exchange due to correction of error	-	20 005
	-	<b>11 191 615</b>
<b>Vat receivable</b>		
As previously stated	-	5 730 666
Increase in in vat receivable due to vat output erroneously raised on DSRAC grant received that was incorrectly recognised as commission received	-	52 174
Increase in vat receivable due to vat erroneously record in 19/20 instead of 17/18	-	11 720
Increase in vat receivable due to vat erroneously record in 19/20 instead of 17/18	-	5 623
Increase in vat receivable due to vat erroneously record in 19/20 instead of 17/18	-	5 611
Increase in vat receivable due to vat erroneously record in 19/20 instead of 17/18	-	5 946
Increase in vat receivable due to vat erroneously record in 19/20 instead of 17/18	-	8 117
Increase in vat receivable due to vat erroneously record in 19/20 instead of 17/18	-	3 677
Increase in vat receivable due to vat erroneously recorded in 19/20 instead of 18/19	-	12 785
Increase in vat receivable due to vat erroneously recorded in 19/20 instead of 18/19	-	3 818
Increase in vat receivable due to vat erroneously recorded in 19/20 instead of 18/19	-	65
Increase in vat receivable due to vat erroneously recorded in 19/20 instead of 18/19	-	190
Increase in vat receivable due to vat erroneously recorded in 19/20 instead of 18/19	-	1 733
Increase in vat receivable due to vat erroneously recorded in 19/20 instead of 18/19	-	310
Increase in vat receivable due to vat erroneously recorded in 19/20 instead of 18/19	-	1 223
Decrease in vat receivables due to correction of error	-	(109 745)
Increase in vat receivable due to vat erroneously recorded in 19/20 instead of 18/19	-	478
Increase in vat receivable due to vat erroneously recorded in 19/20 instead of 18/19	-	331
Increase in vat receivable due to vat erroneously recorded in 19/20 instead of 18/19	-	1 775
Increase in vat receivables due to transaction erroneously recorded in 19/20 instead of 18/19	-	4 093
Increase in vat receivable due to transaction erroneously recorded in 19/20 instead of 18/19	-	34 650
Increase in vat receivable due to transaction erroneously recorded in 19/20 instead of 18/19	-	259
Increase in vat receivable due to transaction erroneously recorded in 19/20 instead of 18/19	-	44

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>39. Prior period errors (continued)</b>		
Increase in vat receivable due to transaction erroneously recorded in 19/20 instead of 18/19	-	196
Increase in vat receivable due to transaction erroneously recorded in 19/20 instead of 18/19	-	48
Increase in vat receivable due to vat erroneously recorded in 19/20 instead of 18/19	-	13 699
Decrease in vat receivable due to Amathole municipality 93/104	-	(17 598)
K CLOCK '93/120	-	(24 054)
Decrease in vat receivables due to correction of an error	-	(135 915)
Increase in vat receivable due to vat that was omitted in 18/19 Financial year for Njeken Access Road	-	10 785
Increase in vat receivable due to vat amount that was omitted in 18/19 financial year for Ncerana access road	-	13 259
Increased due to Vat amount that was omitted in 2018/2019 Financial year for Centane Street Surfacing	-	9 378
Increase in vat receivable due to vat that was omitted in 18/19 financial year for Ngqamakhwe internal streets	-	93 084
Increase in vat receivables due to vat that was omitted in 18/19 financial year for DLTC	-	38 200
Increase in vat receivable due to vat that was omitted in 18/19 financial year for Ngqamakwe taxi rank	-	22 274
Increase in vat receivable due to vat that was omitted in 18/19 financial year for Lusuthu to Masele	-	19 516
Increased due to Vat amount that was omitted in 2018/2019 Financial year for Dyam - Dyam	-	23 713
Increase in vat receivable due to vat amount that was omitted in 18/19 financial year for Teko Fihla to Teko Kona	-	12 582
Increase in vat receivable due to vat amount that was omitted in 18/19 financial year for Lower Toboshane Access Road	-	23 253
Increase in vat receivable due to vat amount that was omitted in 18/19 financial year for Joji to Tyeni	-	12 470
Increase in vat receivable due to vat amount that was omitted in 18/19 financial year for Mazikhanye Access Road	-	6 490
Increase in vat receivable due to vat amount that was omitted in 18/19 financial year for Mahemini Community Hall	-	24 369
Increase in vat receivable due to vat amount that was omitted in 18/19 financial year for Macibe Access Road	-	19 991
Increase in vat receivable due to vat amount that was omitted in 18/19 financial year for Izixhotyeni	-	12 175
Increase in vat receivables due to correction of vat on motor vehicles	-	(295 592)
Increase in vat receivable due to transaction erroneously recorded in 19/20 instead of 18/19	-	(277 172)
Increase in vat receivables due to understatement of creditors and expenditure for 2018/2019 (COAF 6)	-	183
Decrease in vat receivables due to overstatement of creditors and expenditure for 2018/2019 (COAF 6)	-	(55 594)
	-	<b>5 325 002</b>
<b>Receivables from exchange transactions</b>		
As previously stated	-	2 108 200
Decrease in receivables from exchange due to refuse debtors impairment that was erroneously understated	-	(958 598)
Decrease in receivables from exchange due to housing rental debtors impairment that was erroneously understated	-	(187 403)
Decrease in receivables from exchange due to correction of error - Irrecoverable balance written off by Council	-	(313 629)
Increase in receivables from exchange due to reversal of duplicated journals in debtors subsystem	-	19 140
Increase in receivables from exchange due to reversal of duplicated journals in debtors subsystem	-	(11 634)

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Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>39. Prior period errors (continued)</b>		
Increase in receivables from exchange due to reversal of duplicated journals in debtors subsystem	-	104 352
Decrease in receivables from exchange due to correction of error	-	(59 319)
Increased in receivables from exchange due to reallocation of advance payments recognised in gross debtor account on GL instead of advance payments account	-	84 755
Increase in receivables from exchange due to correction of an error	-	59 366
Increase in receivables from exchange due to reallocation of advance payments recognised in gross debtor account on GL instead of advance payments account	-	35 804
Increase in payables from exchange due to correction of an error	-	431
	-	<b>881 466</b>
<b>Property, Plant and Equipment</b>		
Balance previously reported	-	830 095 179
Decrease in Property, plant and equipment due to retention portion that was overstated for Ngqamakwe Taxi Rank	-	(115 315)
Increase in Property, plant and equipment due to reclassification from investment property to Property, plant and equipment	-	8 294
Increase in Property, plant and equipment due to correction of vat on motor vehicles	-	295 592
Decrease in Property, plant and equipment due to minor assets incorrectly capitalised	-	(27 695)
Increase in Property, plant and equipment due to reversal of journal recorded incorrectly	-	80 397
Decreased in Property, plant and equipment due to reversal of journal recorded incorrectly	-	(52 701)
	-	<b>830 283 750</b>
<b>Investment Property</b>		
Balance previously reported	-	153 132 482
Decrease in Property, plant and equipment due to reclassification from investment property to Property, plant and equipment	-	(8 294)
	-	<b>153 124 188</b>
<b>Payables From Exchange</b>		
Balance previously reported	-	54 349 138
Decrease in payables from exchange due to correction of an error	-	(191 010)
Decrease in payables from exchange due to correction of an error	-	(500)
Decrease in payables from exchange due to correction of an error	-	(500)
Decrease in payables from exchange due to correction of an error	-	(500)
Decrease in payables from exchange due to correction of an error	-	(500)
Decrease in payables from exchange due to correction of an error	-	(500)
Increase in payables due to correction of an error	-	739
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	11 209
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	1 075
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	29 270
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	499
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	1 459
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	13 287
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	2 377

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Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	9 380
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	3 667
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	381
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	13 287
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	11 376
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	62 944
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	265 650
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	1 485
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	5 000
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	1 984
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	334
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	265 650
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	1 502
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	7 205
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	2 124
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	115 147
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	34 733
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	9 500
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	7 716
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	141 677
AMATHOLE MUNICIPALITY 93/104	-	98 015
K CLOCK '93/120	-	(1 854 530)
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	500
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	500
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	500
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	500
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	500
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	500
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	10 785
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	13 259
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	9 378

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## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>39. Prior period errors (continued)</b>		
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	93 084
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	38 200
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	22 274
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	19 516
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	19 991
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	23 713
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	12 582
Decrease in payables from exchange due to correction of error	-	23 253
Increase in payables from exchange due to transaction erroneously recorded in 19/20 instead of 18/19	-	79 787
Decrease in payables from exchange due to correction of error - unsupported balance written off by Council	-	12 470
Decrease in payables from exchange due to performance bonus provision which were previously incorrectly classified as payables	-	6 490
Decrease in payables from exchange due to department of transport receipts incorrectly recorded under advance payments	-	24 369
Increase in payables from exchange due to department of transport receipts incorrectly recorded under advance payments	-	19 991
Decrease in payables from exchange due to correction of misallocation	-	12 175
Increase in payables from exchange due to correction of misallocation	-	(1 304 384)
Increase in payables from exchange due to reallocation of advance payments recognised in gross debtor account on GL instead of advance payments account	-	(25 657)
Decrease in receivables from exchange due to correction of error	-	(47 131)
Increase in payables from exchange due to reallocation of advance payments recognised in gross debtor account on GL instead of advance payments account	-	(9 000)
Increase in payables from exchange due to correction of an error	-	1 847 815
Increase in payables from exchange due to reallocation of advance payments recognised in gross debtor account on GL instead of advance payments account	-	160 358
Increase in payables from exchange due to correction of an error	-	(2 819)
Increase in payables from exchange due to correction of understatement of factual bonus accrual 2018-2019	-	(12 471)
Decrease in payables from exchange due to correction of misallocation - Leave paid incorrectly recorded under leave expense instead of leave accrual	-	(333)
Decrease in payables from exchange due to correction of overstatement of leave accrual for 18/19	-	(333)
Decrease in payables from exchange due to correction of error - overstatement of retentions 2018-2019	-	(529)
Decrease in payables from exchange due to correction of an error	-	(333)
Decrease in payables from exchange due to correction of an error	-	(370)
Decrease in payables from exchange due to correction of an error	-	(36)
Decrease in payables from exchange due to correction of an error	-	(374)
Decrease in payables from exchange due to correction of an error	-	(16 735)
Decrease in payables from exchange due to correction of an error	-	(9 125)
Decrease in payables from exchange due to correction of an error	-	(112 582)
Decrease in payables from exchange due to correction of an error	-	(17 571)
Decrease in payables from exchange due to correction of an error	-	(106 629)
Decrease in payables from exchange due to correction of an error	-	(107 036)
Decrease in payables from exchange due to correction of an error	-	(107 005)
Decrease in payables from exchange due to correction of an error	-	(35 910)
Decrease in payables from exchange due to correction of an error	-	(115 616)
Decrease in payables from exchange due to correction of an error	-	(36 225)
Decrease in payables from exchange due to correction of an error	-	(11 471)
Decrease in payables from exchange due to correction of an error	-	(11 372)

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## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>39. Prior period errors (continued)</b>		
Decrease in payables from exchange due to correction of an error	-	(11 372)
Decrease in payables from exchange due to correction of an error	-	(116 630)
Decrease in payables from exchange due to correction of an error	-	(8 924)
Decrease in payables from exchange due to correction of an error	-	(68 400)
Decrease in payables from exchange due to correction of an error	-	(12 225)
Decrease in payables from exchange due to correction of an error	-	(21 370)
Decrease in payables from exchange due to correction of an error	-	265 336
Decrease in payables from exchange due to correction of an error	-	(144 770)
Increase in payables due to correction of an error	-	79 787
Increase in payables due to correction of an error	-	1 919 840
Increase in payables due to correction of an error	-	20 005
Increase in payables due to correction of an error	-	84 755
Increase in payables due to correction of an error	-	59 367
Increase in payables due to correction of an error	-	35 804
Increase in payables due to correction of an error	-	432
Decrease in payables from exchange due to correction of an error	-	(265 336)
Decrease in payables from exchange due to correction of an error	-	(2 124 987)
Decrease in payables from exchange due to correction of an error	-	(184 412)
Decrease in payables from exchange due to correction of an error	-	(1 397 705)
Decrease in payables from exchange due to correction of an error	-	(115 315)
Decrease in payables from exchange due to correction of an error	-	2 388 185
Decrease in payables from exchange due to correction of an error	-	(1 566 002)
Decrease in payables from exchange due to correction of an error	-	(4 899 956)
Decrease in payables from exchange due to correction of an error	-	(6 246 071)
Decrease in payables from exchange due to correction of an error	-	(1 115 017)
Decreased in payables from exchange due to overstatement of creditors and expenditure for 2018/2019 (COAF 6)	-	(436 749)
Increased in payables from exchange due to understatement of creditors and expenditure for 2018/2019 (COAF 6)	-	183
	-	<b>39 534 059</b>
<b>Payable from non-exchange</b>		
As previously stated	-	851 532
Decrease in payable from non-exchange due to debtors incorrectly identified as having credit balances	-	(851 532)
<b>Unspent conditional grants and receipts</b>		
As previously stated	-	3 063 175
Increase in unspent conditional grant due grant that was erroneously recognised as revenue- DSRAC GRANT	-	400 000
Increase in unspent conditional grant due to understatement of EDM unspent conditional grant 2018-2019	-	6 870 040
	-	<b>10 333 215</b>
<b>Provisions</b>		
Increase in provisions due to due to performance bonus provision which were previously incorrectly classified as payables	-	1 115 017
	-	<b>1 115 017</b>
<b>Accumulated surplus</b>		
As previously stated	-	838 367 708
Increase in accumulated surplus due to an overstatement of traffic fines impairment in 2017/18 financial year	-	315 043
Decrease in accumulated surplus due to transaction erroneously recorded in 19/20 instead of 17/18	-	(85 124)

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>39. Prior period errors (continued)</b>		
Decrease in accumulated surplus due to transaction erroneously recorded in 19/20 instead of 17/18	-	(40 161)
Decrease in accumulated surplus due to transaction erroneously recorded in 19/20 instead of 17/18	-	(40 719)
Decrease in accumulated surplus due to transaction erroneously recorded in 19/20 instead of 17/18	-	(42 475)
Decrease in accumulated surplus due to transaction erroneously recorded in 19/20 instead of 17/18	-	(58 858)
Decrease in accumulated surplus due to transaction erroneously recorded in 19/20 instead of 17/18	-	(26 492)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 15/16	-	(16 735)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 16/17	-	(9 126)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(93 301)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(93 498)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(93 678)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(112 582)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(101 418)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(31 500)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(9 975)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(31 500)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(9 975)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(9 975)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(101 418)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(17 571)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(7 760)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(60 000)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(10 724)
Decrease in accumulated surplus due to transaction erroneously recorded in 18/19 instead of 17/18	-	(18 746)
Decrease in accumulated surplus due to correction of error - Irrecoverable balance written off by Council	-	(313 630)
Increase in accumulated surplus due to Correction of error - unsupported balance written off by council	-	191 010
Increase in accumulated surplus due to reversal of duplicated journals in debtors subsystem	-	1 171 073
Decrease in accumulated surplus due to correction of error	-	(18 731)
Increase in accumulated surplus due to reversal of duplicated journals in debtors subsystem	-	19 140
Decrease in accumulated surplus due to correction of error	-	(11 635)
Increased due to Reversal of duplicated jnls in debtors subsystem	-	104 353
Decrease in accumulated surplus due to correction of error	-	(59 319)
Increase in accumulated surplus due to correction of error	-	144 770
Decrease in accumulated surplus due to correction of error	-	(79 787)

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>39. Prior period errors (continued)</b>		
Decrease in accumulated surplus due to minor assets incorrectly capitalised	-	(27 696)
Increase in accumulated surplus due to correction of error - overstatement of retentions 18-19	-	1 397 705
Increase in accumulated surplus due to reversal of journal recorded incorrectly	-	27 696
Decrease in accumulated surplus due to correction of transactions that were erroneously recorded in 18/19 instead of 17/18	-	(1 205 629)
Increase in accumulated surplus due to correction of error- recognition of advertising tenders erroneously recognised in 18/19 instead of 17/18	-	(22 310)
Increase in accumulated surplus due to correction of error- recognition of audit fees erroneously recognised in 18/19 instead of 17/18	-	(40 983)
Increase in accumulated surplus due to reversal of contracted services (outsourced services) erroneously recognised in 18/19 instead of 17/18	-	(9 000)
Increase in accumulated surplus due to reversal of membership fees erroneously recognised in 18/19 instead of 17/18	-	(1 854 530)
Increase in accumulated surplus due to correction of error in payables	-	6 246 071
	-	<b>843 218 010</b>
<b>Other income</b>		
As previously stated	-	1 072 086
Decrease in other income due to a DSRAC grant received that was incorrectly recognised as commission received	-	(347 826)
	-	<b>724 260</b>
<b>Traffic fines</b>		
As previously stated	-	6 407 840
Decrease in traffic fines revenue due to an overstatement of traffic fines	-	(500 716)
	-	<b>5 907 124</b>
<b>Employee Cost -Staff</b>		
Balance previously reported	-	175 723 296
Increase in employee cost due to transaction erroneously recorded in 19/20 instead of 18/19 misallocation	-	2 200
Increase in employee cost from exchange due to correction of understatement of factual bonus accrual 2018-2019	-	2 388 185
Decrease in employee cost due to correction of misallocation - Leave paid incorrectly recorded under leave expense instead of leave accrual	-	(1 566 002)
Decrease in employee cost due to correction of overstatement of leave accrual for 18/19	-	(4 899 956)
	-	<b>171 645 523</b>
<b>Government grants and subsidies</b>		
As previously stated	-	326 640 731
Decrease in Government grants and subsidies due to correction of understatement of EDM unspent conditional grant 2018-2019	-	(6 870 040)
	-	<b>319 770 691</b>
<b>Debt impairment</b>		
As previously stated	-	40 576 479
Decrease in debt impairment due to property rates impairment that was overstated.	-	(5 711 353)
Decrease in debt impairment due to traffic fines impairment that was overstated	-	(569 012)
Increase in debt impairment due to refuse debtors impairment that was understated	-	958 598
Increase in debt impairment due to housing rental debtors impairment that was understated	-	187 402
	-	<b>35 442 114</b>

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>39. Prior period errors (continued)</b>		
<b>Finance costs</b>		
As previously stated	-	2 912 523
Decrease in finance costs due to transaction erroneously recorded in 18/19 instead of 17/18	-	(112 582)
Decrease in finance costs due to transaction erroneously recorded in 18/19 instead of 17/18	-	(4 452)
Decrease in finance costs due to transaction erroneously recorded in 18/19 instead of 17/18	-	(3 245)
Decrease in finance costs due to transaction erroneously recorded in 18/19 instead of 17/18	-	(4 829)
	-	<b>2 786 575</b>
<b>General Expenditure</b>		
As previously stated	-	53 977 454
Increase in general expenditure due to understatement of consumables SALGA 208/1923	-	241 766
Increase in general expenses due to transaction erroneously recorded in 19/20 instead of 18/19	-	7 205
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	9 500
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	7 716
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	141 677
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	85 231
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	739
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	11 209
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	1 075
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	25 452
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	434
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	1 269
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	11 554
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	2 067
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	8 157
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	3 189
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	331
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	11 831
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	11 376
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	58 851
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	231 000
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	1 485

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand	2020	2019
<b>39. Prior period errors (continued)</b>		
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	5 000
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	1 726
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	290
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	1 306
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	2 077
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	101 448
Increase in general expense due to transaction erroneously recorded in 19/20 instead of 18/19	-	34 733
Decrease in general expense due to transaction recorded in 18/19 instead of 15/16	-	(16 735)
Decrease in general expense due to transaction recorded in 18/19 instead of 16/17	-	(9 125)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(112 582)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(17 571)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(93 301)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(93 498)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(93 678)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(31 500)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(101 418)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(31 500)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(9 975)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(9 975)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(9 975)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(101 418)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(7 760)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(10 724)
Decrease in general expense due to transaction recorded in 18/19 instead of 17/18	-	(18 746)
Increase in general expense due to correction of error	-	65 109
Decrease in general expense due to correction of transaction erroneously recorded in 18/19 instead of 17/18	-	(1 205 629)
Decrease in general expense due to correction of error- recognition of advertising tenders erroneously recognised in 18/19 instead of 17/18.	-	(22 310)
Decrease in general expense due to correction of error- recognition of audit fees erroneously recognised in 18/19 instead of 17/18	-	(40 983)
Decrease in general expense due to reversal of contracted services (outsourced services) erroneously recognised in 18/19 instead of 17/18	-	(9 000)
Decrease in general expense due to reversal of membership fees erroneously recognised in 18/19 instead of 17/18	-	(1 854 530)
Decrease in general expense due to overstatement of creditors and expenditure for 2018/2019 (COAF 6)	-	<u>(370 623)</u>
	-	<b>50 790 538</b>
<b>Licences and permits</b>		
As previously stated	-	1 313 257
Increase in licences and permits due to overstatement of creditors and expenditure for 2018/2019 (COAF 6)	-	10 531
	-	<u>1 323 788</u>
<b>Irregular expenditure</b>		
As previously stated	-	32 037 742
Increase in irregular expenditure due understatement irregular expenditure incurred in 2018/2019	-	12 698 698
	-	<u>44 736 440</u>

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand

### 40. Unauthorised expenditure

Opening balance	415 282 017	276 391 923
Add: Unauthorised Expenditure-current year	-	415 282 017
Less: Written off by Council	(415 282 017)	(276 391 923)
	<b>-</b>	<b>415 282 017</b>

### 41. Fruitless and wasteful expenditure

Opening balance	1 547 984	4 896 376
Add: Fruitless and Wasteful Expenditure-current year	104 561	827 078
Less: Written off by Council	(1 652 545)	(4 175 470)
	<b>-</b>	<b>1 547 984</b>

### 42. Irregular expenditure

Opening balance	44 736 440	471 389 885
Add: Irregular Expenditure - current year	14 604 108	34 607 807
Less: Amounts written off	(59 340 548)	(461 261 252)
	<b>-</b>	<b>44 736 440</b>

#### Details of irregular expenditure – current year

	<b>Disciplinary steps taken/criminal proceedings</b>	
Non-compliance with Preferential Procurement Regulation 4(3)		3 283 682
Non-compliance with Regulation 12(1)(c), 17(a) - 17(c) & 36(2) of the Municipal SCM Regulations		11 320 426
		<b>14 604 108</b>

#### Details of irregular expenditure - 2019

	<b>Disciplinary steps taken/criminal proceedings</b>	
Non-compliance with Preferential Procurement Regulation 4(3)		8 637 884
Non-compliance with Preferential Procurement Regulation 6(8)		3 233 918
Non-compliance with Regulation 9(1) of the Preferential Procurement Regulations		1 946 685
Non-compliance with Regulation 32 of the Municipal SCM Regulations		1 468 144
Non-compliance with Regulation 45 of the Municipal SCM Regulations		88 175
Non-compliance with Regulation 12(1)(c), 17(a) - 17(c) & 36(2) of the Municipal SCM Regulations		18 909 989
Non-compliance with Regulation 5 of the Municipal SCM Regulations		323 012
		<b>34 607 807</b>

### 43. Deviation from supply chain management regulations

Incurred during the year	5 209 132	7 056 580
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# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand

### 44. Additional disclosure in terms of Municipal Finance Management Act

#### Audit fees

Opening balance	(1 294 320)	3 101 933
Current year subscription / fee	4 266 290	3 547 614
Amount paid - current year	(2 971 970)	(5 658 301)
Payment made by National Treasury	-	(2 285 566)
	-	<b>(1 294 320)</b>

#### PAYE, SDL and UIF

Opening balance	2 126 253	2 126 253
Current year subscription / fee	32 195 778	30 435 936
Amount paid - current year	(34 322 031)	(30 435 936)
	-	<b>2 126 253</b>

#### Pension and Medical Aid Deductions

Opening balance	-	-
Current year subscription / fee	50 894 982	47 529 805
Amount paid - current year	(50 894 982)	(47 529 805)
	-	-

#### VAT

Opening balance	13 966 159	13 966 159
Amount received-current year	-	-
Amount claimed-current year	-	-
VAT adjustment	-	-
	<b>13 966 159</b>	<b>13 966 159</b>

#### SALGA Levy

Opening balance	-	-
Current year subscription/ fee	101 642	99 986
Amount paid-current year	(101 642)	(99 986)
	-	-

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

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### 45. Contingencies

As at 30 June 2020, the Municipality had the following contingent assets and contingent liabilities.

#### Cases against the Municipality

Case no144/19 Barricade Protection Services vs Mnquma Local Municipality	1 350 484	1 350 484
VJ Transport vs Mnquma Local Municipality	195 062	-
Case No. 297/19 Lungi Dyantyi vs Mnquma Local Municipality	97 062	-
Case No. 411/2020 Thembelani Tshaka and Others vs Mnquma Local Municipality	1 500 000	-
Bheki Sifile vs Mnquma Local Municipality	25 000	-
Case No. 490/19 Z. Plata vs Mnquma Local Municipality	245 940	245 940
Lesley Ronald Martin and Others vs Mnquma Local Municipality and Lukhanyo Tukani	27 560 000	-
Case No. 237/19 Nontando Mvume vs Mnquma Local Municipality	33 556	150 000
Case No. EC/MTHA/RC 337/2019 247/2019 Bidvest Car Rental Proprietary Limited vs Mnquma Local Municipality	-	400 000
Case No 259/19 Mangcotywa Ndzabela Inc. vs Mnquma Local Municipality	-	100 000
Imbawula Civil Projects (Pty) Ltd t/a Imbawula Engineering Academy vs Mnquma Local Municipality	824 993	-
Case No. 276/17 Wezile Mgidlana vs Mnquma Local Municipality	350 000	350 000
Musa Nho & Others vs Mnquma Local Municipality	2 071 856	2 071 856
Case No. 3461/15 Zolile Mshumpela vs Mnquma Local Municipality	1 008 000	1 008 000
Case No. 89/18 Vuyani Excellent Dyalo vs Mnquma Local Municipality and MM	150 000	150 000
Case No. 5719/18 Nangamso Mbangwana vs Mnquma Local Municipality	400 000	-
Case No. 3602/17 Soyama Construction CC vs Mnquma Local Municipality	2 588 888	2 588 888
Case No. 646/2017 Sam Toyo vs Mnquma Local Municipality	65 000	65 000
Case No. 4806/2017 Masixole Innocent Magwashu vs Mnquma Local Municipality	300 000	300 000
Case No.1069/2014 Siva Pillay Construction vs Mnquma Local Municipality	13 377 329	13 377 329
Case No. 2390/2017 A One Electric vs Mnquma Local Municipality	1 153 297	1 153 297
Case No. 463/2017 C.W.Z. Matota and another vs Mnquma Local Municipality	164 477	164 477
Case No. 1185/17 & 2685/17 Nokwanda Koleka Nkawana vs Mnquma Local Municipality	-	500 000
Case No. 250/19 Mpinda Hlaba vs Mnquma Local Municipality	150 000	150 000
Case No. 2210/17 Thulani S. Silimela vs Mnquma Municipality and Police	600 000	600 000
Case No.3990/18 Bubukwana Nikelo vs Mnquma Local Municipality	-	300 000
Case No. 247/2019 Nondumiso Nikelo and Masande Mteto vs Mnquma Local Municipality	-	800 000
Case No. P220/19 Nangamso Mbongwana vs Mnquma Local Municipality	300 000	-
	<b>54 510 944</b>	<b>25 825 271</b>

#### Barricade Protection Services Case No. 144/19 vs Mnquma Local Municipality

The Plaintiff is suing the Municipality for services rendered - Provision of security (Community services). Notice in terms of Rule 35 was filed for the other party to discover SLA as alleged. The case is still pending.

#### VJ Transport vs Mnquma Local Municipality

The Plaintiff is suing the Municipality on the damage arising on the unidentified collapsed bridge. The case is still pending.

#### Lungi Dyantyi Case No. 297/19 vs Mnquma Local Municipality

The Municipality is being sued for wrongfully impounding of a motor vehicle by traffic officers. The case is still awaiting trial.

#### Thembelani Tshaka and Others Case No. 411/2020 vs Mnquma Local Municipality

The Plaintiff is suing the Municipality for defamation of character and withdrawn allowances. The case is still pending.

#### Bheki Sifile Case No. 73/2020 vs Mnquma Local Municipality

The Plaintiff is suing the Municipality for unlawful seizure of motor vehicle and damage on the vehicle. The case is still pending.

#### Nangamso Mbongwana Case No. 5719/18 vs Mnquma Local Municipality

Applicant suing the Municipality for car allowance benefit taken away by employer and unlawful deductions/transfer & salary adjustment. The case is at appeal stage.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

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### 45. Contingencies (continued)

#### **Bidvest car rental Pty Ltd Case No. EC/MTHA/RC 337/2019 247/2019 vs Mnquma Local Municipality**

The Plaintiff is suing the Municipality for services rendered and non payment of car rental. Notice of intention to defend has been filed.

#### **Z. Plata Case No. 490/19 vs Mnquma Local Municipality**

The Plaintiff is suing the Municipality for services rendered and non-payment of acting allowance. The case is still pending.

#### **Lesley Ronald Martin and Others vs Mnquma Local Municipality and Lukhanyo Tukani**

The Plaintiff is suing the Municipality for reckless use of firearm. The case is still pending.

#### **Nontando Mvume Case No. 237/19 vs Mnquma Local Municipality**

The Municipality is being sued for not maintaining streets near Msobomvu Township. The matter is at discovery stage.

#### **Mangcotywa Ndzabela Inc. Case No 259/19 vs Mnquma Local Municipality**

The Municipality is being sued for services rendered and not paid - debt collection. Notice of Intention to defend has been filed.

#### **Imbawula Civil Projects (Pty) Ltd t/a Imbawula Engineering Academy vs Mnquma Local Municipality**

The Municipality is being sued for non payment of services rendered. The case is still pending.

#### **Wezile Mgidlana Case No. 276/17 vs Mnquma Local Municipality**

The Plaintiff is suing the Municipality for wrongful by traffic officials. The case is at pre-trial stage.

#### **Musa Nho and Others vs Mnquma Local Municipality**

The Plaintiff is suing the Municipality for traffic officials who acted wrongfully on arresting the Plaintiffs. The case is waiting for trial date at Mthatha High Court.

#### **Zolile Mshumpela Case No.3461/15 vs Mnquma Local Municipality**

The plaintiff issued combined summons claiming for alleged unlawful arrest and detention. The case is still at pre-trial stage.

#### **Vuyani Excellent Dyalo Case No.89/18 vs Mnquma Local Municipality and Municipal Manager**

The Plaintiff is suing the municipality for damages after his car was impounded by traffic officer. The case is still on pleading stage.

#### **Nangamso Mbongwana Case No. P220/19 vs Mnquma Local Municipality**

The Plaintiff is suing the municipality and opposition of application have been filed. The Municipality has applied for the date of the hearing of the case.

#### **Soyama Construction CC Case No. 3602/17 vs Mnquma Local Municipality**

The Plaintiff suing the Municipality for services rendered and not paid. The case is still pending.

#### **Sam Toyo Case No. 646/2017 vs Mnquma Local Municipality**

The Plaintiff is suing the Defendant for damages suffered in a motor collision. The case is still pending.

#### **Masixole Innocent Magwashu Case No. 4806/2017 vs Mnquma Local Municipality**

The Plaintiff suing the defendant for arrest without a warrant by Traffic official by the name of Mr Phelelani known as Raule. The case is at discovery stage.

#### **Siva Pillay Construction Case No.1069/2014 vs Mnquma Local Municipality**

The Plaintiff is Suing the Municipality for damages suffered as a result of none payment for township roads construction. The case is still pending.

#### **A One Electric Case No. 2390/2017 vs Mnquma Local Municipality**

The Plaintiff is Suing the Municipality for damages suffered as a result of none payment for Rural electrification. The case is still on pleading stage.

