



uMGUNGUNDLOVU
U M A S I P A L A W E S I F U N D A
D I S T R I C T M U N I C I P A L I T Y
D I S T R I K M U N I S I P A L I T E I T

UMGUNGUNDLOVU DISTRICT MUNICIPALITY
(Registration number DC 22)
Annual Financial Statements
for the year ended 30 June 2021

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

General Information

Executive Committee

Mayor

TE Maphumulo (ANC)
SA Dlamini (ANC) - Deputy Mayor
RB Strachan (DA)
JJ Ngubo (ANC)
TR Zuma (ANC)
BA Mchunu (ANC)
BC Nhlabathi (DA)
BE Zuma (IFP)
NP Msimang (ANC)
MS Mthethwa (ANC)

Councillors

ME Dladla (ANC) - Speaker
DA Ndlela (ANC) - WHIP
NV Duze (ANC)
MM Thusi (IFP)
SW Dlamini (ANC)
S Majozi (ANC)
TA Hlatshwayo (DA)
H Lake (DA)
B Khumalo (ANC)
SJ Luthuli (ANC)
NC Mabhida (ANC)
S Madiala (ANC)
BK Mkhize (IFP)
K Mkhize (ANC)
MJ Mkhize (ANC)
S Mkhize (ANC)
S Gabela (ANC)
NZ Ndlovu (ANC)
KCS Nene (ANC)
MD Njokwe (ANC)
LC Ngcobo (ANC)
GH Ngcobo (ANC)
B Ngcongo (ANC)
SD Nkuna (ANC)
MS Bond (DA)
BC Sokhela (IFP)
R Soobiah (ANC)
E Xaba (DA)
HM Zondi (ANC)
N Zondo (ANC)
MK Dlamini (ANC)
T Dlamini (ANC)
T Mbanjwa (ANC)
Z Ngubo (ANC)

Auditors

Auditor General of South Africa
Registered Auditors

Legal form of entity

District Municipality

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

General Information

Grading of local authority	Grade 5
Accounting Officer	Dr Raymond Ngcobo
Registered office	242 Langalibalele Street Pietermaritzburg 3201
Postal address	P O Box 3235 Pietermaritzburg 3200
Controlling entity	uMgungundlovu District Municipality - [Not Consolidated]
Bankers	First National Bank
Rounding Level	All figures are presented to the nearest R1

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

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COGTA	Department of Co-operative Governance and Traditional Affairs
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
PPE	Property, Plant and Equipment
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
WIP	Work-in Progress
IMFO	Institute of Municipal Finance Officers
IT	Information Technology
ME's	Municipal Entities
WCA	Workmen's Compensation
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
VAT	Value Added Tax
UIF	Unemployment Insurance Fund
SDL	Skills Development Levy

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Responsibilities and Approval

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

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

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

The annual financial statements set out on pages 5 to 79, which have been prepared on the going concern basis, were approved by the on 30 November 2021 and were signed on its behalf by:



Accounting Officer
Dr Raymond Ngcobo

UMGUNGUNDLOVU DISTRICT 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*
Assets			
Current Assets			
Cash and cash equivalents	3	82 389 734	88 648 531
Consumer debtors	4	84 920 531	82 017 430
Receivables from exchange transactions	5&56	7 169 505	7 060 442
Receivables from non-exchange transactions	6	15 692 320	-
Inventories	7	4 488 473	2 338 552
		<u>194 660 563</u>	<u>180 064 955</u>
Non-Current Assets			
Property, plant and equipment	8	2 154 008 671	2 039 517 448
Intangible assets	9	1 608 581	175 289
Heritage assets	10	4 000	4 000
		<u>2 155 621 252</u>	<u>2 039 696 737</u>
Total Assets		<u>2 350 281 815</u>	<u>2 219 761 692</u>
Liabilities			
Current Liabilities			
Unspent conditional grants and receipts	11	18 512 573	26 542 731
Payables from exchange transactions	12	232 933 880	244 105 013
Consumer deposits	13	7 258 007	6 844 223
Other financial liabilities	14	10 962 119	10 007 903
VAT payable	15	66 403 085	36 268 311
Provisions	16	4 425 000	3 551 671
		<u>340 494 664</u>	<u>327 319 852</u>
Non-Current Liabilities			
Other financial liabilities	14	175 530 248	186 492 443
Provisions	16	34 630 788	32 699 095
		<u>210 161 036</u>	<u>219 191 538</u>
Total Liabilities		<u>550 655 700</u>	<u>546 511 390</u>
Net Assets		<u>1 799 626 115</u>	<u>1 673 250 302</u>
Reserves			
Revaluation reserve	57	24 628 860	24 628 860
Accumulated surplus	58	1 774 997 255	1 648 621 442
Total Net Assets		<u>1 799 626 115</u>	<u>1 673 250 302</u>

