

MSUNDUZI MUNICIPALITY



Policy Name:	Commitments Policy
Policy Number:	
Status:	Final
Date:	January 2026
Approved By:	
Date Approved:	
Date Last Amended:	February 2025
Date for Next Review:	February 2027
Date Published on Intranet:	

COMMITMENTS POLICY

Abbreviations:

MFMA	-	Municipal Finance Management Act, 2003 (Act 56 of 2003)
GRAP	-	Generally Recognised Accounting Practice
AFS	-	Annual Financial Statements
AO	-	Accounting Officer

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1. Legislative Requirements

Municipal Finance Management Act (MFMA)

The MFMA endeavours “to secure sound and sustainable management of the fiscal and financial affairs of municipalities and municipal entities by establishing norms and standards and other requirements.”

Chapter 12 of the MFMA places the onus on the Municipality to take responsibility for the preparation and adoption of an annual report in accordance with this Chapter. Chapter 12 provides guidance on the preparation of financial statements, disclosures on intergovernmental and other allocations and other compulsory disclosures.

2. Objectives

The objective of this Policy is to clearly define the responsibilities of Msunduzi Local Municipality, in terms of the MFMA, with respect to the identification and disclosure of both ‘approved and contracted for’ and ‘approved but not yet contracted for’ commitments in its Annual Financial Statements (AFS).

This policy document addresses the following areas:

- 2.1.1 The definition of a commitment
- 2.1.2 The definition of ‘approved and contracted for’ commitments, ‘approved but not yet contracted for’ commitments, ‘capital expenditure’ and ‘current expenditure’
- 2.1.3 The Accounting Policy with respect to commitments
- 2.1.4 Guidance on the identification and accounting treatment of commitments
- 2.1.5 Guidance on the disclosure requirements of commitments

3. Terminology and Definitions

A **commitment** represents goods/services that have been approved and/or contracted for, but where delivery has not taken place at the reporting date. A commitment arises when a decision has been made to incur a liability in the future. The commitment converts to a liability when that intention becomes a present obligation – i.e. when the delivery of the contracted goods/services has taken place.

Capital commitments arise when the Msunduzi Local Municipality has entered into a contract on or before the end of the financial year/reporting date to incur expenditure over subsequent accounting periods relating to the construction of infrastructure, the purchase of major items of property, plant and equipment or significant consultancy costs.

Operational commitments arise when the Msunduzi Local Municipality has ordered goods/services in the normal course of business but where delivery has not taken place at the end of the financial year/reporting date.

An **approved and contracted for commitment** is where the expenditure has been approved and the contract has been awarded at the end of the financial year/reporting date.

An **approved and not yet contracted for commitment** is where the expenditure has been approved but the contract has not yet been awarded or is awaiting finalisation at the end of the financial year/reporting date.

Capital expenditure is expenditure incurred to purchase, upgrade or construct physical assets (for e.g. buildings) for which there will be a long-term benefit. Long-term is defined as longer than one year.

Current/Operational expenditure is expenditure incurred to purchase goods or services for which there will be a short-term benefit, and which has been incurred in the normal course of business. Short-term is defined as less than one year.

Annual Financial Statements in relation to the Msunduzi Local Municipality means statements consisting of at least-

- 3.1.1 A statement of financial position
- 3.1.2 A statement of financial performance
- 3.1.3 A cash-flow statement
- 3.1.4 Any other statements that may be prescribed, and
- 3.1.5 Any notes to these statements.

Financial Year means a year ending on the 30th of June.

4. Accounting Policy

This Policy has been formulated in terms of the MFMA and the Generally Recognised Accounting Practice Statement on Presentation of Financial Statements (GRAP1), as well as disclosure prescribed in the June 2006 National Treasury specimen annual financial statements.

Commitments are not recognised in the Statement of Financial Position nor the Statement of Financial Performance but are included in the disclosure notes to the AFS. A distinction is made between capital and current commitments.

