

**NGQUSHWA LOCAL MUNICIPALITY**  
(Registration number EC 126)  
Annual Financial Statements for the year ended 30 June 2021



**NGQUSHWA LOCAL MUNICIPALITY**  
(Registration number EC 126)  
Annual Financial Statements  
for the year ended 30 June 2021

\* See Note

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## General Information

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### Legal form of entity

Local Municipality

Ngqushwa Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no. 117 of 1998). The municipality's operations are governed by the Municipal Finance Management Act No. 56 of 2003.

### Nature of business and principal activities

Ngqushwa is a Local Municipality rendering basic services such as Refuse Collection, Infrastructure and Economic Development Community Services.

### Legislation governing the municipal operations

Constitution of the Republic of South Africa (Act 108 of 1998)  
Local Government: Municipal Finance Management Act (Act no.56 of 2003)  
Local Government: Municipal Systems Act (Act no.32 of 2000)  
Local Government: Municipal Structures Act (Act no.117 of 1998)  
Municipal Property Rates Act (Act 6 of 2004)  
Division of Revenue Act (Act 1 of 2007)

### Executive Committee

D. Ncanywa - Mayor (Elected 12 March 2021)  
N.E. Magingxa - Mayor (Elected 20 August 2020 and deceased 25 January 2021)  
N.E. Magingxa - Speaker (07 August 2016 to 20 August 2020)  
F. Pumaphi - Chief Whip (Member of the Executive Committee) - Acting Mayor (02 February 2021 - 12 March 2021)  
L. Kolisi (Member of the Executive Committee)  
Z. R. Nduneni (Member of the Executive Committee)  
S. S. Maneli - Speaker (Elected 20 August 2020)  
S. S. Maneli - Acting Mayor ( 23 June 2020 to 20 August 2020)  
M. T. Siwisa (Member of the Executive Committee)

### Councillors

N. Mtati  
N.C. Gxasheka  
P. Sithole  
N. Jako  
L. Moyeni (deceased 24 July 2021)  
T. Sikweyiya  
N. Leve  
N. Fulani  
N. Mquqo  
S. Gwavu  
R. Taylor  
B. Ntabeni  
N. Lawu  
M.L. Luzipho  
N. Majamani (Appointed 30 March 2021)  
A. Mfeketho (Appointed as councillor 20 July 2020 and MPAC Chairperson 28 April 2021)

### Traditional Leaders

Z. Njokweni (Chief)  
N. Ngqondi (Princess)  
N. Mhlauli (Princess)  
L. Zitshu (Prince)  
A. Goni (Prince)

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## General Information

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<b>Grading of local authority</b>	3
<b>Chief Finance Officer (CFO)</b>	Mr. S. Ndakisa
<b>Accounting Officer</b>	Mr. N. Mgengo
<b>Registered office</b>	Corner of N2 and R345 Road Peddie 5640
<b>Business address</b>	Corner of N2 and R345 Road Peddie 5640
<b>Postal address</b>	P.O. Box 539 Peddie 5640
<b>Bankers</b>	First National Bank
<b>Auditors</b>	Auditor General of South Africa
<b>Attorneys</b>	N. Majikela (Internal) Dyushu and Majebe Attorneys (External)

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Index

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

	<b>Page</b>
Accounting Officer's Responsibilities and Approval	5
Statement of Financial Position	6
Statement of Financial Performance for the year ended 30 June 2021	7
Statement of Changes in Net Assets for the year ended 30 June 2021	8
Cash Flow Statement for the year ended 30 June 2021	9
Statement of Comparison of Budget and Actual Amounts	10 - 12
Accounting Policies	13 - 34
Notes to the Annual Financial Statements	35 - 72

AFS	Annual Financial Statements
ASB	Accounting Standards Board
CETA	Construction Education and Training Authority
COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IEC	Independent Electoral Commission
IPSAS	International Public Sector Accounting Standards
mSCOA	Municipal Standard Chart of Accounts
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
PAYE	Pay As You Earn
SARS	South African Revenue Services
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Officer's Responsibilities and Approval

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

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

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


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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The annual financial statements set out on page 6 - 72 which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed on its behalf by:

  
\_\_\_\_\_  
**Mr. N. Mgengo**  
**Municipal Manager**

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	15 458 590	15 458 590
Operating lease asset	4	1 636 191	994 789
Receivables from non-exchange transactions	5	17 456 757	17 382 980
VAT receivable	7	2 616 685	2 210 499
Receivables from exchange transactions	6	1 583 736	1 197 930
Cash and cash equivalents	8	58 841 329	21 676 686
		<b>97 593 288</b>	<b>58 921 474</b>
<b>Non-Current Assets</b>			
Investment property	9	49 265 419	49 265 419
Property, plant and equipment	10	227 304 526	248 453 454
Heritage assets	11	3	3
		<b>276 569 948</b>	<b>297 718 876</b>
<b>Total Assets</b>		<b>374 163 236</b>	<b>356 640 350</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	12	18 130 086	14 394 196
Payables from non-exchange transactions	13	906 654	1 415 416
Employee benefit obligation	15	521 000	569 000
Unspent conditional grants and receipts	14	10 931 632	8 745 022
		<b>30 489 372</b>	<b>25 123 634</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	15	3 606 000	3 586 000
Provisions	16	11 142 353	10 384 327
		<b>14 748 353</b>	<b>13 970 327</b>
<b>Total Liabilities</b>		<b>45 237 725</b>	<b>39 093 961</b>
<b>Net Assets</b>		<b>328 925 511</b>	<b>317 546 389</b>
Accumulated surplus		328 925 511	317 546 389
<b>Total Net Assets</b>		<b>328 925 511</b>	<b>317 546 389</b>

\* See Note 38

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Performance for the year ended 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	17	1 425 128	1 477 120
Rental of facilities and equipment	18	1 106 270	1 030 831
Agency fees	19	418 241	316 454
Licences and permits	20	1 921 144	1 621 643
Other revenue	21	647 756	9 822 726
Interest earned on Outstanding Debtors	22	3 039 596	1 410 642
Interest received - investment	23	1 901 199	1 895 970
<b>Total revenue from exchange transactions</b>		<b>10 459 334</b>	<b>17 575 386</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	24	41 423 408	40 411 301
<b>Transfer revenue</b>			
Government grants	25	131 779 389	106 723 978
Fines and penalties	26	123 150	201 900
Other transfer revenue	27	582 976	802 124
<b>Total revenue from non-exchange transactions</b>		<b>173 908 923</b>	<b>148 139 303</b>
<b>Total revenue</b>		<b>184 368 257</b>	<b>165 714 689</b>
<b>Expenditure</b>			
Employee related costs	28	(73 394 625)	(74 105 496)
Remuneration of councillors	29	(10 362 745)	(10 934 580)
Depreciation and amortisation	30	(40 712 977)	(49 766 746)
Finance costs	31	(771 241)	(1 023 825)
Debt Impairment	32	(1 876 315)	(460 210)
Bad debts written off		(3 430 706)	(8 503 527)
Contracted services	33	(9 324 560)	(6 382 811)
Grant expenditure	34	(1 967 222)	(2 784 176)
General Expenses	35	(29 110 889)	(27 275 079)
<b>Total expenditure</b>		<b>(170 951 280)</b>	<b>(181 236 450)</b>
<b>Operating surplus (deficit)</b>		<b>13 416 977</b>	<b>(15 521 761)</b>
Loss on disposal and revaluation of assets	36	2 037 857	553 063
<b>Surplus (deficit) for the year</b>		<b>11 379 120</b>	<b>(16 074 824)</b>

\* See Note 38

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Changes in Net Assets for the year ended 30 June 2021

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	296 625 902	296 625 902
Adjustments		
Prior year adjustments	36 995 311	36 995 311
<b>Balance at 01 July 2019 as restated*</b>	<b>333 621 213</b>	<b>333 621 213</b>
Changes in net assets		
Surplus for the year	(16 074 824)	(16 074 824)
Total changes	(16 074 824)	(16 074 824)
<b>Restated* Balance at 01 July 2020</b>	<b>317 546 391</b>	<b>317 546 391</b>
Changes in net assets		
Surplus for the year	11 379 120	11 379 120
Total changes	11 379 120	11 379 120
<b>Balance at 30 June 2021</b>	<b>328 925 511</b>	<b>328 925 511</b>

Note(s)

\* See Note 38



# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Cash Flow Statement for the year ended 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Billed services		38 106 647	46 246 994
Government Grants		131 779 389	106 723 978
Interest income		1 901 199	1 895 970
Receipts from other services		3 693 267	3 972 952
		<u>175 480 502</u>	<u>158 839 894</u>
<b>Payments</b>			
Payments to and on behalf of employees and councillors		(83 785 370)	(85 040 076)
Cash paid to suppliers for goods and services		(32 919 070)	(33 912 065)
		<u>(116 704 440)</u>	<u>(118 952 141)</u>
<b>Net cash flows from operating activities</b>	49	<u><b>58 776 062</b></u>	<u><b>39 887 753</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	<u>(21 611 419)</u>	<u>(19 522 841)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u><b>37 164 643</b></u>	<u><b>20 364 912</b></u>
Cash and cash equivalents at the beginning of the year		<u>21 676 686</u>	<u>1 311 774</u>
<b>Cash and cash equivalents at the end of the year</b>	8	<u><b>58 841 329</b></u>	<u><b>21 676 686</b></u>