* See Note 61

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	297 454 545	285 427 903
Rental of facilities and equipment	18	-	11 177
Other income from exchange transactions	19	74 505	492 733
Interest received - investment	20	2 907 135	6 091 244
Interest from outstanding debtors	21	47 998 807	46 834 729
Total revenue from exchange transactions		348 434 992	338 857 786
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	22	810 459 040	719 534 863
Donations	53	-	10 700 890
Fines, Penalties and Forfeits	23	-	673 266
Other income from non- exchange transactions	24	15 692 320	-
Total revenue from non-exchange transactions		826 151 360	730 909 019
Total revenue	55	1 174 586 352	1 069 766 805
Expenditure			
Employee related costs	25	(266 132 358)	(264 367 915)
Remuneration of councillors	26	(11 690 917)	(11 606 019)
Impairment of Assets	59	-	(4 210 864)
Depreciation and amortisation	27	(46 879 865)	(46 259 863)
Finance costs	28	(21 032 830)	(25 508 841)
Lease rentals on operating lease	29	(4 435 240)	(1 335 040)
Debt Impairment	60	(187 819 718)	(169 656 439)
Bulk purchases	30	(245 082 355)	(217 391 980)
Contracted services	31	(191 096 914)	(187 886 213)
Transfers and Subsidies	32	(6 500 000)	(5 083 500)
General Expenses	33	(60 609 736)	(57 098 773)
Total expenditure		(1 041 279 933)	(990 405 447)
Operating surplus	54	133 306 419	79 361 358
Loss on disposal of assets and liabilities	34	(4 702 556)	(3 641 996)
Actuarial gains / (losses)	35	(2 333 000)	1 448 707
		(7 035 556)	(2 193 289)
Surplus for the year		126 270 863	77 168 069

* See Note 61

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Balance at 01 July 2019	24 628 860	1 569 715 233	1 594 344 093
Changes in net assets			
Net income losses recognised directly in net assets	-	1 738 140	1 738 140
Net income (losses) recognised directly in net assets	-	1 738 140	1 738 140
Surplus for the year	-	77 168 069	77 168 069
Total recognised income and expenses for the year	-	78 906 209	78 906 209
Total changes	-	78 906 209	78 906 209
Restated* Balance at 01 July 2020	24 628 860	1 648 621 442	1 673 250 302
Changes in net assets			
Net income losses recognised directly in net assets	-	104 950	104 950
Net income (losses) recognised directly in net assets	-	104 950	104 950
Surplus for the year	-	126 270 863	126 270 863
Total recognised income and expenses for the year	-	126 375 813	126 375 813
Total changes	-	126 375 813	126 375 813
Balance at 30 June 2021	24 628 860	1 774 997 255	1 799 626 115
Note(s)	57		

* See Note 61

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		154 695 973	148 274 841
Grants		794 398 724	721 923 102
Interest income - Investment		2 907 135	6 091 244
		<u>952 001 832</u>	<u>876 289 187</u>
Payments			
Employee costs		(275 412 631)	(263 602 771)
Suppliers		(484 300 524)	(168 715 399)
Finance costs		(321 311)	(25 508 841)
		<u>(760 034 466)</u>	<u>(457 827 011)</u>
Net cash flows from operating activities	37	<u>191 967 366</u>	<u>418 462 176</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(165 906 088)	(364 057 663)
Purchase of other intangible assets	9	(1 600 578)	(143 386)
Net cash flows from investing activities		<u>(167 506 666)</u>	<u>(364 201 049)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(10 007 979)	(11 874 155)
Finance costs - borrowings		(20 711 518)	-
Net cash flows from financing activities		<u>(30 719 497)</u>	<u>(11 874 155)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(6 258 797)</u>	<u>42 386 972</u>
Cash and cash equivalents at the beginning of the year		88 648 531	46 261 559
Cash and cash equivalents at the end of the year	3	<u>82 389 734</u>	<u>88 648 531</u>

* See Note 61

UMGUNGUNDLOVU DISTRICT 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						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	335 018 154	12 000 000	347 018 154	297 454 545	(49 563 609)	Note 61.1
Other income from exchange transactions	-	-	-	74 505	74 505	Note 61.2
Interest received - investment	527 500	-	527 500	2 907 135	2 379 635	Note 61.3
Interest from outstanding debtors	11 935 586	44 000 000	55 935 586	47 998 807	(7 936 779)	Note 61.4
Total revenue from exchange transactions	347 481 240	56 000 000	403 481 240	348 434 992	(55 046 248)	
Revenue from non-exchange transactions						
Taxation revenue						
Transfer revenue						
Government grants & subsidies	771 836 346	41 486 342	813 322 688	810 459 040	(2 863 648)	Note 61.5
Other income from non-exchange transactions	-	-	-	15 692 320	15 692 320	
Total revenue from non-exchange transactions	771 836 346	41 486 342	813 322 688	826 151 360	12 828 672	
Total revenue	1 119 317 586	97 486 342	1 216 803 928	1 174 586 352	(42 217 576)	
Expenditure						
Employee Related Costs	(272 010 576)	(800 933)	(272 811 509)	(266 132 358)	6 679 151	Note 61.6
Remuneration of councillors	(13 782 254)	-	(13 782 254)	(11 690 917)	2 091 337	Note 61.7
Depreciation and amortisation	(43 773 647)	-	(43 773 647)	(46 879 865)	(3 106 218)	Note 61.8
Finance costs	(27 550 000)	-	(27 550 000)	(21 032 830)	6 517 170	Note 61.9
Lease rentals on operating lease	-	-	-	(4 435 240)	(4 435 240)	Note 61.10
Debt Impairment	(83 747 055)	40 000 000	(43 747 055)	(187 819 718)	(144 072 663)	Note 61.11
Bulk purchases	(154 532 000)	(139 976 000)	(294 508 000)	(245 082 355)	49 425 645	Note 61.12
Contracted Services	(152 413 516)	(59 948 157)	(212 361 673)	(191 096 914)	21 264 759	Note 61.13
Transfers and Subsidies	(6 500 000)	-	(6 500 000)	(6 500 000)	-	
General Expenses	(37 088 549)	(2 582 124)	(39 670 673)	(60 609 736)	(20 939 063)	Note 61.14
Total expenditure	(791 397 597)	(163 307 214)	(954 704 811)	(1 041 279 933)	(86 575 122)	
Operating surplus	327 919 989	(65 820 872)	262 099 117	133 306 419	(128 792 698)	
Loss on disposal of assets and liabilities	-	-	-	(4 702 556)	(4 702 556)	Note 61.15
Actuarial gains/losses	-	-	-	(2 333 000)	(2 333 000)	Note 61.16
	-	-	-	(7 035 556)	(7 035 556)	
Surplus before taxation	327 919 989	(65 820 872)	262 099 117	126 270 863	(135 828 254)	
Capital expenditure	(183 797 000)	(39 993 433)	(223 790 433)	(223 790 433)	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	144 122 989	(105 814 305)	38 308 684	(97 519 570)	(135 828 254)	

UMGUNGUNDLOVU DISTRICT 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						
Reconciliation						
Basis difference						
Capital expenditure				223 790 433		
Actual Amount in the Statement of Financial Performance				126 270 863		

