



**MAHIKENG**

**LOCAL MUNICIPALITY**  
Diversity. Culture . Heritage.

Mahikeng Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2021

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## General Information

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**Legal form of entity and governing legislation**

Local Municipality  
Municipal Finance Management Act( Act 56 of 2003)

**Nature of business and principal activities**

Provision of municipal services in terms of Chapter 7 of the Constitution of the Republic of South Africa, Act 108 of 1996 Municipal System Act No. 32 of 2000

**Executive Mayor**

Kb Diakanyo

**Councillors**

Stm Gasealahwe

Ga Masibi

Pi Mokgele

Smm Tsolo-Mulasi

Md Moroe

Md Phuthego

Cm Moseitlo

Mg Billiot

Me Lekhobe

T Motshabi

Mm Chanda

Lr Mange

De Van Rooyen

Tge Malebadi

Nm Ndlovu

KI Phetha

Mg Mokgosi

Sk Matsheka

Tg Damaniti

TI Selepe

SI Molefe

Nj Motau

Oj Motsepe

Wn Bohmer

Ka Phashe

Pp Mokolopi

Mc Segwe

Mj Rabotape

Ki Motalane

Mc Segoe

Dk Molema

Tc Kenalemongwe

S M M Melane

M Dichabe

Gk Kgaje

Eo Seleke

Tj Matoane

Gn Monnapula

Kp Motsumi

KI Dlamini

Sn Mokoena

Nd Moseki

Pd Seele

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## General Information

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Mj Monere  
Nv Moliwa  
Skb Diakanyo  
Ga Kgwadibane  
T Nebe  
Ga Seatlholo  
Tb Makolomakwa  
Bs Ngobeni  
Gk Mathakathaka  
Me Dingile  
Kc Seheri  
Mc Makolemako  
T M Seatlholo  
Gg Shole  
Mp Modisenyane  
Pm Ebusang  
Ll Machapa  
Ls Mogotlha  
Tw Maseng  
Tf Phambane  
Ng Hlazo  
Kz Ntamehlo  
Kkg Nko  
M E Moeti  
Mh Ramakgolo  
Jp Lemme  
Lf Machake  
Td Phungu

**Grading of local authority**

Category B

**Accounting Officer**

Mr NM Mokgwamme

**Chief Finance Officer**

Mr RA Morris

**Registered office**

Cnr University Drive & Hector Peterson Road  
Mmabatho  
2735

**Business address**

Cnr University Drive & Hector Peterson Road  
Mmabatho  
2735

**Postal address**

Private Bag X63  
Mmabatho  
2735

**Bankers**

Standard Bank of South Africa  
Business Centre, Nelson Mandela Drive, Mahikeng, 2745

**Auditors**

Auditor General of South Africa

**Preparer**

The annual financial statements were internally compiled by:  
Head of Annual Financial Statements: Aaron Penny Matlala

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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

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PIG	Provincial Infrastructure Grant
DORA	Division of Revenue Act
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
FMG	Financial Management Grant
SALGA	South African Local Government Association
SCM	Supply Chain Management
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
WIP	Work in Progress
PAYE	Pay As You Earn
CETA	Construction Education Training Authority Grant

# **Mahikeng Local Municipality**

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 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 accounting officer certifies that the salaries, allowances and benefits of councillors as disclosed in Note 25 of these financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act (Act 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 4 to 92, 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:

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**Mr NM Mokgwamme**  
**Accounting Officer**

# Mahikeng Local Municipality

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	7	16 993 095	16 111 426 ☆
Receivables from non-exchange transactions	8	16 503 176	116 672 229
Prepayment - SALGA		3 163 440	3 157 316
Receivables from exchange transactions	9	59 807 063	129 332 718 ☆
Cash and cash equivalents	10	40 948 096	15 427 328
		<b>137 414 870</b>	<b>280 701 017</b>
<b>Non-Current Assets</b>			
Investment property	3	246 983 000	357 218 500
Property, plant and equipment	4	1 704 424 953	1 655 694 924 ☆
Intangible assets	5	762 759	814 697
		<b>1 952 170 712</b>	<b>2 013 728 121</b>
Non-Current Assets		1 952 170 712	2 013 728 121
Current Assets		137 414 870	280 701 017
<b>Total Assets</b>		<b>2 089 585 582</b>	<b>2 294 429 138</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	12	7 500 000	802 105
Payables from exchange transactions	14	482 859 633	632 243 644 ☆
VAT payable	15	13 826 813	29 274 407 ☆
Consumer deposits	16	11 590 726	11 201 972
Employee benefit obligation	6	3 413 000	2 928 000
Unspent conditional grants and receipts	11	-	930 686
		<b>519 190 172</b>	<b>677 380 814</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	12	3 750 000	17 617 206
Employee benefit obligation	6	337 696 000	334 665 000
Provisions	13	129 057 717	117 612 937
		<b>470 503 717</b>	<b>469 895 143</b>
Non-Current Liabilities		470 503 717	469 895 143
Current Liabilities		519 190 172	677 380 814
<b>Total Liabilities</b>		<b>989 693 889</b>	<b>1 147 275 957</b>
Assets		2 089 585 582	2 294 429 138
Liabilities		(989 693 889)	(1 147 275 957)
<b>Net Assets</b>		<b>1 099 891 693</b>	<b>1 147 153 181</b>
Accumulated surplus		1 099 891 693	1 147 153 181 ☆

\* - This means there was a prior year adjustment done on the balance or transaction Refer to the prior period note

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	18	247 375 813	249 644 826 ☆
Rental of facilities and equipment	19	7 593 573	6 857 756
Interest income (Trading)		57 322 845	77 600 415
Licences and permits		2 959 950	2 364 140
Fees earned		6 168 814	3 596 173
Other income		13 557 226	2 808 966
Interest received - investment	21	6 225 438	7 409 330
<b>Total revenue from exchange transactions</b>		<b>341 203 659</b>	<b>350 281 606</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	22	301 731 443	318 056 436
<b>Transfer revenue</b>			
Government grants & subsidies	23	455 461 949	364 698 871
Fines, Penalties and Forfeits		820 567	2 448 830
Recognition of the roads		-	471 343 771
<b>Total revenue from non-exchange transactions</b>		<b>758 013 959</b>	<b>1 156 547 908</b>
		341 203 659	350 281 606
		758 013 959	1 156 547 908
<b>Total revenue</b>	17	<b>1 099 217 618</b>	<b>1 506 829 514</b>
<b>Expenditure</b>			
Employee related costs	24	(385 533 700)	(348 127 350) ☆
Remuneration of councillors	25	(29 261 023)	(29 045 903)
Depreciation and amortisation	26	(68 983 165)	(97 807 558)
Finance costs	27	(560 320)	(3 354 151)
Debt Impairment	28	(317 539 473)	(293 430 725) ☆
Repairs and maintenance		(23 724 136)	(3 281 516) ☆
Bulk purchases	29	(75 923 027)	(85 269 343)
Contracted services	30	(30 024 977)	(26 506 856)
General Expenses	31	(192 055 988)	(140 629 685) ☆
<b>Total expenditure</b>		<b>(1 123 605 809)</b>	<b>(1 027 453 087)</b>
Total revenue		1 099 217 618	1 506 829 514
Total expenditure		(1 123 605 809)	(1 027 453 087)
<b>Operating (deficit) surplus</b>		<b>(24 388 191)</b>	<b>479 376 427</b> ☆
Loss on disposal of assets and liabilities		(46 483 366)	(67 849 664) ☆
Fair value adjustments		(63 535 000)	78 802 285
Assets/ Liabilities losses/write-downs		(7 202 433)	(7 250 409) ☆
		<b>(117 220 799)</b>	<b>3 702 212</b>
Operating surplus/deficit		(117 220 799)	3 702 212
(Deficit) surplus before taxation		(141 608 990)	483 078 639
Taxation		-	-
<b>(Deficit) surplus for the year</b>		<b>(141 608 990)</b>	<b>483 078 639</b>

\* - This means there was a prior year adjustment done on the balance or transaction

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2019</b>	<b>664 239 119</b>	<b>664 239 119</b> ☆
Changes in net assets		
Surplus for the year	483 078 639	483 078 639
Prior period correction	(164 577)	(164 577)
<b>Total changes</b>	<b>482 914 062</b>	<b>482 914 062</b>
Opening balance as previously reported	1 146 702 476	1 146 702 476
<b>Balance at July 1, 2020 restated*</b>	<b>1 146 702 476</b>	<b>1 146 702 476</b> ☆
Changes in net assets		
Correction of payables opening balance	151 965 065	151 965 065
Correction of debt impairment	(16 843 052)	(16 843 052)
PPE adjustment	(1 628 656)	(1 628 656)
Other adjustments	(38 695 150)	(38 695 150)
Net income (losses) recognised directly in net assets	94 798 207	94 798 207
Surplus for the year	(141 608 990)	(141 608 990)
<b>Total recognised income and expenses for the year</b>	<b>(46 810 783)</b>	<b>(46 810 783)</b>
<b>Total changes</b>	<b>(46 810 783)</b>	<b>(46 810 783)</b>
<b>Balance at 30 June 2021</b>	<b>1 099 891 693</b>	<b>1 099 891 693</b>

\* - This means there was a prior year adjustment done on the balance or transaction



# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Cash Flow Statement

Figures in Rand	Note(s)	2021	2020
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property rates		271 562 630	177 057 946
Transfers and subsidies		454 531 263	362 592 524
Service charges		187 458 508	159 568 813
Interest Received		6 225 438	7 409 330
Other Receipts		31 053 084	11 779 156
VAT Receivable/(Payable)		(15 447 594)	(1 021 476)
		<b>935 383 329</b>	<b>717 386 293</b>
<b>Payments</b>			
Employee Related Costs		(380 109 416)	(304 724 134)
Remuneration of Councillors		(29 261 023)	(29 045 903)
Interest Paid		(560 320)	(485 978)
Suppliers paid		(375 318 369)	(184 546 150)
		<b>(785 249 128)</b>	<b>(518 802 165)</b>
Total receipts		935 383 329	717 386 293
Total payments		(785 249 128)	(518 802 165)
<b>Net cash flows from operating activities</b>	<b>32</b>	<b>150 134 201</b>	<b>198 584 128</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(117 377 648)	(131 591 052)
Proceeds from sale of property, plant and equipment	4	(46 573 862)	(58 907 094)
Proceeds from sale of investment property	3	46 700 452	-
Purchase of other intangible assets	5	(193 112)	-
<b>Net cash flows from investing activities</b>		<b>(117 444 122)</b>	<b>(190 498 146)</b>
<b>Cash flows from financing activities</b>			
Movement in Long term loan		(7 169 311)	-
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>25 520 768</b>	<b>8 085 982</b>
Cash and cash equivalents at the beginning of the year		15 427 328	7 341 346
<b>Cash and cash equivalents at the end of the year</b>	<b>10</b>	<b>40 948 096</b>	<b>15 427 328</b>

\* - This means there was a prior year adjustment done on the balance or transaction

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges - Water revenue	158 126 412	-	<b>158 126 412</b>	158 881 379	<b>754 967</b>	1
Service charges - Sanitation revenue	47 058 540	-	<b>47 058 540</b>	46 529 511	<b>(529 029)</b>	2
Service charges - refuse revenue	42 065 928	-	<b>42 065 928</b>	41 964 923	<b>(101 005)</b>	3
Rental of facilities and equipment	7 970 808	-	<b>7 970 808</b>	7 593 573	<b>(377 235)</b>	4
Interest income (Trading)	107 379 300	-	<b>107 379 300</b>	57 322 845	<b>(50 056 455)</b>	5
Licences and permits	1 745 112	-	<b>1 745 112</b>	2 959 950	<b>1 214 838</b>	6
Fees earned	-	-	-	6 168 814	<b>6 168 814</b>	7
Other income	7 629 300	-	<b>7 629 300</b>	5 930 738	<b>(1 698 562)</b>	8
Interest received - investment	4 053 000	-	<b>4 053 000</b>	6 225 438	<b>2 172 438</b>	9
<b>Total revenue from exchange transactions</b>	<b>376 028 400</b>	-	<b>376 028 400</b>	<b>333 577 171</b>	<b>(42 451 229)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	374 023 212	-	<b>374 023 212</b>	301 731 443	<b>(72 291 769)</b>	10
<b>Transfer revenue</b>						
Government grants & subsidies - Operational and Capital	354 984 992	-	<b>354 984 992</b>	455 461 949	<b>100 476 957</b>	11
Fines, Penalties and Forfeits	132 300	-	<b>132 300</b>	820 567	<b>688 267</b>	12
<b>Total revenue from non-exchange transactions</b>	<b>729 140 504</b>	-	<b>729 140 504</b>	<b>758 013 959</b>	<b>28 873 455</b>	
'Total revenue from exchange transactions'	376 028 400	-	<b>376 028 400</b>	333 577 171	<b>(42 451 229)</b>	
'Total revenue from non-exchange transactions'	729 140 504	-	<b>729 140 504</b>	758 013 959	<b>28 873 455</b>	
<b>Total revenue</b>	<b>1 105 168 904</b>	-	<b>1 105 168 904</b>	<b>1 091 591 130</b>	<b>(13 577 774)</b>	
<b>Expenditure</b>						
Employee related costs	(310 314 675)	-	<b>(310 314 675)</b>	(385 533 700)	<b>(75 219 025)</b>	13
Remuneration of councillors	(32 849 580)	-	<b>(32 849 580)</b>	(29 261 023)	<b>3 588 557</b>	14
Depreciation and amortisation	(60 014 640)	-	<b>(60 014 640)</b>	(69 014 662)	<b>(9 000 022)</b>	15
Finance costs	(2 640 758)	-	<b>(2 640 758)</b>	(560 320)	<b>2 080 438</b>	16
Debt Impairment	(284 226 420)	-	<b>(284 226 420)</b>	(317 539 473)	<b>(33 313 053)</b>	17
Bulk purchases	(86 383 080)	-	<b>(86 383 080)</b>	(75 923 027)	<b>10 460 053</b>	18
Contracted services	(151 199 246)	-	<b>(151 199 246)</b>	(30 024 977)	<b>121 174 269</b>	19
General Expenses	(92 048 694)	-	<b>(92 048 694)</b>	(215 780 124)	<b>(123 731 430)</b>	20
<b>Total expenditure</b>	<b>(1 019 677 093)</b>	-	<b>(1 019 677 093)</b>	<b>(1 123 637 306)</b>	<b>(103 960 213)</b>	
	1 105 168 904	-	<b>1 105 168 904</b>	1 091 591 130	<b>(13 577 774)</b>	
	(1 019 677 093)	-	<b>(1 019 677 093)</b>	(1 123 637 306)	<b>(103 960 213)</b>	
<b>Operating deficit</b>	<b>85 491 811</b>	-	<b>85 491 811</b>	<b>(32 046 176)</b>	<b>(117 537 987)</b>	
Loss on disposal of assets and liabilities	-	-	-	(46 483 366)	<b>(46 483 366)</b>	21

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Fair value adjustments	-	-	-	(63 535 000)	<b>(63 535 000)</b>	22
Inventories losses/write-downs	-	-	-	(7 202 433)	<b>(7 202 433)</b>	23
	-	-	-	<b>(117 220 799)</b>	<b>(117 220 799)</b>	
	85 491 811	-	<b>85 491 811</b>	(32 046 176)	<b>(117 537 987)</b>	
	-	-	-	(117 220 799)	<b>(117 220 799)</b>	
<b>Deficit before taxation</b>	<b>85 491 811</b>	-	<b>85 491 811</b>	<b>(149 266 975)</b>	<b>(234 758 786)</b>	
Surplus before taxation	85 491 811	-	<b>85 491 811</b>	(149 266 975)	<b>(234 758 786)</b>	
Taxation	-	-	-	-	-	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>85 491 811</b>	-	<b>85 491 811</b>	<b>(149 266 975)</b>	<b>(234 758 786)</b>	

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1. Summary of significant accounting policies

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 MFMA Act 56 of 2003.