\* See Note 38

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	664 286	799 946	<b>1 464 232</b>	1 425 128	<b>(39 104)</b>	26.
Rental of facilities and equipment	716 998	-	<b>716 998</b>	1 106 270	<b>389 272</b>	27.
Agency fees	559 681	-	<b>559 681</b>	418 241	<b>(141 440)</b>	28.
Licences and permits	2 472 280	-	<b>2 472 280</b>	1 921 144	<b>(551 136)</b>	29.
Other revenue	4 715 223	(5 414)	<b>4 709 809</b>	647 756	<b>(4 062 053)</b>	30.
Interest earned on Outstanding Debtors	5 258 256	-	<b>5 258 256</b>	3 039 596	<b>(2 218 660)</b>	31.
Interest received - investment	4 547 062	-	<b>4 547 062</b>	1 901 199	<b>(2 645 863)</b>	32.
<b>Total revenue from exchange transactions</b>	<b>18 933 786</b>	<b>794 532</b>	<b>19 728 318</b>	<b>10 459 334</b>	<b>(9 268 984)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	41 875 212	-	<b>41 875 212</b>	41 423 408	<b>(451 804)</b>	33.
<b>Transfer revenue</b>						
Government grants	126 973 000	15 637 250	<b>142 610 250</b>	131 779 389	<b>(10 830 861)</b>	34.
Fines and penalties	1 428 386	(799 946)	<b>628 440</b>	123 150	<b>(505 290)</b>	35.
Other transfer revenue	706 750	(22 500)	<b>684 250</b>	582 976	<b>(101 274)</b>	36.
<b>Total revenue from non-exchange transactions</b>	<b>170 983 348</b>	<b>14 814 804</b>	<b>185 798 152</b>	<b>173 908 923</b>	<b>(11 889 229)</b>	
<b>Total revenue</b>	<b>189 917 134</b>	<b>15 609 336</b>	<b>205 526 470</b>	<b>184 368 257</b>	<b>(21 158 213)</b>	
<b>Expenditure</b>						
Employee related costs	(74 285 054)	(1 622 924)	<b>(75 907 978)</b>	(73 394 625)	<b>2 513 353</b>	17.
Remuneration of councillors	(11 125 049)	1 311 962	<b>(9 813 087)</b>	(10 362 745)	<b>(549 658)</b>	18.
Depreciation and amortisation	(19 981 125)	-	<b>(19 981 125)</b>	(40 712 977)	<b>(20 731 852)</b>	19.
Finance costs	-	-	-	(771 241)	<b>(771 241)</b>	20.
Debt Impairment	(1 835 458)	(8 655 006)	<b>(10 490 464)</b>	(1 876 315)	<b>8 614 149</b>	21.
Bad debts written off	-	-	-	(3 430 706)	<b>(3 430 706)</b>	22.
Contracted Services	(24 140 187)	(182 891)	<b>(24 323 078)</b>	(9 324 560)	<b>14 998 518</b>	37.
Transfers and Subsidies	-	-	-	(1 967 222)	<b>(1 967 222)</b>	23.
General Expenses	(23 077 802)	(992 755)	<b>(24 070 557)</b>	(29 110 889)	<b>(5 040 332)</b>	24.
<b>Total expenditure</b>	<b>(154 444 675)</b>	<b>(10 141 614)</b>	<b>(164 586 289)</b>	<b>(170 951 280)</b>	<b>(6 364 991)</b>	
<b>Operating surplus</b>	<b>35 472 459</b>	<b>5 467 722</b>	<b>40 940 181</b>	<b>13 416 977</b>	<b>(27 523 204)</b>	
Loss on disposal and revaluation of assets	-	-	-	2 037 857	<b>2 037 857</b>	25.
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>35 472 459</b>	<b>5 467 722</b>	<b>40 940 181</b>	<b>11 379 120</b>	<b>(29 561 061)</b>	

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	9 853 000	-	9 853 000	15 458 590	5 605 590	1.
Operating lease asset	-	994 789	994 789	1 636 191	641 402	2.
Receivables from non-exchange transactions	31 465 932	(7 728 190)	23 737 742	17 456 757	(6 280 985)	3.
VAT receivable	-	-	-	2 616 686	2 616 686	4.
Receivables from exchange transactions	1 454 729	-	1 454 729	1 583 736	129 007	5.
Cash and cash equivalents	15 658 402	5 494 647	21 153 049	58 841 329	37 688 280	6.
	<b>58 432 063</b>	<b>(1 238 754)</b>	<b>57 193 309</b>	<b>97 593 289</b>	<b>40 399 980</b>	
<b>Non-Current Assets</b>						
Intangible assets	719 245	255 579	974 824	-	(974 824)	7.
Investment property	26 673 500	-	26 673 500	49 265 419	22 591 919	8.
Property, plant and equipment	297 002 911	4 527 687	301 530 598	227 304 527	(74 226 071)	9.
Heritage assets	-	-	-	3	3	
	<b>324 395 656</b>	<b>4 783 266</b>	<b>329 178 922</b>	<b>276 569 949</b>	<b>(52 608 973)</b>	
<b>Total Assets</b>	<b>382 827 719</b>	<b>3 544 512</b>	<b>386 372 231</b>	<b>374 163 238</b>	<b>(12 208 993)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables from exchange transactions	19 540 527	-	19 540 527	18 130 086	(1 410 441)	10.
Payables from non-exchange transactions	-	-	-	906 654	906 654	11.
Employee benefit obligation	-	-	-	521 000	521 000	12.
Unspent conditional grants and receipts	-	-	-	10 931 632	10 931 632	13.
Provisions	-	591 191	591 191	-	(591 191)	14.
	<b>19 540 527</b>	<b>591 191</b>	<b>20 131 718</b>	<b>30 489 372</b>	<b>10 357 654</b>	
<b>Non-Current Liabilities</b>						
Employee benefit obligation	-	-	-	3 606 000	3 606 000	15.
Provisions	13 829 320	141 007	13 970 327	11 142 353	(2 827 974)	16.
	<b>13 829 320</b>	<b>141 007</b>	<b>13 970 327</b>	<b>14 748 353</b>	<b>778 026</b>	
<b>Total Liabilities</b>	<b>33 369 847</b>	<b>732 198</b>	<b>34 102 045</b>	<b>45 237 725</b>	<b>11 135 680</b>	
<b>Net Assets</b>	<b>349 457 872</b>	<b>2 812 314</b>	<b>352 270 186</b>	<b>328 925 513</b>	<b>(23 344 673)</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entities</b>						
<b>Reserves</b>						
Accumulated surplus	313 984 913	72 386 818	386 371 731	328 925 514	(57 446 217)	

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Billed Services	29 778 000	-	29 778 000	38 106 647	8 328 647	38.
Government Grants	127 680 000	14 930 000	142 610 000	131 779 389	(10 830 611)	39.
Interest income	3 154 953	(3 154 953)	-	1 901 199	1 901 199	40.
Receipt from other services	8 719 746	(5 413)	8 714 333	3 693 267	(5 021 066)	41.
	<b>169 332 699</b>	<b>11 769 634</b>	<b>181 102 333</b>	<b>175 480 502</b>	<b>(5 621 831)</b>	
<b>Payments</b>						
Cash payments to suppliers for goods and services	(132 628 092)	(1 492 221)	(134 120 313)	(116 704 440)	17 415 873	42.
<b>Net cash flows from operating activities</b>	<b>36 704 607</b>	<b>10 277 413</b>	<b>46 982 020</b>	<b>58 776 062</b>	<b>11 794 042</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(35 472 452)	(4 783 266)	(40 255 718)	(21 611 419)	18 644 299	43.
Proceeds from sale of property, plant and equipment	13 115 075	(13 115 075)	-	-	-	
Decrease in non-current receivables	-	13 115 075	13 115 075	-	(13 115 075)	
<b>Net cash flows from investing activities</b>	<b>(22 357 377)</b>	<b>(4 783 266)</b>	<b>(27 140 643)</b>	<b>(21 611 419)</b>	<b>5 529 224</b>	
Net increase/(decrease) in cash and cash equivalents	14 347 230	5 494 147	19 841 377	37 164 643	17 323 266	
Cash and cash equivalents at the beginning of the year	1 311 775	-	1 311 775	21 676 686	20 364 911	
<b>Cash and cash equivalents at the end of the year</b>	<b>15 659 005</b>	<b>5 494 147</b>	<b>21 153 152</b>	<b>58 841 329</b>	<b>37 688 177</b>	

The accounting policies on page 13-35 and the notes on page 36-69 form an integral part of the annual financial statements.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

Figures in Rand	Note(s)	2021	2020
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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.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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

These accounting policies are consistent with the previous period.

### 1.1 Presentation currency

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

Financial values are rounded to the nearest one Rand. No foreign exchange transactions are included in the statements.

### 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 judgements, estimates and assumptions that affect the carrying 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. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results in the future could differ from these estimates, which may be material to the annual financial statements. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in the Annual Financial Statements:

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

#### Property, plant and equipment

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

Management referred to the following when making assumptions regarding useful lives and residual values of Property, Plant and Equipment:

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

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciated replacement cost method, which was based on assumptions about the remaining duration of the assets.

The cost for depreciated replacement cost was determined by using either one of the following:

- Cost of items with a similar nature currently in the Municipality's asset register;
- Cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the Municipality and that the other municipality's asset register is considered to be accurate;
- Cost as supplied by suppliers.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

#### Intangible Assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciation cost method, which was based on assumptions about the remaining duration of the assets.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

#### Investment Property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

#### Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

#### Provision for Landfill Sites

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

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.
- Interest rates (investment rate) linked to prime was used to calculate the effect of the time value of money.

#### Provision for Staff leave

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at the reporting date. This provision will be realised as employees take leave or when employment is terminated.

#### Provision for Performance bonuses

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historical patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by the Council.

#### Componentisation of Infrastructure assets

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the Standards of GRAP.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

#### Post-retirement medical obligations, Long service awards

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

#### Impairment of Receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

#### Impairment of statutory receivables

The calculation in respect of the impairment of Statutory Receivables is based on an assessment of the expected recoverability of each individual receivable based on the history of recoverability of such receivables. When insufficient information is available to assess individual debtors, debtors are grouped into appropriate aggregated grouping levels. Aggregation is based on best practice. Thereafter receivables are assessed based on historical information available.

#### Revenue Recognition

Accounting Policy on Revenue from Non-Exchange Transactions and Accounting Policy on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

### 1.4 Investment property

Includes property held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Investment property also includes land held for an undetermined future use.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. Where the classification of an investment property is based on management's judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale:

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

- Land held for a currently undetermined future use;

- A building owned (or held by under a finance lease) and leased out under one or more operating leases;

- Leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as investment properties. The rental revenue generated is incidental to the purposes for which the property is held;



# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.4 Investment property (continued)

- A building that is vacant but is held to be leased out under one or more operating leases;
- Property that is being constructed or developed for future use as investment property

#### Subsequent measurement - fair value model

Investment property is subsequently measured using the fair value model.

Investment property is carried at fair value, representing open market value determined by external valuers. Land is not depreciated as it is considered to have an indefinite useful life.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

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 Municipality determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value to be reliably measurable when construction is completed, it measures that investment property at cost until the fair value can be reliably determined or construction has been completed.

Where the Municipality has determined that the fair value of an investment property (other than investment property under construction) is not determinable on a continuing basis, the Municipality measures that investment property using the cost model.