The disclosure of commitments entered before the end of the financial year/reporting date shall be done in the financial statements as prescribed in the following GRAP standards:

- 4.1.1 **GRAP 1 – Presentation of Financial Statements (GRAP 1:124)** requires the disclosure of unrecognised contractual commitments.
- 4.1.2 **GRAP 13 – Leases (GRAP 13:28)** requires the disclosure of the future minimum lease payments.
- 4.1.3 **GRAP 17 – Property, Plant and Equipment (GRAP 17:86 (c))** requires the disclosure of contractual commitments for the acquisition of property, plant and equipment.
- 4.1.4 **GRAP 31 – Intangible Assets (GRAP 31:123 (d))** requires the disclosure of contractual commitments for the acquisition of intangible assets.

5. Identification and Accounting Treatment of Commitments

In determining whether a commitment exists at the end of the financial year/reporting date, the following principals, according to the National Treasury Guidelines, should be applied:

- 5.1.1 Commitments represent goods/services that have been ordered, but for which no delivery has taken place at the reporting date. These amounts are not recognised in the Statement of Financial Position as a liability or as expenditure in the Statement of Financial Performance, however are disclosed as part of the disclosure notes.
- 5.1.2 Items are classified as commitments where the Municipality commits itself to future transaction that will normally result in the outflow of resources.
- 5.1.3 Contracts that are entered into before the reporting date, but for which the corresponding goods/services have not been received are disclosed in the commitments disclosure note to the financial statements
- 5.1.4 Material contracts entered into after the reporting date, but prior to the approval of the AFS must be disclosed under subsequent events as well as in the report of the Accounting Officer.
- 5.1.5 Other commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note if both the following criteria are met:
- 5.1.6 Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services), and
- 5.1.7 Contracts should relate to something other than the routine, business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

The transaction cycle to demonstrate at which stage commitments should be disclosed in the AFS has been represented in tabular format below:

Contracts exceeding **R300 000** are obtained through a competitive bidding process.

Stage	Decision to put contract to tender	Contract accepted and signed	Contract work commences		Payment made
Classification	No recognition / No disclosure	Commitment	Liability for work performed	Commitment for unperformed work	Settles the liability

The process depicted below is applicable to the purchase of Property, Plant and Equipment as well as Operational commitments:

Stage	Need has been identified	Quotes Sourced	Order placed	Order accepted	Goods delivered and accepted	Payment made
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Classification	No recognition / No disclosure	No recognition / No disclosure	Commitment	Commitment	Liability	Settles the liability
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Tripartite Contracts awarded but not yet contracted:

Stage	Decision to put contract to tender	Contract accepted and signed	Contract at halt until funds are released by National Treasury		Payment made
Classification	No recognition / No disclosure	No disclosure	Commitment	Commitment for unperformed work	Settles the liability

6. General Disclosure Requirements of Commitments

A. Notes to the Financial Statements

As a minimum, the following should be disclosed in the notes to the Financial Statements for commitments:

- 6.1.1 A distinction should be made between Capital and Operational commitments
- 6.1.2 The aggregate amount of Capital and Operational expenditure approved and contracted for at the reporting date, to the extent that the amount has not been recorded in the Financial Statements.
- 6.1.3 If a commitment is for a period longer than 1 year, it should be stated in the note.
- 6.1.4 To ensure that there is no duplication, lease commitments are disclosed under a separate note.

B. Contract / commitments register

A capital contract register / commitments register shall be maintained by the Supply Chain Management Department. This register details the following information, essential for the calculation of commitments:

- 6.2.1 The period of the tender awarded
- 6.2.2 Original contract amount
- 6.2.3 Amounts already paid pertaining to that tender/contract
- 6.2.4 Amounts for which invoices have been received and which are therefore included in accruals and should be deducted from the commitment
- 6.2.5 Commitments loaded on the procurement and contractors register system
- 6.2.6 Commitments not loaded on the procurement and contracts register system

In respect of current / operational contracts:

Commitments loaded onto the Procurement System (SAP) of which Goods Received Notes have not yet been raised at the reporting date.

C. Disclosure Example

NOTE FOR CURRENT AND CAPITAL COMMITMENTS

	2024/25	2023/24
Current expenditure		
Approved and contracted		
Approved but not yet contracted		
Capital expenditure		
Approved and contracted		
Approved but not yet contracted		
Total commitments		

The expenditure will be financed from:

External Loans		
Capital Replacement Reserve		
Government Grants		
Own Resources		

Policy Implementation and Review

This policy is effective from April 2025

This policy shall be reviewed in 2026

Approved by:

Date: