



Moses Kotane Local Municipality  
Annual Financial Statements  
for the year ended June 30 2020

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## General Information

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### Nature of business and principal activities

The municipality is, within its financial and administrative capacity to:

- Provide democratic and accountable government for the community;
- To ensure the provision of services to the community in a sustainable manner;
- To promote social and economic development;
- To promote a safe and healthy environment; and
- To encourage the involvement of the community and community organisations in the matters of the municipality.

### Executive committee

Mayor

Cllr. R. Diale

Councillors

Cllr. S. Vava (Speaker) ( Deceased May 2020)

Cllr.G. Moatshe (Acting Speaker)

Cllr. M. Matshaba (Single Whip)

Cllr. T. Manganye (Chair of MPAC)

Cllr. T. Bothokwane (Portfolio Head of Planning and Developmet)

Cllr. MN Nkotswe (Portfolio Head of Local Economic Development)

Cllr. T. Thobokwe (Portfolio Head of Corporate services)

Cllr. L. Kapari (Portfolio Head of Finance)

Cllr. X. Kheswa (Portfolio Head of Community Services and PublicSafety)

Cllr. MS. Manganye (Portfolio Infrastructure Techninical Services)

### Grading of local authority

Medium

Four

### Accounting Officer

Mr. M.V. Letsoalo

### Chief Finance Officer

Mr. M. Mkhize

### Registered office

Stand No.933

Station Road

Unit 3

Mogwase Shopping Complex Mogwase

0314

### Business address

Stand No.933

Station Road

Unit 3

Mogwase Shopping Complex Mogwase

0314

### Postal address

Private Bag X1011

Mogwase

0314

### Bankers

Standard bank

ABSA

### Auditors

The Auditor General of South Africa

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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COID	Compensation for Occupational Injuries and Diseases
CIGFARO	Chartered Institute of Government Finance Audit and Risk Officers
DBSA	Development Bank of Southern Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
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)
MSA	Municipal Systems Act
MKLM	Moses Kotane Local Municipality

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Officer's Responsibilities and Approval

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

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

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. The Minister of Finance had exempted municipalities and municipal entities from complying with the deadlines stated in sections 126(1) and (2), 127 (1) and (2), 129(1) and 133(2) of the Local Government, Municipal Finance Management Act, 2003 (Act No. 56 of 2003). Therefore, the municipalities and municipal entities must submit their annual financial statements within two months after 31 August 2020 which is the 31 October 2020.

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 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.

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

The annual financial statements set out on pages 5 to 78, which have been prepared on the going concern basis, were approved by the accounting officer on October 30, 2020 and were signed by:

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**Mr M.V. Letsoalo**  
**Municipal Manager**

**Mogwase**

**Friday, October 30, 2020**

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Audit Committee Report

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We are pleased to present the Audit Committee's report for the financial year ended June 30, 2020.

### Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved audit committee charter and section 166 (4) (b) of the MFMA . During the financial year 4 meetings were held.

<b>Name of member</b>	<b>Number of meetings attended</b>
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#### **Audit committee members from 1 July 2019 to 30 June 2020**

Mr Ignatius Mogotsi (Chairperson from 1 July 2019 to 30 June 2020) (contract expired on 30 June 2020)	4
Mr Tichaona Zororo ( contract expired on 30 June 2020)	3
Mr M Makgale (contract expired on 30 June 2020)	4
Mr S.A.B Ngoben ( contract expired on 30 June 2020)	2
Ms J Masite (contract expired on 30 June 2020)	4

#### **Audit committee members for the financial year 2020/2021**

Mr Bruno Seabela (Chairperson) (appointed from September 2020)	1
Ms Lorato Moyo (appointed from September 2020)	1
Mr Alicia Tjale (appointed from September 2020)	1
Mr Tichaona Zororo (appointed from September 2020)	1
Mr Ignatius Mogotsi (appointed from September 2020)	1

### Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2) of the MFMA and Treasury Regulation 3.1.

The audit committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee charter, which codifies specific responsibilities entrusted and delegated to it by the municipal Council, and details the manner in which the Audit committee operates

We confirm that the Audit committee has reviewed the unaudited Annual Financial Statements and Annual Performance report for the 2019/2020 financial year.

The Audit committee is satisfied that the Internal audit is operating efficiently and effectively, and that they were involved in addressing the risks pertinent to the municipality. The Internal audit activity was also afforded the opportunity to review the unaudited Annual Financial Statements and Annual Performance report.

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**Chairperson of the Audit Committee**

**Date:** \_\_\_\_\_

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Officer's Report

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The accounting officer submits his report for the period ended June 30, 2020.

### 1. Review of activities

#### Main business and operations

The municipality is engaged in local service delivery to the surrounding community of Moses Kotane and operates under the Bojanala Platinum District Municipality.

Net deficit of the municipality was R 10,628,664 (2019: deficit R 165,883,936).

### 2. Going concern

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

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

### 3. Subsequent events

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

### 4. Accounting policies

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

### 5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report was:

Mr. M.V. Letsoalo

### 6. Corporate governance

#### General

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

The municipality confirms and acknowledges its responsibility to exercise the Municipality's executive and legislative authority within the constitutional system of cooperative governance envisaged in Section 41 of the Constitution, as stated in the Local Government Municipal Systems Act. The accounting officer discusses the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the MSA on a three monthly basis.

#### Remuneration

The upper limits of the remuneration, allowances and benefits of the Accounting Officer, the Head of Departments and the Councillors of the municipality, as disclosed in note 22 and in note 23 of the financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of the Public Office Bearers Act and the Minister of the Provincial and Local Governments determination in accordance with the Act.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Statement of Financial Position as at June 30, 2020

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Assets</b>			
<b>Non-Current Assets</b>			
Investment property	2	154,834,422	154,940,542
Property, plant and equipment	3	2,903,105,433	2,932,663,369
Intangible assets	4	9,161,158	10,557,220
Heritage assets	5	14,000	14,000
		<b>3,067,115,013</b>	<b>3,098,175,131</b>
<b>Current Assets</b>			
Inventories	6	9,751,478	11,724,948
Receivables from exchange transactions	7	-	1,221,711
Receivables from non-exchange transactions	8	4,230,725	4,323,531
VAT receivable	9	16,865,996	16,499,821
Consumer debtors	10	66,738,120	28,187,103
Non current assets held for sale	32	2,335,533	-
Cash and cash equivalents	11	48,779,535	64,693,149
		<b>148,701,387</b>	<b>126,650,263</b>
<b>Total Assets</b>		<b>3,215,816,400</b>	<b>3,224,825,394</b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Other financial liabilities	13	22,656,329	31,322,416
Provisions	14	30,928,154	30,917,922
		<b>53,584,483</b>	<b>62,240,338</b>
<b>Current Liabilities</b>			
Other financial liabilities	13	13,331,560	12,507,487
Payables from exchange transactions	15	246,349,126	219,629,405
Unspent conditional grants and receipts	12	42,631,424	61,087,248
Provisions	14	3,615,515	2,427,951
		<b>305,927,625</b>	<b>295,652,091</b>
<b>Total Liabilities</b>		<b>359,512,108</b>	<b>357,892,429</b>
<b>Net Assets</b>		<b>2,856,304,292</b>	<b>2,866,932,965</b>
Accumulated surplus		2,856,304,298	2,866,932,960

\* See Note 39 & 38

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Statement of Financial Performance for the year ended 30 June 2020.

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	17	176,992,179	154,198,624
Interest received	18	67,985,278	50,562,829
Commissions received		195,294	161,343
Rental income		83,677	42,260
Sale of stands/land		19,111	300,000
Other income	19	2,388,074	1,482,550
<b>Total revenue from exchange transactions</b>		<b>247,663,613</b>	<b>206,747,606</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	20	141,209,467	134,800,237
<b>Transfer revenue</b>			
Government grants & subsidies	21	599,073,120	572,781,972
Public contributions and donations		-	3,910,239
Fines, Penalties and Forfeits		5,600,000	2,505,080
<b>Total revenue from non-exchange transactions</b>		<b>745,882,587</b>	<b>713,997,528</b>
<b>Total revenue</b>	16	<b>993,546,200</b>	<b>920,745,134</b>
<b>Expenditure</b>			
Employee related costs	22	(235,992,526)	(201,703,902)
Remuneration of councillors	23	(27,006,683)	(25,512,410)
Depreciation	24	(143,967,933)	(160,973,920)
Finance costs	26	(5,347,470)	(6,177,546)
Lease rentals on operating lease		(1,703,225)	(2,053,038)
Debt Impairment	27	(201,036,122)	(297,432,176)
Repairs and Maintenance		(43,510,147)	(56,700,979)
Bulk purchases	28	(106,261,836)	(98,807,858)
Contracted services	29	(126,871,597)	(123,813,453)
General Expenses	30	(89,041,394)	(109,406,788)
<b>Total expenditure</b>		<b>(980,738,933)</b>	<b>(1,082,582,070)</b>
<b>Operating surplus (deficit)</b>		<b>12,807,267</b>	<b>(161,836,936)</b>
Loss on disposal of assets and liabilities		(6,704,291)	(3,218,660)
Fair value adjustments		-	2,515
Impairment loss	25	(16,678,358)	(783,485)
Inventories losses/write-downs		(53,282)	(47,370)
		<b>(23,435,931)</b>	<b>(4,047,000)</b>
Taxation		-	-
<b>Surplus (deficit) for the year</b>		<b>(10,628,664)</b>	<b>(165,883,936)</b>

\* See Note 39 & 38



# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Statement of Changes in Net Assets for the year ended 30 June 2020.

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	3,410,748,840	3,410,748,840
Adjustments		
Correction of errors	(381,700,153)	(381,700,153)
Change in accounting policy	3,768,207	3,768,207
<b>Balance at July 1, 2018 as restated*</b>	<b>3,032,816,894</b>	<b>3,032,816,894</b>
Changes in net assets		
Surplus/(Deficit) for the year	(154,056,708)	(154,056,708)
Correction of errors	(13,165,359)	(13,165,359)
Change in accounting policy	1,338,133	1,338,133
Total changes	(165,883,934)	(165,883,934)
<b>Restated* Balance at July 1, 2019</b>	<b>2,866,932,962</b>	<b>2,866,932,962</b>
Changes in net assets		
Surplus for the year	(10,628,664)	(10,628,664)
Total changes	(10,628,664)	(10,628,664)
<b>Balance at June 30, 2020</b>	<b>2,856,304,298</b>	<b>2,856,304,298</b>
Note(s)		

\* See Note 39 & 38

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Cash Flow Statement for the year ended 30 June 2020.

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Receipts from consumers		147,561,616	143,189,496
Grants		580,617,296	622,397,277
Interest income		5,586,510	4,689,317
Other Income		2,686,156	1,986,154
		<b>736,451,578</b>	<b>772,262,244</b>
<b>Payments</b>			
Cash paid to suppliers and employees		(603,117,223)	(566,120,306)
<b>Net cash flows from operating activities</b>	31	<b>133,334,355</b>	<b>206,141,938</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(141,695,942)	(145,488,184)
Proceeds from sale of property, plant and equipment	3	290,000	480,497
<b>Net cash flows from investing activities</b>		<b>(141,405,942)</b>	<b>(145,007,687)</b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		(7,842,015)	(2,463,491)
Finance lease movements		-	(1,187,051)
<b>Net cash flows from financing activities</b>		<b>(7,842,015)</b>	<b>(3,650,542)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(15,913,602)</b>	<b>57,483,709</b>
Cash and cash equivalents at the beginning of the year		64,693,149	7,209,436
<b>Cash and cash equivalents at the end of the year</b>	11	<b>48,779,547</b>	<b>64,693,145</b>

\* See Note 39 & 38

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 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
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	184,251,428	-	<b>184,251,428</b>	176,992,179	<b>(7,259,249)</b>	45.1
Interest received (trading)	65,190,000	786,790	<b>65,976,790</b>	67,985,278	<b>2,008,488</b>	45.2
Commissions received	180,000	-	<b>180,000</b>	195,294	<b>15,294</b>	Difference below R 1 000 000
Rental income	51,000	20,000	<b>71,000</b>	83,677	<b>12,677</b>	Difference below R 1 000 000
Sale of stands/ Land	600,000	290,000	<b>890,000</b>	19,111	<b>(870,889)</b>	Difference below R 1 000 000
Other income	1,800,500	900,000	<b>2,700,500</b>	2,388,074	<b>(312,426)</b>	Difference below R 1 000 000

<b>Total revenue from exchange transactions</b>	<b>252,072,928</b>	<b>1,996,790</b>	<b>254,069,718</b>	<b>247,663,613</b>	<b>(6,406,105)</b>	
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##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	142,163,600	-	<b>142,163,600</b>	141,209,467	<b>(954,133)</b>	Difference below R 1 000 000
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##### Transfer revenue

Government grants & subsidies-operational	637,354,000	(56,698,000)	<b>580,656,000</b>	599,073,120	<b>18,417,120</b>	45.3
Fines, Penalties and Forfeits	4,500,000	(1,000,000)	<b>3,500,000</b>	5,600,000	<b>2,100,000</b>	45.4

<b>Total revenue from non-exchange transactions</b>	<b>784,017,600</b>	<b>(57,698,000)</b>	<b>726,319,600</b>	<b>745,882,587</b>	<b>19,562,987</b>	
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<b>Total revenue</b>	<b>1,036,090,528</b>	<b>(55,701,210)</b>	<b>980,389,318</b>	<b>993,546,200</b>	<b>13,156,882</b>	
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#### Expenditure

Personnel	(270,274,660)	24,977,125	<b>(245,297,535)</b>	(235,992,526)	<b>9,305,009</b>	45.5
Remuneration of councillors	(25,371,420)	(5,354,824)	<b>(30,726,244)</b>	(27,006,683)	<b>3,719,561</b>	45.6
Depreciation and amortisation	(154,536,733)	-	<b>(154,536,733)</b>	(143,967,933)	<b>10,568,800</b>	45.7
Finance costs	(3,688,959)	-	<b>(3,688,959)</b>	(5,347,470)	<b>(1,658,511)</b>	45.8
Lease rentals on operating lease	(3,900,000)	2,659,459	<b>(1,240,541)</b>	(1,703,225)	<b>(462,684)</b>	Difference below R 1 000 000

Debt Impairment	(122,540,000)	(57,608,200)	<b>(180,148,200)</b>	(201,036,122)	<b>(20,887,922)</b>	45.9
Repairs and maintenance	(143,480,000)	97,741,525	<b>(45,738,475)</b>	(43,510,147)	<b>2,228,328</b>	45.10
Bulk purchases	(103,700,000)	32,700,000	<b>(71,000,000)</b>	(106,261,836)	<b>(35,261,836)</b>	45.11
Contracted services	(25,316,500)	(72,070,127)	<b>(97,386,627)</b>	(126,871,598)	<b>(29,484,971)</b>	45.12
General Expenses	(114,432,050)	38,519,617	<b>(75,912,433)</b>	(89,041,394)	<b>(13,128,961)</b>	45.13

<b>Total expenditure</b>	<b>(967,240,322)</b>	<b>61,564,575</b>	<b>(905,675,747)</b>	<b>(980,738,934)</b>	<b>(75,063,187)</b>	
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# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 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>Operating surplus</b>	<b>68,850,206</b>	<b>5,863,365</b>	<b>74,713,571</b>	<b>12,807,266</b>	<b>(61,906,305)</b>	
Loss on disposal of assets and liabilities	-	-	-	(6,704,291)	<b>(6,704,291)</b>	45.14
Impairment loss	-	-	-	(16,678,358)	<b>(16,678,358)</b>	45.15
Inventories losses/write-downs	-	-	-	(53,282)	<b>(53,282)</b>	Difference below R 1 000 000
	-	-	-	<b>(23,435,931)</b>	<b>(23,435,931)</b>	
<b>Deficit before taxation</b>	<b>68,850,206</b>	<b>5,863,365</b>	<b>74,713,571</b>	<b>(10,628,665)</b>	<b>(85,342,236)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>68,850,206</b>	<b>5,863,365</b>	<b>74,713,571</b>	<b>(10,628,665)</b>	<b>(85,342,236)</b>	

Differences below R 1 000 000 have been considered to be immaterial.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

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

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

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

#### 1.3 Significant judgements and sources of estimation uncertainty

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

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

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

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

#### 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 assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of the 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 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 14 - Provisions.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Policies

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

#### Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Allowance for doubtful debts

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 recoverable amount. Significant debtors are individually assessed for impairment and insignificant debtors are grouped and impaired as a portfolio.

### 1.4 Investment property

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

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

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

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

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

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

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

#### Fair value

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

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

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

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

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

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

# Moses Kotane Local Municipality

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### 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.

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

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

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

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Item	Depreciation method	Estimated useful life
Land	Straight line	Infinite
Buildings	Straight line	30 years
Infrastructure - Electricity	Straight line	20 - 100 years
Infrastructure - Roads	Straight line	10 - 100 years
Infrastructure - Water	Straight line	15 -80 years
Infrastructure- Stormwater	Straight line	20-50 years
Infrastructure - Sewerage	Straight line	15 -20 years
Infrastructure- ICT	Straight line	10-50 years
Infrastructure - Airports	Straight line	20 years
Access control security measures	Straight line	3 - 5 years
Recreation facilities	Straight line	20 -25 years
Furniture and fittings	Straight line	7 years
Motor vehicles	Straight line	5 - 15 years
Office equipment	Straight line	5 - 7 years
Plant and equipment	Straight line	4 - 15 years

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

For the detailed useful lives of assets, refer to the municipality's asset management policy

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 the correction of these errors resulted in the following effects.

### 1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.



# Moses Kotane Local Municipality

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### 1.6 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

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

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Item	Depreciation method	Average useful life
Computer software	Straight line	3-12 years

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### 1.7 Heritage assets

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

# Moses Kotane Local Municipality

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## Accounting Policies

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### 1.7 Heritage assets (continued)

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

#### Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

### 1.8 Financial instruments

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

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

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.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Policies

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### 1.8 Financial instruments (continued)

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 an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

A financial asset is:

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

A financial 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 entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

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 an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

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

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Policies

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### 1.8 Financial instruments (continued)

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 entity had not acquired, issued or disposed of the financial instrument.

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

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

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

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

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

#### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

# Moses Kotane Local Municipality

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## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

##### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived. The obligation for retentions is considered to have expired when the retention is unclaimed for more than 3 years from the date the defect liability period expired.

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

#### Presentation

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

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

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

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

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

# Moses Kotane Local Municipality

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### Statutory receivables (continued)

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership as per GRAP 13 appendix 1.

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.

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

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

#### Operating leases - lessee

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

### 1.10 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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.

# Moses Kotane Local Municipality

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### 1.11 Impairment of cash-generating assets

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

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

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

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

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.

#### Identification

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

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

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

#### 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.

#### 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.

# Moses Kotane Local Municipality

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## Accounting Policies

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

#### Redesignation

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

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

Cash-generating assets are 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.



# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Policies

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

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.

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

#### 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:

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Policies

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

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

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

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

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

#### Redesignation

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

### 1.13 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Defined contribution plans

Fixed contributions are paid into a separate entity (a fund) and the municipality 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. The contributions meet the definition of a defined contribution plan.

#### Recognition and measurement

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

(a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity shall 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  
(b) as an expense

### 1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus.

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.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

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

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

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

### 1.15 Commitments

Capital commitments are disclosed in the financial statements and they represent the balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

### 1.16 Revenue from exchange transactions

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

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

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

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Policies

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### 1.16 Revenue from exchange transactions (continued)

#### 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 .

#### Interest, royalties and dividends

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

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

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

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

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

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

### 1.17 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Policies

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

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.

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.

#### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### Fines

Revenue from the issuing of fines is recognised when:

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

The municipality has two types of fines: spot fines and summons. The revenue from summonses is recognised on issue.

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

### 1.18 Investment income

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

### 1.19 Borrowing costs

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

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Policies

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### 1.19 Borrowing costs (continued)

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

### 1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote and
- expenditure not in accordance with the purpose of a vote.

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.

### 1.22 Irregular expenditure

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

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

“irregular expenditure”, in relation to a municipality or municipal entity, means—

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of “unauthorised expenditure”.

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

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

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

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



# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Policies

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### 1.22 Irregular expenditure (continued)

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

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

### 1.23 Related parties

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

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

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 venturers).

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

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

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

Close members of the family of a person are 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 annual financial statements.

### 1.24 Events after reporting date

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

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

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

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Accounting Policies

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### 1.24 Events after reporting date (continued)

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

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 2. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	154,834,422	-	154,834,422	154,940,542	-	154,940,542

### Reconciliation of investment property - 2020

	Opening balance	Disposals	Total
Investment property	154,940,542	(106,120)	154,834,422

### Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property	154,938,027	2,515	154,940,542

### Pledged as security

Investment property was not pledged as security for financial liabilities.

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.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 3. 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	17,684,093	-	17,684,093	17,684,093	-	17,684,093
Buildings	211,996,282	(95,568,507)	116,427,775	211,996,282	(87,874,486)	124,121,796
Plant and machinery	6,060,469	(4,356,576)	1,703,893	6,245,741	(4,150,962)	2,094,779
Furniture and Fixtures	53,265,616	(38,881,629)	14,383,987	53,181,188	(34,562,286)	18,618,902
Motor vehicles	39,307,125	(23,989,678)	15,317,447	68,455,477	(43,429,881)	25,025,596
Infrastructure	4,599,016,557	(2,309,098,659)	2,289,917,898	4,472,715,898	(2,207,339,717)	2,265,376,181
Community	514,042,975	(253,789,324)	260,253,651	493,100,907	(238,303,809)	254,797,098
Building WIP	753,272	-	753,272	753,272	-	753,272
Infrastructure WIP	173,808,795	-	173,808,795	210,948,174	-	210,948,174
Community assets WIP	12,854,622	-	12,854,622	13,243,478	-	13,243,478
<b>Total</b>	<b>5,628,789,806</b>	<b>(2,725,684,373)</b>	<b>2,903,105,433</b>	<b>5,548,324,510</b>	<b>(2,615,661,141)</b>	<b>2,932,663,369</b>

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand

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

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

	Opening balance	Additions	Other changes	Disposals	Transfers	Change in estimate	Depreciation	Impairment loss	Total
Land	17,684,093	-	-	-	-	-	-	-	17,684,093
Buildings	124,121,796	-	-	-	-	-	(7,694,021)	-	116,427,775
Plant and machinery	2,094,779	-	-	(21,513)	-	81,662	(451,026)	(9)	1,703,893
Furniture and fixtures	18,618,902	172,260	-	(36,972)	-	1,425,827	(5,783,635)	(12,395)	14,383,987
Motor vehicles	25,025,596	-	-	(530,233)	(5,110,365)	(24,284)	(4,002,441)	(40,826)	15,317,447
Infrastructure	2,265,376,181	144,236,147	(2,219,817)	(6,838,137)	-	513,479	(111,149,955)	-	2,289,917,898
Community	254,797,098	20,965,473	-	(21,443)	-	14,349	(15,501,826)	-	260,253,651
Building WIP	753,272	-	-	-	-	-	-	-	753,272
Infrastructure WIP	210,948,174	131,074,218	-	(10,093,108)	(144,270,192)	-	-	(13,850,297)	173,808,795
Community WIP	13,243,478	20,542,536	-	-	(20,931,392)	-	-	-	12,854,622
	<b>2,932,663,369</b>	<b>316,990,634</b>	<b>(2,219,817)</b>	<b>(17,541,406)</b>	<b>(170,311,949)</b>	<b>2,011,033</b>	<b>(144,582,904)</b>	<b>(13,903,527)</b>	<b>2,903,105,433</b>

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

	Opening balance	Additions	Other changes	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	17,684,093	-	-	-	-	-	-	17,684,093
Buildings	131,831,615	-	-	-	-	(7,709,819)	-	124,121,796
Plant and machinery	3,191,647	131,590	-	(605,459)	-	(622,447)	(552)	2,094,779
Furniture and fittings	24,531,449	413,537	-	(1,311,837)	-	(4,911,104)	(103,143)	18,618,902
Motor vehicles	27,539,936	2,877,240	-	(46,614)	-	(4,665,176)	(679,790)	25,025,596
Infrastructure	2,277,707,532	105,784,145	1,184,881	(3,210,442)	-	(116,089,935)	-	2,265,376,181
Community	264,484,061	5,254,740	-	-	-	(14,941,703)	-	254,797,098
Building WIP	753,272	-	-	-	-	-	-	753,272
Infrastructure WIP	188,517,838	128,262,031	-	-	(105,831,695)	-	-	210,948,174
Community Assets WIP	-	18,450,668	-	-	(5,207,190)	-	-	13,243,478
	<b>2,936,241,443</b>	<b>261,173,951</b>	<b>1,184,881</b>	<b>(5,174,352)</b>	<b>(111,038,885)</b>	<b>(148,940,184)</b>	<b>(783,485)</b>	<b>2,932,663,369</b>

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 3. Property, plant and equipment (continued)

#### Pledged as security

The mayoral house is pledged as security for the mortgage bond for R 1 520 000 with ABSA bank.

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.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	53,854,562	(44,693,404)	9,161,158	53,854,562	(43,297,342)	10,557,220

### Reconciliation of intangible assets - 2020

	Opening balance	Change in estimate	Amortisation	Total
Computer software, other	10,557,220	5,494,419	(6,890,481)	9,161,158

### Reconciliation of intangible assets - 2019

	Opening balance	Derecognition	Change in estimate	Amortisation	Total
Computer software, other	22,597,587	(6,630)	194,896	(12,228,633)	10,557,220

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 5. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	14,000	-	14,000	14,000	-	14,000

#### Reconciliation of heritage assets - 2020

	Opening balance	Total
Historical monuments	14,000	14,000

#### Reconciliation of heritage assets 2019

	Opening balance	Total
Historical monuments	14,000	14,000



# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>6. Inventories</b>		
Maintenance materials	9,700,637	11,678,680
Water for distribution	50,841	46,268
	<b>9,751,478</b>	<b>11,724,948</b>
<b>Inventory pledged as security</b>		
There is no inventory pledged as security.		
<b>7. Receivables from exchange transactions</b>		
Bakwena systems - Photocopiers	-	1,221,711
<b>Receivable from Exchange Transactions</b>		
Gross Balances	2,443,422	2,443,422
Less: Allowance for Impairment	(2,443,422)	(1,221,711)
	<b>-</b>	<b>1,221,711</b>
<b>Financial asset receivables included in receivables from exchange transactions above</b>	<b>-</b>	<b>-</b>
<b>Total receivables from exchange transactions</b>	<b>-</b>	<b>1,221,711</b>
<b>8. Receivables from non-exchange transactions</b>		
Fines	354,454	511,515
Other receivables from non-exchange revenue	2,925,177	3,025,636
Sundry Debtors	951,094	786,380
	<b>4,230,725</b>	<b>4,323,531</b>
<b>Statutory receivables included in receivables from non-exchange transactions above are as follows:</b>		
Fines (Gross balance)	5,767,345	7,957,104
Fines (Allowance for impairment)	(5,412,891)	(7,445,589)
	<b>354,454</b>	<b>511,515</b>
<b>Financial asset receivables included in receivables from non-exchange transactions above</b>	<b>3,876,271</b>	<b>3,812,016</b>
<b>Total receivables from non-exchange transactions</b>	<b>4,230,725</b>	<b>4,323,531</b>
<b>9. VAT receivable/payable</b>		
VAT	16,865,996	16,499,821
<b>VAT</b>		
VAT receivable from SARS	5,330,142	2,836,759
VAT input provision	15,466,282	15,512,514
VAT output provision	(3,930,428)	(1,849,452)
	<b>16,865,996</b>	<b>16,499,821</b>

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>10. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	384,300,227	316,164,344
Water	725,508,026	563,652,548
Sewerage	18,230,588	16,281,517
Refuse	92,892,322	78,232,723
Water consumption from last reading until 30th	2,763,689	5,417,872
	<b>1,223,694,852</b>	<b>979,749,004</b>
<b>Less: Allowance for impairment</b>		
Rates	(351,798,920)	(308,752,201)
Water	(695,703,626)	(548,855,058)
Sewerage	(16,658,486)	(15,739,990)
Refuse	(92,795,700)	(78,214,652)
	<b>(1,156,956,732)</b>	<b>(951,561,901)</b>
<b>Net balance</b>		
Rates	32,501,307	7,412,143
Water	29,804,400	14,797,490
Sewerage	1,572,102	541,527
Refuse	96,622	18,071
Water consumption from the last readings	2,763,689	5,417,872
	<b>66,738,120</b>	<b>28,187,103</b>
<b>Included in above is receivables from exchange transactions</b>		
Water	29,804,399	14,797,490
Sewerage	1,572,101	541,527
Refuse	96,623	18,071
Water consumption from the last readings	2,763,689	5,417,872
	<b>34,236,812</b>	<b>20,774,960</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	32,501,307	7,412,143
<b>Net balance</b>	<b>66,738,119</b>	<b>28,187,103</b>
<b>Rates</b>		
Current (0 -30 days)	12,850,743	11,412,502
31 - 60 days	12,343,938	9,188,048
61 - 90 days	12,957,696	8,003,001
91 - 120 days	12,274,102	7,904,656
121 - 365 days	333,873,748	279,647,324
Less: Allowance for impairment	(351,798,920)	(308,743,388)
	<b>32,501,307</b>	<b>7,412,143</b>

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>10. Consumer debtors (continued)</b>		
<b>Water</b>		
Current (0 -30 days)	29,595,688	18,618,499
31 - 60 days	17,876,736	19,177,710
61 - 90 days	19,172,852	19,177,710
91 - 120 days	20,164,661	5,578,022
121 - 365 days	638,698,090	501,100,607
Less: Allowance for impairment	(695,703,627)	(548,855,058)
	<b>29,804,400</b>	<b>14,797,490</b>
<b>Sewerage</b>		
Current (0 -30 days)	292,999	248,565
31 - 60 days	274,510	245,282
61 - 90 days	293,760	241,128
91 - 120 days	300,835	281,403
121 - 365 days	17,068,485	15,265,139
Less: Allowance for impairment	(16,658,487)	(15,739,990)
	<b>1,572,102</b>	<b>541,527</b>
<b>Refuse</b>		
Current (0 -30 days)	1,371,477	1,212,355
31 - 60 days	1,364,052	1,206,538
61 - 90 days	1,357,194	1,199,100
91 - 120 days	1,353,520	1,185,549
121 - 365 days	87,446,079	73,429,181
Less: Allowance for impairment	(92,795,700)	(78,214,652)
	<b>96,622</b>	<b>18,071</b>
<b>Water consumption from the last readings</b>		
Current (0 -30 days)	2,763,689	5,417,872
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(951,561,901)	(664,664,663)
Contributions to allowance	(211,365,419)	(309,135,443)
Debt impairment written off against allowance	5,970,588	22,238,205
	<b>(1,156,956,732)</b>	<b>(951,561,901)</b>

### Statutory receivables general information

#### Credit quality of consumer debtors

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

#### 11. Cash and cash equivalents

Cash and cash equivalents consist of:

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>11. Cash and cash equivalents (continued)</b>		
Cash on hand	113	20,000
Bank balances	4,396,411	12,206,149
Short-term deposits	44,383,011	52,467,000
	<b>48,779,535</b>	<b>64,693,149</b>

Cash and cash equivalents held by the Municipality that are not available for use by the economic entity	107,700	107,700
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During the current financial year the municipality had a fleet card facility of R 1 200 000 with ABSA which was cancelled before June 2020. A new facility for R 1 000 000 with Standard Bank has since commenced from the beginning of July 2020.

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2020	June 30, 2019	June 30, 2018
Standard Bank Current-Account Number: 41980182	2,352,823	9,163,924	1,094,392	2,352,823	9,180,325	(70,077)
Call MIG Standard Bank Account number: 228810957004	26,590,239	40,686,241	624,427	26,590,239	41,001,789	624,427
Call MKLM Standard Bank Account number: 22881095	157,604	48,064	130,681	157,604	48,277	130,681
WSIG Account NKLM MUNIC INFRA - Account number: 228810957	17,635,167	11,311,123	-	17,635,167	11,416,918	-
ABSA Rustenburg Branch Account number: 4050414471	651,498	1,795,791	1,726,005	651,498	1,798,407	-
Housing Account - Account number: 4059219109	-	47	986	-	47	985
Traffic Account - Account number: 4070118019	-	403,736	343,923	-	381,289	345,281
ABSA Fixed deposit -12 months Eskom Account number: 206225080	357,015	330,999	307,191	380,844	356,855	307,191
Standard Bank Borongwa Account number: 41980255	648,200	376,093	-	648,199	306,550	-
Traffic - Account number: 41980247	363,048	182,691	-	363,048	182,691	-
<b>Total</b>	<b>48,755,594</b>	<b>64,298,709</b>	<b>4,227,605</b>	<b>48,779,422</b>	<b>64,673,148</b>	<b>1,338,488</b>

### 12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

<b>Unspent conditional grants and receipts</b>		
Municipal Infrastructure Grant	26,332,861	43,653,570
Library Grant	816,497	477,899
Water and Sanitation Grant	14,889,762	15,295,304
EPWP Grant	135,866	347,260
PMU Grant	240,102	1,313,215
Small Business Enterprise	216,336	-
	<b>42,631,424</b>	<b>61,087,248</b>

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>12. Unspent conditional grants and receipts (continued)</b>		
<b>Movement during the year</b>		
Balance at the beginning of the year	61,087,249	11,471,943
Additions during the year	214,297,295	235,664,003
Income recognition during the year	(172,143,769)	(186,048,698)
Roll over denied	(60,609,351)	-
	<b>42,631,424</b>	<b>61,087,248</b>
<b>13. Other financial liabilities</b>		
<b>At amortised cost</b>		
INCA annuity loan	12,039,373	14,333,755
ABSA annuity loan	4,493,154	6,086,357
DBSA	19,455,362	23,409,791
	<b>35,987,889</b>	<b>43,829,903</b>
<b>Total other financial liabilities</b>	<b>35,987,889</b>	<b>43,829,903</b>
<b>Non-current liabilities</b>		
At amortised cost	22,656,329	31,322,416
<b>Current liabilities</b>		
At amortised cost	13,331,560	12,507,487

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 14. Provisions

#### Reconciliation of provisions - 2020

	Opening Balance	Current- Service Cost	Utilised during the year	Actuarial loss/Gain	Change in provision	Interest	Total
Environmental rehabilitation	17,119,111	-	-	-	(2,219,817)	1,402,860	16,302,154
Long-service awards	15,390,122	1,456,000	(1,362,563)	(20,353)	-	1,187,794	16,651,000
Workmen's compensation	836,640	-	(836,640)	-	1,590,515	-	1,590,515
	<b>33,345,873</b>	<b>1,456,000</b>	<b>(2,199,203)</b>	<b>(20,353)</b>	<b>(629,302)</b>	<b>2,590,654</b>	<b>34,543,669</b>

#### Reconciliation of provisions - 2019

	Opening Balance	Current- Service Cost	Utilised during the year	Actuarial Loss / Gain	Change in provision	Interest	Total
Environmental rehabilitation	26,410,844	-	(11,585,615)	-	1,184,881	1,109,001	17,119,111
Long-service awards	15,607,093	1,370,970	(2,006,413)	(840,825)	-	1,259,297	15,390,122
Workmen's compensation	836,640	-	-	-	-	-	836,640
	<b>42,854,577</b>	<b>1,370,970</b>	<b>(13,592,028)</b>	<b>(840,825)</b>	<b>1,184,881</b>	<b>2,368,298</b>	<b>33,345,873</b>

Non-current liabilities	30,928,154	30,917,922
Current liabilities	3,615,515	2,427,951
	<b>34,543,669</b>	<b>33,345,873</b>

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 14. Provisions (continued)

#### Environmental rehabilitation provision

In terms of the licensing of the landfill refuse sites, the municipality will incur rehabilitation costs to restore the site at the end of its useful life. Provision has been made for the net present value of the restoration costs.

#### **FINANCIAL ASSUMPTIONS USED**

##### **Unit Costs**

Unit costs for each of the cost elements are obtained annually by means of a commercial quotation. Details of this are provided separately.

##### **CPI**

The CPI2 is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last quarter amounted to 2.4107%.

##### **Discount Rate**

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.

The rate most consistent with the remaining life of the landfills published at the end of the quarter that includes the financial year-end date was used.

For landfills with an expected remaining life of three years or less, the rate associated with a maximum period of 3 years is used.

For landfills with an expected remaining life of four or five years, the rate associated with a maximum period of 5 years is used.

For landfills with an expected remaining life of more than five years, the rate associated with a maximum period of 10 years is used.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 14. Provisions (continued)

#### Employee benefit cost provision

The Municipality offers all its employees long service award for employees that have been with the Municipality for more than 10 years and every 5 years thereafter.

#### SECTION 5: KEY ASSUMPTIONS

In estimating the unfunded liability for LSA of the Municipality a number of actuarial assumptions are required. The GRAP 25 Statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the LSA arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and Current-Service costs are recognised over time.

The key financial and demographic assumptions are summarised below.

#### Key Financial Assumptions

The key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the ensuing year are as follows:

<u>Assumption</u>	<u>Value p.a.</u>
Discount rate	7.27%
General earnings inflation rate (long-term)	3.90%
Net effective discount rate	3.24%

The earnings used in the valuation include an increase on 1 July 2020 of 6.25% as per the SALGBC Circular No.: 02/2020. The next general earnings increase was assumed to take place on 1 July 2021.

#### Key Demographic Assumptions used

<u>Assumption</u>	<u>Value</u>
Average retirement age	62
Mortality during employment	SA 85-90
	Age      Female      Male
	20      9%      9%
Withdrawal from service (sample annual rates)	30      6%      6%
	40      5%      5%
	50      3%      3%
	55      0%      0%

#### Workmen's compensation

The municipality is required to contribute to the compensation fund in terms of the Compensation for Occupational Injuries and Diseases Act. The provision is based on the provisional assessment that was done by the Compensation Commissioner for the 2019/2020 assessment.



# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>15. Payables from exchange transactions</b>		
Trade payables	96,296,025	100,803,850
Payments received in advanced	60,320,689	54,310,380
Other payables	20,588,050	5,489,958
Accrued leave pay	31,117,447	26,260,984
Retentions	33,191,985	32,764,233
Unallocated receipts	4,834,930	-
	<b>246,349,126</b>	<b>219,629,405</b>
<b>16. Revenue</b>		
Service charges	176,992,179	154,198,624
Interest received	67,985,278	50,562,829
Commissions received	195,294	161,343
Rental income	83,677	42,260
Sale of stands/land	19,111	300,000
Other income	2,388,074	1,482,550
Property rates	141,209,467	134,800,237
Government grants & subsidies	599,073,120	572,781,972
Public contributions and donations	-	3,910,239
Fines, Penalties and Forfeits	5,600,000	2,505,080
	<b>993,546,200</b>	<b>920,745,134</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	176,992,179	154,198,624
Interest received	67,985,278	50,562,829
Commissions received	195,294	161,343
Rental income	83,677	42,260
Sale of stands/land	19,111	300,000
Other income - (rollup)	2,388,074	1,482,550
	<b>247,663,613</b>	<b>206,747,606</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	141,209,467	134,800,237
<b>Transfer revenue</b>		
Government grants & subsidies	599,073,120	572,781,972
Public contributions and donations	-	3,910,239
Fines, Penalties and Forfeits	5,600,000	2,505,080
	<b>745,882,587</b>	<b>713,997,528</b>
<b>17. Service charges</b>		
Sale of water	164,322,996	147,279,422
Sewerage and sanitation charges	2,664,841	2,273,943
Refuse removal	10,004,342	4,645,259
	<b>176,992,179</b>	<b>154,198,624</b>

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>18. Interest income</b>		
Interest - Receivables	62,398,768	45,873,512
Interest -Bank	5,586,510	4,689,317
	<b>67,985,278</b>	<b>50,562,829</b>

### 19. Other income

Clearance certificates	2,171	62,613
Drainage fees	261	417
Sale of tender documents	488,591	547,900
Valuation services	2,645	1,312
Cemetery	11,728	15,478
Town planning	133,970	106,926
Recoveries	1,126,949	175,579
Photocopies and faxes	24,990	41,818
Advertisements	25,940	306,718
Water connections	49,932	10,099
LG Seta refund	372,243	213,690
Insurance claims received	135,244	-
Licence fees	13,410	-
	<b>2,388,074</b>	<b>1,482,550</b>

### 20. Property rates

#### Rates received

Commercial	41,799,319	39,768,167
State	85,855,457	79,490,456
Residential	5,410,392	8,217,909
Mining	10,421,853	9,832,515
Industrial	5,876	5,435
Less: Income forgone	(2,283,430)	(2,514,245)
	<b>141,209,467</b>	<b>134,800,237</b>

Assessment rates are levied on the total value of property of which the valuation must be performed every four years in terms of the Municipal Property Rates Act. Interim valuations are processed on a monthly basis to take into account changes in individual property value due to alterations, completions, consolidations and subdivisions.

Rates are levied monthly on property owners and are payable at the end of each month. Owners are allowed to pay the 12 monthly instalments annually by 30 September each year. Interest is levied on outstanding rates amounts.

The new general valuation will be implemented on 01 July 2021.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>21. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	426,929,351	386,733,274
Expanded Public Works Grant	1,559,133	652,739
Project Management Unit Grant	3,342,535	2,338,498
Financial Management Grant	1,700,000	1,700,000
Library grant	646,402	1,673,048
Disaster relief grant	268,000	-
	<b>434,445,421</b>	<b>393,097,559</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant	119,776,502	127,229,717
Water Services Infrastructure Grant	40,110,238	52,454,696
Small business enterprise grant	4,740,959	-
	<b>164,627,699</b>	<b>179,684,413</b>
	<b>599,073,120</b>	<b>572,781,972</b>
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	43,653,570	936,299
Current-year receipts	146,109,363	170,883,287
Conditions met - transferred to revenue	(119,776,502)	(127,229,717)
Roll over denied	(43,653,570)	(936,299)
	<b>26,332,861</b>	<b>43,653,570</b>
The grant was utilised to construct roads, streetlighting, water and sewerage infrastructure. Conditions still to be met - remain liabilities (see note 12).		
<b>Library Grant</b>		
Balance unspent at beginning of year	477,899	1,338,669
Current-year receipts	985,000	916,000
Conditions met - transferred to revenue	(646,402)	(1,673,048)
Roll denied	-	(103,722)
	<b>816,497</b>	<b>477,899</b>
Conditions still to be met - remain liabilities (see note 12).		
<b>Department of water services and Refurbishment Grant</b>		
Balance unspent at beginning of year	15,295,304	7,827,138
Current-year receipts	55,000,000	67,750,000
Conditions met - transferred to revenue	(40,110,238)	(52,454,697)
Roll over denied	(15,295,304)	(7,827,137)
	<b>14,889,762</b>	<b>15,295,304</b>
Conditions still to be met - remain liabilities (see note 12).		
<b>Expanded Public Works Grant</b>		
Balance unspent at beginning of year	347,260	-
Current-year receipts	1,695,000	1,000,000
Conditions met - transferred to revenue	(1,559,133)	(652,740)
Roll over denied	(347,261)	-

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>21. Government grants and subsidies (continued)</b>		
	<b>135,866</b>	<b>347,260</b>
Conditions still to be met - remain liabilities (see note 12).		
<b>Financial Management Grant</b>		
Current-year receipts	1,700,000	1,700,000
Conditions met - transferred to revenue	(1,700,000)	(1,700,000)
	-	-
Conditions still to be met - remain liabilities (see note 12).		
<b>MIG (PMU) Grant</b>		
Balance unspent at beginning of year	1,313,215	1,369,837
Current-year receipts	3,582,637	3,651,713
Conditions met - transferred to revenue	(3,342,535)	(2,338,498)
Roll over denied	(1,313,215)	(1,369,837)
	<b>240,102</b>	<b>1,313,215</b>
Conditions still to be met - remain liabilities (see note 12).		
<b>Small business enterprise grant</b>		
Balance unspent at beginning of year	-	-
Current-year receipts	4,957,295	-
Conditions met - transferred to revenue	(4,740,959)	-
	<b>216,336</b>	-
Conditions still to be met - remain liabilities (see note 12).		
<b>Municipal disaster relief grant</b>		
Current-year receipts	268,000	-
Conditions met - transferred to revenue	(268,000)	-
	-	-
Conditions still to be met - remain liabilities (see note 12).		

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>22. Employee related costs</b>		
Basic	152,174,681	129,865,377
Bonus	9,892,414	8,877,255
Medical aid - company contributions	11,489,846	10,025,952
UIF	960,264	872,493
SDL	1,946,074	1,438,981
Leave pay provision charge	6,079,957	8,508,318
Bargaining council	64,709	62,802
Travel, motor car, accommodation, subsistence and other allowances	1,618,593	1,028,593
Overtime payments	7,759,942	10,765,527
Long-service awards	2,623,441	1,789,442
Acting allowances	821,273	1,971,132
Housing benefits and allowances	478,039	411,318
Standby allowance	2,054,179	2,601,536
Pension fund company contributions	27,217,010	23,254,825
Shift allowance	248,158	230,351
Covid 19 allowance	10,563,946	-
	<b>235,992,526</b>	<b>201,703,902</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	1,149,782	1,211,748
Car Allowance	222,593	222,593
Performance Bonuses	100,979	93,309
Contributions to UIF, Medical and Pension Funds	188,415	51,813
Paid out	(1,661,769)	(1,579,463)
	-	-
<b>Remuneration of Acting Municipal Manager</b>		
Annual Remuneration	-	32,578
Paid out	-	(32,578)
	-	-
<b>Remuneration of Chief Financial Officer</b>		
Annual Remuneration	1,000,573	696,721
Car Allowance	216,000	162,000
Contributions to UIF, Medical and Pension Funds	228,929	160,562
Performance Bonus	83,493	-
Paid out	(1,528,995)	(1,019,283)
	-	-
<b>Remuneration of the Acting Chief Financial Officer</b>		
Annual Remuneration	-	65,572
Paid out	-	(65,572)
	-	-
<b>Remuneration of HOD community services</b>		
Annual Remuneration	1,055,573	407,371
Contributions to UIF, Medical and Pension Funds	1,896	21,044
Car allowance	240,000	-

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>22. Employee related costs (continued)</b>		
Paid out	(1,297,469)	(428,415)
	-	-
<b>Remuneration of acting HOD community services</b>		
Annual Remuneration	33,053	96,740
Paid out	(33,053)	(96,740)
	-	-
<b>Remuneration of HOD infrastructure and technical services</b>		
Annual Remuneration	504,822	1,128,730
Car Allowance	60,000	144,000
Contributions to UIF, Medical and Pension Funds	790	1,890
Leave pay out	271,494	-
Paid out	(837,106)	(1,274,620)
	-	-
<b>Remuneration of acting HOD infrastructure and technical services</b>		
Annual Remuneration	101,278	36,538
Paid out	(101,278)	(36,538)
	-	-
<b>Remuneration of HOD Economic Development</b>		
Annual Remuneration	1,085,573	-
Car Allowance	240,000	-
Contributions to UIF, Medical and Pension Funds	1,896	-
Paid Out	(1,327,469)	-
	-	-
<b>Remuneration of acting HOD corporate service</b>		
Annual Remuneration	250,202	335,930
Paid out	(250,202)	(335,930)
	-	-
<b>Remuneration of HOD planning and development</b>		
Annual Remuneration	848,866	-
Car Allowance	165,000	-
Contributions to UIF, Medical and Pension Funds	154,534	-
Paid out	(1,168,400)	-
	-	-
<b>Remuneration of acting HOD planning and development</b>		
Annual Remuneration	-	163,311
Paid out	-	(163,311)
	-	-

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>23. Remuneration of councillors</b>		
Mayor	603,630	567,471
Single WHIP	421,491	403,168
Executive Committee	4,419,414	3,515,940
Speaker	416,320	453,976
Councillors	10,126,995	10,023,536 *
Councillors pension and medical aid contributions	2,878,405	2,685,461
Traveling allowance	5,194,440	5,121,049
Cell phone allowance	2,945,988	2,741,809
	<b>27,006,683</b>	<b>25,512,410</b>

### In-kind benefits

The Mayor, Speaker, Single Whip, MPAC Chair and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by the Municipality. The Mayor has use of a Council owned vehicle for official duties.

The Council has complied with the provision of Section 7(3) of the Remuneration of Public Office Bearers Act, and concurrence for the implementation of the Council Resolution item number 172/05/2020 in line with the government gazette number 43246, dated 24 April 2020.

### 24. Depreciation and amortisation

Property, plant and equipment	142,571,870	148,940,184
Intangible assets	1,396,063	12,033,736
	<b>143,967,933</b>	<b>160,973,920</b>

### 25. Impairment of assets

#### Impairments

Property, plant and equipment	13,903,526	783,485
The impairment loss relates to impairment of high mast lights projects. These Projects were constructed completely in prior years, however, the connection for each high mast Light to the Eskom power grid is still outstanding. Therefore, none of these High mast lights are functioning. The municipality is not expecting that these Eskom Connections will be completed within the next 12 months.		
Non current assets held for sale	2,774,832	-
The impairment loss relates to cost to sell assets that were identified by the municipality in the current year as held for sale.		
	<b>16,678,358</b>	<b>783,485</b>

The main classes of assets affected by impairment losses are:

Infrastructure work in progress ( high mast lights)

Transport assets held for sale

#### Value in use

The value in use for the high mast lights impaired is Nil as these assets are not in use..

#### Fair value less cost to sell

The fair value less cost to sell for the high mast lights is nil because there is no active market to sell the assets.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>26. Finance costs</b>		
Non-current borrowings	5,347,470	6,177,546
<b>27. Debt impairment</b>		
Bakwena Systems	1,221,711	1,221,711
Consumer Debtors	188,869,106	294,129,384
Traffic Fines	5,412,891	2,081,081
Bad debts written off	5,532,414	-
	<b>201,036,122</b>	<b>297,432,176</b>
<b>28. Bulk purchases</b>		
Water	106,261,836	98,807,858
<b>Water losses</b>		
Units purchased	15,998,115	15,724,679
Units sold	(12,823,818)	(12,945,861)
<b>Total loss</b>	<b>3,174,297</b>	<b>2,778,818</b>
Value of loss	23,295,165	18,186,510
Percentage Loss	20 %	18 %
<b>29. Contracted services</b>		
Business and Advisory	21,131,836	5,729,548
Call Centre	6,537,522	5,062,373
Cleaning Services	11,470	271,157
Insurance	-	482,243
Community development	77,809	1,600,994
Refuse Removal	21,152,233	21,168,867
Security Services	22,490,495	20,839,717
Sewerage Services	53,633,002	61,457,674
Transport Services	1,837,230	6,745
Water Tankers	-	7,194,135
	<b>126,871,597</b>	<b>123,813,453</b>



# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>30. General expenses</b>		
Audit fees	4,579,808	3,430,412
Advertising	417,187	901,871
Bank charges	265,715	516,386
Cleaning	-	403,962
Consulting and professional fees	1,840,633	12,309,256
Consumables	1,574,500	4,527,768
Catering services	872,800	3,098,440
Entertainment	327,477	226,820
Fines and penalties	329,464	-
Hire	1,818,785	3,392,817
Insurance	1,583,136	1,583,808
Community development and training	5,609,307	7,569,359
Conferences and seminars	10,261	-
Motor vehicle expenses	98,250	474,048
Fuel and oil	10,240,453	14,626,088
Postage and courier	7,823	4,983
Printing and stationery	-	257
Software expenses	897,626	548,743
Staff welfare	4,051,441	1,187,381
Subscriptions and membership fees	2,485,887	2,570,904
Telephone and fax	13,398,438	13,571,238
Training	863,799	6,497,238
Travel - local	1,758,404	4,916,887
Rural sanitation	7,065,068	12,311,171
Electricity	24,541,752	11,539,199
Uniforms	903,111	662,301
Chemicals	3,500,269	2,535,451
	<b>89,041,394</b>	<b>109,406,788</b>
<b>31. Cash generated from operations</b>		
Deficit	(10,628,664)	(165,883,936)
<b>Adjustments for:</b>		
Depreciation and amortisation	143,967,933	160,973,920
Gain on sale of assets and liabilities	6,704,291	3,218,660
Donations	-	(3,910,239)
inventory write off	53,282	47,370
Fair value adjustments	-	(2,515)
Impairment deficit	16,678,358	783,485
Debt impairment	201,036,122	297,432,176
Movements in provisions	3,417,619	(9,508,704)
<b>Changes in working capital:</b>		
Inventories	1,920,188	(2,923,715)
Receivables from exchange transactions	-	(601)
Consumer debtors	(249,916,436)	(191,011,833)
Other receivables from non-exchange transactions	(5,320,085)	(2,997,294)
Payables from exchange transactions	27,279,848	33,451,455
VAT	16,597,723	36,858,404
Unspent conditional grants and receipts	(18,455,824)	49,615,305
	<b>133,334,355</b>	<b>206,141,938</b>
<b>32. Non current assets held for sale</b>		

Management took a decision to dispose a fleet of transport assets.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 32. Non current assets held for sale (continued)

#### Description of the asset(s), group of assets and liabilities or, component

Motor vehicles and accessories

Carrying values of the assets	5,110,365	-
Impairment loss	(2,774,832)	-
	<b>2,335,533</b>	<b>-</b>

#### Carrying values

Carrying values of the assets	2,335,533	-
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#### Facts and circumstances of the disposal

Management took a decision to dispose the transport assets as these assets had become expensive to maintain, the mileage of the assets was very high and the physical condition of these assets had deteriorated.

### 33. Financial instruments disclosure

#### Categories of financial instruments

#### 2020

#### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	-	-
Other receivables from non-exchange transactions	-	4,230,725	4,230,725
Consumer debtors	-	66,738,120	66,738,120
Cash and cash equivalents	48,779,535	-	48,779,535
	<b>48,779,535</b>	<b>70,968,845</b>	<b>119,748,380</b>

#### Financial liabilities

	At amortised cost	Total
Other financial liabilities	(35,987,889)	(35,987,889)
Trade and other payables from exchange transactions	(150,076,060)	(150,076,060)
	<b>(186,063,949)</b>	<b>(186,063,949)</b>

#### 2019

#### Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	1,221,711	1,221,711
Other receivables from non-exchange transactions	4,323,531	4,323,531
Consumer debtors	28,187,103	28,187,103
Cash and cash equivalents	64,693,149	64,693,149
	<b>98,425,494</b>	<b>98,425,494</b>

#### Financial liabilities

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>33. Financial instruments disclosure (continued)</b>		
	<b>At amortised cost</b>	<b>Total</b>
Other financial liabilities	(43,829,903)	(43,829,903)
Trade and other payables from exchange transactions	(138,888,041)	(138,888,041)
	<b>(182,717,944)</b>	<b>(182,717,944)</b>
<b>34. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	131,055,664	90,353,095 *
<b>Total capital commitments</b>		
Already contracted for but not provided for	131,055,664	90,353,095
<b>Authorised operational expenditure</b>		
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	131,055,664	90,353,095

This committed expenditure relates to infrastructure projects and will be financed by grants from national treasury.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>35. Contingencies</b>		
<b>Claims against the Municipality</b>		
Fencecor Construction	2,842,111	2,842,111
Van Heerden Construction	1,078,782	1,078,782
Mogaki Civils	470,426	-
Rakidi	74,715	74,715
Claim for Death-Konopi	9,400,000	9,400,000
Mafoko Brothers	319,919	536,958
Ramathunya/Seeletso JV	106,932	-
Vick Pule Construction	1,146,004	-
Mr. P.N. Makganya	34,764	-
Vega Turnkey Projects	141,641	-
Sitona Mining	-	463,525
Casper Jacobs Construction	-	968,621
Department of Local Government and Human Settlements	32,591,311	32,591,311
MTN	90,484	-
Enigma chartered Accountants	5,211,874	-
	<b>53,508,963</b>	<b>47,956,023</b>

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 35. Contingencies (continued)

#### Fencecor Construction

Fencecor Construction was a sub-contractor for construction of the new Mogwase Waste Disposal Site. Fencecor is suing the Municipality for payment of **R 2 842 111** which flows from a cession/direct payment agreement between the main contractor, Fencecor and the Municipality.

The Municipality is defending the matter since maximum amount of cession has already been paid and exceeded. The case is currently in Court and we are awaiting finalisation and verdict. . It is unlikely that Municipality will incur any further costs.

#### Van Heerden Construction

Van Heerden Construction is a sub-contractor of Lefika La Thaba, a contractor that was appointed by the Municipality. Van Heerden is claiming R 1 078 782. Van Heerden obtained a Court order and Writ of execution against Lefika La Thaba, Dr. Mokgothu, the owner of Lefika La Thaba as well as the Municipality.

It was established that the Municipality has an amount of R 833 000 left on the project. The amount was paid over to the trust account of Sakkie Smith Attorneys for safekeeping pending finalisation of the matter. The case is handled by Sakkie Smith Attorneys in Mogwase and is still in progress.

#### Mogaki Civils

Flowing from the Van Heerden case above, a further claim was received from Mogaki Civils for an amount of R 470 426.30. This is a legitimate claim since the Municipality entered into a cession agreement to this amount with Lefika La Thaba and Mogaki Civils. They were informed of the situation and have not taken any action. Municipality has filed all necessary papers but no correspondence in last two years. Van Heerden (Dominus Litis) needs to make the next move. The Municipality will incur costs after the exact amounts due to the following parties had been established. Still in progress. The case is handled by Sakkie Smith Attorneys in Mogwase.

#### Rakidi

Claim for R 74 715.00 for written-off taxi allegedly caused by municipality's driver Mr. Boqo. Insurance needs blood test results before paying out but SAPS not willing to release blood test results until case is finalised. Sheriff attached one municipal vehicle but not yet removed. Municipality defending on basis that employee (Boqo) performed a delictual act, in defiance of an express instruction and outside the course and scope of his employment and therefore not vicariously liable. Court ruled in Municipality's favour and the matter has hopefully been concluded. No further expenses is expected to be incurred by the Municipality. Case is handled by Pretorius Attorney

#### Claim for death-Konopi & Tsatsimpe

Claim for R 9,4 Million (4,7 Million x 2 children) for death of breadwinner on road between Sun City and Mabeskraal. Municipality is the second defendant and the Department of Public Works the first defendant. Municipality is defending the case based on fact the municipality is not responsible for maintenance of the road and therefore not liable for death. The case is still in progress and is handled by Pretorius Attorneys.