UMGUNGUNDLOVU DISTRICT 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						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	2 338 552	-	2 338 552	4 488 473	2 149 921	
Receivables from exchange transactions	350 855	-	350 855	7 169 505	6 818 650	
Receivables from non-exchange transactions	-	-	-	15 692 320	15 692 320	
Consumer debtors	297 770 678	-	297 770 678	84 920 531	(212 850 147)	
Cash and cash equivalents	82 109 952	-	82 109 952	82 389 734	279 782	
	382 570 037	-	382 570 037	194 660 563	(187 909 474)	
Non-Current Assets						
Property, plant and equipment	2 263 307 448	-	2 263 307 448	2 154 008 671	(109 298 777)	
Intangible assets	175 289	-	175 289	1 608 581	1 433 292	
Heritage assets	4 000	-	4 000	4 000	-	
	2 263 486 737	-	2 263 486 737	2 155 621 252	(107 865 485)	
Total Assets	2 646 056 774	-	2 646 056 774	2 350 281 815	(295 774 959)	
Liabilities						
Current Liabilities						
Other financial liabilities	-	-	-	10 962 119	10 962 119	
Payables from exchange transactions	270 679 528	-	270 679 528	232 933 880	(37 745 648)	
VAT payable	-	-	-	66 403 085	66 403 085	
Consumer deposits	6 844 223	-	6 844 223	7 258 007	413 784	
Unspent conditional grants and receipts	-	-	-	18 512 573	18 512 573	
Provisions	3 551 671	-	3 551 671	4 425 000	873 329	
	281 075 422	-	281 075 422	340 494 664	59 419 242	
Non-Current Liabilities						
Other financial liabilities	195 421 093	-	195 421 093	175 530 248	(19 890 845)	
Provisions	32 699 095	-	32 699 095	34 630 788	1 931 693	
	228 120 188	-	228 120 188	210 161 036	(17 959 152)	
Total Liabilities	509 195 610	-	509 195 610	550 655 700	41 460 090	
Net Assets	2 136 861 164	-	2 136 861 164	1 799 626 115	(337 235 049)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	24 628 860	-	24 628 860	24 628 860	-	
Accumulated surplus	2 112 232 304	-	2 112 232 304	1 774 997 255	(337 235 049)	
Total Net Assets	2 136 861 164	-	2 136 861 164	1 799 626 115	(337 235 049)	

UMGUNGUNDLOVU DISTRICT 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						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation	150 163 025	-	150 163 025	154 695 973	4 532 948	
Grants & Subsidies	815 822 689	-	815 822 689	794 398 724	(21 423 965)	
Interest income - Investments	527 500	-	527 500	2 907 135	2 379 635	
	966 513 214	-	966 513 214	952 001 832	(14 511 382)	
Payments						
Employee costs	(284 563 544)	-	(284 563 544)	(275 412 631)	9 150 913	
Suppliers	(545 415 378)	-	(545 415 378)	(483 861 483)	61 553 895	
Finance costs	-	-	-	(321 311)	(321 311)	
	(829 978 922)	-	(829 978 922)	(759 595 425)	70 383 497	
Net cash flows from operating activities	136 534 292	-	136 534 292	192 406 407	55 872 115	
Cash flows from investing activities						
Purchase of property, plant and equipment	(182 555 000)	-	(182 555 000)	(165 906 088)	16 648 912	
Purchase of other intangible assets	-	-	-	(1 600 578)	(1 600 578)	
Net cash flows from investing activities	(182 555 000)	-	(182 555 000)	(167 506 666)	15 048 334	
Cash flows from financing activities						
Repayment of other financial liabilities	(10 007 903)	-	(10 007 903)	(10 447 020)	(439 117)	
Finance costs - borrowings	(27 550 000)	-	(27 550 000)	(20 711 518)	6 838 482	
Net cash flows from financing activities	(37 557 903)	-	(37 557 903)	(31 158 538)	6 399 365	
Net increase/(decrease) in cash and cash equivalents	(83 578 611)	-	(83 578 611)	(6 258 797)	77 319 814	
Cash and cash equivalents at the beginning of the year	88 648 531	-	88 648 531	88 648 531	-	
Cash and cash equivalents at the end of the year	5 069 920	-	5 069 920	82 389 734	77 319 814	

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

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

1.1 Presentation currency

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

All amounts presented are rounded off to the nearest Rand.

1.2 Going concern assumption

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

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Community Assets\ which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

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

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

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

Item	Depreciation method	Average useful life
Community Assets	Straight line	Fair value (30 years)
Plant and machinery	Straight line	10 to 20 years
Furniture and fixtures	Straight line	10 to 15 years
Transport Assets	Straight line	10 to 15 years
IT equipment	Straight line	10 to 15 years
Computer software	Straight line	5 to 15 years
Infrastructure Water & Sanitation	Straight line	10 to 100 years
Fire Engines	Straight line	15 to 20 years
Mobile Offices	Straight line	15 to 20 years
Heavy machinery	Straight line	15 to 20 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses, at each reporting date, whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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1.3 Property, plant and equipment (continued)

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

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

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

1.4 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

The amortisation periods and the amortisation methods for intangible assets are reviewed at each reporting date.

The re-assessment of the useful life of an intangible asset to a finite useful life where it was initially 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.

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1.4 Intangible assets (continued)

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3 - 5 years
Licenses	Straight line	3 - 5 years
Websites	Straight line	3 - 5 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Intangible assets are derecognised:

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

1.5 Heritage assets

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

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

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements.

Recognition

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

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Accounting Policies

1.5 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

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

Impairment

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

1.6 Financial instruments

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

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

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

A financial asset is:

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

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

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

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

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

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:

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Accounting Policies

1.6 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

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

Class	Category
Trade and other Receivables	Financial asset measured at amortised cost
Consumer Debtors	Financial asset measured at amortised cost
Bank and Cash	Financial asset measured at amortised cost

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

Class	Category
Trade and Other Payables	Financial liability measured at amortised cost
Development Bank of Southern Africa	Financial liability measured at amortised cost
Consumer Deposits	Financial liability measured at fair value

Initial recognition

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

The Municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The Municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

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Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

1.7 Tax

Value Added Tax

The municipality accounts for Value Added Tax (VAT) on the cash/payments basis, based on the approval received from the Commissioner for South African Revenue Services to an application by the Municipality. Permission has been granted to the Municipality to remit or claim for VAT on the cash/payments basis for receivables or payables.

1.8 Leases

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.

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Accounting Policies

1.9 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 or current replacement cost.

Inventories are measured at the lower of cost, net realisable value or current replacement cost where they are held for;

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

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

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

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

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the 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.

1.10 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

Accounting Policies

1.10 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 tests 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.

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 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 in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

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.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

1.11 Impairment of non-cash-generating assets

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.

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.

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Accounting Policies

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

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

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

Useful life is either:

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

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

Identification

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

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for services 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.

Accounting Policies

1.12 Employee benefits (continued)

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

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

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.

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Accounting Policies

1.12 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 recognises 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 recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the 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.

Accounting Policies

1.12 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 recognises 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; and 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 recognises 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 accounts, 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 measures 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.

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1.12 Employee benefits (continued)

The entity determines 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.

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).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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 recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

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.

Accounting Policies

1.12 Employee benefits (continued)

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.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits 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.

The entity shall recognise the net total of the following amounts as expense or revenue, 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 right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.12 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit 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 benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.13 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.13 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash. These can either be operational or capital in nature.

A capital commitment is a binding agreement to undertake capital expenditure at some set time in the future which has not yet become an actual liability.

An operating commitment is a binding agreement to undertake operating expenditure at some set time in the future which has not yet become an actual liability.

Disclosures in the notes to the financial statements are required in respect of unrecognised contractual commitments.

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.

1.15 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.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

1.16 Revenue from non-exchange transactions

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

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

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

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

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, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

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.

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

1.17 Investment income

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

1.18 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.

1.19 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 re-classified.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.20 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.21 Fruitless and wasteful expenditure

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

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

1.22 Irregular expenditure

Irregular expenditure incurred by the municipality is expenditure inclusive of VAT which is in contravention of, or that is not in accordance with, the Municipal Finance Management Act (Act No.56 of 2003); the Municipal Systems Act (Act No.32 of 2000); the Public Office-Bearers Act (Act No. 20 of 1998); or the Supply Chain Management Policy of the municipality or any of the municipality's by-laws giving effect to such policy.

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

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

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

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

Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.24 Segment information

A segment is an activity of an entity:

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

Measurement

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

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

1.25 Use of Estimates

The preparation of the annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates

1.26 Budget information

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

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

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

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

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

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

1.27 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 national sphere of government are considered to be related parties

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.27 Related parties (continued)

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.

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 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 General expenses

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decrease in net assets, other than those relating to distributions to owners. Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting, expenses are recognised when incurred, usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. 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.

1.30 Councillors' Remuneration

Salaries, allowances and benefits of councillors as disclosed in note 38 to these annual financial statements are determined with reference to the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with the Act.

UMGUNGUNDLOVU DISTRICT 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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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18 on Segment Reporting	01 April 2020	The adoption of this has not had a material impact on the results of the company, but has resulted in additional disclosure than would have previously been provided in the financial statements
• GRAP 34 on Separate Financial Standards	01 April 2020	Unlikely there will be a material impact.
• GRAP 35 Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact.
• GRAP 36 on Investments in Associates	01 April 2020	Unlikely there will be a material impact.
• GRAP 37 on Joint Arrangements	01 April 2020	Unlikely there will be a material impact.
• GRAP 38 on Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact.
• GRAP 110 on Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact.

2.2 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2024	Unlikely there will be a material impact

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	90 338	27 316
Bank balances	77 978 708	84 317 486
Short-term deposits	570 688	553 729
Investment Deposit	3 750 000	3 750 000
	82 389 734	88 648 531

Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral for DBSA Loan	3 750 000	3 750 000
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UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

3. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
FNB Bank : Salaries- Account 50940092196	2 771 937	34 445 786	92 219	2 771 937	34 445 786	92 219
FNB Bank : Projects - Account 62023616462	30 903	28 369 538	2 754 065	30 903	28 369 538	2 754 065
FNB Bank -NSTD Call - Account 62215748289	570 688	553 729	11 816 984	570 688	553 729	11 816 984
FNB Bank - Mandela race - Account 62411577193	807 688	797 796	767 076	807 688	797 796	767 076
FNB Bank- Main Account - Account 50940026773	73 032 508	12 924 491	23 478 723	73 032 444	12 924 463	23 478 197
FNB Bank - Fixed Deposit- Account 71101199555	3 750 000	3 750 000	3 994 099	3 750 000	3 994 932	3 994 099
FNB Bank- SANBI - Account 62597807125	98 599	6 538 608	2 498 463	98 599	6 538 608	2 498 463
ABSA Bank- Mandela Race - Account 4094362410	1 237 138	1 241 296	851 650	1 237 138	1 241 296	851 650
Total	82 299 461	88 621 244	46 253 279	82 299 397	88 866 148	46 252 753

4. Consumer debtors

Gross balances

Water 1 050 438 725 859 715 905

Less: Allowance for impairment

Water (965 518 194) (777 698 475)

Net balance

Water 84 920 531 82 017 430

Water

Current (0 -30 days)	59 159 903	31 103 449
31 - 60 days	26 533 931	25 278 530
61 - 90 days	20 147 250	20 802 276
91 - 120 days	18 814 810	15 653 127
121 - 150 days	19 247 100	18 272 750
> 150 days	906 535 732	748 213 830
	<u>1 050 438 726</u>	<u>859 323 962</u>

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
4. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	40 522 595	15 755 933
31 - 60 days	21 800 824	17 527 128
61 - 90 days	16 899 900	16 958 829
91 - 120 days	16 216 036	11 900 054
121 - 150 days	16 956 590	15 136 089
> 150 days	833 479 381	690 414 741
	<u>945 875 326</u>	<u>767 692 774</u>
Less: Allowance for impairment	(917 671 956)	(740 643 444)
	<u>28 203 370</u>	<u>27 049 330</u>
Industrial/ commercial		
Current (0 -30 days)	14 475 382	7 773 375
31 - 60 days	2 969 878	5 866 081
61 - 90 days	1 348 799	2 940 521
91 - 120 days	1 553 947	2 576 051
121 - 150 days	1 593 535	1 847 906
> 150 days	45 479 247	36 188 041
	<u>67 420 788</u>	<u>57 191 975</u>
Less: Allowance for impairment	(47 846 238)	(33 520 326)
	<u>19 574 550</u>	<u>23 671 649</u>
National and provincial government		
Current (0 -30 days)	4 161 926	2 076 434
31 - 60 days	1 763 230	1 885 321
61 - 90 days	1 898 551	902 925
91 - 120 days	1 044 827	1 177 022
121 - 150 days	696 973	1 288 756
> 150 days	27 577 104	22 003 153
	<u>37 142 611</u>	<u>29 333 611</u>
Total		
Current (0 -30 days)	59 159 902	25 605 743
31 - 60 days	26 533 931	25 278 530
61 - 90 days	20 147 250	20 802 276
91 - 120 days	18 814 810	15 653 127
121 - 150 days	19 247 100	18 272 750
> 150 days	906 535 732	754 103 479
	<u>1 050 438 725</u>	<u>859 715 905</u>
Less: Allowance for impairment	(965 518 194)	(774 163 770)
Correction of prior period error	-	(3 534 705)
	<u>84 920 531</u>	<u>82 017 430</u>
Less: Allowance for impairment		
150 days	(965 518 194)	(774 163 770)
Correction of prior period error	-	(3 534 705)
	<u>(965 518 194)</u>	<u>(777 698 475)</u>
Total debtor past due but not impaired		
Current (0 -30 days)	9 574 460	13 799 088
31 - 60 days	7 222 692	6 376 379
61 - 90 days	4 707 759	5 067 645

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

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Figures in Rand	2021	2020
4. Consumer debtors (continued)		
91 - 120 days	3 408 334	4 040 888
121 - 150 days	3 069 458	3 381 767
> 150 days	61 186 608	55 753 279
	<u>89 169 311</u>	<u>88 419 046</u>
Reconciliation of allowance for impairment		
Balance at beginning of the year	(777 698 475)	(609 949 870)
Contributions to allowance	(187 819 718)	(164 213 900)
Correction of prior period error	-	(3 534 705)
	<u>(965 518 193)</u>	<u>(777 698 475)</u>

Consumer debtors pledged as security

There were no consumer debtors that were pledged as security for any liabilities during the period under review.