The municipality's principal accounting policies, which are in all material aspects consistent with those applied in the previous year, are set out below. The details of any changes in accounting policies are explained in the note thereto. The historical cost convention has been used, except where indicated otherwise. Management has used assessments and estimates in preparing the annual financial statements which are based on the best information available at the time of preparation.

#### 1.1 Basis of presentation

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).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

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

#### 1.2 Presentation currency

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

#### 1.3 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.

#### 1.4 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed.

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

When the presentation or classification of items in the annual financial statements are amended, comparative amounts are reclassified. The nature and amounts of reclassifications as well as the reasons are disclosed in the notes to the financial statements. Refer to the prior period note.

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

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

##### **Allowance for slow moving, damaged and obsolete stock**

An allowance / provision to write down stock to the lower of cost or net realisable value is made. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the statement of financial performance.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

#### Impairment testing

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

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

#### Provisions

Provisions were raised and management determined an estimate based on the information available. The provision is discounted when the time value of money is material. Provisions are discounted when the time value of money is material. Additional disclosure of these estimates of provisions are included in the provision note to the financial statement.

Management's judgement is required when recognising and measuring provisions, contingent liabilities, contingent assets and debt impairment.

The provision for staff leave is based on accrued leave at year-end. The uncertainty is when the leave will be taken or if employment is terminated.

#### Useful lives

The municipality's management annually determines the estimated useful lives and related depreciation charges for the infrastructure and other assets. This estimate is based on industry norms or technical advice. Management will amend the depreciation charge where there is a change in the estimated useful lives.

#### Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

#### Effective interest rate

The municipality used the most relevant contractual risk rate applicable where relevant to each category of assets and liabilities to discount future cash flows. Where none exists the prime interest rate is used to discount future cash flows.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

#### Allowance for doubtful debts

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

The impairment for trade receivables is calculated based on an assessment of the extent to which trade receivables have defaulted on payments already due, and an assessment of their ability to make payments based on the history of payments made for municipal services over the last twelve months. This was performed per significant trade receivables first and then for all classes of trade receivables

### 1.6 Investment property

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

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

Investment property is held at fair value.

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

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

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

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

#### Fair value

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

The fair value of investment property reflects market conditions at the reporting date whilst provisional amounts reflect the amounts determined using a reasonable basis such as the valuation roll.

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

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

The fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

### 1.7 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.

# Mahikeng Local Municipality

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## Accounting Policies

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

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.

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

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 or fair value where assets have been acquired by grant or donation. Similarly, land is not depreciated as it is deemed to have an indefinite life.

Where items of Property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

Subsequent expenditure relating to Property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery capabilities of the assets are enhanced in excess of the originally assessed standard of performance. If the expenditure only restores the originally assessed standard of performance, it is regarded as repairs and maintenance, and is expensed.

The municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than for motor vehicles.

The gain or loss arising from the disposal or retirement of an item of Property, plant and equipment is determined as the difference between the sales proceeds and the carrying value, and is recognised in the Statement of Financial Performance.

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

Assets held under finance leases are depreciated over their useful lives on the same basis as owned assets or, where appropriate, the terms of the relevant lease, and the depreciation are recognised in the Statement of Financial Performance.

Assets under construction are carried at cost. Depreciation of an asset commences when the asset is ready for its intended use.

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

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

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Item	Depreciation method	Average useful life
Buildings	Straight line	5 - 100
Furniture and fixtures	Straight line	7
Motor vehicles	Straight line	7
Office equipment	Straight line	7
IT equipment	Straight line	5

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying value does not exceed the carrying value that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

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.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.7 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 or disposal of the asset.

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

### 1.8 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

### 1.9 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

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.

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.



# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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### 1.9 Intangible assets (continued)

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

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

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

Item	Useful life
Computer software	10 years

Intangible assets are derecognised:

- 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 an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.10 Conditional Grants

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant.

Interest earned on investments is treated in accordance with grant conditions. If interest is payable to the grantor, it is recognised as a liability and if not, it is recognised as interest earned in the statement of financial performance.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

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.

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

### 1.11 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.

#### Operating leases - lessee

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

### 1.12 Inventories

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

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

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

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

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.12 Inventories (continued)

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. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the fair value as at date of acquisition. Cost is generally using the first-in-first-out principle except where stated otherwise.

Unsold properties are measured at the lower of cost and net realisable value. Cost is primarily determined by reference to the valuation roll values as at the date of initial recognition or total cost of servicing the land. Net realisable values are based on the latest valuation roll values less estimated cost to sell.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

### 1.13 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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.

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

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

Useful life is either:

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

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

#### Identification

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

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

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

#### Value in use

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

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

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

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

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

#### Discount rate

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

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.13 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.

#### Reversal of impairment loss

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

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

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

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

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

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

#### Redesignation

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

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

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

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

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

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

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

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

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

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

Useful life is either:

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

### 1.15 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.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.15 Employee benefits (continued)

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.

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

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

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.15 Employee benefits (continued)

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

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

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

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

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

# Mahikeng Local Municipality

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## Accounting Policies

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### 1.15 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.15 Employee benefits (continued)

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

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

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

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

### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

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

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

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

### 1.16 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. The unwinding of the discount is recognised as a finance cost.

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.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

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.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

### Site Restoration, restructuring and Long Service Award

#### Site Restoration

In accordance with applicable legal requirements, a provision for site restoration in respect of landfill sites is recognised when the land is contaminated. The related expense is capitalised against the cost of the landfill sites.

#### Restructuring

A provision for restructuring is recognised when the municipality has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced as publicly.

#### Long Service Award

In terms of the Collective Bargaining Agreement, employees who achieve a certain predetermined milestone of service within the municipality are entitled to leave days or cash equivalent. A provision is made at the end of each balance sheet date based on the estimated number of employees who are likely to achieve the milestones in the future. The provision is discounted using a reasonable discounting rate.

### 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.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 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.

#### Service Charges

Service charges relating to distribution of water are based on consumption. Meters are read on a regular basis consumption is recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made on a monthly basis when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is raised based on the average monthly consumption. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters are read. These adjustments are recognised as revenue in the invoicing period.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property receiving services. Tariffs are determined per category of property and are levied monthly based on the type of property not taking into consideration the number of refuse containers.

Service charges from sewerage and sanitation services are based on the type of service not taking into consideration the number of sewer connections on all developed property, using the tariffs approved by Council. Revenue is recognised on a monthly basis.

#### 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 earned and rentals received

Interest income is recognised in surplus or deficit as it accrues, using the effective interest method. Interest earned on unutilised conditional grants is recognised as an unspent conditional grants liability if the grant conditions indicate that interest is payable to the grantor.

Rental income from operating leases is recognised on a straight line basis over the lease term.

#### Tariff charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

### 1.18 Revenue from non-exchange transactions

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

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

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

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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

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

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

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

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.

#### Transfers

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

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

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

#### Fines

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

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

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

#### Gifts and donations, including goods in-kind

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

### 1.19 Statutory receivables identification

#### Basis

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# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.19 Statutory receivables identification (continued)

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.

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 purposes of the Standard of GRAP on Statutory Receivables) 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:

- (a) If the transaction is an exchange transaction, using the accounting policy on revenue from exchange transactions;
- (b) If the transaction is a non-exchange transaction, using the accounting policy on revenue from non-exchange transactions (Taxes and transfers); or
- (c) If the transaction is not within the scope of the accounting 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 municipality 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:

- (a) Interest or other charges that may have accrued on the receivable (where applicable);
- (b) Impairment losses; and
- (c) Amounts derecognise

#### 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 prime lending rates plus one percent per annual.

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

#### Other charges

Where the municipality is required or entitled to levy additional charges in terms of legislation, supporting regulations, by-laws or similar means on overdue or unpaid amounts, these charges are accounted for in terms of the municipality's accounting 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.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.19 Statutory receivables identification (continued)

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:

- (a) Significant financial difficulty of the receivable, which may be evidenced by an
- (b) Application for debt counselling, business rescue or an equivalent.
- (c) It is probable that the receivable will enter sequestration, liquidation or other financial re-organisation.
- (d) A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- (e) 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 through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

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

Any previously recognised impairment loss is adjusted 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:

- (a) The rights to the cash flows from the receivable are settled, expire or are waived;
- (b) The Municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- (c) 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 Municipality:

- (a) Derecognises the receivable; and
- (b) Recognises 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 municipality 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.

### 1.20 Investment income and expenses

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

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in surplus or deficit, using the effective interest method. Dividend income is recognised in surplus or deficit on the date that the municipality's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.20 Investment income and expenses (continued)

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets through profit or loss and impairment losses recognised on financial assets.

Borrowing costs are recognised in surplus or deficit using the effective interest method.

### 1.21 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.

### 1.22 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.

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

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.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.23 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. 20 of 1998) or is in contravention of the municipality's supply chain management policy. The irregular expenditure excludes unauthorised expenditure.

All the expenditure relating to irregular expenditure is recognised in the statement of financial performance in the period 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.

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

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

Where the irregular expenditure was incurred in the prior financial periods and only condoned in the following financial period, the irregular expenditure register and the note to the financial statements must be updated with the amounts condoned.

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

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

### 1.24 Net reserves

Net reserves are a residual interest in the assets of an municipality after deducting all of its liabilities from the total municipal assets.

### 1.25 Tax

Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate 15% (14%(31 March 2018) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

The annual financial statements have been prepared on the assumption that the municipality will continue to operate on a going concern basis for at least the next twelve months.

### 1.26 Budget information

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

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



# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.26 Budget information (continued)

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

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

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.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

### 1.27 Related parties

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

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

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

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

### 1.28 Events after reporting date

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

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

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

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

### 1.29 Consumer Deposits

Consumer deposits are charged when new water and/or electricity accounts are opened except for owner occupied proportions. The amounts vary per type of consumer and are approved by Council as part of the tariff structure.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.30 Commitments

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

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

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

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

### 1.31 Other financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

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

### 1.32 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful 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.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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Figures in Rand	2021	2020
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### 2. New standards and interpretations

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

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2020 or later periods:

Standard/ Interpretation:	Effective date:	Expected impact:
GRAP 25 : Employee Benefits	1 April 2021	None at this point
GRAP 104 : Separate Financial Statements	1 April 2021	None at this point

### 3. Investment property

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	2021			2020		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	246 983 000	-	246 983 000	357 218 500	-	357 218 500

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#### Reconciliation of investment property - 2021

	Opening balance	Transfer to Land Inventory	Disposals	Fair value adjustments	Total
Investment property	357 218 500	(48)	(46 700 452)	(63 535 000)	246 983 000

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#### Reconciliation of investment property - 2020

	Opening balance	Reversal of impairments	Fair value adjustments	Total
Investment property	278 416 300	(332 000)	79 134 200	357 218 500

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# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

### 3. Investment property (continued)

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

The Investment property is measured using the fair value model in accordance with GRAP 16.

The following valuation approaches are applied in combination depending on the category of investment property as follows:

1. Comparison sales/price method. Comparable valid sales in a specific area are used, subject property is compared to the sales and market valuations are derived. This is mostly used for residential properties.
2. Capitalization of income approach. A future income stream is capitalized to determine a value of property. This valuation method is mostly used for commercial properties.
3. Replacement cost minus depreciation valuation. Valuation method for specialized property where there is no comparable properties sales, no income stream, properties like schools, churches, etc.

There are no restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal and no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements for the financial year ended 30 June 2020.

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

### 4. Property, plant and equipment

	2021			2020		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	242 851 977	-	242 851 977	242 851 977	-	242 851 977
Buildings	179 701 317	(117 112 217)	62 589 100	153 384 398	(113 169 998)	40 214 400
Community facilities	168 008 177	(103 552 896)	64 455 281	161 027 583	(99 827 722)	61 199 861
Roads network	2 212 243 787	(1 209 640 997)	1 002 602 790	2 169 636 483	(1 155 800 580)	1 013 835 903
Stormwater network	34 214 732	(19 364 996)	14 849 736	34 214 732	(18 383 200)	15 831 532
Electrical network	165 890 929	(50 697 770)	115 193 159	149 814 951	(47 303 128)	102 511 823
Infrastructure - Work in Progress	131 471 032	-	131 471 032	127 287 971	-	127 287 971
Capital spares	2 809 006	(1 616 739)	1 192 267	2 809 006	(1 554 317)	1 254 689
Furniture and fixtures	12 077 471	(6 268 515)	5 808 956	11 737 743	(5 411 419)	6 326 324
Motor vehicles	47 604 952	(17 900 291)	29 704 661	26 535 071	(15 651 142)	10 883 929
Machinery and equipment	2 282 271	(490 298)	1 791 973	1 936 455	(253 155)	1 683 300
Computer equipment	7 064 825	(2 966 940)	4 097 885	6 094 302	(2 351 008)	3 743 294
Other assets	3 907 105	(1 397 561)	2 509 544	3 573 580	(810 251)	2 763 329
Landfill site	25 306 592	-	25 306 592	25 306 592	-	25 306 592
<b>Total</b>	<b>3 235 434 173</b>	<b>(1 531 009 220)</b>	<b>1 704 424 953</b>	<b>3 116 210 844</b>	<b>(1 460 515 920)</b>	<b>1 655 694 924</b>

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2021

	Opening balance	Prior Year Adjustment	Additions	Disposals / Derecognitions	Transfers	Other	Other changes, movements	Depreciation	Total
Land	242 851 977	-	-	-	-	-	-	-	242 851 977
Buildings	40 214 400	-	-	-	26 136 374	-	180 545	(3 942 219)	62 589 100
Community Facilities	61 199 861	-	-	-	6 980 594	-	-	(3 725 174)	64 455 281
Roads Network Infrastructure	1 013 835 903	(2 079 361)	-	-	42 607 304	-	-	(51 761 056)	1 002 602 790
Storm Water Infrastructure	15 831 532	-	-	-	-	-	-	(981 796)	14 849 736
Electrical Network Infrastructure	102 511 823	-	-	-	16 075 978	-	-	(3 394 642)	115 193 159
Infrastructure Work-In-Progress	127 287 971	-	96 760 029	-	(92 576 968)	-	-	-	131 471 032
Landfill site	25 306 592	-	-	-	-	-	-	-	25 306 592
Furniture office equipment	6 326 324	8 277	397 051	(862)	-	(63 363)	-	(858 471)	5 808 956
Motor vehicles	10 883 929	135 136	21 066 282	-	-	-	-	(2 380 686)	29 704 661
Machinery and equipment	1 683 300	24 885	173 250	(2 219)	-	129 836	-	(217 079)	1 791 973
Computer equipment	3 743 294	73 743	1 068 408	(86 998)	-	150 849	-	(851 411)	4 097 885
Other Assets	2 763 329	65 541	435 026	(417)	-	(190 777)	-	(563 158)	2 509 544
Capital spares	1 254 689	-	-	-	-	-	-	(62 422)	1 192 267
	<b>1 655 694 924</b>	<b>(1 771 779)</b>	<b>119 900 046</b>	<b>(90 496)</b>	<b>(776 718)</b>	<b>26 545</b>	<b>180 545</b>	<b>(68 738 114)</b>	<b>1 704 424 953</b>

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

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

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

	Opening balance	Prior period error	Prior period error	Additions	Disposals	Transfers	Other	Depreciation	Impairment reversal	Total
Land	242 851 977	-	-	-	-	-	-	-	-	242 851 977
Buildings	24 408 229	20 379 789	-	-	(3 705)	22 000	-	(4 591 913)	-	40 214 400
Community facilities	40 111 474	6 448 280	-	-	-	18 629 886	(5 090)	(3 984 689)	-	61 199 861
Roads network infrastructure	613 558 438	21 489 618	(351 888)	447 208 496	(8 608 137)	21 876 077	-	(81 336 701)	-	1 013 835 903
Storm Water Infrastructure	13 803 260	2 648 757	(10 997)	-	-	387 248	-	(996 736)	-	15 831 532
Electrical network Infrastructure	73 818 030	-	-	-	-	31 726 520	-	(3 032 727)	-	102 511 823
Infrastructure Work-In-Progress	110 509 562	-	-	90 075 914	-	(73 308 366)	10 861	-	-	127 287 971
Landfill site	25 306 592	-	-	-	-	-	-	-	-	25 306 592
Furniture office equipment	3 307 765	3 266 344	-	650 552	(18 308)	-	(45 700)	(839 065)	4 736	6 326 324
Motor vehicles	7 128 079	6 659 417	(1 983 840)	1 006 582	(133 136)	-	-	(1 793 173)	-	10 883 929
Machinery and equipment	185 148	726 608	-	993 845	-	-	(87 680)	(134 621)	-	1 683 300
Computer equipment	1 637 752	1 411 877	(161 980)	1 853 136	(154 862)	-	(317 325)	(525 304)	-	3 743 294
Other assets	839 811	12 399	-	2 174 190	(24 337)	-	-	(243 062)	4 328	2 763 329
Capital spares	1 317 112	-	-	-	-	-	-	(62 423)	-	1 254 689
	<b>1 158 783 229</b>	<b>63 043 089</b>	<b>(2 508 705)</b>	<b>543 962 715</b>	<b>(8 942 485)</b>	<b>(666 635)</b>	<b>(444 934)</b>	<b>(97 540 414)</b>	<b>9 064</b>	<b>1 655 694 924</b>

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

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

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

With regards to the 2020 PPE Reconciliation:

\* There are 2 columns of "Prior Period Error".

The first column discloses all the assets found on the floor during the 2020 fixed asset verification, but were not recorded on the fixed asset registers. These assets are old assets that had to be recorded in the fixed asset register, but not as additions. They are recorded as prior period errors.

In addition to this, the municipality had to record the roads and stormwater transferred from Ngaka Modiri Molema District Municipality. These roads were transferred in the 2018/19 financial year and an AGSA finding was raised in that year for not recording the transferred assets in the 2018/19 financial year. Unfortunately the Munsoft Systems is closed off for the 2018/19 year, thus the transferred could only be recorded as an opening balance journal in the 2019/20 year.

The second column is purely for disclosure purposes. As the Ngaka Modiri Molem District Municipality roads were transferred and recognised on 31 May 2020, Mahikeng Local Municipality had to recognise the depreciation for June 2019 for those roads. This column is purely to disclose that as a manner of fairly presenting the annual financial statement.

### 5. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 955 217	(2 192 458)	762 759	2 762 104	(1 947 407)	814 697

#### Reconciliation of intangible assets - 2021

	Opening balance	Additions	Amortisation	Total
Computer software	814 697	193 112	(245 050)	762 759

#### Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software	1 090 907	(276 210)	814 697

#### Intangible assets

All computer software classified as intangible assets have useful lives of 10 years based on future expected usage. The amortisation for the year is included under depreciation and amortisation in the statement of financial performance. The entity does not have any internally generated intangible assets and no indications of impairment were identified during the financial year.

# Mahikeng Local Municipality

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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### 6. Employee benefit obligations

#### Defined benefit plan

##### Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2021 by S Basadien, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method

#### Defined Benefit Pension Fund

The Mafikeng City Council Pension Fund ("the Fund") is a defined benefit pension fund that commenced on 1 March 1983. It provides, amongst other benefits, a pension that is defined as a percentage of pensionable salary at the retirement date.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2021 by S Basadien, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Method.

#### Long Service benefits

In-Service Members	690	717
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# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>6. Employee benefit obligations (continued)</b>		
The members of the Post-retirement medical aid benefit plan are made up as follows:		
<b>Medical aid fund</b>		
Total Active Members	359	330
Continuation members	22	23
	<b>381</b>	<b>353</b>
<b>Pension Fund</b>		
Total Active Members	452	469
Total Pensioners	6	6
	<b>458</b>	<b>475</b>
<b>Carrying value</b>		
Present value of the defined benefit obligation-wholly unfunded	(25 711 000)	(19 189 000)
Present value of the defined benefit obligation-partly or wholly funded	(301 298 000)	(305 143 000)
Long service awards	(14 100 000)	(13 261 000)
	<b>(341 109 000)</b>	<b>(337 593 000)</b>
Non-current liabilities	(337 696 000)	(334 665 000)
Current liabilities	(3 413 000)	(2 928 000)
	<b>(341 109 000)</b>	<b>(337 593 000)</b>
<b>MAFIKENG CITY COUNCIL PENSION FUND ((R'000))</b>		
<b>FAIR VALUE OF DEFINED BENEFIT OBLIGATION</b>		
(Present Value of obligation as at 30 June 2020)	(542 175)	(484 762)
(Interest Cost)	(75 941)	(43 942)
Current Service Cost	(8 250)	(18 368)
Member Contributions	(9 511)	(9 242)
Benefits Paid	26 596	42 199
(Present Value of obligation as at 30 June 2021)	(609 487)	(542 175)
Actuarial (gain) / loss	205	28 059
<b>FAIR VALUE OF PLAN ASSETS</b>		
Fair Value of plan assets as at 30 June 2020	237 032	222 216
Expected return on plan assets	25 407	21 829
Member Contributions	9 511	9 242
Municipality Contributions	57 244	63 738
Benefits paid)	(26 596)	(42 199)
Fair value of plan assets as at 30 June 2021	308 189	237 032
Actuarial (gain) / loss on plan assets	5 591,00	37 794,00
	-	-

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>6. Employee benefit obligations (continued)</b>		
<b>UNRECOGNISED ACTUARIAL (GAIN) / LOSS</b>		
Actuarial (gain) / loss on present value of obligation	205	28 059
Actuarial (gain) / loss on fair value of assets	(5 591)	37 794
Actuarial gain / (loss) recognised	5 386	(65 853)
	-	-
<b>AMOUNTS RECOGNISED IN THE BALANCE SHEET</b>		
Present Value of fund obligations)	(609 487)	(542 175)
Fair value of plan assets	308 189	237 032
Surplus / (deficit) in plan	(301 298)	(305 143)
	<b>(602 596)</b>	<b>(610 286)</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Net actuarial losses / (gains) recognised in the current year	(5 386)	65 853
<b>AMOUNTS RECOGNISED IN THE INCOME STATEMENT</b>		
Current service cost	8 250	18 368
Net financing costs	50 534	22 133
	<b>58 784</b>	<b>40 501</b>
<b>MOVEMENT ON THE NET (LIABILITY) / ASSET</b>		
Net (liability) / asset at the beginning of the year	(305 142)	(262 545)
Net (expense) / income recognised in the income statement	(58 784)	(40 481)
Other comprehensive income	5 386	(65 854)
Contributions	57 244	63 738
	<b>(301 296)</b>	<b>(305 142)</b>
<b>OTHER</b>		
Actual return on plan assets	30 998	(15 966)
<b>Employer's Post-Employment Medical Aid and Long Service Benefits Liabilities</b>		
<b>Change in liability</b>		
Opening liability	32 450	34 720
Interest cost	3 346	3 379
Service cost	2 829	2 841
Benefits paid	(2 928)	(1 632)
Actuarial (gains) losses	4 114	(6 858)
	<b>39 811</b>	<b>32 450</b>
<b>Amounts to be shown in Balance sheet</b>		
Present value of defined benefit obligation	39 811	32 450

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>6. Employee benefit obligations (continued)</b>		
<b>Amounts shown in the income statement</b>		
Net financing cost	3 346	3 379
Service cost	2 829	2 841
	<b>6 175</b>	<b>6 220</b>
<b>Reconciliation</b>		
Opening Liability / (Asset)	32 450	34 720
Benefit payments	(2 928)	(1 632)
Change to income statement	6 175	6 220
Recognised actuarial gains / (Losses)	4 114	(6 858)
	<b>39 811</b>	<b>32 450</b>

### Key Financial Assumptions

The principal assumptions used for the purposes of the actuarial valuation on 30 June 2021:

Salary increase rate	6,70 %	5,40 %
Discount rates	9,80 %	9,90 %
Inflation rate	5,50 %	4,40 %
Pension increase allowance(Pensioners)	5,00 %	4,40 %
Pension increase allowance (Active members)	- %	2,42 %
Post retirement discount rate (Active members)	- %	7,30 %
Post retirement discount rate (Pensioners)	4,60 %	5,30 %
Expected rate of return on plan assets	9,80 %	9,90 %
Medical inflation	7,00 %	6,20 %
Discount rate - In service members	7,50 %	6,20 %
Discount rate - Continuation members	7,00 %	6,20 %

The number of leave days payable for each milestone (number of years served) are detailed in the table below:

- After 10 years of service - 10 working days
- After 15 years of service - 20 working days
- After 20 years of service - 30 working days
- After 25 years of service - 30 working days
- After 30 years of service - 30 working days
- After 35 years of service - 30 working days
- After 40 years of service - 30 working days
- After 45 years of service - 30 working days

### 7. Inventories

Land	9 394 542	9 394 494
Consumable stores	7 273 562	6 574 139
Fuel (Diesel, Petrol)	324 991	142 793
	<b>16 993 095</b>	<b>16 111 426</b>

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>8. Receivables from non-exchange transactions</b>		
<b>Gross balances</b>		
Property rates	759 472 925	729 304 112
Fines	9 983 850	9 548 050
	<b>769 456 775</b>	<b>738 852 162</b>
<b>Less: Allowance for impairment</b>		
Property rates	(744 219 755)	(614 142 588)
Fines	(8 733 844)	(8 037 345)
	<b>(752 953 599)</b>	<b>(622 179 933)</b>
<b>Carrying Amount</b>		
Property rates	15 253 170	115 161 524
Fines	1 250 006	1 510 705
	<b>16 503 176</b>	<b>116 672 229</b>
<b>Property rates</b>		
Current (0 -30 days)	8 110 343	39 719 484
31 - 60 days	772 008	7 901 320
61 - 90 days	457 915	1 912 723
91 - 120 days	348 396	1 827 718
121 - 365+ days	5 564 508	63 800 279
	<b>15 253 170</b>	<b>115 161 524</b>
<b>Fines</b>		
Current (0 -30 days)	20 545	48 494
31 - 60 days	14 110	57 418
61 - 90 days	19 143	12 444
91 - 120 days	18 446	22 254
121 - 365+ days	1 177 761	1 370 095
	<b>1 250 005</b>	<b>1 510 705</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	12 654 281	10 336 944
31 - 60 days	4 354 188	3 500 299
61 - 90 days	4 134 784	3 807 218
91 - 120 days	4 046 173	3 314 226
121 - 365+ days	243 575 991	79 479 599
Less: Allowance for impairment	(264 147 977)	(79 691 083)
	<b>4 617 440</b>	<b>20 747 203</b>
<b>Residential</b>		
Current (0 -30 days)	11 208 542	9 034 642
31 - 60 days	4 859 296	3 976 665
61 - 90 days	4 703 332	4 954 756
91 - 120 days	4 529 227	4 715 532
121 - 365+ days	170 193 387	145 646 311
Less: Allowance for impairment	(186 263 213)	(141 610 749)
	<b>9 230 571</b>	<b>26 717 157</b>

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>8. Receivables from non-exchange transactions (continued)</b>		
<b>National and provincial government</b>		
Current (0 -30 days)	17 083 867	20 347 897
31 - 60 days	7 314 766	8 325 676
61 - 90 days	7 201 429	10 365 257
91 - 120 days	7 156 487	10 247 421
121 - 365+ days	256 457 175	411 251 669
Less: Allowance for impairment	(293 808 566)	(392 840 750)
	<b>1 405 158</b>	<b>67 697 170</b>
<b>Total</b>		
Current (0 -30 days)	40 946 690	39 719 484
31 - 60 days	16 528 250	15 802 640
61 - 90 days	16 039 544	19 127 231
91 - 120 days	15 731 887	18 277 179
121 - 365+ days	670 226 554	636 377 579
Less: Allowance for impairment	(744 219 755)	(614 142 588)
	<b>15 253 170</b>	<b>115 161 525</b>

### Statutory Receivables

Property rates and traffic fines disclosed under Receivables from non-exchanges transactions are Statutory Receivables in context of GRAP 108. 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. The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

The Municipality has recognised property rates and traffic fines as statutory receivable using the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers) as required by the paragraph .06 of the GRAP on Statutory Receivables the transaction is a non-exchange transaction.

Property rates related transactions arise in terms of the Municipal Property Rates Act, 6 of 2004, Municipal Finance Management Act, 56 of 2003, as well as the Property Rates Policy of the Municipality approved by Council.

Traffic fines arise from the National Road Traffic Act 93 of 1996, National Road Traffic Regulations 2000, National

Land Transport Act 5 of 2009 and Criminal Procedure Act 51 of 1971. Prosecutor performs prosecutorial functions in terms of a general delegation awarded by the National Prosecuting Authority and is subject to the control of the Magistrate's Court in the City of Mahikeng. Subsequent measurement of traffic fines is primarily through guidance provided by National Legislation.

Property rates accrue interest at a rate approved annually by the Municipal Council through the budget process. The prevailing interest rate charged by the Municipality is incorporated within the Municipal Tariff Schedule gazette.

The carrying amount of the Municipality's Receivables from non-exchange transactions which incorporates both property rates and traffic fines constitute the Municipality's carrying amount of Statutory Receivables. The Statement of Financial Performance of the Municipality incurred a charge of R 130 773 666 (2020: R 121 436 035?) with regards to impairment for the year of which property rates constituted 99.47% and traffic fines 0.53%.

For significant impairment losses recognised the Municipality is required by GRAP 10 paragraph 8 to disclose the main events and circumstances that led to the recognition of impairment losses. The Municipality's statutory receivables from receivables from non-exchange transactions property rates constitutes a significant proportion of the impairment loss allocation. As at 30 June 2021 more than 75% of Receivables from non-exchange transactions – Property rates were being owed for over a year which means they were on 202006+ (Over 1 Year) on the age analysis. This was identified as one of the indicators of the poor performance of the debtors' book as payment profiles of consumers deteriorated through increasing defaults.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

### 8. Receivables from non-exchange transactions (continued)

The Municipality considered the payment profile of consumers with reference to latest payment date as one of the key indicators and assumptions used to assess and calculate whether statutory receivables were impaired during the reporting period. The following were also taken into account:

- Nature of the consumer with regards to whether accounts were active or inactive
- For residential properties whether accounts were designated indigent or not
- Categorisation of non-indigent households, businesses, and government

The Municipality held no collateral, which may include financial assets, non-financial assets and other forms of collateral such as guarantees or encumbrances over Statutory Receivables from non-exchange transactions.

The allowance for impairment relating to fines was derived after considering the recovery rate of fines for the current and past two year. The average recovery rate for the 2020 period was estimated at 12.52%, the allowance being at 87.48%.

Receivables from non-exchange transactions constituting statutory receivables that are past due at the reporting, and which have been impaired are those excluding those noted below as past due but not impaired.

#### Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R 40 964 690 (2020: R 39 719 484) were past due but not impaired.

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

1 month past due	40 964 690	39 719 484
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### 9. Receivables from exchange transactions

#### Gross balances

Water	714 038 984	613 052 655
Sewerage	178 859 492	160 661 849
Refuse	167 267 258	149 525 461
Other (Sundry charges, Interest, VAT)	190 629 876	210 315 495
	<b>1 250 795 610</b>	<b>1 133 555 460</b>

#### Less: Allowance for impairment

Water	(690 156 787)	(543 401 516)
Sewerage	(167 384 749)	(143 637 795)
Refuse	(156 102 042)	(125 872 815)
Other (Sundry charges, Interest, VAT)	(177 344 969)	(191 310 616)
	<b>(1 190 988 547)</b>	<b>(1 004 222 742)</b>

#### Net balance

Water	23 882 197	69 651 139
Sewerage	11 474 743	17 024 054
Refuse	11 165 216	23 652 646
Other (Sundry charges, Interest, VAT)	13 284 907	19 004 879
	<b>59 807 063</b>	<b>129 332 718</b>

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>9. Receivables from exchange transactions (continued)</b>		
<b>Water</b>		
Current (0 -30 days)	7 870 616	18 434 071
31 - 60 days	1 748 144	4 583 463
61 - 90 days	1 488 132	4 788 917
91 - 120 days	788 761	2 197 255
121 - 365 days	11 986 544	39 647 433
	<b>23 882 197</b>	<b>69 651 139</b>
<b>Sewerage</b>		
Current (0 -30 days)	3 108 921	5 195 897
31 - 60 days	601 744	899 931
61 - 90 days	492 859	1 626 643
91 - 120 days	306 688	464 415
121 - 365 days	6 964 531	8 837 168
	<b>11 474 743</b>	<b>17 024 054</b>
<b>Refuse</b>		
Current (0 -30 days)	2 303 370	4 920 275
31 - 60 days	510 862	1 094 264
61 - 90 days	415 960	1 829 780
91 - 120 days	368 582	905 891
121 - 365 days	7 566 442	14 902 436
	<b>11 165 216</b>	<b>23 652 646</b>
<b>Other (specify)</b>		
Current (0 -30 days)	8 385 276	225 359
31 - 60 days	3 912	-
61 - 90 days	13 071	139 452
91 - 120 days	7 662	42 162
121 - 365 days	4 874 986	18 597 906
	<b>13 284 907</b>	<b>19 004 879</b>

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>9. Receivables from exchange transactions (continued)</b>		
<b>Summary of consumer receivables by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	42 836 016	14 162 882
31 - 60 days	16 341 138	13 021 846
61 - 90 days	17 371 727	13 257 850
91 - 120 days	16 189 892	16 448 239
121 - 365 days	808 926 115	718 546 198
	<hr/>	<hr/>
	901 664 888	775 437 015
Less: Allowance for impairment	(858 180 753)	(705 296 939)
	<hr/>	<hr/>
	<b>43 484 135</b>	<b>70 140 076</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	14 117 169	4 488 789
31 - 60 days	4 893 935	2 874 558
61 - 90 days	5 649 730	2 390 530
91 - 120 days	6 682 951	2 670 421
121 - 365 days	242 215 291	86 453 141
	<hr/>	<hr/>
	273 559 076	98 877 439
Less: Allowance for impairment	(268 940 145)	(83 973 983)
	<hr/>	<hr/>
	<b>4 618 931</b>	<b>14 903 456</b>
<b>National and provincial government</b>		
Current (0 -30 days)	9 220 319	6 351 170
31 - 60 days	2 677 331	4 512 049
61 - 90 days	2 538 918	5 165 153
91 - 120 days	1 969 801	4 369 103
121 - 365 days	59 165 276	209 919 551
	<hr/>	<hr/>
	75 571 645	230 317 026
Less: Allowance for impairment	(63 867 650)	(198 108 767)
	<hr/>	<hr/>
	<b>11 703 995</b>	<b>32 208 259</b>
<b>Total</b>		
Current (0 -30 days)	66 173 504	25 002 841
31 - 60 days	23 912 404	20 408 454
61 - 90 days	25 560 376	20 813 533
91 - 120 days	24 842 645	23 487 762
121 - 365 days	1 110 306 682	1 014 918 890
	<hr/>	<hr/>
	1 250 795 611	1 104 631 480
Less: Allowance for impairment	(1 190 988 549)	(987 379 689)
	<hr/>	<hr/>
	<b>59 807 062</b>	<b>117 251 791</b>

Receivables from exchange transactions which are less than 1 months past due are not considered to be impaired. At 30 June 2021, R 66 173 504 (2019: R 25 002 841) were past due but not impaired.

### 10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	17	17
Bank balances	40 948 079	15 427 311
	<hr/>	<hr/>
	<b>40 948 096</b>	<b>15 427 328</b>



# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

### 10. Cash and cash equivalents (continued)

The short term investment with VBS Mutual Bank of R83 440 312.06 has been impaired due to recoverability of the amount being put in doubt. The bank has been put under curatorship and the deposits by municipalities held by the bank were not honoured as only natural people were to receive their deposits. At the end of the financial year the uncertainty relating to the recoverability of the deposits has not been cleared and therefore a decision to impair was made. The impairment was included in the income statement in the prior year.

#### 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
Standard Bank - Current Account - Account number 30852595	1 989 288	1 019 401	1 503 717	4 108 504	3 138 615	(33 587 356)
Nedbank - Call Account - 03/7881034459/0000020	-	-	85 905	-	-	662 850
Standard Bank - Call Account - 238650863/037	144	144	144	144	144	144
Standard Bank - Call Account - 238650863/025	1 311	1 311	1 311	1 311	1 311	1 311
Standard Bank - Call Account - 238650863 - 036	365 704	4 350 446	-	365 704	4 350 446	-
Standard Bank - Call Account - 238650863/038	135	135	135	135	135	135
Standard Bank - Call Account - 238650863/039	11 750 785	3 410 971	5 974 777	11 750 785	3 410 971	5 974 777
Nedbank - Call Account - 03/7881120835/000001	144 422	139 857	132 311	144 422	139 858	132 301
Standard Bank - Call Account - 238650863/040	24 273 024	4 099 717	2 674 940	24 273 024	4 099 718	33 874 940
ABSA Bank - Call Account - 4071943748	-	(8 264)	5 444	-	(8 264)	5 444
ABSA - Fixed D-2049151018	70 611	68 351	64 940	70 611	68 351	64 940
ABSA-NOT 9064617006	40 996	40 756	39 481	40 996	40 756	39 481
ABSA - 20-5333-3573	10 858	10 108	9 415	10 858	10 108	9 415
ABSA - 20-5333-4163	10 858	10 108	9 415	10 858	10 108	9 415
ABSA - 20-5324-6724	57 032	53 112	49 443	57 032	53 112	49 443
ABSA - 20-5622-0905	13 539	12 787	11 851	13 539	12 787	11 851
ABSA - 20-7942-8427	1 000	-	-	1 000	-	-
First National Bank 710390511164	99 156	99 156	92 238	99 156	99 156	92 238
<b>Total</b>	<b>38 828 863</b>	<b>13 308 096</b>	<b>10 655 467</b>	<b>40 948 079</b>	<b>15 427 312</b>	<b>7 341 329</b>

The reconciling items at year end is the difference between the amount as per the bank statements and the amount on the general ledger of R 2 119 23 (2019: R 2 119 234).

VBS reconciliation	Amount as bank statement - 30 June 2018	Amount impaired	Total
VBS Mutual Bank - 658308001	83 440 312	(83 440 312)	-

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>11. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Expanded Public Works Programme Grant (EPWP)	-	780 730
Construction Education Training Authority Grant (CETA)	-	149 956
	-	<b>930 686</b>
<b>12. Financial liabilities - Loans</b>		
<b>At amortised cost</b>		
INCA Loan - Non Current Liabilities Loan, Acc No: MAFI-00-0001/ Deal no. 118115, carry interest at 12.78% per annum repayable over a period of 20 years. This loan was used to fund the municipality's infrastructure assets. The loan is secured by the municipality's income from assessment rates.	3 750 000	17 617 206
INCA Loan - Current Liabilities Loan, Acc No: MAFI-00-0001/ Deal no. 118115, carry interest at 12.78% per annum repayable over a period of 20 years. This loan was used to fund the municipality's infrastructure assets. The loan is secured by the municipality's income from assessment rates.	7 500 000	802 105
	<b>11 250 000</b>	<b>18 419 311</b>
<b>Total other financial liabilities</b>	<b>11 250 000</b>	<b>18 419 311</b>
<b>Non-current liabilities</b>		
At amortised cost	3 750 000	17 617 206
<b>Current liabilities</b>		
At amortised cost	7 500 000	802 105

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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Figures in Rand 2021 2020

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### 13. Provisions

#### Reconciliation of provisions - 2021

	Opening Balance	Additions	Total
Environmental rehabilitation - Landfill site	117 612 937	11 444 780	129 057 717

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#### Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
Environmental rehabilitation- Landfill site	110 535 811	7 077 126	117 612 937

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#### Environmental rehabilitation - Landfill Site

This provision was raised in order to determine the closure and rehabilitation costs for the waste disposal site in accordance with the Minimum Requirements (Second Edition, 1998) from the Department of Water Affairs and Forestry (DWAF).

#### The following assumptions were made to provide an estimation of the rehabilitation site:

- Minimal shaping of the existing waste body.
- The rate for the 300mm confining layer is based on the assumption that all the material can be sourced from on-site sources.
- The rate for the 100mm topsoil layer is based on the assumption that all the material can be sourced from on-site sources.
- It is assumed that the footprint that requires rehabilitation as described and indicated above is correct as verified by the local authority.
- It was assumed that insufficient volumes of the required quality clayey material would be available for the capping layers. As a result, it was replaced with Geosynthetic Clay Liner in the estimate.
- It was assumed that insufficient gas will be generated to warrant the installation of a gas management system and the cost thereof is not included in this estimate.
- Escalation for post-closure cost used: 4.99%, which is the average CPI June to June over the past 10 years
- Discount rates for post-closure costs based on Government Bond Yield Rates as at 30 June 2021:

The remaining site life as at 30 June 2021 is 20 years.

The report was compiled by JPCE (Pty) Ltd specialists consulting engineers. The consultants have qualifications in engineering and are members of the consulting engineers of South Africa.

#### The following have an effect on the cost estimate:

Various material rates have increased due to a revised approach in terms of construction rate determination as described in Section 1.2 of this report. The biggest impact on the estimates are the rates for importation of sand from commercial sources (82 to 85% increase per m<sup>3</sup> vs. 2020) and importation of topsoil from commercial sources (50% increase per m<sup>3</sup> vs. 2020)

Increase in Engineering fees based on ECSA fees scales as published 2021

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events. '

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

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### 13. Provisions (continued)

Years	Escalated monitoring costs (Gas included for only 2 years after closure.)	Years until	Current value
2047	R110,742.42	26	R8,277.83
2048	R116,268.46	27	R7,865.78
2049	R104,476.66	28	R6,397.00
2050	R109,690.05	29	R6,078.56
2051	R115,163.58	30	R5,775.98
2052	R120,910.24	31	R5,488.47
2053	R126,943.66	32	R5,215.26
2054	R133,278.15	33	R4,955.65
2055	R139,928.73	34	R4,708.97
2056	R146,911.18	35	R4,474.56
2057	R154,242.04	36	R4,251.83
2058	R161,938.72	37	R4,040.18
2059	R170,019.46	38	R3,839.07
2060	R178,503.44	39	R3,647.96
2061	R187,410.76	40	R3,466.38
2062	R196,762.55	41	R3,293.83
2063	R206,581.01	42	R3,129.86
2064	R216,889.40	43	R2,974.07
2065	R227,712.18	44	R2,826.02
2066	R239,075.02	45	R2,685.35
2067	R251,004.86	46	R2,551.67
2068	R263,530.00	47	R2,424.66
2069	R276,680.15	48	R2,303.96
2070	R290,486.49	49	R2,189.27
2071	R304,981.76	50	R2,080.30
2072	R320,200.35	51	R1,976.74
2073	R336,178.35	52	R1,878.34
2074	R352,953.65	53	R1,784.84
2075	R370,566.04	54	R1,696.00
2076	R389,057.28	55	R1,611.57

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>14. Trade payables from exchange</b>		
Trade payables	386 856 451	537 571 901 ☆
Accrued leave pay	29 212 560	27 777 356 ☆
Thirteenth Cheque Accrual	5 692 890	5 219 810
Retention	13 835 445	11 378 935
Sundry creditors - Advance payments	47 262 287	50 295 642
	<b>482 859 633</b>	<b>632 243 644</b>

### 15. VAT payable

VAT payable	13 826 813	29 274 407 ☆
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### 16. Consumer deposits

Other deposits	5 987 191	5 999 070
Water	5 603 535	5 202 902
	<b>11 590 726</b>	<b>11 201 972</b>

Other deposit consists of the following:

- Building deposit
- Rental of properties
- Posters
- Street closure
- Valuation appeal
- Way leave
- Building plans

### 17. Revenue

Service charges	247 375 813	249 644 826
Rental of facilities and equipment	7 593 573	6 857 756
Interest received (trading)	57 322 845	77 600 415
Licences and permits	2 959 950	2 364 140
Fees earned	6 168 814	3 596 173
Other income	13 557 226	2 808 966
Interest received - investment	6 225 438	7 409 330
Property rates	301 731 443	318 056 436
Government grants & subsidies	455 461 949	364 698 871
Fines, Penalties and Forfeits	820 567	2 448 830
Recognition of roads	-	471 343 771
	<b>1 099 217 618</b>	<b>1 506 829 514</b>

**The amount included in revenue arising from exchanges of goods or services are as follows:**

Service charges	247 375 813	249 644 826
Rental of facilities and equipment	7 593 573	6 857 756
Interest received (trading)	57 322 845	77 600 415
Licences and permits	2 959 950	2 364 140
Fees earned	6 168 814	3 596 173
Other income	13 557 226	2 808 966
Interest received - investment	6 225 438	7 409 330
	<b>341 203 659</b>	<b>350 281 606</b>

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

### 17. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

#### Taxation revenue

Property rates 301 731 443 318 056 436

#### Transfer revenue

Government grants & subsidies 455 461 949 364 698 871

Fines, Penalties and Forfeits 820 567 2 448 830

Recognition of the roads - 471 343 771

**758 013 959 1 156 547 908**

### 18. Service charges

Consumption – Water Management 158 881 379 164 940 812

Consumption – Waste Water Management 46 529 511 45 188 813

Consumption – Waste Management 41 964 923 39 515 201

**247 375 813 249 644 826**

Mafikeng Local Municipality does not provide electricity to the public. Therefore there is no line item of electricity part of service charges.

### 19. Rental of facilities and equipment

#### Premises

Facilities and equipment 7 593 573 6 857 756

The Municipality has rights to properties, plant and equipment which are rented out to the public on a needs basis. These include Municipal parks, halls, vacant properties and movable assets.

### 20. Other revenue

Fees earned 6 168 814 3 596 173

Other income 13 557 226 2 808 966

**19 726 040 6 405 139**

The Municipality engages with the public and as a result derives fees and other income from such interactions.