#### Mafoko Brothers

Received letter of demand, related Tender 004/MKLM/2015/2016. The letter of demand states a claim amount, as at 12 November 2018, for R 319 919.34. Municipality defended on basis that claim is for unauthorised work done and that the consultant should be held responsible for payment. Consultant was however liquidated. Mafoko Brothers instituted legal action and obtained cost order against municipality. LM Pretorius Attorneys is defending the case.

#### Ramathunya/Seeletso JV

Claim for R 343 585.70 on Tender 019/MKLM/2013/2014(A&B). Matter defended stating that MKLM only owing R 236 653.55 plus VAT at 14%. Municipality only paid the amount of R 236 653.55 since the JV does not exist anymore. MKLM requested the attorneys to submit an invoice for the VAT amount but they turned out to be non-compliant in terms of tax matters. The MKLM can therefore not pay over the VAT since it will not be in a position to claim it back from SARS. The attorneys of the JV has since lodged a claim for the VAT amount which has been placed in dispute and is defended.

#### Vick Pule Construction

Claim for R 1 146 003.85 from Vick Pule Construction, being unpaid retention monies and additional repairs done, on Tender 001/MKLM/2015/2016. Currently under investigation. No legal action instituted yet..

#### Mr. I.M. Mokoena

Claim for compensation for injuries sustained due to pothole on road R556 Sun City Road. No amount stated yet as it is still being determined by experts. The case is handled by Shuping Attorneys in Rustenburg.

#### Mr. P.N. Makganya

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 35. Contingencies (continued)

Claim by Mr. Makganya for damages sustained due to alleged accident with municipal employee, Mr. Z. Mooketsi, to the amount of R 34 763.73. Sheriff with execution order at Moses Kotane municipal offices – attached assets but not removed. Case defended on basis that last correspondence was received in 2016 and no notices were since delivered to the execution debtors, MKLM and Mooketsi. The case is handled by Sakkie Smith Attorneys in Rustenburg.

### Vega Turnkey Projects

Claim by Vega for R 141 640.79 on Tender 025/MKLM/2011/2012, High Mast Lighting Tlokweg. Letter of demand received. Case still being investigated.

### Sitona Mining

Sitona Mining is a sub-contractor of Lefika La Thaba, a contractor that was appointed by the Municipality. Sitona is claiming an amount of **R 463 525** plus interest and costs because they alleged that the Municipality did not honour the direct payment agreement signed between all the parties. The Municipality is defending the claim based on the fact that Sitona never submitted an invoice for payment in terms of the direct payment agreement. In the current year the possibility of outflow of resources has been considered to be remote because there was no movement on the case for the last 3 years.

### Casper Jacobs Construction

The contractor is claiming R 968 621 on three different projects from the Municipality. The Municipality is of the view that the claims have prescribed and entered a plea to this effect. The case is handled by Sakkie Smith Attorneys in Mogwase and is still in progress. In the current year the possibility of outflow of resources has been considered to be remote because there was no movement on the case for the last 3 years.

### Mafoko Brothers

Claim for **R 536 957.91** on Tender 004/MKLM/2015/2016. Still investigating

### Department of Local Government and Human Settlements

In the past the municipality received funds from the Department of Local Government and Human Settlements to be utilised for the Housing Subsidy System. Of the funds received the department has concluded that there is an unspent portion of R 32 591 311 by the municipality. The municipality is challenging this claim.

### MTN

MTN claims an amount of R 90 484.06 for unpaid services. They allege that there was a contract which the Municipality has breached. More information has been requested. No legal action taken yet.

### Enigma chartered Accountants

Enigma was appointed on a commission basis of 20% (All inclusive) on all monies due to the Municipality collected. After expiry of their contract they claim an amount of R 5 211 874.84 being Value Added Tax. The Municipality is defending the claim on basis of the "All inclusive" provision.

The case is handled by Setshedi, Makgale and Matlapeng Attorneys in Rustenburg.

### Contingent assets

#### National Treasury

**R 2 338 498**

On 2 December 2019, the National Treasury offset an amount of R62.9 million from the municipality's 2019/20 Equitable Share. The unspent amount was in respect of the Municipal Infrastructure Grant (R47.3 million), the Water Services Infrastructure Grant (R15.3 million) and the Expanded Public Works Programme (R347 thousand) as per the 2019 pre-audited Annual Financial Statements. The MIG amount should have been R44.9 million not R47.3 million that was offset. National Treasury confirmed the error however they could not provide the municipality with the guarantee that the amount will be refunded as the refund will only be confirmed by future events which includes the performance of the municipality in the current year.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

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### 36. Related parties

#### Relationships

Councillors

For details of councillors remuneration and transactions with the municipality refer to note 23 and note 44 respectively.

#### Head of Departments

Municipal Manager  
Chief Financial Officer  
Community Services  
Planning and Development  
Technical Services  
Local Economic Development

Mr M.V Letsoalo  
Mr M Mkhize  
Mr S Kotsedi  
Mr M Makgoba  
Mr T Chiloane ( contract expired in November 2019)  
Ms G.R Madikela

#### Related party transactions

The services rendered to related parties are charged at approved tariffs that were advertised to the public. The amounts outstanding are unsecured and will be settled in cash .

#### Compensation of related parties

Compensation of Key Management Personnel and Councillors is set out in notes 22 and 23 of the Annual Financial Statements.

#### Payments made to related parties

Refer to note 44 for details of payments made to entities with persons in service of the state

### 37. Change in accounting estimate

#### Property, plant and equipment

The remaining useful life (RUL) is an estimation of the amount of years that the asset will be able to safely perform its intended function. During the 2019/2020 financial year physical verification of assets occurred and part of the procedures regarding physical verification is the condition assessment of assets. The condition of an asset has a direct impact on the remaining useful life of an asset. The impact of the condition assessment performed resulted in decrease in depreciation by R 2 011 033.31.

#### Intangible assets

The useful life of the MS Office was estimated in the 2016/17 Financial Year as 3 years (36 Months). At the the beginning of the 2019/20 Financial Year Management revise the estimate from 36 months to 44 Months as the Microsoft licences will only be expire 31 December 2020. Management also add additional useful life of 2 years for the Evenus Solar Sytem, HR and Payroll System. The effect of the revision has decrease the depreciation charge for the year of R 5 494 419.

# Moses Kotane Local Municipality

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### 38. Prior period errors

The correction of the error(s) resulted in adjustments as follows:

#### Receivable from non exchange transactions

Receivable from non exchange transactions was overstated as a result of the errors below:

- (a) During the year the municipality noted that Housing debtors were overstated by R 8 467 594 due to mathematical error on the Housing debtors register.
- (b) It was further noted that Housing debtors were incorrectly capitalised as an asset in the previous years of which they should have been expensed because they do not meet both the definition and the recognition criteria for an asset. The effect of the correction was R 2 156 404.
- (c) The municipality also noted that Fruitless and Wasteful expenditure of R 77 114 which related to interest on late payment of Eskom account was incorrectly capitalised before investigations were finalised. The error has been subsequently corrected.

#### Property plant and equipment

Property plant and equipment was overstated due to errors and omissions on the asset registers. Correction of these errors resulted in net movement in property plant and equipment as summarised below:

- decrease in land	- R 244 028 828.
- increase in buildings	R 12 551 157
- decrease in infrastructure	- R 112 238 767
- increase in infrastructure WIP	- R 43 626 240
- increase in community assets	R 18 828 751
- increase in plant and machinery	R 5 191
- increase in furniture and fixtures	R 447 762
- increase in motor vehicles	R 2 061 194

#### Intangible assets

Intangible assets were overstated due to the errors below

- (a) During the audit of the 2018/19 financial year, we identified assets in the Intangibles Asset Register that should have been included in the GRAP 17 Fixed Asset register. The net reclassification effect is R1 172 971
- (b) During the review of the prior year Intangible asset register we noted that the GIS Development System was incorrectly recognised as an intangible asset instead of an expense. The net effect of the correction is R 9 808 000
- (c) In 2019 audit it was noted that software expenses were incorrectly recognised as intangible assets instead of recognised as an expense. The net effect of the correction was R 2 092 163.
- (d) The municipality also noted that HR and the VMS system was overstated in the prior year as these systems were not utilised. The net effect of the correction was R 16 149 386.

#### Investment property

During the physical verification of investment property done in the current year, the municipality noted that an Eskom substation was included in the investment property register however the municipality has no control over the substation - The correction of the error resulted in decrease in investment property by R 269 325.

#### Payables

During the year it was noted that payables for the 2019 financial year were understated by R 471 263 because of expenditure that was paid in the current year but relating to prior year.

The retentions register was overstated due to errors and omissions on the register, the correction of the error resulted in a decrease in trade payables by R 1 274 267.

#### Vat

In 2017 the debt impairment was overstated due to vat on impaired debtors that was expensed. The correction of the error resulted in increase in vat by R 10 687 572. In addition vat was understated due to errors on the retentions register the net effect of the correction resulted in an increase in vat receivable by R 163 338.

#### General Expenses

- (a) During the year it was noted that ward committees were incorrectly presented on the face of the financial statements. The expenditure relating to ward committees was reclassified to general expenses. The correction resulted in an increase in general expenses of R 4 498 089.
- (b) In the prior year general expenses were understated by R 471 263 because of expenditure that was paid in the current year but relating to prior year.
- (c) It was further noted that expenditure relating to VIP toilets that should have been expensed in the prior year was incorrectly capitalised as an asset, the net effect of the correction was R 7 677 671.
- (d) The general expenses note ( Note 29) was incorrect in the previous year as some of the expenses were incorrectly classified per the note. Refer below for the detailed reclassification of these expenses.

#### Depreciation

Depreciation for 2018/2019 financial year was understated by R 1 159 560 due to errors and omissions on the fixed asset registers.

#### Gain (loss) on disposal of assets and liabilities



# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

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### 38. Prior period errors (continued)

(a) Gains (loss) on disposal of assets were understated by R 3 858 133 due to errors and omissions on the asset register.

(b) An impairment loss of R 785 607 relating to prior year has been reclassified to impairment losses.

#### Impairment loss

(a) An impairment loss of R 785 607 relating to prior year has been reclassified to impairment losses from gains (loss) on disposal of assets and liabilities.

(b) In addition impairment losses in the prior year was overstated by R 2 122 due to errors and omissions on the asset register.

#### Statement of cashflow

In the prior year investing activities were overstated R 7 677 851 and operating activities were understated by R 7 677 851 as a result of VIP toilets that were recognised as an asset in the prior year instead of being expensed.

#### Related party transactions

Related party transactions were understated by R 5 931 129, due to omissions on the related party register.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

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### 39. Prior period errors and reclassifications

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

#### Statement of financial position

##### 2019

	Note	As previously reported	Correction of error	Change in accounting policy	Re-classification	Restated
<b>Assets</b>						
<b>Non Current Assets</b>						
Investment property		155,209,867	(269,325)	-	-	154,940,542
Property, plant and equipment		3,298,663,154	(367,172,756)	-	1,172,971	2,932,663,369
Intangible assets		39,779,740	(28,049,549)	-	(1,172,971)	10,557,220
Heritage assets		14,000	-	-	-	14,000
<b>Current Assets</b>						
Inventories		11,724,948	-	-	-	11,724,948
Receivable from exchange transactions		1,221,711	-	-	-	1,221,711
Receivable from non exchange transactions		15,024,643	(10,701,112)	-	-	4,323,531
Vat Receivable		6,672,804	10,524,234	(697,217)	-	16,499,821
Consumer debtors		28,187,102	-	-	-	28,187,102
Cash and cash equivalents		64,693,148	-	-	-	64,693,148
<b>Liabilities</b>						
<b>Non Current Liabilities</b>						
Other financial Liabilities		(31,322,416)	-	-	-	(31,322,416)
Provisions		(30,917,921)	-	-	-	(30,917,921)
<b>Current Liabilities</b>						
Other financial liabilities		(12,507,487)	-	-	-	(12,507,487)
Payables from exchange transactions		(226,235,959)	803,004	5,803,550	-	(219,629,405)
Unspent conditional grants		(61,087,248)	-	-	-	(61,087,248)
Provisions		(2,427,950)	-	-	-	(2,427,950)
Accumulated Surplus		(3,256,692,136)	394,865,504	(5,106,333)	-	(2,866,932,965)
		-	-	-	-	-

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

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### 39. Prior period errors and reclassifications (continued)

#### Statement of financial performance

2019

	Note	As previously reported	Correction of error	Change in accounting policy	Re-classification	Restated
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges		154,198,624	-	-	-	154,198,624
Interest received		50,562,829	-	-	-	50,562,829
Commission received		161,343	-	-	-	161,343
Rental income		42,260	-	-	-	42,260
Sale of stands/land		300,000	-	-	-	300,000
Other Income		1,482,551	-	-	-	1,482,551
<b>Revenue from non-exchange</b>						
Property Rates		134,800,237	-	-	-	134,800,237
Government grants		572,781,972	-	-	-	572,781,972
Public donations		3,910,239	-	-	-	3,910,239
Fines		2,505,080	-	-	-	2,505,080
<b>Expenditure</b>						
Employee related cost		(201,703,902)	-	-	-	(201,703,902)
Remuneration of councillors		(25,512,410)	-	-	-	(25,512,410)
Depreciation		(159,814,360)	(1,159,560)	-	-	(160,973,920)
Finance cost		(6,177,546)	-	-	-	(6,177,546)
Lease rentals on operating lease		(2,053,038)	-	-	-	(2,053,038)
Debt impairment		(297,432,176)	-	-	-	(297,432,176)
Repairs and maintenance		(56,700,979)	-	-	-	(56,700,979)
Bulk purchases		(98,807,858)	-	-	-	(98,807,858)
Contracted services		(123,813,453)	-	-	-	(123,813,453)
Ward committees		(4,498,089)	-	-	4,498,089	-
General expenses		(96,759,764)	(8,148,934)	-	(4,498,089)	(109,406,787)
Loss on disposal of assets		(1,483,413)	(3,858,987)	1,338,133	785,607	(3,218,660)
Fair value adjustment		2,515	-	-	-	2,515
Inventory losses		(47,370)	-	-	-	(47,370)
Impairment loss		-	2,122	-	(785,607)	(783,485)
<b>Surplus (deficit) for the year</b>		<b>(154,056,708)</b>	<b>(13,165,359)</b>	<b>1,338,133</b>	<b>-</b>	<b>(165,883,934)</b>

#### Cash flow statement

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Net cash flow from operating activities		213,819,610	-	(7,677,851)	206,141,759
Net cash flow from investing activities		(152,685,538)	-	7,677,851	(145,007,687)
Net cash flow from financing activities		(3,650,542)	-	-	(3,650,542)
		<b>57,483,530</b>	<b>-</b>	<b>-</b>	<b>57,483,530</b>

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 39. Prior period errors and reclassifications (continued)

#### 2020

	Note	As previously reported	Correction of error	Re-classification	Restated
<b>General expenses</b>					
Audit fees		3,430,412	-	-	3,430,412
Advertising		5,739,965	-	(4,838,094)	901,871
Bank charges		516,386	-	-	516,386
Cleaning		403,962	-	-	403,962
Consulting and professional fees		14,481,272	6,448	(2,178,464)	12,309,256
Consumables		4,561,145	-	(33,377)	4,527,768
Catering services		3,085,940	12,500	-	3,098,440
Entertainment		3,047,681	-	(2,820,861)	226,820
Insurance		1,583,808	-	-	1,583,808
Hire		-	-	3,392,817	3,392,817
Community development and training		1,215,760	-	6,353,599	7,569,359
Motor vehicle expenses		977,095	-	(503,047)	474,048
Fuel and oil		14,626,088	-	-	14,626,088
Postage and courier		4,983	-	257	5,240
Printing and stationery		1,507,771	-	(1,507,771)	-
Software expenses		422,651	-	126,092	548,743
Staff welfare		187,381	-	1,000,000	1,187,381
Subscriptions and membership fees		2,926,608	-	(355,704)	2,570,904
Telephone and fax		13,571,238	-	-	13,571,238
Training		125,846	-	6,371,392	6,497,238
Travel and accomodation		4,662,912	250,075	3,900	4,916,887
Electricity		11,539,199	-	-	11,539,199
Rural Sanitation		-	7,677,671	4,633,500	12,311,171
Uniforms		662,301	-	-	662,301
Learnerships and internships		4,192,928	-	(4,192,928)	-
Supply of indigent services		1,000,000	-	(1,000,000)	-
Chemicals		2,286,432	202,239	46,780	2,535,451
		<b>96,759,764</b>	<b>8,148,933</b>	<b>4,498,091</b>	<b>109,406,788</b>

#### Restatements to the notes to the financial statements

#### Contingent liabilities

In the prior year contingent liabilities were overstated by R 18 000 000, due to the claim by North West Development Corporation. The municipality is of the view that the chances of settling the claim are remote because the municipality is not liable for the infrastructure development effected by NWDC. Therefore the claim does not meet the defination of a contingent liability because the possibility of an outflow of economic resources is remote.

#### Irregular expenditure

As previously reported	532,469,514	-
Correction of error	478,632,577	-
<b>Restated opening balance</b>	<b>1,011,102,091</b>	<b>-</b>

Irregular expenditure was understated in the prior year due to errors and ommisions on the irregular expenditure register. Correction of these errors resulted in an increase in irregular expenditure by R 478 632 577.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

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### 39. Prior period errors and reclassifications (continued)

#### Fruitless and wasteful expenditure

As previously reported	10,446,371	-
Correction of error	80,260,287	-
<b>Restated opening balance</b>	<b>90,706,658</b>	<b>-</b>

Fruitless and wasteful expenditure was understated in the prior year due to errors and omissions on the register. Correction of these errors resulted in an increase in fruitless and wasteful expenditure by R 80 260 287.

#### Unauthorised expenditure

Opening balance	380,641,028	-
Correction of error	28,282,459	-
<b>Restated opening balance</b>	<b>408,923,487</b>	<b>-</b>

Unauthorised expenditure was understated in the prior year by R 28 282 459 due to errors and omissions on the unauthorised expenditure calculation.

### Change in accounting policy

#### Retentions

The Municipality changed the accounting for retentions to write off all retentions that are older than 3 years from the date the defect liability ends. This resulted in net decrease in payables from exchange transactions of R 5 803 550, net decrease in Vat of R 697 217 and a net decrease in losses on disposal of assets and liabilities of R 1 338 133.

#### Commitments

The accounting policy for commitments was changed in the current year financial year to only disclosed capital commitments. The change resulted in the net decrease of R329 312 581 in commitments.

#### Commitments

	As previously reported	Correction of error	Change in accounting policy	Restated amount
Commitments	482,371,042	(62,705,326)	(329,312,581)	90,353,095

### 40. Risk management

#### Financial risk management

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

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

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

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### 40. Risk management (continued)

#### Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity risk management by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met. The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

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

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial in loss to the municipality.

Potential concentrations of credit risk consist mainly of receivables from exchange transactions, receivables from none exchange transactions, VAT receivable, prepayments, consumer debtors and cash and cash equivalents.

The Municipality manages credit risk in its borrowing and investment activities by dealing with well established financial institutions of high credit standing, and by spreading its exposure over a range of institutions in accordance with its approved investment policies. Credit risk relating to consumer debtors is managed in accordance with the Municipality's credit control and debt collection policy. The Municipality's credit exposure is spread over a large number and a wide variety of consumers and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad debts and allowance for doubtful debts. Additional information relating to the analysis of consumer debtors is given in the accounting policies and the consumer debtors note in the financial statements.

The municipality does not have any credit risk exposure to any single counterparty or any group of counterparties having similar characters. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings. The carrying amount of financial assets recorded in the annual financial statements, which is net of impairment losses, represents the municipality's maximum exposure to the credit risk with out taking into account the value of any collateral obtained.

Financial instruments relating to credit risks were not quantified in the credit risks note disclosed in the prior year.

#### Market risk

##### Interest rate risk

Interest rate risk is defined as that fair value of future cashflows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Financial assets and liabilities that are sensitive to interest rate risk are cash and cash equivalents investments, and loan payables. The municipality is not exposed to interest rate risk on these financial instruments as the rates applicable are fixed interest rates.

Potential concentration of interest rate risk consist mainly of variable rate deposit investments, long term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counter party exposures from its money market investment operations by only dealing with well established financial institutions of high credit standing. No investment with a tenure exceeding twelve months shall be made.

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

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### 41. Unauthorised expenditure

Opening balance as previously reported	380,641,028	353,908,100
Correction of prior period error	28,282,459	-
<b>Opening balance as restated</b>	<b>408,923,487</b>	<b>353,908,100</b>
Add: Expenditure identified - current	113,064,375	26,732,928
<b>Closing balance</b>	<b>521,987,862</b>	<b>380,641,028</b>

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

Non-cash	74,327,694	341,387,297
Cash	38,736,681	67,536,190
	<b>113,064,375</b>	<b>408,923,487</b>

### Analysed as follows: non-cash

Employee related cost (leave provision)	-	326,077
Depreciation and amortisation	14,377,876	58,412,502
Loss on disposal of property, plant and equipment	20,554,590	6,396
Provision of impairment	39,083,070	282,594,952
Loss on inventory write off	-	47,370
Provision for long service awards	312,158	-
	<b>74,327,694</b>	<b>341,387,297</b>

### Analysed as follows: cash

Computer software and licenses	7,064,885	21,669,018
Cell and telephone cost	-	201,225
Fuel and oil	2,993,697	7,838,695
Sanitation VIP toilets	2,039,972	8,085,015
Sanitation: Repair and maintenance of property, plant and equipment	-	11,532,129
Bulk purchase water	19,617,389	8,663,926
Electricity consumption Eskom	-	3,244,974
Water: Repairs and maintenance of property, plant and equipment	-	6,301,208
Audit fees	1,579,808	-
Refuse removal contract	2,352,234	-
Security services	3,088,696	-
	<b>38,736,681</b>	<b>67,536,190</b>

### Unauthorised expenditure: Budget overspending – per municipal department

Municipal Council	-	326,077
Municipal Manager	1,891,966	-
Budget and Treasury Office	-	118,148,837
Corporate Services	6,909,596	35,801,109
Community Services	24,304,432	32,020,525
Technical and Infrastructure	79,958,381	222,626,939
	<b>113,064,375</b>	<b>408,923,487</b>

## Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

### Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>42. Fruitless and wasteful expenditure</b>		
Opening balance as previously reported	10,446,371	9,774,358
Correction of prior period error	80,260,287	-
<b>Opening balance as restated</b>	<b>90,706,658</b>	<b>9,774,358</b>
Add: Expenditure identified - current	37,386,596	672,013
<b>Closing balance</b>	<b>128,093,254</b>	<b>10,446,371</b>



## Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

### Notes to the Annual Financial Statements

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#### 42. Fruitless and wasteful expenditure (continued)

##### Details of fruitless and wasteful expenditure

ICT expenditure	114,938,123
Interest on overdue accounts	11,201,158
Construction expenditure	385,825
Fines	20,000
Reversal of recoverable amount	1,218,685
Penalties	329,463
	<b>128,093,254</b>

ICT expenditure relates to the HR and VMS systems acquired in the previous years but were never used by the municipality and amounts for spares that were billed monthly per the ICT contract but the spares were never received. In addition the municipality incurred interest as a result of late payments on Magalies Water, Telkom and Eskom accounts. Construction expenditure relates to expenditure incurred on the construction of a Hall in an area reserved for mining expansion during 2014/15 financial year. Fruitless and wasteful expenditure was reported to Council and referred to MPAC for further investigation.

# Moses Kotane Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>43. Irregular expenditure</b>		
Opening balance as previously reported	532,469,514	467,822,417
Correction of prior period errors	478,632,577	-
<b>Opening balance as restated</b>	<b>1,011,102,091</b>	<b>467,822,417</b>
Add: Irregular Expenditure - current year	145,727,962	64,647,097
Less: Amount written off - current	(28,218,910)	-
<b>Closing balance</b>	<b>1,128,611,143</b>	<b>532,469,514</b>

Incidents/cases identified in the current year include those listed below:

	<b>Details of irregular expenditure-current year</b>	
Competitive bidding process not followed	84,957,484	4,676,149
Three written quotations not invited	1,654,456	6,718,557
Declaration of interest not submitted		54,693
Tax clearances not obtained	38,331	875,518
Regulation 32 appointments	30,103,270	35,657,710
SCM processes not followed	4,818,800	4,711,090
Deviations	24,155,620	11,953,380
	<b>145,727,961</b>	<b>64,647,097</b>

### Cases under investigation

Irregular expenditure was reported to Council and has resolved on referring the expenditure to MPAC for further investigations, investigations for other causes of irregular expenditure are in progress.

### Amounts written-off

After the MPAC investigations, the municipal council adopted the MPAC recommendation to write-off an amount of R 28,218,910 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>44. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government-SALGA</b>		
Current year subscription / fee	2,319,960	2,203,311
Amount paid - current year	(2,319,960)	(2,203,311)
	-	-
<b>Audit fees</b>		
Current year	4,579,808	3,430,412
Amount paid - current year	(4,579,808)	(3,430,412)
	-	-
<b>PAYE and UIF</b>		
Current year	36,204,152	23,607,551
Amount paid - current year	(27,966,107)	(23,607,551)
	<b>8,238,045</b>	-
<b>Pension and Medical Aid Deductions</b>		
Current year	38,653,300	33,280,777
Amount paid - current year	(38,653,300)	(33,280,777)
	-	-
<b>VAT</b>		
VAT receivable	16,865,996	16,499,821

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

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

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

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2020:

June 30, 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor D Chaka	735	11,626	12,361
Councillor D.S Kodongo	133	12,523	12,656
Councillor J.E.D Ditshwene	206	4,325	4,531
Councillor L Kapari	181	3,036	3,217
Councillor G Kgarimetsa	1,243	26,114	27,357
Councillor L.M Mmolawa	2,017	53,405	55,422
Councillor R.P Motlhaga	201	4,491	4,692
Councillor C.N Motshabi	1,038	10,698	11,736
Councillor M.S Mabitsela	1,328	21,938	23,266
Councillor M Nkotswe	1,469	13,463	14,932
Councillor A Nquthula	1,245	8,767	10,012
Councillor D.H Radiokana	201	4,497	4,698
Councillor R.J Manganye	1,146	19,394	20,540
Councillor J.M Segale	1,279	13,083	14,362
Councillor P Thoboke	16,818	17,108	33,926
Councillor A Letswamotse	9	952	961
	<b>29,249</b>	<b>225,420</b>	<b>254,669</b>

  

June 30, 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor D Chaka	5,782	3,734	9,516
Councillor D.S Kodongo	129	12,554	12,683
Councillor J.E.D Ditshwene	182	3,541	3,723
Councillor L Kapari	158	2,352	2,510
Councillor G Kgarimetsa	16,898	3,734	20,632
Councillor L.M Mmolawa	43,787	3,734	47,521
Councillor R.P Motlhaga	178	3,727	3,905
Councillor C.N Motshabi	891	6,691	7,582
Councillor M.S Mabitsela	14,382	3,654	18,036
Councillor M Nkotswe	1,256	7,756	9,012
Councillor A Nquthula	4,187	3,734	7,921
Councillor D.H Radiokana	178	3,734	3,912
Councillor R.J Manganye	1,000	14,951	15,951
Councillor J.M Segale	4,163	11,356	15,519
Councillor P Thoboke	18,921	3,734	22,655
	<b>112,092</b>	<b>88,986</b>	<b>201,078</b>

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

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

#### Purchase from persons in service of the state

The municipality made the following payments to companies/persons in the service of the state:

Supplier Name	Related person	Organ of the State	Capacity at Municipality	Relationship	2020	2019
Oarabile Projects Pty Ltd	M.I Ramasodi	National Trade and Industry	Supplier	State employee	29,940	28,684
White Leopard Trading	B.R Makola	Department of Education	Supplier	State employee	518,274	1,712,343
Genplay Broadcast Media	Kefilwe Motloba	Transnet Group	Supplier	State employee	66,948	35,270
GijimaHoldings Pty Ltd	Ashwin Hirjee Trimjee	The Kwazulu Natal Royal Household Trust	Supplier	State employee	27,800	41,700
Majakathata Catering (SA) Pty Ltd		GP: Community Safety	Supplier	State employee	-	20,800
Raps Photography and project CC	Rapula Joel Mancai	South African Broadcast Corporation	Supplier	State employee	-	139,983
Sir Max Consulting Pty Ltd	Ndleleni Joseph Max	South African Broadcasting Corporation	Supplier	State employee	-	20,000
Barloworld	Nomavuso Patricia	Transnet Group	Supplier	State employee	-	33,298
Betram Pty Ltd	Mnxasana HT Maluleka	Public Investment Corporation Limited	Supplier	State employee	-	3,758,200
Sorona Concepts	G.I Aphiri		Councillor	Business associates	-	1,950
Mo Kasi Creations and Media Pty Ltd	M.S Magoro	Moses Kotane Local Municipality	Building Inspector	Business associates	48,860	55,612
Keletsabotselo Solutions Pty Ltd	P Nqothula	Moses Kotane Local Municipality	Councillor	Business associates	9,080	42,260
Malebogo Trading and Projects Pty Ltd	S.T Tladi	Moses Kotane Local Municipality	Councillor	Business associates	15,000	10,000
Bathlhale Consulting	B. Molefe	Moses Kotane Local Municipality	Head of Unit- Internal Audit	Spouse	-	613,201
Phepo Ntle Consultancy and Projects	L Lamola	Moses Kotane Local Municipality	Security Officer	Spouse	3,750	10,040
Atlegang Ma Afrika Trading and Projects Pty Ltd	T.C Mutlaneng	Moses Kotane Local Municipality	Admin Clerk Human Settlements	Business associates	-	20,989
					<b>719,652</b>	<b>6,544,330</b>

# Moses Kotane Local Municipality

Annual Financial Statements for the year ended June 30, 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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### 44. Additional disclosure in terms of Municipal Finance Management Act (continued) Incident

### 45. Budget differences

#### Material differences between budget and actual amounts

45.1 The difference in the billing is due to the lockdown under covid-19, which resulted in less consumption of water by businesses.

45.2 The variance is due to increase in outstanding debtors than expected.

45.3 The difference is due to R 60 609 351 that was withheld by Treasury for underspending on conditional grants that was deducted from equitable shares.

45.4 More traffic fines were issued in the current year than budgeted for.

45.5 The amount saved on employee related cost is due to vacant positions not filled in the current year as expected as well as the late appointment of some positions.

45.6 The variance of 12% was due to vacancies during the current year.

45.7 The variance is mainly due to the restatement of property, plant and equipment.

45.8 The variance is due to the finance charges for the landfill site that was not budgeted for.

45.9 The variance of 12% is due to increase in non performing debtors mainly influenced by the lock down in the current financial year as a result Covid 19.

45.10 The variance is due to less maintenance done in the current year than expected because of the COVID-19 regulations.

45.11 The variance of 50% was due to insufficient budget and also increase in water consumption due to lockdown as more water was consumed by residential consumers.

45.12 The variance was due to the cost for consultants for the recovery of additional property rates, VAT, recovering of outstanding debts from debtors, computer software, security services and the removal of refuse contributes to the overspending on this item.

45.13 The expenditure on the following items contributes to the overspending on this item telephone and cell phone contracts R3 747 532, VIP toilets R7 015 068. The expenditure on this item is also reflected under revenue this project is funded by MIG. The purchase of fuel R3 040 452, the contribution to the Workmans Compensation Commissioner R2 651 441 and the purchase of electricity for the municipal buildings and the water boreholes in the villages.

45.14 The reason for the variance of 100% was due to the loss not budgeted for.

45.15 The reason for the variance of 100% was due to the loss not budgeted for.



# Moses Kotane Local Municipality

## Appendix A

June 2020

### Schedule of external loans as at 30 June 2018

Loan Number	Redeemable	Balance at Sunday, June 30, 2019	House owners insurance	Redeemed written off during the period	Balance at Tuesday, June 30, 2020	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
<b>Loans</b>							
Civic centre extention 3	10202511024	10,97%	5,095,327	-	1,507,376	3,587,951	-
	01						
			<b>5,095,327</b>	<b>-</b>	<b>1,507,376</b>	<b>3,587,951</b>	<b>-</b>
<b>Development bank of South Africa</b>							
Roads & Stormwater	100840/1	11,4%	4,729,115	-	655,886	4,073,229	-
Street lighting - Sun City	100840/1	11,4%	3,834,872	-	536,634	3,298,238	-
Street Mabela A Podi	101899	10,03%	1,389,804	-	515,303	874,501	-
Water	10248/1	8,80%	13,456,001	-	2,246,607	11,209,394	-
			<b>23,409,792</b>	<b>-</b>	<b>3,954,430</b>	<b>19,455,362</b>	<b>-</b>
<b>INCA</b>							
Civic Centre Extention 1	6457	11,4%	5,144,807	-	1,528,885	3,615,922	-
Civic Centre Extention 2	9078	11,48%	7,433,809	-	501,620	6,932,189	-
INCA Paypoints (Community Halls)	18721	13,85%	1,755,140	-	263,877	1,491,263	-
			<b>14,333,756</b>	<b>-</b>	<b>2,294,382</b>	<b>12,039,374</b>	<b>-</b>
<b>Bonds</b>							
Mayoral house	8065717250	11,4%	991,029	-	85,827	905,202	-
			<b>991,029</b>	<b>-</b>	<b>85,827</b>	<b>905,202</b>	<b>-</b>
Total external loans			<b>43,829,904</b>	<b>-</b>	<b>7,842,015</b>	<b>35,987,889</b>	<b>-</b>



**Moses Kotane Local Municipality**

**Appendix F**

**Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003**

June 2020

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld	Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Jul	Oct	Jan	Apr		Jul	Oct	Jan	Apr					
FMG	MKLM	1,700	-	-	-	1,700	(650)	(730)	(170)	(150)	(1,700)	-		Yes	n/a
Water Infr Grant	MKLM	11,000	27,500	16,500	-	55,000	(3,939)	(13,100)	(11,553)	(11,530)	(40,110)	(15,295)	Slow spending	Yes	n/a
EPWP	MKLM	424	763	508	-	1,695	(48)	(644)	(273)	(594)	(1,559)	(347)	Slow spending	Yes	n/a
Library	MKLM	-	985	-	-	985	(218)	(95)	(116)	(218)	(646)	-			n/a
Equitable Share	MKLM	178,861	80,142	107,317	-	366,320	(178,861)	(80,142)	(107,317)	-	(366,320)	-			n/a
MIG	MKLM	66,506	43,355	39,831	-	149,692	(19,526)	(38,724)	(28,632)	(32,895)	(123,120)	(44,967)	Slow spending	Yes	n/a
Disaster Grant	MKLM	-	-	-	268	268	-	-	-	(268)	(268)	-			n/a
Small Business Grant	MKLM	1,365	3,592	-	-	4,957	(3,847)	(894)	-	-	(4,741)	-			n/a
		-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-			
		259,856	156,337	164,156	268	580,617	(207,089)	(134,329)	(148,061)	(45,655)	(538,464)	(60,609)			

The financial figures above have been rounded to the nearest one thousand Rand (R'000).