#### Derecognition/Disposal

Investment properties are derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value [or carrying amount if cost model is used] at the date of change in use. If owner-occupied property becomes an investment property, the entity accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

### 1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight-line	15 - 60 years
Plant and machinery	Straight-line	10 - 20 years
Furniture and fixtures	Straight-line	5 - 7 years
Motor vehicles	Straight-line	7 - 15 years
Office equipment	Straight-line	5 - 18 years
Computer equipment	Straight-line	3 - 13 years
Security equipment	Straight-line	5 - 10 years
Other equipment	Straight-line	5 years
Infrastructure	Straight-line	See detail below
- Roads paved	Straight-line	30 years
- Roads graded	Straight-line	5 - 30 years
- Electricity (Street lights and High masts)	Straight-line	7 - 21 years
Minor assets		Immediately
Park facilities	Straight-line	5 - 60 years
Maintenance equipment	Straight-line	10 - 16 years
Landfill sites	Straight-line	69 - 98 years
Work-in-progress	Straight-line	Not depreciated

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.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

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

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

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

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

With regards to Land the Municipality makes reference to the principles contained within IGRAP 18 whereby legal title though an indicator of control does not necessarily always confer control itself. As a result, the Municipality assesses the control with regards regard to all land that it has legal title over to determine if it has the right to direct access to land, and to restrict or deny the access of others to land, by determining whether it can

\*\*Direct the use of the land's future economic benefits or service potential to provide services to beneficiaries

\*\*exchange, dispose of, or transfer the land; and/or

\*\*use the land in any other way to generate future economic benefits or service potential.

### 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.

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.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

### 1.6 Intangible assets (continued)

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:

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	5 years

Intangible assets are derecognised:

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

### 1.7 Heritage assets

Assets are resources controlled by an municipality 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 municipality'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.

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

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.

#### 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.

#### Impairment

The municipality assesses 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.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.7 Heritage assets (continued)

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a 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.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 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.

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

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

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

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

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

A financial asset is:

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

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

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

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

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

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.

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

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
VAT Receivable	Financial asset measured at amortised cost
Operating lease asset	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost

### 1.9 Statutory receivables

#### Identification

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

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.

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

#### Recognition

The municipality recognises statutory receivables as follows:

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

#### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

#### Subsequent measurement

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

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

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.9 Statutory receivables (continued)

- amounts derecognised.

#### Accrued interest

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

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

#### Other charges

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

#### Impairment losses

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

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

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

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

In estimating the future cash flows, a municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

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

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

#### Derecognition

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

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.9 Statutory receivables (continued)

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

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

### 1.10 Leases

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

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

### 1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through non-exchange transactions, 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.



# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.11 Inventories (continued)

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

### 1.12 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.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

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

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

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

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.

### 1.14 Employee benefits

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

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

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

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

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

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

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

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

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

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### 1.14 Employee benefits (continued)

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

### 1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

Where 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.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### 1.15 Provisions and contingencies (continued)

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 46.

### 1.16 Capital Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

### 1.17 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### 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.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### 1.17 Revenue from exchange transactions (continued)

#### 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.

### 1.18 Revenue from non-exchange transactions

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

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

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

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

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

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

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

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

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

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

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

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

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

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

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

#### Recognition

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

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

#### Measurement

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

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

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

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

#### Fines

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

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

### 1.19 Investment income

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

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.20 Borrowing costs

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

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

### 1.21 Comparative figures

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

### 1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.23 Fruitless and wasteful expenditure

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

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

### 1.24 Irregular expenditure

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

### 1.25 Budget information

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

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

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

The approved budget covers the fiscal period from 2020/07/01 to 2021/06/30.

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

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

### 1.26 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.



# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.26 Related parties (continued)

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 those family members who may be expected to influence, or be influenced by that person 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.

### 1.27 Events after reporting date

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

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

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

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

### 1.28 Value Added Tax (VAT)

The municipality accounts for value added tax on accrual basis but pays to/claims from SARS on a payment basis.

### 1.29 Accounting by principals and agents

#### Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

#### Recognition

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.29 Accounting by principals and agents (continued)

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

### 1.30 Segment information

A segment is an activity of an entity:

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

Management identifies reportable segments in accordance with the monthly section 71 report, which are regularly reviewed by management. Management reviews the performance on an aggregated basis of total revenue and total expenditure.

The municipality manages its assets and liability as a whole and are not reviewed on a segregated basis for each town. Segment reporting per geographical area is not deemed relevant.

The measurement basis per the monthly reports is the same as the annual financial statements.

On the first-time adoption of GRAP 18, comparative segment information is not required in terms of the transitional provisions.

#### Measurement

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

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

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 2. New standards and interpretations

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

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2021 or later periods:

##### **GRAP 104 (amended): Financial Instruments**

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

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

The most significant changes to the Standard affect:

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

##### **Guideline: Guideline on Accounting for Landfill Sites**

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

##### **GRAP 25: Employee Benefits (revised April 2021)**

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits

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

##### **Guideline: Application of Materiality of Financial Statements**

The guideline is not authoritative but only encouraged. No significant impact is expected as the municipality's current treatment is already in line with the standard's treatment.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>3. Inventories</b>		
Land held for distribution	15 458 590	15 458 590
<b>4. Operating lease asset</b>		
<b>Leases</b>		
Leases for Land	1 636 191	994 789
The municipality leases land to tenants under leases covering periods ranging from 3 - 30 years. The leases are subject to escalation clauses as per lease agreements resulting in straight-lining of the rentals received and receivable. The amount included above represents the difference between the actual rentals received and the calculated straight-line lease.		
<b>Minimum lease payments receivable</b>		
within one year	452 976	345 229
in second to fifth year inclusive	1 642 501	1 604 451
later than five years	24 504 669	24 867 972
	<b>26 600 146</b>	<b>26 817 652</b>
<b>5. Receivables from non-exchange transactions</b>		
Property Rates	11 640 069	11 084 241
Interest on Property Rates	8 544 289	5 713 257
Less: Impairment on Property Rates and Interest	(7 643 805)	(6 053 788)
Other Receivables	4 916 204	6 639 270
	<b>17 456 757</b>	<b>17 382 980</b>

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>5. Receivables from non-exchange transactions (continued)</b>		
<b>Property Rates</b>		
0 - 30 days	984 964	900 115
31 - 60 days	395 421	162 475
61 - 90 days	169 434	154 039
91-120 days	388 691	692 018
121 - 150 days	255 187	317 460
> 151 days	19 792 755	14 571 390
	<b>21 986 452</b>	<b>16 797 497</b>
<b>Summary of Total Debtors (Exchange and Non-Exchange) By Customer Classification:</b>		
<b>Residential</b>		
0 - 30 days	472 480	455 020
31 - 60 days	183 279	214 632
61 - 90 days	171 024	189 259
91 - 120 days	164 245	161 255
121 - 150 days	133 691	143 384
> 151 days	7 056 754	5 753 926
Less: Allowance for Impairment	(6 704 733)	(5 547 339)
	<b>1 476 740</b>	<b>1 370 137</b>
<b>Business</b>		
0 - 30 days	328 368	390 828
31 - 60 days	96 588	-
61 - 90 days	92 273	-
91 - 120 days	80 623	-
121 - 150 days	74 812	-
> 151 days	2 744 024	1 595 642
Less: Allowance for Impairment	(1 781 414)	(1 039 486)
	<b>1 635 274</b>	<b>946 984</b>
<b>Government</b>		
0 - 30 days	414 570	327 982
31 - 60 days	205 517	128 222
61 - 90 days	194 295	121 827
91 - 120 days	234 640	704 922
121 - 150 days	89 831	121 908
>150 days	11 672 330	8 334 714
	<b>12 811 183</b>	<b>9 739 575</b>
<b>Total debtors past due but not impaired</b>		
0 - 30 days	1 215 418	161 897
30 - 60 days	480 554	128 222
60 - 90 days	335 171	121 827
91 - 120 days	283 314	704 922
121 - 150 days	133 125	121 908
>151 days	13 475 614	8 334 714
	<b>15 923 196</b>	<b>9 573 490</b>

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>5. Receivables from non-exchange transactions (continued)</b>		
<b>Reconciliation of provision for impairment allowance</b>		
Opening balance	6 707 963	8 262 364
Amounts reversed against allowance	-	(1 554 401)
Contributions to allowance	1 778 184	-
	<b>8 486 147</b>	<b>6 707 963</b>
<b>Total Debtors (Exchange and Non-Exchange)</b>		
Balance net of credit balances	24 409 345	18 643 523
Gross up of credit balances	871 379	1 242 553
	<b>25 280 724</b>	<b>19 886 076</b>
<b>6. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Refuse	1 433 894	1 203 294
Rent	303 067	163 124
Interest on Overdue Accounts	689 118	485 687
	<b>2 426 079</b>	<b>1 852 105</b>
<b>Less: Allowance for impairment</b>		
Refuse	(585 478)	(425 011)
Rent	(93 098)	(57 616)
Interest on Overdue Accounts	(163 767)	(171 548)
	<b>(842 343)</b>	<b>(654 175)</b>
<b>Net balance</b>		
Refuse	848 416	778 283
Rent	209 969	105 508
Interest on Overdue Accounts	525 351	314 139
	<b>1 583 736</b>	<b>1 197 930</b>
<b>Refuse</b>		
Current (0 -30 days)	179 185	210 509
31 - 60 days	58 042	64 477
61 - 90 days	265 340	53 151
91 - 120 days	43 432	49 895
121 - 150 days	43 147	-
> 151 days	1 094 907	810 415
	<b>1 684 053</b>	<b>1 188 447</b>
<b>Rental</b>		
Current (0 -30 days)	53 646	43 510
31 - 60 days	31 921	-
61 - 90 days	22 818	-
91 - 120 days	47 385	-
> 121 days	112 013	113 533
	<b>267 783</b>	<b>157 043</b>

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>6. Receivables from exchange transactions (continued)</b>		
<b>Interest on Overdue Accounts</b>		
Current (0 -30 days)	(2 377)	-
> 150 days	473 433	485 687
	<b>471 056</b>	<b>485 687</b>
<b>7. VAT receivable</b>		
VAT Input Control Account	422 069	572 030
VAT Output Control Account	5 948	(202 013)
VAT Receivable from SARS	2 188 668	1 840 482
	<b>2 616 685</b>	<b>2 210 499</b>

The municipality accounts for value added tax on accrual basis but pays to/claims from SARS on a payment basis.

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	55 476 271	11 155 636
Investments	3 365 058	10 521 050
	<b>58 841 329</b>	<b>21 676 686</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
FNB Main Account - 62022000898	55 476 271	11 155 636	754 422	55 476 271	11 155 636	754 422
FNB Rates Accounts - 62414349763	3 365 058	2 372 946	536 929	3 365 058	2 372 946	536 929
FNB Petrol Card Account - 62084123787	-	-	20 423	-	-	20 423
FNB - Investment Account - 74848177719	-	8 148 104	-	-	8 148 104	-
<b>Total</b>	<b>58 841 329</b>	<b>21 676 686</b>	<b>1 311 774</b>	<b>58 841 329</b>	<b>21 676 686</b>	<b>1 311 774</b>

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 9. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	49 265 419	-	49 265 419	49 265 419	-	49 265 419

#### Reconciliation of investment property - 2021

	Opening balance	Total
Investment property	49 265 419	49 265 419

#### Reconciliation of investment property - 2020

	Opening balance	Total
Investment property	49 265 419	49 265 419
Revenue derived from rental of Investment Property	1 106 270	1 028 600

Investment property relates to land and as such no repairs and maintenance or other operating expenditure is incurred with respect to Investment Property.