### 21. Investment revenue

#### Interest revenue

Interest earned (bank and investment accounts) 6 225 438 7 409 330

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>22. Property rates</b>		
<b>Rates received</b>		
Residential, Business and Government	361 926 738	389 497 895
Less: Income forgone	(60 195 295)	(71 441 459)
	<b>301 731 443</b>	<b>318 056 436</b>

All tariffs used by the municipality have been Approved for implementation in the 2020-21 MTREF. Please note all tariffs are exclusive of value added tax as property rates are exempt from VAT.

### Valuations

Valuations on land and buildings are performed every 5 years. The applicable General Valuation came into effect on 1 July 2017 and will remain valid until 30 June 2022. It is based on market-related values. Property valuation adjustments, such as supplementary valuations, objection valuations and Valuation Appeal Board decisions are processed continuously.

Municipal rates are levied on a monthly basis in terms of the provisions of the rates policy, which makes provision for rebates and exemptions.

The valuation roll was prepared by a registered valuer and discharged their duties as municipal valuer and as such complied with Sections 43 and 44 of the Local Government: Municipal Property Rates Act, 2004.

**Valuer information:** Hendrik Coenraad Botha

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>23. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	337 618 000	260 427 013
Expanded Public Works Programme Grant (EPWP)	3 324 000	1 894 270
Library Grant (LG)	1 437 000	1 457 000
Finance Management Grant (FMG)	3 000 000	2 680 000
Municipal Disaster Relief Grant (MDRG)	-	506 000
Construction Education Training Authority Grant (CETA)	629 838	1 936 283
	<b>346 008 838</b>	<b>268 900 566</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant (MIG)	94 833 000	81 230 000
Provincial Infrastructure Grant (PIG)	7 120 111	14 568 305
Electricity Demand Management (EDM)	7 500 000	-
	<b>109 453 111</b>	<b>95 798 305</b>
	346 008 838	268 900 566
	109 453 111	95 798 305
	<b>455 461 949</b>	<b>364 698 871</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and for the running of the municipality's operations.

All registered indigents receive a monthly subsidy of 6 kilolitres of water per month which is funded from the grant.

### Municipal Infrastructure Grant (MIG)

Current-year receipts	94 833 000	81 230 000
Conditions met - transferred to revenue	(94 833 000)	(81 230 000)
	-	-

Conditions still to be met - remain liabilities (see note 11).

The grant was used to fund infrastructure related projects (mainly as part of the service delivery). Capitalised projects funded by this grant are included in property, plant and equipment whilst the unspent portion of the grant is included in current liabilities.

### Expanded Public Works Program (EPWP)

Balance unspent at beginning of year	780 730	-
Current-year receipts	3 324 000	2 675 000
Conditions met - transferred to revenue	(3 324 000)	(1 894 270)
Roll Over not Approved	(780 730)	-
	-	<b>780 730</b>

Conditions still to be met - remain liabilities (see note 11).



# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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Figures in Rand	2021	2020
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### 23. Government grants and subsidies (continued)

The grant is used to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the Expanded Public Works Programme guidelines:

- Road maintenance and the maintenance of buildings;
- Low traffic volume roads and rural roads;
- Basic services infrastructure, including water and sewer reticulation, sanitation, pipelines (excluding bulk infrastructure);
- Other economic and social infrastructure; tourism and cultural industries; waste management; parks and beautification;
- Sustainable land-based livelihoods; social services programmes;
- Health service programmes; and community safety programmes.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>23. Government grants and subsidies (continued)</b>		
<b>Library Grant (LG)</b>		
Current-year receipts	1 437 000	1 457 000
Conditions met - transferred to revenue	(1 437 000)	(1 457 000)
	-	-
Conditions still to be met - remain liabilities (see note 11).		
The grant is used to transform urban and rural community library infrastructure, facilities and services (primarily targeting previously disadvantaged communities).		
<b>Finance Management Grant (FMG)</b>		
Current-year receipts	3 000 000	2 680 000
Conditions met - transferred to revenue	(3 000 000)	(2 680 000)
	-	-
The grant is mainly used for promoting and supporting reforms in financial management by building capacity in the municipality to implement the Municipal Finance Management Act and progressive financial reporting.		
<b>Construction Education Training Authority Grant (CETA)</b>		
Balance unspent at beginning of year	149 956	-
Current-year receipts	479 882	2 086 239
Conditions met - transferred to revenue	(629 838)	(1 936 283)
	-	<b>149 956</b>
The grant is meant to assist the municipality in the improvement of system related transactions.		
<b>Provincial Infrastructure Grant</b>		
Balance unspent at beginning of year	-	2 734 020
Current-year receipts	7 120 111	11 834 285
Conditions met - transferred to revenue	(7 120 111)	(14 568 305)
	-	-
Conditions still to be met - remain liabilities (see note 11).		
<b>Electricity Demand Management Grant (EDMG)</b>		
Balance unspent at beginning of year	-	303 013
Current-year receipts	7 500 000	-
Conditions met - transferred to revenue	(7 500 000)	-
Other	-	(303 013) ☆
	-	-
Conditions still to be met - remain liabilities (see note 11).		
This fund has been granted by the Department of Energy to the municipality to be used in electricity efficiency usage programme.		
<b>Municipal Disaster Relief Grant</b>		
Current-year receipts	-	506 000

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>23. Government grants and subsidies (continued)</b>		
Conditions met - transferred to revenue	-	(506 000)
	-	-

Conditions still to be met - remain liabilities (see note 11).

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>24. Employee related costs</b>		
Basic	190 967 524	180 047 104
Bonus	14 678 786	12 882 109
Medical aid - company contributions	13 019 879	11 903 935
UIF	1 296 425	1 193 756
SDL	2 114 574	2 340 834
Leave pay provision charge	7 310 747	6 154 131
Post retirement benefit	52 787 983	56 253 490
Overtime payments	17 315 178	12 029 920
Allowance locomotion	17 558 907	15 587 873
Housing benefits and allowances	3 501 042	3 264 422
Pension funds	49 706 004	45 870 984
Other	15 276 651	598 792
	<b>385 533 700</b>	<b>348 127 350</b>
<b>Remuneration of Municipal Manager : Mr IT Mokwena (Resigned in December 2018)</b>		
Leave days	-	17 233
<b>Remuneration of the Chief Financial Officer (Status: CFO - Mr R A Morris)</b>		
Annual Remuneration	1 225 062	1 128 051
Car Allowance	66 900	110 592
Other	156 000	188 206
	<b>1 447 962</b>	<b>1 426 849</b>
<b>Remuneration of the Acting Chief Financial Officer - Ms TC Modisa (From December 2018 to May 2019)</b>		
Other	-	61 657
<b>Remuneration of the Public Safety Director (Status:Director- Mr T J Marumo)</b>		
Annual Remuneration	848 526	815 057
Car Allowance	223 249	227 555
Other	252 703	262 141
	<b>1 324 478</b>	<b>1 304 753</b>
<b>Remuneration of the Corporate service Director (Status: Director - Mrs Z K Masuku )</b>		
Annual Remuneration	943 774	910 636
Car Allowance	105 822	115 348
Other	471 062	459 786
	<b>1 520 658</b>	<b>1 485 770</b>
<b>Remuneration of the Planning and Development Services Director (Status: Director-MR T MASIA )</b>		
Annual Remuneration	833 888	784 197
Car Allowance	234 327	246 740
Other	261 406	315 681
	<b>1 329 621</b>	<b>1 346 618</b>
<b>Remuneration of the Infrastructure Service Director (Status: Director- Mrs M Moloi-Tsae )</b>		
Annual Remuneration	972 110	916 215

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>24. Employee related costs (continued)</b>		
Car Allowance	260 593	275 478
Other	289 020	300 575
	<b>1 521 723</b>	<b>1 492 268</b>

**Remuneration of the Acting Municipal Manager - ( MR N M Mokgwamme - Started acting from the 01/07/19 to 30 June 2020) Portion of the Remuneration was covered by the Department of Local Government and Human settlement). Appointed as Municipal Manager from 01/07/2020**

Annual Remuneration	907 159	753 413
Car Allowance	314 261	42 502
Other	360 245	1 338
	<b>1 581 665</b>	<b>797 253</b>

**Remuneration of the Community Service Director (Status: Director-MRS K P NYEMBE)**

Annual Remuneration	847 787	798 766
Car Allowance	222 824	225 472
Other	254 287	266 592
	<b>1 324 898</b>	<b>1 290 830</b>

**Remuneration of the Corporate service Director (Status: Acting Director - Ms K J Lekoma )**

Acting Allowance	11 000	56 450
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**25. Remuneration of councillors**

Executive Major	938 250	938 250
Mayoral Committee Members	7 882 839	8 290 641
Speaker	759 478	759 220
Councillors	18 965 669	18 336 780
Chief Whip	714 787	721 012
	<b>29 261 023</b>	<b>29 045 903</b>

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>25. Remuneration of councillors (continued)</b>		
<b>In-kind benefits</b>		
The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time and are provided with office space at the cost of the Council. In addition, they are paid travelling allowances for the trips outside Mahikeng. The Executive Mayor, Speaker, Chief Whip of Council are also provided with secretarial support at the cost of the Council.		
The Executive Mayor has use of a Council owned vehicle for official duties. The Mayor's driver also acts bodyguard.		
The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost.		
<b>26. Depreciation and amortisation</b>		
Property, plant and equipment	68 738 115	97 531 348
Intangible assets	245 050	276 210
	<b>68 983 165</b>	<b>97 807 558</b>
<b>27. Interest Paid</b>		
Other interest incurred	560 320	485 978
Borrowings	-	2 868 173
	<b>560 320</b>	<b>3 354 151</b>
<b>28. Debt impairment</b>		
Contributions to debt impairment provision	317 539 473	293 430 725
<b>29. Bulk purchases</b>		
Water	75 923 027	85 269 343
<b>30. Contracted services</b>		
Call Centre	6 056 013	6 427 494
Security Services	23 968 964	20 079 362
	<b>30 024 977</b>	<b>26 506 856</b>

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>31. General expenses</b>		
Advertising	905 402	383 834
Auditors remuneration	10 144 884	5 965 203
Bank charges	362 379	501 454
Catering services	124 898	1 748 593 ☆
Computer Services	3 656 484	1 186 486 ☆
Electricity and Water	55 105 602	30 830 350
Entertainment	163 365	162 723
Hire	1 050 833	839 549 ☆
Insurance	1 845 920	1 180 249 ☆
Inventory expenditure	16 711 755	21 892 665 ☆
Learnerships and Internships	634 579	1 936 283
Legal Advice and Litigation	12 006 159	9 355 482 ☆
Licenses and permits	411 283	497 887
Refuse Removal	1 820 200	3 181 756 ☆
Meter reading	2 070 320	1 849 744
Motor vehicle expenses	723 961	329 000
Indigent Relief	111 061	-
Postage and courier	632 571	650 655 ☆
Animal Care	791 032	768 000
Printing and publications	29 680	48 244
Professional Fees	57 525 525	41 878 498 ☆
Protective clothing	1 248 506	677 541 ☆
Provisions - Landfill site	11 444 781	7 077 126
Membership and subscription	3 569 939	193 470 ☆
Telephone and fax	1 867 654	1 243 251
Deeds	33 603	40
Workmen's Compensation Fund	1 129 811	-
Housing Assistance	4 590 150	-
Travel and Subsistence	911 588	1 767 038 ☆
Other expenditure	432 063	4 458 857
Overtime payments	-	25 707
	<b>192 055 988</b>	<b>140 629 685</b>

\* - This means there was a prior year adjustment done on the balance or transaction

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>32. Cash generated from operations</b>		
(Deficit) surplus	(141 608 990)	483 078 639
<b>Adjustments for:</b>		
Provision for staff bonus	473 080	272 503
Depreciation and amortization	68 983 165	97 807 558
Contribution to Employee Benefit Liabilities - Non-current	3 031 000	40 241 000
Contribution to Employee Benefit Liabilities - Current	485 000	87 000
Increase in Non-current provisions	11 444 780	7 077 126
Provision for staff leave	1 435 204	2 802 713
Debt Impairment - Provision for doubtful debts (Exchange Service charges)	186 765 805	173 184 765
Debt Impairment losses - Provision for doubtful debts (Non-exchange - Rates)	130 077 167	116 014 848
Debt Impairment losses - Provision for doubtful debts (Non-exchange - Fines)	696 499	5 428 187
Fair value adjustment - Investment Property	63 535 000	(78 802 285)
Profit or loss on disposal of assets	46 483 366	67 849 664
Finance costs - non-current borrowings	-	2 868 173
Recognition of roads	-	(471 343 771)
Correction of error	94 347 502	(29 135 879)
<b>Changes in working capital:</b>		
Inventories	(881 669)	84 033 927
(Increase)/Decrease in Trade receivables from non-exchange transactions - Rates	(30 168 813)	(140 998 490)
(Increase)/Decrease in Trade receivables from non-exchange transactions - Fines & Other	(435 800)	(6 263 100)
(Increase)/Decrease in Trade receivables from exchange transactions (Service)	(117 240 150)	(167 676 428)
(Increase)/Decrease in pre-payments SALGA	(6 124)	(3 157 316)
(Increase)/Decrease in VAT	(15 447 594)	(1 021 476)
(Increase)/Decrease in Cosumer deposits	388 754	(33 609)
Increase/(Decrease) in Conditional Grants and Receipts	(930 686)	(2 106 347)
Payables from exchange transactions	(151 292 295)	18 827 431
	<b>150 134 201</b>	<b>199 034 833</b>



# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>33. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Roads	45 199 849	8 555 512 ☆
• Recreational facilities	13 127 722	36 415 125
• High Mast	5 986 350	11 367 143
• Community Buildings	12 612 784	16 659 441
• Bridges	1 082 188	1 491 983
	<b>78 008 893</b>	<b>74 489 204</b>
<b>Prior period correction</b>		
• Roads - As previously disclosed	-	8 863 273 ☆
• Roads - Correction of error	-	(307 761) ☆
	-	<b>8 555 512</b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	78 008 893	74 489 204 ☆
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	78 008 893	74 489 204 ☆

This committed expenditure relates to property and will be financed by externally generated funds being the Municipal Infrastructure Grant and the Electricity Demand Management Grant as per DORA allocations.