Consumer debtors past due but not impaired

Consumer debtors which are past due are not considered to be impaired. At 30 June 2021, R 89 166 311 (2020: R 88 419 046) were past due but not impaired.

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

1 month past due	23 717 134	13 799 088
2 months past due	26 313 943	6 376 379
3 months past due	19 904 897	68 243 579

Consumer debtors impaired

As of 30 June 2021, consumer debtors of R 187 819 718 (2020: R169 656 439) were impaired and provided for.

The amount of the provision was R 965 518 913 as at 30 June 2021 (2020: R 777 698 475).

The ageing of these debtors past due and impaired is as follows:

3 to 6 months	98 555 323	52 895 348
Over 6 months	845 349 124	703 344 792

5. Receivables from exchange transactions

Prepayments	504 560	350 855
Deposits	1 180 640	1 106 371
Other receivables	126 011	244 921
Other debtors	35 339	35 339
Sundry debtors	5 322 955	5 322 956
	<u>7 169 505</u>	<u>7 060 442</u>

Trade and other receivables pledged as security

There were no trade and other receivables pledged as security during the year under review.

6. Receivables from non-exchange transactions

Unauthorised, Irregular, Fruitless and Wasteful Expenditure	<u>15 692 320</u>	<u>-</u>
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At a Full Council meeting which took place on 27 August 2021, fruitless and wasteful expenditure at an amount of R7 062 528 and irregular expenditure at an amount of R8 629 792 was resolved to be recoverable by Council. The recovery process is in progress.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

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Notes to the Annual Financial Statements

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7. Inventories		
Maintenance materials	3 722 909	1 735 752
Water for distribution	765 564	602 800
	<u>4 488 473</u>	<u>2 338 552</u>
Inventories recognised as an expense during the year	1 887 562	1 415 026

Inventory has been recorded using the weighted average cost method. Consumables are carried at lower of cost or current replacement cost. Materials are carried at lower of cost or net realisable value. No inventory was written down, reversed or written-off as obsolete during the year under review.

Inventory pledged as security

There was no inventory that was pledged as security for liabilities during the year under review.

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Annual Financial Statements for the year ended 30 June 2021

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8. Property, plant and equipment

	2021		2020			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2 970 350	-	2 970 350	2 970 350	-	2 970 350
Community Assets	31 850 385	(6 264 303)	25 586 082	31 850 385	(5 696 334)	26 154 051
Plant and machinery	19 264 140	(4 411 350)	14 852 790	19 264 140	(3 643 210)	15 620 930
Furniture and fixtures	4 843 454	(2 153 355)	2 690 099	5 082 687	(2 043 894)	3 038 793
Transport Assets	10 124 598	(1 907 851)	8 216 747	10 124 598	(1 529 874)	8 594 724
IT equipment	7 814 951	(4 367 544)	3 447 407	7 726 299	(3 952 803)	3 773 496
Infrastructure	2 466 552 317	(1 080 828 902)	1 385 723 415	2 477 757 725	(1 043 178 293)	1 434 579 432
Other PPE: Infrastructure WIP	710 521 781	-	710 521 781	544 785 672	-	544 785 672
Total	3 253 941 976	(1 099 933 305)	2 154 008 671	3 099 561 856	(1 060 044 408)	2 039 517 448

UMGUNGUNDOLOU DISTRICT MUNICIPALITY

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8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Depreciation	Total
Land	2 970 350	-	-	-	2 970 350
Community Assets	26 154 051	-	-	(567 969)	25 586 082
Plant and machinery	15 620 930	-	-	(768 140)	14 852 790
Furniture and fixtures	3 038 793	899	(136 917)	(212 676)	2 690 099
Transport Assets	8 594 724	-	-	(377 977)	8 216 747
IT equipment	3 773 496	169 080	(57 966)	(437 203)	3 447 407
Infrastructure	1 434 579 432	-	(4 507 491)	(44 348 526)	1 385 723 415
Other PPE - Infrastructure WIP	544 785 672	165 736 109	-	-	710 521 781
	2 039 517 448	165 906 088	(4 702 374)	(46 712 491)	2 154 008 671