There is no Investment Property which is in the process of being constructed or developed.

As there is no Investment Property which is in the process of being constructed or developed, there is no Investment Property that is taking a significantly longer time to complete than expected.

There is no Investment Property where construction or development has been halted.

There are no contractual obligation to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

No impairment losses or reversals are noted with respect to Investment Property.

There is no Investment Property used in Service Concession Agreements.

No items of Investment Property have been pledged as security

Investment property relates to land and is not depreciated.

#### Land controlled, but the Municipality does not have legal ownership or custodianship

Carrying value of land included in the carrying value of Investment property	320 150	320 150
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The above relates to 6 properties for which there is no registered title deed, but for which the Municipality exercises control through lease or other binding agreements as well as having the ability to restrict others from accessing economic benefits and service potential.



# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 9. Investment property (continued)

Land not controlled, but the Municipality is the legal owner/custodian

Refer to the Property, Plant and Equipment, note 10 for details regarding these properties.

### 10. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	8 503 748	-	8 503 748	8 503 748	-	8 503 748
Buildings	154 126 152	(54 056 504)	100 069 648	144 313 241	(49 024 055)	95 289 186
Plant and Equipment	10 601 390	(4 284 830)	6 316 560	8 254 670	(3 578 788)	4 675 882
Office Furniture	2 019 162	(1 308 051)	711 111	1 795 412	(1 175 004)	620 408
Motor Vehicles	8 925 369	(4 166 310)	4 759 059	8 347 305	(3 363 923)	4 983 382
Office Equipment	1 808 104	(1 165 019)	643 085	1 776 940	(950 885)	826 055
IT Equipment	3 506 179	(2 550 441)	955 738	3 326 040	(1 972 312)	1 353 728
Infrastructure	323 244 141	(242 558 718)	80 685 423	329 697 657	(215 105 181)	114 592 476
Maintenance Equipment	615 581	(349 147)	266 434	615 581	(294 451)	321 130
Security Equipment	748 672	(594 373)	154 299	748 672	(498 513)	250 159
Other Equipment	566 653	(187 024)	379 629	1 020 757	(300 152)	720 605
Capital Works in Progress	13 527 369	-	13 527 369	5 478 231	-	5 478 231
Park Facilities	14 231 505	(3 899 082)	10 332 423	14 231 505	(3 393 041)	10 838 464
Minor Equipment	1 882 217	(1 882 217)	-	1 890 933	(1 890 933)	-
<b>Total</b>	<b>544 306 242</b>	<b>(317 001 716)</b>	<b>227 304 526</b>	<b>530 000 692</b>	<b>(281 547 238)</b>	<b>248 453 454</b>

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)  
Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

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

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Transfers	Write-off	Depreciation	Total
Land	8 503 748	-	-	-	-	-	8 503 748
Buildings	95 289 186	4 921 319	-	4 891 592	-	(5 032 449)	100 069 648
Plant and Equipment	4 675 882	2 346 720	-	-	-	(706 042)	6 316 560
Office Furniture	620 408	237 940	(2 218)	-	-	(145 019)	711 111
Motor Vehicles	4 983 382	578 064	-	-	-	(802 387)	4 759 059
Office Equipment	826 055	70 000	(6 651)	-	-	(246 319)	643 085
IT Equipment	1 353 728	378 207	(8 639)	-	-	(767 558)	955 738
Infrastructure	114 592 476	-	-	-	(1 646 603)	(32 260 450)	80 685 423
Maintenance Equipment	321 130	-	-	-	-	(54 696)	266 434
Security Equipment	250 159	-	-	-	-	(95 860)	154 299
Other Equipment	720 605	128 926	(373 748)	-	-	(96 154)	379 629
Capital Works in Progress	5 478 231	12 940 730	-	(4 891 592)	-	-	13 527 369
Park Facilities	10 838 464	-	-	-	-	(506 041)	10 332 423
	<b>248 453 454</b>	<b>21 601 906</b>	<b>(391 256)</b>	<b>-</b>	<b>(1 646 603)</b>	<b>(40 712 975)</b>	<b>227 304 526</b>

**NGQUSHWA LOCAL MUNICIPALITY**  
(Registration number EC/126)  
Annual Financial Statements for the year ended 30 June 2021

**Notes to the Annual Financial Statements**

Figures in Rand

**10. Property, plant and equipment (continued)**

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

	Opening balance	Additions	Disposals	Reclassification	Transfers	Write-off	Depreciation	Impairment loss	Total
Land	8 503 748	-	-	-	-	-	-	-	8 503 748
Buildings	108 153 785	139 156	-	(222 093)	(1 821 324)	-	(4 198 272)	(6 762 066)	95 289 186
Plant and Equipment	2 595 992	2 431 816	-	-	-	-	(351 926)	-	4 675 882
Office Furniture	790 916	14 504	-	-	(15 471)	-	(169 541)	-	620 408
Motor Vehicles	5 676 322	-	(69 786)	-	-	-	(623 154)	-	4 983 382
Office Equipment	734 698	340 098	-	-	-	(33 817)	(214 924)	-	826 055
IT Equipment	1 552 125	381 156	-	-	-	(5 757)	(573 796)	-	1 353 728
Infrastructure	143 578 014	-	-	-	7 769 177	(273 198)	(36 481 517)	-	114 592 476
Maintenance Equipment	384 993	-	-	-	(7 933)	-	(55 930)	-	321 130
Security Equipment	344 756	-	-	-	-	-	(94 597)	-	250 159
Other Equipment	415 577	185 150	-	222 093	-	(4 126)	(98 089)	-	720 605
Capital Works in Progress	1 190 036	16 030 961	-	-	(11 742 766)	-	-	-	5 478 231
Park Facilities	11 066 112	-	-	-	(109 065)	(118 583)	-	-	10 838 464
	<b>284 987 074</b>	<b>19 522 841</b>	<b>(69 786)</b>	<b>-</b>	<b>(5 794 913)</b>	<b>(449 367)</b>	<b>(42 980 329)</b>	<b>(6 762 066)</b>	<b>248 453 454</b>

**Pledged as security**

No items of Property, Plant and Equipment have been pledged as security.

**Work-in-progress Disclosure**

**Cumulative expenditure amounts recognised in the Work-in-progress balance are for the following classes:**

Roads	13 098 984	586 669
Buildings	-	4 891 562
Landfill site	428 385	-
	<b>13 527 369</b>	<b>5 478 231</b>

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

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

#### Reconciliation of Work-in-Progress 2021

2021	Buildings	Electricity	Roads	Landfill	Total
Opening balance	4 891 592	-	586 669	-	5 478 261
Transfer out/in	(4 891 592)	-	12 512 315	428 385	8 049 108
	-	-	13 098 984	428 385	13 527 369

#### Reconciliation of Work-in-Progress 2020

2020	Buildings	Electricity	Roads	Landfill	Total
Opening balance	1 324 092	-	586 669	-	1 910 761
Transfer out	3 567 500	-	-	-	3 567 500
	4 891 592	-	586 669	-	5 478 261

No items of Property, Plant and Equipment are considered to be taking a significantly longer period of time to complete than expected. .

No items of Property, Plant and Equipment are noted where construction or development has been halted.

No impairment losses have been noted with respect to Property, Plant and Equipment.

No changes in estimates have been noted with respect to Property, Plant and Equipment.

No items of Property, Plant and Equipment are subject to Service Concession Arrangements.

#### Land which the Municipality controls without legal ownership or custodianship

Carrying value of land included in the carrying value of Property, plant and equipment 283 500 283 500

The above relates to 4 properties for which there is no registered title deed but which houses municipal buildings (offices and community halls), they are thus being used for municipal purposes. The Municipality is assessed as being in control of the economic benefits and service potential with respect to the items as they have the right to direct access to land, and to restrict/deny the access of others.

#### Land not controlled by the Municipality, however the Municipality is the legal owner/custodian

##### Number of parcels: 26

Value of Land Parcels - -

Included in the above are 16 properties relating to housing projects which have been allocated as housing in terms of the National Housing Program and are thus not considered to be under the control of the Municipality in terms of the Housing Guideline and IGRAP18.

The remaining 10 properties are not considered to be under the control of the Municipality as the usage of the properties pertains to non-municipal activities such as schools, clinics and private enterprises.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)  
Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 11. Heritage assets

	2021		2020	
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation
Historical Monuments	3	-	3	3
				Accumulated impairment losses
				-
				3

#### Reconciliation of heritage assets 2021

Historical Monuments

Opening balance	3
Total	3

#### Reconciliation of heritage assets 2020

Historical Monuments

Opening balance	3
Total	3

All the municipality's heritage assets are held under a freehold interest and no heritage asset have been pledged as security for any liabilities of the municipality. The heritage assets comprise of the Dick Kind Memorial site, a Fingo Milkwood Tree and Fort Peddie Tower Complex.

These are not income generating assets and shown on the face of the statement of financial position at a nominal value of R 1 each.

No impairment losses have been recognised on the heritage assets of the municipality at the reporting date.

These heritage assets have not been revalued due to their fair value not being easily and reliably measured due to the lack of a market for these assets.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

	2021	2020
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### 12. Payables from exchange transactions

Trade payables	7 329 067	4 554 909
Accrued Leave Pay	6 219 758	5 711 384
Accrued Bonus	1 655 970	1 462 408
Retentions	2 925 291	2 665 495
	<b>18 130 086</b>	<b>14 394 196</b>

### 13. Payables from non-exchange transactions

Receivables with credit balances	871 379	1 242 553
Staff creditors	35 275	172 863
	<b>906 654</b>	<b>1 415 416</b>

All receivables with credit balances have been reallocated to Payables from non-exchange transactions to achieve fair presentation.

### 14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant	6 212 646	6 397 104
Extended Public Works Programme	-	186 501
Municipal Disaster Relief Grant	-	202 702
Integrated National Electrification Programme	4 718 986	1 958 715
	<b>10 931 632</b>	<b>8 745 022</b>

#### Movement during the year

An amount of R 6,985,021.80 was approved as a roll-over of the unspent funds relating to the 2019/2020 financial year. The shortfall amounting to R 1,760,00 was withheld as part of the Equitable Share allocation for the 2020/2021 financial year.

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

### 15. Employee benefit obligations

#### Long Service Awards

The Long Service Award is payable after every 5, 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service. The provision is an estimate of the amounts likely to be paid based on an actuarial valuation performed at the reporting date.

The actuarial valuation of the long service awards accrued liability was carried out by Arch Actuarial Consulting. The assumptions used in the valuation are outlined below:

#### Key Assumptions:

1. Discount rate - 9.35%
2. General earnings inflation rate (long-term) - 5.81%
3. Net effective discount rate - 3.35%
4. The mortality rate of SA 85-90
5. Normal retirement age of 62 years.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 15. Employee benefit obligations (continued)

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

#### Carrying value

Opening balance	(4 155 000)	(3 581 716)
Current service costs	(536 000)	(525 152)
Utilisation	569 000	395 249
Change in discount factor	(286 000)	(275 039)
Actuarial (loss)/gain for the period	281 000	(168 342)
	<b>(4 127 000)</b>	<b>(4 155 000)</b>
Non-current liabilities	(3 606 000)	(3 586 000)
Current liabilities	(521 000)	(569 000)
	<b>(4 127 000)</b>	<b>(4 155 000)</b>

#### Sensitivity Analysis

The liability at the valuation date was recalculated to show the effect of:

- A 1% increase and decrease in the assumed general earnings inflation rate;
- A 1% increase and decrease in the discounted rate;
- A two-year increase and decrease in the assumed average retirement age of eligible employees; and
- A two-fold increase and a 50% decrease in the assumed rates of withdrawal from service

The table below summarises the results of the sensitivity analysis.

Assumption	Change	Liability	%Change
Central assumption		4 127 000	
General information	+1%	4 398 000	7%
	-1%	3 883 000	-6%
Discount rate	+1%	3 877 000	-6%
	-1%	4 409 000	7%
Average retirement age	+2 yrs	4 301 000	4%
	-2 yrs	3 930 000	-5%
Withdrawal rates	x2	3 230 000	-22%
	x0.5	4 745 000	15%

	2021	2020	2019	2018	2017
	R	R	R	R	R
Long service awards (history of liability)	4 127 000	4 155 000	3 582 000	3 225 000	3 003 000

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 16. Provisions

#### Reconciliation of provisions - 2021

	Opening Balance	Change in discount factor	Total
Provision for Rehabilitation of Landfill Site	10 384 327	758 026	11 142 353

#### Reconciliation of provisions - 2020

	Opening Balance	Reversed during the year	Change in discount factor	Total
Provision for Rehabilitation of Landfill Site	10 247 604	(601 104)	737 827	10 384 327

#### Rehabilitation of Landfill Sites Provision

The Provision for Rehabilitation of Landfill Sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation. The amount for the provision was adjusted retrospectively in accordance with the report produced by qualified engineers specialising in Landfill Sites valuations.

### 17. Service charges

Refuse Removal	1 425 128	1 477 120
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### 18. Rental of facilities and equipment

#### LAND AND OFFICES

Various Rentals	1 106 270	1 028 600
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#### FACILITIES AND EQUIPMENT

Billboards	-	2 231
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Included in the above rentals are operating lease rentals at straight-lined amounts of R 1 056 777 (2020: R 979 416).

### 19. Agency fees

Amount received on behalf of the principle	1 460 925	1 564 592
Revenue the principal is entitled to	(1 042 684)	(1 248 138)
	<b>418 241</b>	<b>316 454</b>

All receipts on behalf of the principal were paid over during the year. There are no receivables or payables from agency transactions.

### 20. Licences and permits

Drivers' Licences	1 680 361	1 518 926
Learners' Licences	240 783	102 717
	<b>1 921 144</b>	<b>1 621 643</b>



# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>21. Other revenue</b>		
Insurance claims from loss of property, plant and equipment	19 793	77 418
Movement in Landfill Site provision	-	601 104
Tender Fees	80 348	75 522
Sundry Income	387 338	8 879 161
Building Plan Fees	65 544	98 680
Commission	94 733	90 841
	<b>647 756</b>	<b>9 822 726</b>
<b>22. Interest earned on Outstanding Debtors</b>		
Interest earned on Outstanding Debtors	3 039 596	1 410 642
<b>23. Investment revenue</b>		
Interest from investments	1 901 199	1 895 970
<b>24. Property rates</b>		
<b>Rates received</b>		
Gross Property Rates	41 764 512	40 718 947
Less: Rebates	(341 104)	(307 646)
	<b>41 423 408</b>	<b>40 411 301</b>
<b>Valuations</b>		
Residential	333 035 600	332 374 600
Commercial	96 338 500	95 506 500
Government	954 328 200	956 523 200
Municipal	90 292 000	81 930 000
Farm agricultural	151 391 400	151 565 400
Place of Worship	10 277 500	10 277 500
Vacant Land	118 195 300	118 195 300
Other	4 064 000	4 064 000
	<b>1 757 922 500</b>	<b>1 750 436 500</b>

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

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 25. Government grants and subsidies

Equitable share	102 074 000	82 696 000
Expanded Public Works Programme	3 544 000	1 714 499
Municipal Infrastructure Grant	20 916 660	16 106 896
Finance Management Grant	3 000 000	2 880 000
Integrated National Electrification Programme	2 244 729	3 201 285
Municipal Disaster Relief Grant	-	125 298
	<b>131 779 389</b>	<b>106 723 978</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	29 705 389	23 902 680
Unconditional grants received	102 074 000	82 821 298
	<b>131 779 389</b>	<b>106 723 978</b>

#### Equitable Share

In terms of section 227 of the Constitution, this grant is used to the municipality to provide basic services and perform functions allocated to it.

The Equitable Share Grant also provides funding for the municipality to deliver free basic services to poor households and to subsidise the cost of administration and other core services for the municipality.

#### Equitable Share

Allocation for the year per Division of Revenue Act	102 074 000	82 696 000
Amount actually received	(100 314 000)	(81 328 000)
Conditions not met - transferred from Municipal Infrastructure Grant	(1 370 798)	-
Conditions not met - transferred from Expanded Public Works Programme Grant	(186 501)	-
Conditions not met - transferred from Municipal Disaster Relief Grant	(202 701)	-
Revenue accrued in terms of Division of Revenue Act	-	(1 368 000)
	-	-

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	6 397 104	-
Current-year receipts	22 103 000	22 504 000
Conditions met - transferred to revenue	(20 916 660)	(16 106 896)
Conditions not met - transferred to Equitable Share	(1 370 798)	-
	<b>6 212 646</b>	<b>6 397 104</b>

Conditions still to be met - remain liabilities (see note 14).

The grant was used for the construction of community halls and extension of access roads.

The grant was received from National Treasury.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>25. Government grants and subsidies (continued)</b>		
<b>Expanded Public Works Programme Grant</b>		
Balance unspent at beginning of year	186 501	-
Current-year receipts	3 544 000	1 901 000
Conditions met - transferred to revenue	(3 544 000)	(1 714 499)
Conditions not met - transferred to Equitable Share	(186 501)	-
	<b>-</b>	<b>186 501</b>

Conditions still to be met - remain liabilities (see note 14)..

The grant was received from the National Department of Roads and Public Works and was used for stipends for unemployed youths.

The grant could not be fully utilised due to the impact of COVID-19 on the operations of the Municipality.

### Municipal Disaster Relief Grant

Balance unspent at beginning of year	202 702	-
Current-year receipts	-	328 000
Conditions met - transferred to revenue	-	(125 298)
Conditions not met - transferred to Equitable Share	(202 702)	-
	<b>-</b>	<b>202 702</b>

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

### Integrated National Electrification Programme Grant

Balance unspent at beginning of year	1 958 715	-
Current-year receipts	5 005 000	5 160 000
Conditions met - transferred to revenue	(2 244 729)	(3 201 285)
	<b>4 718 986</b>	<b>1 958 715</b>

Conditions still to be met - balance remain in unspent conditional grant liabilities (see note 14).

The grant was received from the Integrated National Electrification Programme from DoE through National Treasury.

The grant was not fully utilised due to the impact of COVID-19 on the operations of the Municipality.

### 26. Fines and penalties

Traffic fines issued during the year	123 150	201 900
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### 27. Other Transfer Revenue

Library Subsidy	500 000	500 000
LG Seta transfer	82 976	302 124
	<b>582 976</b>	<b>802 124</b>

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>28. Employee related costs</b>		
Basic Salaries	49 044 991	50 378 672
Annual Bonus (13th Cheques)	3 956 227	3 586 914
UIF	329 746	358 079
SDL	471 552	493 612
SALGA BC Levies	23 029	21 867
Redemption of Leave	2 496 719	2 601 647
Cellphone Allowance	405 278	320 827
Shift Allowance	257 889	231 204
Travel, motor car, accommodation, subsistence and other allowances	342 503	-
Overtime payments	418 361	355 185
Long-service awards	201 085	476 767
Acting allowances	595 094	1 297 321
Housing Allowances	184 402	143 037
Medical Aid Contributions	3 237 711	3 105 748
Pension Fund Contributions	7 428 539	7 356 523
Subsistence and Travel	4 001 499	3 378 093
	<b>73 394 625</b>	<b>74 105 496</b>

### Remuneration of Director: Former Municipal Manager

Annual Remuneration	570 329	1 021 485
Annual bonus	70 749	68 099
Performance bonus	-	43 196
Backpay	99 311	85 124
SDL	9 287	11 980
UIF	1 190	1 785
Travel allowance	181 592	275 552
Medical allowance	43 752	-
Provident allowance	101 526	-
Bargain council	79	65
Acting allowance	-	24 378
	<b>1 077 815</b>	<b>1 531 664</b>

The former Municipal Manager was acting in the position up to 28 February 2021.

### Remuneration of Director: Current Municipal Manager

Annual Remuneration	122 711	-
Subsistence and Travel	12 745	-
SDL	1 983	-
UIF	297	-
Travel allowance	12 021	-
Medical allowance	29 350	-
Housing allowance	30 436	-
Bargaining council	20	-
	<b>209 563</b>	<b>-</b>

The current Municipal Manager was appointed on 03 May 2021.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 28. Employee related costs (continued)

#### Remuneration of Director: Chief Financial Officer

Annual Remuneration	696 010	501 025
Annual bonus	94 055	-
Backpay	45 941	34 456
Travel Allowance	196 078	161 522
SDL	11 635	8 717
UIF	1 785	1 358
Cellphone allowance	33 115	26 694
Non-pensionable allowance	-	45 400
Acting allowance	-	29 793
Bargaining Council	119	84
Medical allowance	137 501	60 000
	<b>1 216 239</b>	<b>869 049</b>

#### Remuneration of Director: Corporate Services

Annual Remuneration	541 583	651 609
Annual bonus	42 756	43 693
Leave payout	62 012	-
Backpay	62 353	53 446
Travel Allowance	148 106	110 263
Provident fund allowance	111 531	-
SDL	8 481	6 961
UIF	1 785	1 785
Medical aid allowance	53 688	53 688
Bargaining Council Levy	119	112
	<b>1 032 414</b>	<b>921 557</b>

#### Remuneration of Director: Technical Services

Annual Remuneration	620 719	392 032
Annual Bonus	74 867	-
Acting Allowance	193 059	-
Backpay	80 680	40 837
Travel allowance	59 335	133 724
Cellphone allowance	12 000	8 000
Housing allowance	74 502	33 196
Medical allowance	52 548	35 032
Provident allowance	126 522	-
SDL	11 699	5 767
UIF	1 785	1 790
Bargaining council	119	74
	<b>1 307 835</b>	<b>649 852</b>

Ms. Siwundla was acting as municipal manager as Mrs. Mpahlwa was on suspension.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 28. Employee related costs (continued)

#### Remuneration of Director: Former Community Services

Annual Remuneration	417 528	810 272
Annual bonus	56 749	61 479
Backpay	82 760	70 937
Travel allowance	132 415	226 998
Medical allowance	28 623	49 068
Provident allowance	70 689	-
SDL	7 623	11 024
UIF	1 041	1 785
Bargaining council	69	112
	<b>797 497</b>	<b>1 231 675</b>

The last working day of the former Community Services Director was on 31 January 2021.

#### Remuneration of Director: Current Community Services

Annual Remuneration	129 572	-
Annual bonus	27 673	-
SDL	1 678	-
UIF	297	-
Bargaining council	20	-
	<b>159 240</b>	<b>-</b>

Mr. Mbangi was appointed as Director: Community Services on 10 May 2021 and his pro-rated basic salary amounted to R 55,034.40 for 16 days.

### 29. Remuneration of councillors

Mayor	882 622	900 532
Speaker	801 169	741 026
Chief Whip	374 345	423 157
MPAC Chair	397 675	402 264
Exco	1 159 391	1 246 314
Other Councillors	5 310 538	5 792 827
Ward committees	1 437 005	1 428 460
	<b>10 362 745</b>	<b>10 934 580</b>

#### Additional information

The Remuneration of Councillors is based on the upper limit as per Government Gazette.

The Mayor and the Speaker each have the use of separate Council-owned vehicles and are provided with an office and secretarial support at the cost of the Council for official duties. The Mayor and the Speaker have designated drivers for official duties.

There were no in-kind benefits declared nor received by the Councillors.

### 30. Depreciation and amortisation

Property, plant and equipment:	40 742 977	49 336 746
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# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 31. Finance costs

Interest on late payment of suppliers	13 216	10 959
Finance costs on Landfill Site Provision and Long Service Awards Obligation	758 025	1 012 866
	<b>771 241</b>	<b>1 023 825</b>

### 32. Debt impairment

Debt impairment	1 876 315	460 210
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Debt impairment is an assessment of the amounts that will not be recovered from the debtors, based on the municipality's policy.

### 33. Contracted services

Repairs and Maintenance - PPE	2 741 796	2 876 933
Other contracted services	6 582 764	3 505 878

As per GRAP 17 (Paragraph 88), repairs and maintenance amounting to R 2,241 905 (2020: R 2,662,483) relates to repairs and maintenance to property, plant and equipment.

### 34. Grants expenditure

Grant expenditure	1 967 222	2 784 176
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Grant expenditure of R 1,967,222 (2020: R 2,784,176) relates to expenditure incurred for projects relating to the Integrated National Electrification Programme. Refer to note 38 for details relating to the prior year adjustments.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>35. General expenses</b>		
Accommodation Expenses	721 446	1 353 206
Advertising	432 656	279 463
Bank charges	55 423	77 014
Computer expenses	52 744	47 401
Legal expenses	3 027 448	3 077 420
Audit committee fees	341 330	320 492
Audit fees	4 251 074	3 323 634
Consultation and Professional Fees	718 161	494 247
Conferences and seminars	189 512	446 338
Motor vehicle expenses	310 260	340 277
Fuel and oil	849 935	943 832
Catering	273 265	530 040
Printing and stationery	209 893	204 810
Town Planning costs	130 680	309 246
Royalties and license fees	1 058 839	813 415
Learnerships and interns	3 550 060	1 714 498
Employee Assistance Programme	108 470	5 244
Subscriptions and membership fees	740 289	799 838
Telephone	1 547 990	1 862 186
Training	922 593	805 778
Refuse	201 294	322 450
Electricity	4 853 982	3 147 254
Water - municipal use	589 891	2 252 695
Uniforms	519 340	251 667
Tourism development	85 705	29 000
Agriculture	25 568	35 000
Life Saver Hire	74 920	153 897
Special Programmes Unit	1 361 939	859 689
IDP Reviewal	-	16 249
Financial Management Enhancement	696 678	609 873
Consumables	122 538	153 287
Miscellaneous expenses	1 086 966	1 695 639
	<b>29 110 889</b>	<b>27 275 079</b>
<b>36. Loss on Disposal and Revaluation of Assets</b>		
Loss on disposal of property, plant and equipment	2 037 857	553 063
<b>37. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	35 847 733	29 896 054
<b>Contracted for service delivery by accounting officer</b>		
• Property, plant and equipment	550 155	-
<b>Total capital commitments</b>		
Already contracted for but not provided for	35 847 733	29 896 054
Not yet contracted for and authorised by accounting officer	550 155	-
	<b>36 397 888</b>	<b>29 896 054</b>

This committed expenditure relates to property and will be financed through Municipal Grants, existing cash resources and funds internally generated.



# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 38. Prior-year adjustments

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

#### Statement of financial position

##### 2019

	Note	As previously reported	Correction of error	Restated
Investment Property		19 452 753	29 812 666	49 265 419
Property, Plant and Equipment		274 065 538	10 921 536	284 987 074
Accumulated surplus		296 652 617	36 968 596	333 621 213
		<b>590 170 908</b>	<b>77 702 798</b>	<b>667 873 706</b>

##### 2020

	Note	As previously reported	Correction of error	Re-classification	Restated
Investment Property		19 452 753	29 812 666	-	49 265 419
Property, Plant and Equipment		262 728 270	(14 274 816)	-	248 453 454
Receivables from exchange transactions		4 893 229	-	(3 695 299)	1 197 930
Receivables from non-exchange transactions		15 649 282	(1 961 601)	3 695 299	17 382 980
Intangible Assets		498 568	(498 568)	-	-
Payables from exchange transactions		(14 341 186)	(53 010)	-	(14 394 196)
Accumulated surplus		304 521 717	13 024 674	-	317 546 391
		<b>593 402 633</b>	<b>26 049 345</b>	<b>-</b>	<b>619 451 978</b>

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 38. Prior-year adjustments (continued)

#### 2020

	Note	As previously reported	Correction of error	Restated
Revenue from non-exchange transactions (Propert Rates)		31 907 774	8 503 527	40 411 301
Bad debts written off		-	(8 503 527)	(8 503 527)
Depreciation and Amortisation		(30 621 895)	(19 144 851)	(49 766 746)
Debt impairment		1 554 401	(2 014 611)	(460 210)
Grant expenditure		-	(2 784 176)	(2 784 176)
Employee costs		(74 135 748)	30 252	(74 105 496)
Remuneration of Councillors		(10 904 328)	(30 252)	(10 934 580)

Revenue from non-exchange transactions (Property Rates) - The comparative figure was restated to correct a prior year adjustment relating to debtors' write-offs. The amount was incorrectly posted against the Revenue votes and not against bad debts written off. Net effect - Increase: R 8,503,527.

Intangible assets - The comparative figure was restated to take into account the derecognition of land inventory items assessed to not to meet the definition of an intangible asset. Net effect - Decrease: R 498,568 (2020).

Investment Property - The comparative figure was restated to take into account assets reallocated from land, assets not previously recognised and assessed not to be in control of the Municipality. Net effect - Increase: R 29,812,666 (2019 and 2020).

Property Plant and Equipment (Land) - The comparative figure was restated to take into account the derecognition of land items assessed not to be in control of the Municipality. Net effect - Decrease: R 24 703 858 (2019 and 2020).

Property Plant and Equipment (Buildings) - The comparative figure was restated to take into account assets incorrectly capitalised to property, plant and Equipment. Net effect - Decrease: R 12,442,975 (2019 and 2020).

Property Plant and Equipment (Infrastructure) - The comparative figure was restated to take into account Roads assets not previously recognised. Net effect - Increase: R 30,606,159. (2019 and 2020).

Property Plant and Equipment (Work in Progress) - The comparative figure was restated to take into account expenditure relating to the Integrated National Electrification Programme, whereas the related expenditure was assessed not to meet the definition of an asset. Net effect - Decrease: R 11,774,446.49.

Property Plant and Equipment (Work in Progress) - In addition to the paragraph above, it was noted by management that a project that was transferred out of WIP in the prior year was done incorrectly as work continued on the project in the 2021 financial year. As such the project was taken back to WIP. Net effect - Increase: R 3,567,499.65

Property Plant and Equipment (Plant and Equipment) - The comparative figure was restated to take into account the correction on opening balance of Accumulated Depreciation. Net effect - Decrease: R 210,112.

Property Plant and Equipment (Office Furniture) - The comparative figure was restated to take into account the correction on opening balance of Accumulated Depreciation. Net effect - Increase: R 101,989.

Property Plant and Equipment (Motor vehicles) - The comparative figure was restated to take into account the correction on opening balance of Accumulated Depreciation. Net effect - Decrease R 256,330.

Property Plant and Equipment (Office Equipment) - The comparative figure was restated to take into account the correction on opening balance of Accumulated Depreciation. Net effect - Increase R 46,008.

Property Plant and Equipment (Maintenance Equipment) - The comparative figure was restated to take into account the correction on opening balance of Accumulated Depreciation. Net effect - Decrease: R=350

Property Plant and Equipment (IT Equipment) - The comparative figure was restated to take into account the correction on opening balance of Accumulated Depreciation. Net effect - Increase: R 201,116.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 38. Prior-year adjustments (continued)

Property Plant and Equipment (Security Equipment) - The comparative figure was restated to take into account the correction on opening balance of Accumulated Depreciation. Net effect - Increase: R 1,417.

Property Plant and Equipment (Other Equipment) - The comparative figure was restated to take into account the correction on opening balance of Accumulated Depreciation. Net effect - Increase R 1,416.

Property Plant and Equipment (Park Facilities) - The comparative figure was restated to take into account the correction on opening balance of Accumulated Depreciation. Net effect - Increase R 587,726.

Receivables from exchange transactions and non-exchange transactions - Interest on Property Rates Debtors was reclassified from Receivables from exchange transactions to Receivables from non-exchange transactions. Net adjustment: R 3,695,299.

Receivables from non-exchange transactions and Payables from exchange transactions - The comparative figure was restated to take into account corrections in terms of traffic fines received which could not be allocated towards a traffic fine debtors balance - Net effect - Increase: R 53,010. In addition, the receivables balance relating to traffic fine debtors was re-assessed and subsequently impaired. The net effect of this re-assessment - Decrease: R 2,014,611. The overall net effect of the restatement to the balance for Receivables from non-exchange transactions is therefore: Decrease: R 1,961,601.