#### **C.W.Z. Matota and another Case No. 463/2017 vs Mnquma Local Municipality**

The Plaintiff is Suing the Municipality for damages suffered as a result of none payment for consulting work. The case is at discovery stage.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

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### 45. Contingencies (continued)

#### **Nokwanda Koleka Nkawana Case No. 1185/17 & 2685/17 vs Mnquma Local Municipality**

The Plaintiff is suing the Municipality for illegally encroachment of plaintiff's property, namely, Erf 1352 Centane. The case is still on pleading stage.

#### **Thulani. S. Simela Case No. 2210/17 vs Mnquma Local Municipality and the Police**

Suing the Municipality for unlawful and wrongful arrest by traffic officer and police official. The case is still pending.

#### **Nondumiso Nikelo and Masande Mteto Case No. 247/2019 vs Mnquma Local Municipality**

The Plaintiff is suing the Municipality for unlawful and wrongful demolition of the plaintiff's dwelling structures. The municipality's plea was filed on the 8th of March 2019.

#### **Bukubukwana Nikelo Case No.3990/18 vs Mnquma Local Municipality**

The Plaintiff is suing the Municipality for unlawful and wrongful demolition of the plaintiff's dwelling structures. The matter is at pre-trial stage

#### **Mpinda Hlaba Case No. 250/19 vs Mnquma Local Municipality**

The Municipality is sued for unlawful and wrongful arrest by Traffic officer Sojini. The case is still on pleading stage.

#### **Contingent assets**

Mnquma Local Municipality vs Rene Godsson Cumming Case	300 000	300 000
Mnquma Local Municipality vs Eagle Ukhozi Civils Proprietary Limited	-	894 987
Mnquma Local Municipality vs Rene Godsson Cumming	400 000	-
	<b>700 000</b>	<b>1 194 987</b>

#### **Mnquma Local Municipality vs Rene Godsson Cumming Case No. 1638/19**

The Municipality is suing the Respondent for unlawful & irregular contract of employment. The matter was heard by the opposed motion court on Thursday, 25 June 2020, and the judgment has been reserved. The case is still pending.

#### **Mnquma Local Municipality vs Eagle Ukhozi Civils Proprietary Limited Case No.5603/2017**

The Plaintiff suing the Municipality for services rendered and not paid - plaintiff abandoned building site. The case was dismissed with costs. The matter is still pending for tax..

#### **Mnquma Local Municipality vs Rene Godsson Cumming Case No. PR125/2019**

Municipality is suing the Respondent for unlawful & irregular contract of employment. All parties have filed papers and an application for the date of the hearing has been forwarded. The case is still pending.

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

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### 46. Employee benefit obligations

Employee benefit obligation consists of the following:

Long service awards	12 901 000	12 588 000
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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:

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

### Movement in the employee benefit obligation disclosed in the statement of financial position

#### Carrying value

Opening balance	12 588 000	10 677 331
Current service costs- Employee related costs	1 575 000	1 501 057
Actuarial interest - Finance costs	1 256 000	839 173
Benefit paid	(733 479)	(601 862)
Actuarial (Gains) Losses	(1 784 521)	172 301
	<b>12 901 000</b>	<b>12 588 000</b>
Non-current liabilities	(10 966 000)	(10 610 000)
Current liabilities	(1 935 000)	(1 978 000)
	<b>(12 901 000)</b>	<b>(12 588 000)</b>

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

Opening balance	12 588 000	10 677 331
Benefits paid	(733 479)	(601 862)
Net expense recognised in the statement of financial performance	1 046 479	2 512 531
	<b>12 901 000</b>	<b>12 588 000</b>

### The amount recognised in the statement of financial performance

Current service cost	1 575 000	1 501 057
Interest cost	1 256 000	839 173
Actuarial (gains) losses	(1 784 521)	172 301
	<b>1 046 479</b>	<b>2 512 531</b>

# Mnquma Local Municipality

Financial Statements for the year ended 30 June 2020

## Notes to the Financial Statements

Figures in Rand

### 46. Employee benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8,45 %	8,36 %
Expected increase in salaries	6,25 %	7,36 %

The normal retirement age is 65 years and the SA85-90 mortality table was used.

#### Other assumptions

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 %
34-39	8 %	10 %
40-44	6 %	6 %
45-49	4 %	4 %
50-54	2 %	2 %
55-59	1 %	1 %

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

	-20 % Withdrawal rate	Valuation Assumption	+20 % Withdrawal rate
Total Accrued Liability	13 677 000	12 901 000	12 204 000
Current Service Cost	1 538 000	1 434 000	1 341 000
Interest Cost	1 151 000	1 081 000	1 017 000

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

#### Normal salary inflation

	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total Accrued Liability	12 145 000	12 901 000	13 732 000
Current Service Cost	1 344 000	1 434 000	1 533 000
Interest Cost	1 013 000	1 081 000	1 156 000
	<b>14 502 000</b>	<b>15 416 000</b>	<b>16 421 000</b>