### Prior period adjustment - 2020

The adjustment was as a result of a misstatement of a part payment of retention relating to the Provision of Thembane Road Project

### Current year Commitments - 2021

MIG/NW/2434/CL/17/18	SUPPLY, DELIVERY AND INSTALLATION OF HIGH MAST LIGHT IN WARD 1,2,8,26 & 33.
MIS/283234/17/19	UPGRADING OF BRIDGES IN MADIBE MAKGABE MODIMOLE
MIG/NW/1912/R,ST/14/1	PROVISION OF THEMBANE ROAD
MIG/NW/2548/SP/19/20	UPGRADING OF MMABATHO TENNIS COURT FACILITIES PHASE 1 & 2
MIG/NW/2546/RST/19/20	UPGRADING LOMANYANENG POLICE STATION ROAD
MIG/NW/2545/CF/19/20	UPGRADING OF MATLALONG GRAVEYARD (FENCING) FOR 2019/20 FINANCIAL YEAR: PHASE 11
MIG/NW/2370/17/18	UPGRADING OF LANDFILL SITE (PHASE 1)
MIG/NW/2370/17/18	UPGRADING OF LANDFILL SITE (PHASE 2)
MIG/NW/2370/17/18	UPGRADING OF LANDFILL SITE (PHASE 3)
SCM/MLM05/10/2015	PROVISION OF COMMUNITY CENTRE IN WARD 26
SCM/MLM06/10/2015	PROVISION OF MULTI PURPOSE CENTRE IN WARD 29
SCM/MLM01/09/2016	CONSTRUCTION OF LOTLHAKANE MULTI PURPOSE SPORTS FIELD
MIG/NW/2461/R/17/18	UPGRADING OF ROAD IN MOSHAWANE
MIG/NW/2640/R/17/18	UPGRADING OF TSETSE MAIN ROAD IN WARD 4
MIG/NW/1462/SP/12/13	UPGRADING OF DANVILLE STADIUM
MIG/NW/2547/CL/19/20	THE PROVISION OF HIGH MAST LIGHTS IN VARIOUS WARDS
MIG/NW/2069/CL/15/16	PROVISION OF HIGH MAST LIGHTS IN WARD 21, 24 25,28 & 31.
SCM/MLM13/10/2018	PROVISION OF HIGH MAST LIGHTS (AFRICA RELATED MO ELECT. ENG.)
MIG/NW/1393/R/11/12	UPGRADING OF ROADS IN LOTLHAKANE VILLAGE TO RAPULANA CLINIC
SCM/MLM 39/05/2020	UPGRADING OF ROAD IN MAGOGOE VILLAGE TO PAVED ROAD IN WARD 14
SCM/MLM 36/02/2020	UPGRADING OF A ROAD FROM TLOUNG VILLAGE TO BOKONE VILLAGE TO PAVED ROAD IN WAR
SCM/MLM 37/05/2020	UPGRADING OF ROADS IN SIGNAL HILL TO PAVED ROAD IN WARD 28
SCM/MLM07/07/2019	SUPPLY AND DELIVERY OF ROADS BINDERS, SLURRY SEAL, PRE-MIX APHALT, ROAD AGGEGAT

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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Figures in Rand	2021	2020
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### 33. Commitments (continued)

\* - This legend indicates that there was a prior period correction made from the balance that was previously reported to the balance as per the reconciliation

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>34. Contingencies (Assets and Liabilities)</b>		
<b>Cases</b>		
Service providers cases	8 532 042	8 947 832
Property losses/ damages cases	3 104 106	395 845
Malicious proceedings	-	100 000
Others	9 197 529	7 885 000
	<b>20 833 677</b>	<b>17 328 677</b>

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

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### 34. Contingencies (Assets and Liabilities) (continued)

#### Current year cases

##### Service providers cases

Domestic waste collection services for and on behalf of Municipality within its area of jurisdiction, Claim amount: R2,312,393.40

Monitory claim: "Kena Media indebted to Municipality" Claim amount: R2,028,416

Claim for outstanding invoices amounting to R1,670,832.00

To connect electricity to the applicants property

Claim for retention monies amounting to R1,999,882.04

##### Property losses/ damages cases

Mr Mogorosi instituted damages claim against the municipality following his motor vehicle colliding with a pothole on a road alleged to be within the municipal jurisdiction.

This is a civil claim matter.

The Municipality is cited as a second respondent. Plaintiff seeks damages to the tune of R158 415.10. Plaintiff alleges that both first and second defendant failed to maintain the road which resulted in him colliding with a pothole. The matter is defended.

This is a civil claim matter.

The Municipality is cited as the second respondent. The plaintiff seeks damages to the tune of R24 00 480.22 as well as assessor's costs of R1 210.55. The total claim is R25 690.77.

Claim for damages of R695,000.00

The plaintiff issued summons against the Municipality and the MEC for Public Works for negligent conduct of leaving a hip of sand on the road which became hazardous and caused the vehicle to overturn as a result suffering injuries in the amount of R2,200,000.00

##### Others

This is an eviction matter, wherein the applicant cited the Municipality as the 3rd Respondent. The matter appeared before court wherein the Municipality was not properly notified and subsequently not represented thereon and an adverse order was granted against the municipality. It is on this basis that we were instructed to approach the court make an application for rescission of judgement and subsequently an instruction to appeal the dismissal of the rescission application by the magistrate.

The Respondents' are in contravention of the Municipal Nuisance By Law. The property in question has burnt down and has for approximately 3 years been left unoccupied, unattended and neglected thus detriment to the value and security of the neighbouring properties.

Monitory claim: "Ncebo Micheal Gomono is indebted to Municipality" Claim amount R382,529.12

Claim for damages of R695,000.00

Unspent portion of tranches paid to the Municipality in previous years

Claim by the Applicant who were employed by the Municipality on fixed term contracts who claims to be permanetly employed in the political offices.

Claim for protected promotion

Plaintiff is Pule Morobi instituted legal proceeding against Mahikeng Local Municipality for unlawful arrest and detention.

### CONTINGENT ASSETS

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

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### 34. Contingencies (Assets and Liabilities) (continued)

This is an illegal Construction and Building matter.

Defendants are in contravention of the Municipal By Law and SPLUMA wherein they are building and developing a structure without an approved building plan.-MLM / KGAJANE

This is illegal Construction and Building Matter.

Defendant has constructed, built and erected a building structure without submitting a building plan for approval.-MLM / Grace and Charles Mkhawire

This is an illegal Land Use Matter.

Defendant is conducting business on a residential land without obtaining a requisite municipal consent and thereof in contravention of Municipal By Laws, SPLUMA.-MLM / Lavelle Vere

This is an illegal building and construction matter.

The Respondents' are in contravention of the Municipal By Laws, SPLUMA and National Building Regulations and Standards. The Respondents' have erected a boundary wall without obtaining a requisite municipal consent. The Respondents' have failed to submit the Building Plans as required.-MLM / Virgil Harrison

This is an illegal building and construction matter.

The Respondent is in contravention of the Municipal By Laws, SPLUMA and National Building Regulations and Standards. The Respondent has erected a boundary wall without obtaining a requisite municipal consent. The Respondent has failed to submit the Building Plans as required.-MLM / Mazuku and Letsela Phoolo

This is an illegal building, construction and eviction.

The Respondent is in contravention of the Municipal By Laws, SPLUMA and Building Regulations. Respondent has failed to obtain a requisite municipal consent prior to the construction of the student accommodation.-MLM / Phetwe

This is illegal land use and illegal construction matter. The Respondents are operating a private training institute/business on a land classified as a residential area. The respondent has failed to apply for rezoning of the premises from residence to business. The respondents have erected a large shanty structure where classes are being conducted. The respondent has failed to submit the building plans for approval, thus in contravention of Municipal By Laws, SPLUMA etc.-MLM / Gilbert Mmutle Bosigo and Others

This is an illegal building and construction matter.

The Respondents' are in contravention of the approved municipal building plans, Municipal Nuisance By Law, SPLUMA and National Building Regulations and Standards.-MLM / Nkhoma Pentecost Masibambane & Sebonego Training Development

This is an illegal building and construction matter.

The Respondent is in contravention of the Municipal By Laws, SPLUMA AND the National Building Regulations and Standards. Respondent failed to submit the building plans, proceeded to alter and construct office building without the municipality's requisite consent.-MLM / Kgosimoruti

This is an illegal building and construction matter.-MLM / Adlo properties

This is an illegal building construction matter.

The respondent is in contravention of the municipal by laws. The respondent has erected and developed a boundary wall without the requisite consent of the municipality.-MLM / Tshupetso Moroka

This is an illegal building construction matter.

The respondents have in contravention of the municipal by laws. The respondents have developed and built a building without submitting the building plans to the municipality for approval.-MLM / Malapile Sebedi

This is an illegal land use and illegal building matter.

The Respondent has occupied the municipal land without authorisation and requisite permission by the municipality. The Respondent has erected a large shack without the requisite consent from the municipality and or has failed to submit building plans for erected structure.

The Respondent is in contravention of the Municipal By Law, SPLUMA and National Building Regulations and Standards.-MLM / Griffin Edward Thomas & Ilana Tarryn Davids

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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Figures in Rand	2021	2020
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### 34. Contingencies (Assets and Liabilities) (continued)

This is an illegal building and construction matter.

The Respondent has failed to submit building plans for new additional structure and alteration made in her property. The Respondent is in contravention of the Municipal By Law, SPLUMA and National Building Regulations and Standards.-MILM/ Church – Christ the Healer of all Nations

This is an illegal building contrition matter.

The respondent has effected alternation to the main building and built a boundary wall without the prior submission of the building plans and obtaining a requisite approval.-MLM / Letta Mmatshipo Mosadi

This is an illegal building construction matter.

The respondent is in contravention of the municipal by laws. The respondent has erected and developed a boundary wall without the requisite consent of the municipality.-MLM / Daniel Taunyane

This is an illegal building and construction matter.

The Respondents is in convention of the municipal By Law. The Respondent has encroached on the municipal land and built a boundary wall without the requisite consent of the municipality.-MLM / Kgosithebe

Contravention Notice issued. Owner/Occupant constructed illegally without approved building plan.-MLM / KE Senosi

Contravention Notice issued. Owner/Occupant constructed illegally without approved building plan.-MLM / SM Makama

Contravention Notice issued. Owner/Occupant constructed illegally without approved building plan.-MLM / SM Makama

Contravention Notice issued. Owner/Occupant constructed illegally without approved building plan.-MLM / AA Mussa (Erf

Contravention Notice issued. Owner/Occupant constructed illegally without approved building plan.-MLM / Bloem Sakebelange

Interdict from processing payments of the respective amounts to the former Mahikeng Local Municipality Councillors Claim amount: No Claim -MLM / G Morabane (Erf 8864/66, Extension)

### Prior year cases

#### Service providers cases

Applicant contract was terminated by the municipality due to non-performance & later alleged Breach of contract. Matter set down for hearing on 3rd March 2018 and requested for postponement

Domestic waste collection services for and on behalf of municipality within its arear of jurisdiction Claim amount: R2,312,393.40

Notice to amend particulars of claim by the plaintiff (Claim by the plaintiff R1,247,831.70)

#### Property Loss/Damage cases

Mr Mogorosi instituted damages claim against the municipality following his motor vehicle colliding with a pothole on a road alleged to be within the municipal jurisdiction.

Claim for damages of R695,000

The Municipality is cited as the second respondent. The plaintiff seeks damages against the municipality. Plaintiff alleges that both the first and second respondents failed to maintain the road which resulted in formation of potholes with which the driver thereof collided resulting in him suffering the damages. The matter is defended.

This is civil claim against the municipality as a result of a motor vehicle colliding into a pothole suffering damages within the jurisdictions of the municipality

This is a civil claim against the municipality for motor vehicle collision with a pothole suffering damages within the jurisdiction of the municipality

#### Malicious proceedings

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

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### 34. Contingencies (Assets and Liabilities) (continued)

Claim for unlawful and malicious false charges by members of the municipality traffic official and SAPS

#### Others

The applicant brought an application for review and set aside an arbitration award claiming Financial disparity relating to financial clerks and traffic officers. Only claim relating to financial clerks was settled and other officers have subsisting claims who needs to apply for date of hearing

This is an application against the municipality, for an order to compel the municipality to provide burial services for the remains of an individual who has no relatives to assist with burial

This is a civil claim matter: The Municipality is cited as a second respondent. Plaintiff seeks damages to the tune of R158 415.10. Plaintiff alleges that both first and second defendant failed to maintain the road which resulted in him colliding with a pothole. The matter is defended.

This is an eviction matter, wherein the applicant cited the Municipality as the 3rd Respondent. The matter appeared before court wherein the Municipality was not properly notified and subsequently not represented thereon and an adverse order was granted against the municipality. It is on this basis that we were instructed to approach the court make an application for rescission of judgement and subsequently an instruction to appeal the dismissal of the rescission application by the magistrate.

The Respondents' are in contravention of the Municipal Nuisance By Law. The property in question has burnt down and has for approximately 3 years been left unoccupied, unattended and neglected thus detriment to the value and security of the neighbouring properties.

Unspent portion of tranches paid to the Municipality in previous years

#### **Contingent Assets**

The municipality seeks to acquire Benadeplaats Farm 93 in order to establish a township

Recovery of outstanding municipal accounts (Including assessment rates) for the sum of R125,988,317.06

Interdict from processing payments of the respective amounts to the former Mahikeng Local Municipality Councillors Claim Amount: No claim

This is an illegal building and construction matter. The Respondent is in contravention of the Municipal By Laws, SPLUMA AND the National Building Regulations and Standards. Respondent failed to submit the building plans, proceeded to alter and construct office building without the municipality's requisite consent.

This is an illegal building contrition matter. The respondent has effected alternation to the main building and built a boundary wall without the prior submission of the building plans and obtaining a requisite approval.

This is an illegal building and construction matter. The Respondents is in convention of the municipal By Law. The Respondent has encroached on the municipal land and built a boundary wall without the requisite consent of the municipality.

Upgrading of Danville Stadium tender was awarded to applicant but failed to execute its responsibilities with expected time frame: project cost: R4,327,538.89 Claim amount: No claim

Debt collection on 37 properties located in the Municipalities jurisdiction. To Collect R58,116,522.34

Reversal of sale of Erf 6034 back to MLM ownership

Reversal of sale of ERF 6180, Mahikeng

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

### 35. Related parties

Relationships	
Accounting Officer	Mr NM Mokgwamme
Chief Financial Officer	Mr RA Morris
Councillors	Refer to the general information page of the Annual Financial Statements
Members of key management	Mr N M Mokgwamme Mr R A Morris Ms T Modisa Mr T J Marumo Mrs K P Nyembe Mr T Masia Ms M Moloi-Tsae Mrs Z K Masuku Mr M J Molamu Ms K J Lekoma

North West Department of Human Settlements deployed a administrator to the Mafikeng Local Municipality as per note from the MEC regarding the intervention in terms of section 137 of the MFMA as at 29 August 2018.

The Municipality has various processes in place to identify and note any related party transactions with regards to this matter. These range from disclosure by bidders on the bid documents (MB4) to maintenance of a conflict of interest register.

For councillors, this is kept in the Office of the Speaker whilst for the other senior managers it is kept by the Corporate Services Directorate.

#### Related party transactions

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

Doctor Moseki Project	-	124 550
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##### Remuneration of management and councillors

The compensation of key management personnel and councillors is set out in note 24 and 25 to the Annual Financial Statements

#### Awards to close family members of persons in service of the state

The details listed below is disclosed in terms of Regulation 45 of the Municipal Supply Chain Regulation 2005 that determines that the municipality must disclose particulars of any award of more than R2,000 to a person who is a spouse, child or parent of a person in service of the stste or has been in service of the stste in the previous twelve months.

Name of Person or entity	2021	2020
Terry's Auto Repairs	-	4 658
Baratan Trading and Projects	-	29 500
Lefa General Distributers	-	21 500
KKM Consulting Engineers	-	2 371 274
Kgetsi Ya Puo Business Consultants	1 037 053	4 768
Dikelellong Engineers and Projects	2 395 475	1 458 000
Tihabanelo Trading Enterprise	-	28 800
Green Tech Africa PTY LTD	-	35 977
Kgothayame Projects	-	28 480
	<b>3 432 528</b>	<b>3 982 957</b>



# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

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### 35. Related parties (continued)

#### Terry's Auto Repairs

The spouse of Mr. Martin Terence Thomas (Owner), Mrs. Julia Thomas is employed by Mahikeng Local Municipality

#### Baratan Trading and Projects

The spouse of Mrs. Nathaniel Mogomotsi Leffi (Owner), Mr. Tholo Samuel Kgotlagomang is employed by Mahikeng Local Municipality

#### Lefa General Distributors

Mojalefa Mathibela (Director) is employed at the South African Broadcasting Corporation

#### KKM Consulting Engineers

KK Molawa (Director) is employed at the North West Health Department

#### Kgetsi Ya Puo Business Consultants

Goitsemodimo Ephraim Seleka (Director) is employed at the South African Broadcasting Corporation

#### Dikelellong Engineers and Projects

Morwa Archibold Matsaunyane (Director) is employed at JB Marks - NW Local Municipality and a close family member/relative of Mpho Daniel Lebogo (Director) works at Denel Dynamics

#### Tlhabanelo Trading Enterprise

A close family member/relative of Tiego Cornelius Kgomo (Director) works at the North West Gambling Board

#### Green Tech Africa PTY LTD

A close family member of Taelo Partular Moseki (Director) works at the National Home Builders Registration Council

#### Kgotlhayame Projects

A close family member of Kgotlaame Emmanuel Gaonakala (Director) works at Transnet Limited

### 36. Prior-year adjustments

The prior year has been amended to account for prior period errors.

