

## ACCOUNTING POLICIES

### **1 Basis of presentation**

- 1.1 These financial statements have been prepared so as to conform to the standards laid down by the Institute of Municipal Finance Officers in its Code of Accounting practice (1997) and Report on Published Annual Financial Statements (Second edition – January 1996)
- 1.2 The financial statements are prepared on the historical cost basis, adjusted for fixed assets as more fully detailed in Accounting Policy note 3. The accounting policies are consistent with those applied in the previous year, except if otherwise indicated.
- 1.3 The financial statements are prepared on the accrual basis as stated:
- Income is accrued when measurable and recoverable. Certain direct income is accrued when received, such as traffic fines and certain licenses.
  - Expenditure is accrued in the year it is incurred.

### **2 Consolidation**

The financial statements include the Rate and General services, Housing service, Trading services and the different funds and reserves. All inter departmental charges are set-off against each other, with the exception of assessment rates, refuse removal, sewerage, electricity, water and premiums charged by the insurance fund, which are treated as income and expenditure in the respective departments.

### **3 Fixed Assets**

- 3.1 Fixed assets are stated:
- At historical cost, or
  - At valuation (based on the market price at date of acquisition), where assets have been acquired by grant or donation, while they are in existence and fit for use, except in the case of bulk assets which are written off at the end of their estimated life as determined by the CFO.
- 3.2 Depreciation

The balance shown against the heading “Loans redeemed and Other Capital Receipts” in the notes to the balance sheet is tantamount to a provision for depreciation, however, certain structural differences do exist. By way of this “Provision” assets are written down over their estimated useful life. Apart from advances from the various council funds, assets may also be acquired through:

- Appropriations from income, where the full cost of the asset forms an immediate and direct charge against the operating income, and therefore it is unnecessary to make any further provision for depreciation.
- Grant of donation, where the amount representing the value of such grant or donation is immediately credited to the “Loans Redeemed and Other Capital Receipts” account.

3.3 All net proceeds from the sale of fixed property are credited to the Land trust fund. Net proceeds from the sale of all other assets are credited to the Capital Development Fund.

3.4 Fixed assets are financed from different sources, including external loans, operating income, Capital Reserve Fund, and Internal Advances from the Capital Development Fund or Consolidated Loans Fund. These loans and advances are repaid within the estimated lives of the assets acquired from such loans or advances. Interest is charged to the service concerned at the ruling interest rate applicable at the time that the advance is made.

#### **4 Inventory**

Inventory is valued at the FIFO principal.

#### **5 Funds and Reserves**

##### 5.1 Capital Development Fund

The Capital Development Fund Ordinance, (Ordinance 9 of 1978) requires a minimum contribution of 1 % (percent) of the defined income of a local authority for the immediate preceding financial year.

##### 5.2 Loan Redemption Fund

The redemption of Registered and Annuity stock in the Consolidated Loans Fund is provided for by annual repayment of advances made to the borrowing accounts on the estimated life of assets acquired but subject to a limitation of a maximum of 30 years on the life of any individual asset. Internal loans are repaid in relation to the life of an asset. Redemption on government loans is paid half yearly on an annuity basis.

- 5.3 Insurance Fund  
A General Insurance Fund is maintained to cover claims that may occur. Re-insurance cover is carried for major losses.
- 5.4 Capital Reserve Fund  
A reserve is being built up with the objective of providing capital for general use.
- 5.5 Bursary Loan Fund  
A reserve is being built up with the objective of providing study bursaries to staff members and general public.

## **6 Retirement Benefits**

The Msukaligwa Local Council and its employees contribute to the following pension funds:

- Municipal Employees Pension Fund
- Municipal Employees Gratuity Fund
- SALA Pension Fund

The Council and its Councillors also contribute to the Pension Fund for Municipal Councillors which provides retirement benefits to such Councillors.

Contributions are charged against operating income.

## **7 Surpluses and Deficits**

Any surpluses or deficits arising from the operation of the Electricity and Water services are transferred to the Rate and General services.

## **8 Treatment of administration and other overhead expenses**

The cost of internal support services are transferred to the different services in accordance with the Institute Report on Accounting for Support Services (June 1990)

**9 Leased Assets**

Lease finance charges are allocated to accounting periods over the duration of the leases, by the effective interest rate method, which reflects the extent and cost of lease finance utilized in each accounting period.

All other leases are treated as operating leases and the relevant rentals are charged to the operating account in a systematic manner related to the period of use of the assets concerned, or the period of the lease contract.

**10 Investments.**

Investments are shown at the lower of cost or market value if a permanent decline in the value occurred.

**11 Income Recognition**

11.1 Electricity and Water billings  
Meters on all properties are read and billed monthly

11.2 Assessment Rates  
The Msukaligwa municipality applies a uniform site rating system. In terms of this system the assessment rates are levied on the land value of property, and rebates are granted according to the use to which a particular property is determined. Further relief, based on conditions relating to age and income, was provided to needy aged owners of property.

**12 Consolidated Loans Fund**

Council operates a Consolidated Loans Fund in terms of the Municipal Consolidated Loans Fund Ordinance (Ord. 9 of 1952)

The capital resources of the Consolidated Loans Fund consist of both external and internal loans. Advances are made to borrowing departments at an interest rate equal to the cost of servicing the Fund's capital and are repaid over the useful life of the assets acquired.