Payables from exchange transactions - The comparative figure was restated to take into account corrections in terms of traffic fines received which could not be allocated towards a traffic fine debtors balance - Net effect - Increase: R 53,010.

Bad debts written off - The comparative figure for Property Rates and Bad debts written off was restated to correct a prior year adjustment relating to debtors' write-offs. The amount was incorrectly posted against the Revenue votes and not against bad debts written off. Net effect - Increase: R 8,503,527.

Depreciation and Amortisation - The comparative figure was restated to take into account various corrections as per the individual items for Property, Plant and Equipment. Net effect: Increase: R 19,144,851.

Debt impairment - The receivables balance relating to traffic fine debtors was re-assessed and subsequently impaired. The net effect on the Statement of Financial Performance - Increase: R 2,014,611.

Grant expenditure - The comparative figure was restated to take into account expenditure relating to the Integrated National Electrification Programme, whereas the related expenditure was assessed not to meet the definition of an asset. Net effect - Increase R 2,784,176.

Employee costs - The comparative figure was restated to take into account the correction of a misallocation of councillors' cellphone allowance. Net effect - Decrease: R 30,252.

Councillors' Remuneration - The comparative figure was restated to take into account the correction of a misallocation of councillors' cellphone allowance. Net effect - Increase: R 30,252.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 38. Prior-year adjustments (continued)

#### 2020 - Cash Flow Statement

	Note	As previously reported	Correction of error	Restated
<b>Cash Flows from operating activities</b>				
Billed Services		40 862 364	5 384 630	46 246 994
Government Grants		114 101 000	(7 377 022)	106 723 978
Receipts from other services		60 913	3 912 039	3 972 952
Cash paid to suppliers for goods and services		(32 360 448)	(1 551 617)	(33 912 065)
Payments to and on behalf of employees and councillors		(84 741 831)	(298 245)	(85 040 076)
		<b>37 921 998</b>	<b>69 785</b>	<b>37 991 783</b>
<b>Cash flow from investing activities</b>				
Purchase of Property, Plant and Equipment		19 453 057	69 784	19 522 841
<b>Cash generated from operating activities</b>				
Surplus for the year		7 868 813	(23 943 637)	(16 074 824)
Depreciation and Amortisation		30 621 895	19 144 851	49 766 746
Debt Impairment		(1 554 401)	1 554 401	-
Additions to long service bonus		823 397	(823 397)	-
Movements related to employee liabilities		573 284	(573 284)	-
Interest on Landfill site provision		737 828	285 997	1 023 825
Other non-cash items		7 193	(7 193)	-
VAT receivable		(1 299 132)	1 299 132	-
Receivables from exchange transactions		1 902 435	3 695 299	5 597 734
Receivables from non-exchange transactions		(1 043 191)	(1 733 698)	(2 776 889)
Payables from exchange transactions		(8 347 365)	10 829 207	2 481 842
Payables from non-exchange transactions		912 872	(912 872)	-
Unspent conditional grants and receipts		8 745 022	(8 745 022)	-
		<b>39 948 650</b>	<b>69 784</b>	<b>40 018 434</b>

The amounts per the comparative figures for the Cash Flow Statement were restated as a result of various prior year adjustments effected for items per the statement of financial performance and statement of financial position as indicated above. In addition to incorrect amounts used in the prior year cash flow statements and the calculation was therefore reperformed.

### 39. 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 provide 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.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 39. Risk management (continued)

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

#### Credit risk

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

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

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

Financial instrument	2021	2020
Receivables from exchange transactions	1 583 736	1 197 930
Receivables from non-exchange transactions	17 456 757	17 382 980
Cash and cash equivalents	58 841 329	21 676 686
Payables from exchange transactions	18 130 086	14 394 196
Payables from non-exchange transactions	906 654	1 415 416
Unspent conditional grants and receipts	10 931 632	8 745 022

#### Market risk

##### Interest rate risk

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

There is no impact on other market risks.

### 40. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 328 925 511 and that the municipality's total liabilities do not exceed its assets.

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.

### 41. Events after the reporting date

Councillor L. Moyeni passed away on 27 July 2021.

Subsequent to the year ended 30 June 2021, between the 3 and 5 of August 2021 a municipal vehicle was involved in an incident which resulted in both damage to the vehicle and private property.

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 41. Events after the reporting date (continued)

Although considered to be a non-adjusting event as conditions pertaining to the damages were not relevant to the financial period under review it will have a short-term financial impact going forward in terms of utilization of cash resources which is still being determined. The Municipality is insured so ultimately it is expected that no significant loss will occur.

### 42. Unauthorised expenditure

Opening balance as previously reported	45 154 402	41 672 639
<b>Opening balance as restated</b>	<b>45 154 402</b>	<b>41 672 639</b>
Add: Unauthorised expenditure identified - current	18 394 190	3 481 763
Less: Approved/condoned/authorised by council	(34 717 821)	-
<b>Closing balance</b>	<b>28 830 771</b>	<b>45 154 402</b>

Unauthorised expenditure identified relates to depreciation - refer to the Statement of Comparison of Budget and Actual Amounts.

### 43. Fruitless and wasteful expenditure

Opening balance as previously reported	532 481	519 326
<b>Opening balance as restated</b>	<b>532 481</b>	<b>519 326</b>
Add: Expenditure identified - current year	16 633	13 155
<b>Closing balance</b>	<b>549 114</b>	<b>532 481</b>

Fruitless and wasteful expenditure relates to interest from late payments of suppliers.

### 44. Irregular expenditure

Opening balance as previously reported	104 975 114	122 243 110
<b>Opening balance as restated</b>	<b>104 975 114</b>	<b>122 243 110</b>
Add: Irregular Expenditure - current	1 882 292	6 868 351
Less: Amount written off - current	(487 913)	(24 136 347)
Less: Amount written off - prior period	(659 161)	-
<b>Closing balance</b>	<b>105 710 332</b>	<b>104 975 114</b>

**NGQUSHWA LOCAL MUNICIPALITY**  
(Registered in terms of the Companies Act 71 of 1973)  
Annual Financial Statements for the year ended 30 June 2021

**Notes to the Annual Financial Statements**

Figures in Rand

2021 2020

**44. Irregular expenditure (continued)**

**Details of irregular expenditure:**

	2021	2020
Supply Chain Management Processes not followed in making awards	1 352 680	6 249 294
Expenditure in excess of contract amount	6 509	-
Remuneration of Senior Managers in excess of regulatory upper limits	523 103	619 057
	<b>1 882 292</b>	<b>6 868 351</b>

**Disciplinary steps taken/criminal proceedings**

**45. Deviation from supply chain management regulations**

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

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

Listed below are various circumstances where goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reason for these deviation from the normal supply chain management regulations.

**Incidents**

Deviations due to emergency procurement

Deviations due to sole supplier procurement

Deviations due to the impracticality of following SCM processes

1 948 443	147 626
907 143	1 379 127
893 954	504 936
<b>3 749 540</b>	<b>2 031 689</b>

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 46. Contingencies

Contingencies arise from pending litigation on contractual disputes and damage claims. As the conclusion of the process is dependent on the setting of dates by the respective courts, the timing of the economic flows is therefore uncertain.

#### Contingent liabilities and assets

##### Contingent Liabilities

Contingent liabilities incurred are as follows:

Dielanga Trading CC  A claim by Dielanga Trading CC based on a dispute for services rendered  Case is still pending	595 872	595 872
Gwavu (EFF)  Composition of EXCO in that it excludes the opposition parties  Matter set down for hearing of the application on 14/08/2018	-	350 000
Zukisa Jowela  Plaintiff claim retrospective payment prior to being sworn as councillor	-	828 774
Vezokuhle Youth Development Project  Vezokuhle claim that the municipality has failed to pay for the services rendered.	-	300 000
Moletsane Attorneys  Applicant demands payment for legal services rendered to the Municipality's former mayor	300 000	-
EC Black Contractors Forum & 2 others - Case Number: 1080/2021  Notice of motion brought against Municipality in respect of a disregard of a court order	150 000	-
EC Black Contractors Forum & 2 others - Case Number: 2476/2020  Tender awards set aside and cost order granted against Municipality	250 000	-
Emthonjeni Art Centre  Tenant served with eviction notice  Cancellation and eviction of application being pursued in High Court	250 000	-
	<b>1 545 872</b>	<b>2 074 646</b>

##### Contingent assets

In 2020, Councillor MT Siwisa brought to an application alleging various bizarre, irregular and unlawful resolutions were taken by the council in the special council meetings held on 10 March 2020, 16 March 2020, 14 May 2020 & 29 May 2020. Application was dismissed in court with costs to be paid by the applicant. The contingent asset is estimated at R 329,829.

A third party claim was brought against the Municipality by the MEC Education in respect of personal damages suffered by a minor child at a government school in Peddie. The matter was opposed successfully by the Municipality and two court orders were issued against the MEC Education to pay the Municipality's legal costs in defending the matter in court. Costs relating to one legal bill has been paid by the MEC Education and payment of the second bill of legal costs are pending. Estimated contingent asset R 102,453.47

Tshukulwana Trading applied to court in terms of the PAIA to access records held by the Municipality. The required information was provided to the applicant and the applicant was subsequently requested to withdraw the case, however failed in this regard. The Municipality has applied for the dismissal of the matter and a court order was obtained to dismiss the application with costs. Estimated contingent asset R 219,269.15

A claim was brought against the Municipality by Nosizwe Madlingozi in respect of personal damages suffered by a minor child at a stadium in Peddie. The matter and a subsequent appeal was heard in court and was dismissed with costs payable to the Municipality. Estimated contingent asset R 440,170.00

### 47. Related parties

GRAP 20 requires a disclosure of related party transactions during the financial period of the financial statements as well as the nature of the related party relationship, the nature of the transactions and outstanding balances including commitments. However, those disclosures are not required for transactions which occurred in the normal course of business.

Further, the municipality is also required to disclose the remuneration of its management having the authority to direct the business of the municipality. Key management include the Mayor, Speaker, Mayoral Committee members, Councillors, Municipal Manager, Chief Financial Officer and the Directors. For the remuneration of key management and Councillors, refer to Notes 29 and 30 respectively.



# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

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

#### Contributions to organised local government

Current year subscription / fee	750 778	799 838
Amount paid - current year	(750 778)	(799 838)
	-	-

#### Audit fees

Current year subscription / fee	4 251 074	3 323 634
Amount paid - current year	(4 251 074)	(3 323 634)
	-	-

#### PAYE, SDL and UIF

Opening balance	-	831 334
Current year subscription / fee	12 616 762	11 283 673
Amount paid - current year	(12 616 762)	(12 115 007)
	-	-

#### Pension and Medical Aid Deductions

Opening balance	-	1 073 346
Current year subscription / fee	17 989 878	17 207 580
Amount paid - current year	(17 989 878)	(18 280 926)
	-	-

#### VAT

VAT receivable	2 616 686	2 210 499
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VAT output payables and VAT input receivables are shown in note .

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

#### Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2021:

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

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

#### SCM Regulation 45 disclosure

In terms of the Municipal Supply Chain Management Regulation 45, the Municipality must disclose particulars of any award of more than R 2000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous 12 months, including the name of the person, the capacity in which that person is in the service of the state, and the amount of the award. The following awards were made to entities with relationships with officials of the Municipality:

Awards to entities with relationships with officials in the service of state	Name of official	Position	Relationship to entity directors	Supplier name	Amount
	A. Boqwana	Budget Clerk	Spouse	Andile SG Trading and Projects	1 041 037
	N. Vuba	Traffic officer	Spouse	Kyoway (Pty) Ltd	3 800
					<b>1 044 837</b>

### 49. Cash generated from operations

Surplus (deficit)	11 379 120	(16 074 824)
<b>Adjustments for:</b>		
Depreciation and amortisation	40 712 977	49 766 746
Gain on sale of assets and liabilities	2 037 857	553 063
Movements in operating lease assets and accruals	(641 402)	-
Movements in provisions	771 241	1 023 825
Operating lease income accrued	-	(683 744)
<b>Changes in working capital:</b>		
Receivables from exchange transactions	(385 806)	5 597 734
Receivables from non-exchange transactions	(73 777)	(2 776 889)
Payables from exchange transactions	5 874 500	2 481 842
VAT	(406 186)	-
Taxes and transfers payable (non-exchange)	(492 462)	-
	<b>58 776 062</b>	<b>39 887 753</b>

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 50. Segment information

#### General information

#### Identification of segments

For management purposes the Municipality is organised and operates in key functional (or business units). To this end, management monitors the operating results of these business units for the purpose of making decisions about resource allocations and assessment of performance. Revenue and expenditure relating to these business units are allocated at a transactional level.

Management receives on a monthly basis a C schedule that provides actual amounts at that time per both department and function

#### Types of goods and/or services by segment

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

#### Reportable segment

Community and public safety

Technical Services

#### Goods and/or services

Cleansing services, library services, community hall rental and recreation

Project management , road construction and maintenance

**NGQUSHWA LOCAL MUNICIPALITY**  
 (Registration number EC-126)  
 Annual Financial Statements for the year ended 30 June 2021

**Notes to the Annual Financial Statements**  
 Figures in Rand

**50. Segment information (continued)**

**Segment surplus or deficit, assets and liabilities**

2021

	Community Services	Technical Services	Total
<b>Revenue</b>			
Revenue from non-exchange transactions	123 150	-	123 150
Revenue from exchange transactions	724 567	-	724 567
<b>Total segment revenue</b>	<b>847 717</b>	<b>-</b>	<b>847 717</b>
<b>Entity's revenue</b>			<b>847 717</b>
<b>Expenditure</b>			
Employee costs	24 204 370	9 876 886	34 081 256
Contracted services	280 309	1 010 032	1 290 341
Grant expenditure	-	1 967 222	1 967 222
General expenditure	1 917 896	22 271	1 940 167
<b>Total segment expenditure</b>	<b>26 402 575</b>	<b>12 876 411</b>	<b>39 278 986</b>
<b>Total segmental surplus/(deficit)</b>			<b>(38 431 269)</b>

**Assets**

Segment assets

<b>Total assets as per Statement of financial Position</b>	6 563 288	13 168 925	19 732 213
<b>Total assets as per Statement of financial Position</b>			<b>19 732 213</b>

**Liabilities**

Segment liabilities

<b>Total liabilities as per Statement of financial Position</b>	-	(4 718 986)	(4 718 986)
<b>Total liabilities as per Statement of financial Position</b>			<b>(4 718 986)</b>

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 50. Segment information (continued)

#### Information about geographical areas

The Municipality is not split into Geographical Segments as only operates within its own Demarcation area within the Eastern Cape

2021

	2021	2020
		Reconciliation of segment information to the statement of Financial Performance
Total segment revenue		(847 718)
Revenue from exchange transactions allocated to departments that do not meet the definition of a segment - Finance		(9 734 765)
Revenue from non-exchange transactions allocated to departments that do not meet the definition of a segment - Finance		(173 785 773)
<b>Total Revenue per the Statement of Financial Performance</b>		<b>(184 368 256)</b>
		2021
<b>Reconciliation of segment expenditure to the Statement of Financial Performance</b>		
Total segment expenditure		39 278 985
Employee related cost		39 313 367
Remuneration of councillors		10 362 746
Depreciation and amortisation		40 712 977
Finance costs		771 242
Bad debts written off		3 430 706
Debt impairment		1 876 315
Contracted services		8 034 220
General expenditure		27 170 721
Loss on disposal		2 037 587
<b>Expenditure per Statement of Financial Performance</b>		<b>172 988 866</b>
		2021
Surplus/deficit		(11 379 120)
		2021
Total Segment Assets		19 732 213
Assets not allocated to reportable segments		344 381 838
<b>Total assets per statement of Financial Position</b>		<b>364 114 051</b>
		2021
Total Segment Liabilities		(4 718 986)
Liabilities not allocated to reportable segments		(40 518 739)
<b>Total liabilities per statement of Financial Position</b>		<b>(45 237 725)</b>

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>51. Statutory Receivables</b>		
<b>Property Rates</b>		
Property Rates	11 640 069	11 084 241
Interest on Property Rates	8 544 289	5 713 257
Impairment on Property Rates	(7 643 805)	(6 053 788)
	<b>12 540 553</b>	<b>10 743 710</b>
<b>VAT Receivables</b>		
Vat Receivables	2 616 685	2 210 489
<b>Other receivables</b>		
Fines	2 221 991	2 059 731
<b>Total Statutory Receivables</b>		
Gross	26 543 823	21 067 718
Impairment	(7 643 805)	(6 053 788)
	<b>18 900 018</b>	<b>15 013 930</b>

## 52. Accounting by principals and agents

The Municipality is a party to principal-agent agreements as follows:

The Department of Transport is responsible for registration, licensing and testing functions in terms of the applicable national and provincial road traffic legislation. The Municipality and the Department of Transport entered into an agreement for the transfer of registration and licensing of motor vehicles functions, wherein the Municipality will be entitled to the collection fee of 19%, including VAT for all fees collected in terms of the agreement entered into.

The Department of Energy (DoE) provides funding for the electrification of houses in terms of the Integrated National Electrification Programme ("INEP") for the connection of houses on behalf of Eskom.

No resources were held on behalf of the principals.

No liabilities have been incurred on behalf of the principals.

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the Department of Transport is R 4 18 241 (2020: R 3 16 454). The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the Department of Energy is R 2 244 729 (2020: R 3 201 285).

## 53. Budget differences

### Material differences between budget and actual amounts

1. Inventories 57% variance - Underbudgeted or as the inventory balance remained unchanged from the prior year.
2. Operating lease asset: 64% variance - Straight-line of Operating Lease not budgeted for

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

### Figures in Rand

#### 53. Budget differences (continued)

3. Receivables from non-exchange transactions: 26% variance - The variance occurred due to the Implementation of prior year write off of Traffic Fines.
4. VAT Receivable: 100% variance - the line item was not budgeted for.
5. Receivable from exchange transactions: 8,8% variance - not material
6. Cash and cash equivalents: 178% variance - Better than expected results from strong cash management and expenditure control processes
7. Intangible Assets: 100% variance - Derecognition of balances previously budgeted for.
8. Investment property: 85% variance - An extensive restatement process had taken place during the current financial year.
9. Property, Plant and Equipment: 24,6% variance - An extensive restatement process had taken place during the current financial year
10. Payables from exchange transactions: 7,2% variance - Not material
11. Payables from non-exchange transactions: 100% variance - Not budgeted for
12. Employee benefit obligation (current portion): 100% - Not budgeted for
13. Unspent conditional grants: 100% - Not budgeted for
14. Provisions (current liabilities): 100% - Refer to long-term provisions
15. Employee benefit obligation (non-current portion): 100% - Long-term portion of long service awards not budgeted for. Only the finance cost element noted in terms of adjustments to the provision whereas budget took into account.
16. Provisions (non-current liabilities): 20,2% - additional changes that arose during assessment.
17. Employee related costs: 3,3% - not material
18. Remuneration of councillors: 5,6% - not material
19. Depreciation and amortisation: 103,8% - An extensive restatement with respect to roads resulted in a considerable higher cost base, thereby impacting depreciation.
20. Finance costs: 100% - Landfill site not budgeted for
21. Debt impairment: 82% - Levels of impairment greater than budgeted for.
22. Bad debts written off: 100% - not budgeted for.
23. Transfers and subsidies: 100% - Relates to INEP expenditure not budgeted for.
24. General expenditure: 21% - Mainly due to a significant increase in learnership expenditure.
25. Loss on disposal of assets: 100% Not budgeted for.
26. Service charges: 2,67% - Not material
27. Rental of facilities and equipment: 54,3% - Increase in lease rental
28. Agency fees: 25,27% - Increase in collection on behalf of principal
29. Licences and Permits: 22,29% - Increase in customer base

# NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC 126)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

### Figures in Rand

---

#### 53. Budget differences (continued)

30. Other revenue: 86% - No revenue relating to Amathole District Municipality.
31. Interest earned on outstanding debtors: 42% - increase in payment arrangements with customers
32. Interest received - investment: 58% - increase in bank balances
33. Property Rates - 1% - Not material.
34. Government Grants - 7,6% - Not material
35. Fines and Penalties - 80% - Under-collection as a result of fewer traffic fines issued. A major contributing factor being numerous lockdown level restrictions due to the COVID 19 pandemic.
36. Other Transfer Revenue - 14,8% - This is a result if less training initiatives due to the COVID 19 Pandemic in relation to the LG SETA funds.
37. .Contracted Services - 62% variance - This is as a result of the non-implementation of planned projects as a result of various lockdown levels during the COVID 19 pandemic. Less contracted services were therefore employed.
38. Billed Services - 28% - Collection of outstanding debt.
39. Government Grants - 7,6% - Not material
40. Interest Revenue - 100% - Not budgeted for.
41. Receipts from other services - 58% - Due to various reasons as stated for the individual revenue items above. Mainly contributable to no revenue relating to Amathole District Municipality from other revenue.
42. Cash payments to Suppliers and Employees - 12,9% - Less payments towards suppliers as a result of non-implementation of projects due to the COVID 19 pandemic.-
43. Purchase of PPE - 46% - Less planned activities as a result of non-implementation of projects due to the COVID 19 pandemic