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassification of comparatives had on the amounts disclosed in the annual financial statements, followed by a description of each of the individual prior period error with the amounts involved.

### Statement of financial position

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand		2021	2020	
<b>36. Prior-year adjustments (continued)</b>				
<b>2020</b>				
	Note	As previously reported	Correction of error	Restated
Inventories		100 350 641	(84 239 215)	16 111 426
Receivables from exchange transactions		127 173 840	2 158 878	129 332 718
Receivables from non-exchange transactions		116 672 229	-	116 672 229
Prepayment - SALGA		3 157 316	-	3 157 316
Cash and cash equivalents		15 427 328	-	15 427 328
Investment property		357 218 500	-	357 218 500
Property, plant and equipment		1 655 700 014	(5 090)	1 655 694 924
Intangible assets		814 697	-	814 697
Financial liabilities - Loans		(802 105)	-	(802 105)
Payables from exchange transactions		(629 008 067)	(3 235 573)	(632 243 640)
VAT payable		(29 285 316)	10 909	(29 274 407)
Consumer deposits		(11 201 972)	-	(11 201 972)
Employee benefit obligation		(2 928 000)	-	(2 928 000)
Unspent conditional grants and receipt		(930 686)	-	(930 686)
Financial liabilities - Loans		(17 617 206)	-	(17 617 206)
Employee benefit obligation		(334 665 000)	-	(334 665 000)
Provisions		(117 612 937)	-	(117 612 937)
Accumulated surplus		(1 232 463 276)	85 310 091	(1 147 153 185)
		-	-	-

### Statement of financial performance

#### 2020

	Note	As previously reported	Correction of error	Restated
Service Charges		230 642 895	19 001 930	249 644 825
Rental of facilities and equipment		6 857 756	-	6 857 756
Interest received (trading)		77 600 415	-	77 600 415
Licences and permits		2 364 140	-	2 364 140
Fees earned		3 596 173	-	3 596 173
Other income		2 808 966	-	2 808 966
Interest received - investment		7 409 330	-	7 409 330
Property rates		318 056 436	-	318 056 436
Government grants & subsidies (Realisation of grants)		364 698 871	-	364 698 871
Fines, penalties and forfeits		2 448 830	-	2 448 830
Recognition of the roads		471 343 771	-	471 343 771
Employee related costs		(345 224 100)	(2 903 250)	(348 127 350)
Remuneration of councillors		(29 045 903)	-	(29 045 903)
Depreciation and amortisation		(97 807 558)	-	(97 807 558)
Finance costs		(3 354 151)	-	(3 354 151)
Debt impairment		(276 587 673)	(16 843 052)	(293 430 725)
Repairs and maintenance		(5 691 780)	2 410 264	(3 281 516)
Bulk purchases		(85 269 343)	-	(85 269 343)
Contracted services		(26 506 856)	-	(26 506 856)
General expenses		(137 606 784)	(3 022 901)	(140 629 685)
Gain (loss) on disposal of assets and liabilities		9 624 129	(77 924 498)	(68 300 369)
Fair value adjustments		78 802 285	-	78 802 285
Inventories write-up/write-downs		(935 692)	(6 765 422)	(7 701 114)
<b>Surplus /(Deficit) for the year</b>		<b>568 224 157</b>	<b>(86 046 929)</b>	<b>482 177 228</b>

### Statement of financial position

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

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

The following prior period errors adjustments occurred:

#### **Inventory**

##### Inventory Consumables

No adjustments made to the balance.

##### Land Inventory

In the 2019/20 financial year, the AGSA concluded that there were numerous properties in the Land Inventory Register, which the municipality does not have control over. As a result, the Land Inventory was declared to be overstated by the AGSA. To correct this, the municipality undertook a full verification and assessment exercise to assess which land inventory properties we have control over and which properties have actually been transferred to the rightful owner to date. This resulted in correction decrease in the Land Inventory balance of -R84 239 215.

#### **Receivables from exchange transactions**

Credit notes for water service charges relating to the 2018/2019 financial period for various customers were incorrectly captured in the 2019/20 general ledger.

The error resulted in there being a cut-off issue audit finding in the 2019/20 financial year. The erroneous capturing of the credit notes resulted in net receivables from exchange being understated by R2 158 878.34

#### **Receivables from non-exchange transactions**

No adjustments made to the balance.

#### **Cash and cash equivalents**

No adjustments made to the balance.

#### **Investment property**

No adjustments made to the balance.

#### **Property, plant and equipment**

##### Community Assets

Purchase orders relating to Community Assets were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R -5 090 and community Assets were overstated by R -5 090.

##### Computer Equipment

Purchase orders relating to Computer Equipment were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R -317 325 and Computer Equipment were overstated by R -317 325.

However, this overstatement actually forms part of the Prior Period Error - Alignment Journal passed in the prior year. Thus, that means that if the error will be disclosed separately, the Prior Period Error - Alignment Journal was overstated. Therefore, a journal was processed to reverse R317,325 from it. Therefore, the net effect of these 2 journals is zero on the closing balance of PPE - Computer Equipment.

##### Furniture and Office Equipment

Purchase orders relating to Furniture and Office Equipment were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are

# Mahikeng Local Municipality

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

overstated by R -45 700 and Furniture and Office Equipment were overstated by R -45 700.

However, this overstatement actually forms part of the Prior Period Error - Alignment Journal passed in the prior year. Thus, that means that if the error will be disclosed separately, the Prior Period Error - Alignment Journal was overstated. Therefore, a journal was processed to reverse R45,700 from it. Therefore, the net effect of these 2 journals is zero on the closing balance of PPE - Furniture and Office Equipment.

#### Machinery and Equipment

Purchase orders relating to Machinery and Equipment were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R -87 680 and Machinery and Equipment were overstated by R -87 680.

However, this overstatement actually forms part of the Prior Period Error - Alignment Journal passed in the prior year. Thus, that means that if the error will be disclosed separately, the Prior Period Error - Alignment Journal was overstated. Therefore, a journal was processed to reverse R87,680 from it. Therefore, the net effect of these 2 journals is zero on the closing balance of PPE - Machinery and Equipment.

#### **Intangible assets**

No adjustments made to the balance.

#### **Financial liabilities - Loans**

No adjustments made to the balance.

#### **Payables from exchange transactions**

##### Accrued Leave Pay

Leave provision was calculated based on the leave days as per the payday report for the year ended 30 June 2020 **-R 2 903 250**

##### VAT Payables

Recognition of various invoices from different suppliers relating to VAT were incorrectly captured in the 2020/21 general ledger. The erroneous capturing of these invoices in the 2020/21 general ledger resulted in the following: Trade payables are understated by R -10 908.86 and VAT were understated by R -10 908.86.

##### Community Assets

Purchase orders relating to Community Assets were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 5 090 and community Assets were overstated by R 5 090..

##### Computer Equipment

Purchase orders relating to Computer Equipment were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 317 325 and Computer Equipment were overstated by R 317 325.

##### Furniture and Office Equipment

Purchase orders relating to Furniture and Office Equipment were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 45 700 and Furniture and Office Equipment were overstated by R 45 700.

# Mahikeng Local Municipality

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

#### Machinery and Equipment

Purchase orders relating to Machinery and Equipment were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 87 680 and Machinery and Equipment were overstated by R 87 680.

#### Catering Services

Purchase orders relating to Catering services were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 29 159.64 and Catering services are overstated by R 29 159.64.

#### Refused Removal

Purchase orders relating to refuse removal were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 31 850 and refused removal are overstated by R 31 850.

#### Professional staff

Purchase orders relating to professional staff were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 68 230 and professional staff are overstated by R 68 230.

#### Computer services

Purchase orders relating to Computer services were incorrectly captured in the 2019/20 general ledger. In addition, invoices issued for the 2019/20 financial year were incorrectly captured in the 2020/21 general ledger. The omission of these invoices and erroneous capturing of purchase orders resulted in the following: Trade payables are overstated by R12 821, VAT Payable is understated by R 1 471; and Computer services are overstated by R 14 292.

#### Inventory expenditure

Purchase orders relating to Inventory expenditure were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 7 933 430 and Inventory expenditure is overstated by R 7 933 430.

#### Legal advice and litigation

Invoices issued for the 2019/20 financial year were incorrectly captured in the 2020/21 general ledger. The omission of these invoices in the 2019/20 general ledger resulted in the following: Trade payables are understated by R-122 270; Legal advice and litigation expense is understated by R-122 270.

Recognition of various invoices from Legal Advice & Litigations were incorrectly captured in the 2020/21 general ledger that relate to 2018/19 general ledger resulted in the following: trade payables is understated by R -164 577.50.

#### Advertising

Purchase orders relating to Advertising were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 129 638 and Advertising expense is overstated by R 129 638.

#### Postage and courier

Purchase orders relating to Postage and courier were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 13 518 and Postage and courier expense is overstated by R 13 518.

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

#### Hire

Invoices issued for the 2019/20 financial year were incorrectly captured in the 2020/21 general ledger. The omission of these invoices in the 2019/20 general ledger resulted in the following: Trade payables are understated by R-28 480; VAT Payable is understated by R-3 715; and Hire expense is understated by R -24 765.

#### Subscriptions and membership fees

Purchase orders relating to Subscriptions and membership fees were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R15 000 and Subscriptions and membership fees expense is overstated by R15 000.

#### Travel and Subsistence

Purchase orders relating to Travel and Subsistence were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 399 550 and Travel and Subsistence is overstated by R 399 550.

#### Protective clothing

Purchase orders relating to Protective clothing were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 923 263,89 and Protective clothing expense is overstated by R 923 263,89.

#### Repairs and maintenance

Purchase orders relating to Repairs and maintenance were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 2 410 263.87 and Protective clothing expense is overstated by R 2 410 263.87.

#### Prior year open orders

During the prior period the municipality wrote off open orders to general expense as per the advice of the AGSA as they did not meet the definition of accruals. In the current year the journal had to be reversed to be allocated to the correct classes of transactions and account balances.-R 12 433 798

#### **VAT payable**

Recognition of various invoices from different suppliers relating to VAT were incorrectly captured in the 2020/21 general ledger. The erroneous capturing of these invoices in the 2020/21 general ledger resulted in the following: Trade payables are understated by R 10 908.86 and VAT were understated by **R 10 908.86**.

#### **Consumer deposits**

No adjustments made to the balance.

#### **Employee benefit obligation**

No adjustments made to the balance.

#### **Unspent conditional grants and receipts**

#### **Employee benefit obligation**

No adjustments made to the balance.

#### **Provisions**

No adjustments made to the balance.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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

#### Accumulated Surplus

All the above transactions add up to the balance which adds up to the adjustment of accumulated surplus of R 85 760 796

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Annual Financial Statements for the year ended 30 June 2021

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

#### Statement of comprehensive income



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

The following prior period errors adjustments occurred:

#### Service charges

The Municipality in the 2019/20 reporting period identified certain accounts which were incorrectly billed and made an effort in correcting the errors. In correcting the incorrect billing the Municipality processed a credit note gains receivables - water management and revenue from water. The credit notes resulted in revenues from water being understated by R19 001 930.29 and receivables from water by R19 001 930.29. Impairment of The above resulted in receivables from water sales - impairment being adjusted by R16 843 052.95 and debt impairment expense by the same amount.

#### Property Rates

No adjustments made to the balance.

#### Government grants & subsidies

No adjustments made to the balance.

#### Employee Cost

#### Leave provision

leave provision was calculated based on the leave days as per the payday report for the year ended 30 June 2020 ( 2 903 249)

#### Debt Impairment

Debt impairment was adjusted as a result of credit notes posted in the 2019/20 general ledger which affected the receivables basis figure used to derive debt impairment.

As a result debt impairment was understated by R-16 843 052.95

#### Bad debts written off

No adjustments made to the balance.

#### Repairs and maintenance

Purchase orders relating to Repairs and maintenance were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 2 410 263.87 and Protective clothing expense is overstated by R2 410 263.87.

#### Bulk Purchases

No adjustments made to the balance.

#### Contracted Services

No adjustments made to the balance.

#### General Expenses

#### Catering Services

Purchase orders relating to Catering services were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 29 159.64 and Catering services are overstated by R29 159.64.

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

#### Refused Removal

Purchase orders relating to refuse removal were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 31 850 and refused removal are overstated by R 31 850.

#### Professional staff

Purchase orders relating to professional staff were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 68 230 and professional staff are overstated by R 68 230.

#### Computer services

Purchase orders relating to Computer services were incorrectly captured in the 2019/20 general ledger. In addition, invoices issued for the 2019/20 financial year were incorrectly captured in the 2020/21 general ledger. The omission of these invoices and erroneous capturing of purchase orders resulted in the following: Trade payables are overstated by R12 821, VAT Payable is understated by R1 471; and Computer services are overstated by R14 292.

#### Inventory expenditure

Purchase orders relating to Inventory expenditure were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R7 933 430 and Inventory expenditure is overstated by R7 933 430.

Reversal of open purchase orders incorrectly written off against inventory - R 12 433 978.52

#### Legal advice and litigation

Invoices issued for the 2019/20 financial year were incorrectly captured in the 2020/21 general ledger. The omission of these invoices in the 2019/20 general ledger resulted in the following: Trade payables are understated by R122 270; Legal advice and litigation expense is understated by -R122 270.

#### Advertising

Purchase orders relating to Advertising were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R129 638 and Advertising expense is overstated by R129 638.

#### Postage and courier

Purchase orders relating to Postage and courier were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R13 518 and Postage and courier expense is overstated by R13 518.

#### Hire

Invoices issued for the 2019/20 financial year were incorrectly captured in the 2020/21 general ledger. The omission of these invoices in the 2019/20 general ledger resulted in the following: Trade payables are understated by R28 480; VAT Payable is understated by R3 715; and Hire expense is understated by -R24 765.

#### Subscriptions and membership fees

Purchase orders relating to Subscriptions and membership fees were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R15 000 and Subscriptions and membership fees expense is overstated by R15 000.

#### Travel and Subsistence

Purchase orders relating to Travel and Subsistence were incorrectly captured in the 2019/20 general ledger. The erroneous

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

capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R 399 550 and Travel and Subsistence is overstated by R399 550.

#### Protective clothing

Purchase orders relating to Protective clothing were incorrectly captured in the 2019/20 general ledger. The erroneous capturing of these purchase orders in the 2019/20 general ledger resulted in the following: Trade payables are overstated by R923 263,89 and Protective clothing expense is overstated by R923 263,89.

#### **Finance Cost**

No adjustments made to the balance.

#### **Land Inventory - Gains & Losses on Derecognition**

It was concluded that there were to the value of -R77 473 793 that were either not registered under the municipalities name, duplicates or non-existing properties. This meant that the Land Inventory balance was overstated. These properties were thus derecognised.

#### **Land Inventory - Write down of recoverable amount**

It was concluded that 68 properties on the Land Inventory Register were old Bophutatswana 4 room houses built for the community. However, these properties were never transferred to the rightful owner. Thus these properties are still registered under the municipalities name. The municipality has no control over these properties and no right to remove the occupants. There is also not intention by the municipality to remove the occupants as they are the rightful owners of the houses. Therefore, the Land inventory balance was overstated -R6 765 422. It was concluded to write the net-realizable value of the properties down to R1 because the municipality is not expecting any revenue from transfer of the properties.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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### 37. Risk management

#### Financial risk management

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### 37. Risk management (continued)

The municipality's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

#### Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The municipality's Finance department provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the municipality through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department of Finance monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the municipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

#### Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

Credit Risk;  
Liquidity Risk; and  
Market Risk

Risks and exposures are disclosed as follows:

#### Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

#### Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

#### Liquidity

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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### 37. Risk management (continued)

flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

#### Liquidity risk

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

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

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Annual Financial Statements for the year ended 30 June 2021

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### 37. Risk management (continued)

#### Credit risk

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

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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### 37. Risk management (continued)

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 management.

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

#### Investments/Bank, Cash and Cash Equivalents

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposure to any significant credit risk.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting transaction / exposure limits, which are included in the municipality's Investment Policy. These limits are reviewed annually by the Chief Financial Officer and authorised by the Council.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

#### Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an on-going basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water services rendered to them.

Trade Receivables consist of a large number of customers. Periodic credit evaluation is performed on the financial condition of accounts receivable. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. At this stage the municipality only partially implement its credit control policy as there is no hand over of debtors.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

Financial instrument	2021	2020
Receivables from exchange transactions	59 807 063	129 332 718
Receivables from non-exchange transactions	16 503 176	116 672 229



# Mahikeng Local Municipality

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<b>37. Risk management (continued)</b>		
Cash and cash equivalent	40 948 096	15 427 328

### Market risk

#### Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest charges.

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

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

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

The municipality limits its counterparty exposures from its money market investment operations by only dealing with ABSA Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Receivables comprise a widespread customer base. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "demand for payment", "restriction of services", and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy at this stage the municipality only partially implement its credit control policy as there is no hand over of debtors.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to interest rate risk as the municipality borrows funds at fixed interest rates.

#### Price risk

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

### 38. Going concern

The 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.

Although the Municipality had and accumulated surplus of R 1 099 891 693 we draw attention to the fact that at June 30, 2021 the Municipality has a Profit/Deficit of -R (141 608 990) (2020: R 483 078 639) and its current liabilities exceed its current assets by R 381 775 302

The ability of the Municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the Accounting Officer continues to procure funding for the ongoing operations for the Municipality and raise and collect revenue for services rendered. The Municipality has implemented strict measures enforced on all debtors who default on their accounts, this will be done in line with Council Policy on Debt Collection and Credit Control. It is envisaged that this measures will assist in improving the collection rate of the municipality.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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### 39. Events after the reporting date

As at 30 June 2021, and post the statement of financial position date, the National Disaster Act remains in force, resulting in national lockdown of movement of people and restrictions placed on trading by businesses.

The governments risk adjusted strategy to COVID-19 commenced at level 5 in March 2020, which had an impact on the last quarter of operations for the financial year.

Post statement of financial position date, the lockdown level has been adjusted and stands at level 1. This has seen an opening of the economy and a significant move towards normality.

The negative impact on trading operations is expected to continue albeit to a much lesser extent. It remains uncertain as to when the state of National Disaster will be completely lifted, amongst speculation of a 'second wave' of the COVID-19 pandemic

### 40. Unauthorised expenditure

Opening balance	1 176 061 381	1 032 270 349
Current year movement	120 803 265	143 791 032
	<b>1 296 864 646</b>	<b>1 176 061 381</b>

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Unauthorised expenditure for the current year and prior year relates to the following expenditure votes to over spending on operational expenditure votes. For detail overspending on votes the reader is referred to the Budget and Comparison Statement together with Note 45.

Movements in unauthorised expenditure	120 803 265	143 791 032
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The following processes were planned and implemented in detail regarding unauthorised expenditure as prescribed by section 32 of the MFMA incurred during 2015-16 and previous financial years:

Submitted the unauthorised expenditure registers to Council for tabling and further decision making.

Council assigned the Municipal Public Accounts Committee (MPAC) to investigate the unauthorised expenditure in accordance with the MFMA section 32 (2) (a) (ii).

No decision to authorise the incurred authorised expenditure has been made to date.

### 41. Fruitless and wasteful expenditure

Opening balance	37 652 049	31 649 546 ☆
Current year	559 695	6 002 503 ☆
	<b>38 211 744</b>	<b>37 652 049</b>

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# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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<b>41. Fruitless and wasteful expenditure (continued)</b>		
<b>Details of incidents occurred</b>		
Interest charged on overdue account	554 501	1 142 709
Interest on loan	-	2 868 173
Penalties occurred	5 194	1 991 621
	<b>559 695</b>	<b>6 002 503</b>

Expenditure incurred during the year from interest paid on overdue accounts and penalties charged for non-compliance with statutory requirements. The matters are currently under investigation, no disciplinary steps taken to date.

As at 30 June 2021, no MFMA section 32 processes have been instituted for fruitless and wasteful expenditure arising from 2016-17 to 2020-21.

The following processes were planned and implemented in detail regarding fruitless and wasteful expenditure as prescribed by section 32 of the MFMA for the 2015-16 and prior financial years:

- 1) Submitted the fruitless and wasteful expenditure registers to Council for tabling and further decision making.
- 2) Council assigned the Municipal Public Accounts Committee (MPAC) to investigate the fruitless and wasteful expenditure in accordance with the MFMA section 32 (2) (b).
- 3) MPAC requested the Audit Committee for assistance resulting in the Internal Audit unit being assigned the task of investigating the incurred expenditure.
- 4) No investigation has been performed as yet by the internal audit unit.

### Prior period correction

Munsoft interest where not accounted in the register now corrected. Please see details below:

Prior period adjustments	Note As previously reported	Correction of error	Restated
Fruitless and wasteful expenditure	38 004 209	(352 160)	37 652 049

### 42. Irregular expenditure

Opening balance	1 189 694 499	1 046 271 669
Add: Irregular Expenditure - current year	209 770 249	143 422 830
	<b>1 399 464 748</b>	<b>1 189 694 499</b>

#### Details of irregular expenditure – Prior year

Tax and other SCM compliance matters	Currently being investigated-No action taken	12 243 711
Procurement process not followed	Currently being investigated-No action taken	101 176 547
Adjustment during audit	Currently being investigated-No action taken	30 002 572
		<b>143 422 830</b>

#### Details of irregular expenditure – Current year

Tax and other SCM compliance matters	Currently being investigated-No action taken	17 661 699
Procurement process not followed	Currently being investigated-No action taken	187 425 628
Adjustment during audit	Currently being investigated-No action taken	4 682 922
		<b>209 770 249</b>

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>43. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Skills Development Levy</b>		
Opening balance	-	400 181
Current year subscription / fee	2 241 644	1 935 956 ☆
Amount paid - current year	(2 241 644)	(2 336 137) ☆
	-	-

### Prior period correction:

SDL declarations were wrongly captured under PAYE and UIF now corrected. Please see details below:

Skills Development Levy prior period correction	Note As previously reported	Correction of error	Restated
SDL (Declaration)	2 348 453	(412 497)	1 935 956
SDL (Payment)	(2 748 634)	412 497	(2 336 137)
	<b>(400 181)</b>	-	<b>(400 181)</b>

### Water Losses

Purchases	8 774 335	10 241 916
Sales	(10 074 626)	(9 968 573)
<b>Units lost in distribution revenue</b>	<b>(1 300 291)</b>	<b>273 343</b>
Quantity (Units lost in distribution)	(1 300 291)	273 343
Annual Average cost of Purchased Unit	8,82	8,82
<b>Monetary Loss in distribution</b>	<b>(11 468 567)</b>	<b>2 410 885</b>
Water loss for the year	-14.8%	2.7%

The municipality purchases water from local water service authority and sells to its residents. During the current year the municipality bought 8 774 335 kilolitres (2020: 10 241 916), sold 10 074 626 kilolitres (2020: 9 968 573) and this resulted in water losses/(Profit) (1 300 291) (2020: 273 343 ) and percentage loss/(Profit) of (14,8%) (2020: 2.7%). The reason why we have a distribution "profit" or "gain" is because the units purchased are based on actual water meter readings supplied by Sedibeng Water and the units sold by the Municipality are based on both actual and estimated water meter readings. Estimated water readings for the 2021 financial year, thus, resulted in more kilolitres being billed than those actually supplied to the consumers.

### Audit fees

Opening balance	75 849	1 405 715
Current year subscription / fee	11 728 688	7 103 582
Amount paid - current year	(7 864 856)	(8 433 448)
	<b>3 939 681</b>	<b>75 849</b>

### Audit fee reconciliation

Amount as per statement (VAT Inclusive and interest charged)	7 103 582
VAT	(923 072)
AGSA Statement adjustments	(191 332)
Interest charged	(23 975)
<b>Amount as per the general expenses note</b>	<b>5 965 203</b>

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>43. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>PAYE and UIF</b>		
Opening balance	-	987 682
Current year subscription / fee	52 302 504	45 471 649 ☆
Amount paid - current year	(52 302 504)	(46 459 331) ☆
	-	-

### Prior period correction:

PAYE and UIF declarations were incorrectly captured under SDL now corrected. See details below:

PAYE Prior period correction	Note As previously reported	Correction of error	Restated
PAYE and UIF (Declaration)	45 059 152	412 497	45 471 649
PAYE and UIF (Payment)	(46 046 834)	(412 497)	(46 459 331)
	<b>(987 682)</b>	-	<b>(987 682)</b>

### Pension and Medical Aid Deductions

Current year subscription / fee	74 249 176	59 954 206
Amount paid - current year	(74 249 176)	(59 954 206)
	-	-

### VAT

VAT payable	13 826 813	29 274 407
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The VAT 201 is submitted monthly on a cash basis.

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

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

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2021:

30 June 2021	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor Van Rooye SJ	3 095	47 606	50 701
Councillor Diakanyo KB	(1 904)	(3 786)	(5 690)
Councillor Seheri KC	-	(1)	(1)
Councillor Motshabi T	3 674	33 449	37 123
Councillor Motau NJ	1 531	-	1 531
	<b>6 396</b>	<b>77 268</b>	<b>83 664</b>

30 June 2020	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor Diakanyo KB	(2 787)	-	(2 787)
Councillor Seheri KC	-	(200)	(200)
Councillor Motshabi T	3 242	22 110	25 352
Councillor Motau NJ	1 121	-	1 121
Councillor Van Rooye SJ	2 301	39 490	41 791
	<b>3 877</b>	<b>61 400</b>	<b>65 277</b>

#### SALGA Subscription

Opening balance	-	2 830 920
Current year subscription/ fees	3 165 566	203 670
Amount paid - current year	(3 165 566)	(3 034 590)
	-	-

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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Figures in Rand	2021	2020
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### 44. 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.

<b>Procurement transactions</b>	<b>2021</b>	<b>2020</b>
Emergency Procurement	9 826 022	13 687 458
Sole provider	230 712	461 843
Impractical or impossible to follow official procurement process	21 299 231	2 024 999
Adjustments	(375 155)	(1 613 230)
	<b>30 980 810</b>	<b>14 561 070</b>

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There were transactions that were corrected for the prior year because they did not meet the definition of being a deviation. Please see listing below:

PROCUREMENT OF SURGICAL GLOVES, FACE MASKS AND SANITIZED WIPES	170 400,00
SUPPLY AND DELIVERY OF 4000 SURGICAL MASKS	160 000,00
SUPPLY AND DELIVERY OF 25L X 40 DISINFECTANT LIQUID, 65 X 48 SANITIZED WIPES, 800 X SURGICAL	699 900,00
SUPPLY AND DELIVERY OF 80X 100 SURGICAL GLOVES AND 4000 FACE MASK (3 PLY )	188 800,00
200 BLANKETS AND 200 MATTRESSES FOR DISASTER RELIEF COVID-19	214 660,00
SUPPLY AND DELIVERY OF 3 PLY SURGICAL MASKS	140 000,00
ACCOMODATION FOR THE EXECUTIVE MAYOR, DRIVER & VIP PROTECTOR	39 469,57

### 45. Statement of comparison of budget and actual

#### Material differences between budget and actual amounts

The reasons for the material variances between the approved budget and the final budget are explained below. A variance is considered material if it is 10% or more and if the amount exceeds R 4 million.

Reasons for material differences between actual and budget figures are explained below:

# Mahikeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 45. Statement of comparison of budget and actual (continued)

- 1 - Movement considered to be immaterial and therefore no explanation is required.
- 2 - Movement considered to be immaterial and therefore no explanation is required.
- 3 - Movement considered to be immaterial and therefore no explanation is required.
- 4 - Rental revenues are demand dependant and during the year certain assets could not be utilised by the community due to the COVID-19 restrictions thus negatively affecting revenues.
- 5 - The Municipality instituted a COVID-19 relief programme in which interest on accounts was suspended and thus reducing the interest billable. This in turn affected negatively the expected or budgeted revenues from interest from customer accounts.
- 6 - The Municipality's Licensing Department extended operating hours in a bid to recover lost fees in the prior year furthermore also to mitigate against backlogs.
- 7 - This is due to uncertainty of the fees that would be earned due to the pandemic and therefore fees earned was not budgeted for.
- 8 - The Municipality through the payroll cycle remits payments to staff for which recoveries are made constituting the bulk of other income. The expected volume of transactions are staff demand depended and as at year end management over expected demand.
- 9 - Interest from investment is based on cashflow principles for which the Municipality exercised extensively. This resulted in positive results with regards to investment revenue.
- 10 - Property rates are subjected to supplementary roll variations which in turn affect expected revenues. Furthermore incorrect billing tends to affect negatively on budgeted revenues
- 11 - The sudden increase is due to the additional funds received for MIG & Equitable Share.
- 12 - Fines, penalties and forfeits are incident dependent. The Municipality strives for visible policing with expectations of a limited volume of incidents which may have resulted in underbudgeting.
- 13 - This is due to senior critical positions filled, yearly increment of salaries and recognition of employee benefit obligation.
- 14 - As a result of annual upperlimits.
- 15 - Acquisition of additional assets and completed projects.
- 16 - All obligatory payments were made in due time and thus the decrease in charges.
- 17 - Due to an increase in receivables.
- 18 - An agreement with Sedibeng Water regulated payments and thus the decrease in comparison to budgeted figure.
- 19 - The budgeted figure includes all contracted services but the actual consist of only call centre and security services the rest is disclosed separately under general expenditure as professional fees, therefore Call Centre & Security Services budgeted amount is R31,615,358 compared to the actual of R30,024,977 the sudden decrease is due to one of the call centre contracts expired.
- 20 - The classifications of other expenditure group major expenditure classes together like Repairs and Maintenance and Professional Services. This is the cause of the rapid increase of other expenditure.
- 21 - Losses could not have been anticipated during budget preparations
- 22 - Unable to anticipate fair value adjustments as it is based on an expect valuation performed annually, fair value could not be anticipated.
- 23 - The significant difference is due to the derecognition of properties not belonging to the Municipality

### 46. Comparative figures

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

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated.

The nature and reason of reclassification is disclosed. Where material prior period errors have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.