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	2 970 350	-	-	-	-	-	2 970 350
Community Assets	26 722 019	-	-	-	(567 968)	-	26 154 051
Plant and machinery	14 941 686	1 869 290	(465 199)	-	(724 847)	-	15 620 930
Furniture and fixtures	3 242 106	26 474	(15 850)	-	(213 937)	-	3 038 793
Transport Assets	4 055 701	5 173 936	(414 664)	-	(220 249)	-	8 594 724
IT equipment	4 413 590	46 151	(20 553)	-	(665 692)	-	3 773 496
Infrastructure	1 257 771 757	226 314 628	(2 725 730)	-	(42 570 359)	(4 210 864)	1 434 579 432
Other PPE - Infrastructure WIP	641 389 345	130 627 183	-	(227 230 856)	-	-	544 785 672
	1 955 506 554	364 057 662	(3 641 996)	(227 230 856)	(44 963 052)	(4 210 864)	2 039 517 448

Pledged as security

There were no property, plant and equipment that was pledged as security during the year under review.

Reconciliation of Work-in-Progress 2021

	Total
Opening balance	544 785 673
Additions/capital expenditure	165 736 109
	710 521 782

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

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Figures in Rand 2021 2020

8. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Employee related costs	86 498 335	56 042 920
Contracted services	10 362 689	84 792 583
Materials and Supplies	3 295 604	3 325 648
	100 156 628	144 161 151

Long outstanding work in progress is as follows:

Water	Location	Nature of project	Initial completion date	Reasons for delays		
Camperdown Cbd Ac Pipes Replacement	Mkhambathini	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	3 694 994	3 694 994
Cedara Bulk Services	Umgeni	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	1 496 436	1 496 436
Ebuhleni Housing Project Bulk Water	Mpofana	Water	Project had to be abandoned	Project could not be completed due to land issue	2 997 287	2 893 254
Embuthweni Water Phase 4	Mkhambathini	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	1 517 864	1 517 864
Enguga/Entshayabantu/Macksa m(Phase 5)C0061-2& C0061-17	Impendle	Water	28 June 2021	Delays due to Covid-19 restrictions and lack of materials on site was a major constraint	18 643 962	12 674 443
Gengeshe Water	Richmond	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	1 790 190	1 790 190
Hilton Corridor Development	uMgeni	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	3 322 094	3 322 094
Howick Ac Pipelines Replacement	uMgeni	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	5 035 987	5 035 987
Impendle Bulk Water Works	Impendle	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints - taken over by Umgeni Water	13 949 423	13 949 423

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand					2021	2020
8. Property, plant and equipment (continued)						
Impendle WWTW And Sewerage Reticulation	Impendle	Sanitation	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints - taken over by Umgeni Water	863 813	863 813
Kwahaza Water Supply	Umgeni	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	399 593	399 593
Manyavu Water Scheme C0195-1 & C0061-1/F0002	Mkhambathini	Water	17 August 2018	Delays due to Covid-19 restrictions	73 996 908	70 049 304
Manzamyama Water Scheme C0195-2 & C0061-24	Mkhambathini	Water	23 August 2019	Delays due to Covid-19 restrictions	68 871 944	65 040 118
Maqongqo Bulk Water	Mkhambathini	Water	30 September 2020	Delays due to Covid-19 restrictions	75 993 950	71 048 434
Mkhambithini Waste Water Works	Mkhambathini	Sanitation	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints - taken over by Umgeni Water	3 016 720	3 016 720
Mooi River Bulk Mains Upgrading	Mpofana	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	196 381	196 381
Mooriver AC Pipes Replacement	Mpofana	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	1 289 426	1 289 426
Mpofana Waste Water Treatment Works	Mpofana	Sanitation	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints - taken over by Umgeni Water	8 549 988	8 549 988
Mpophomeni Sanitation Plant	Umgeni	Sanitation	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints - taken over by Umgeni Water	8 172 038	8 172 038
Nhlambamasok a,Nhlathimbe & Khathikathi Water	Impendle	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	1 359 540	1 359 540
Nkangala Water	Mkhambathini	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	208 612	208 612

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Notes to the Annual Financial Statements

Figures in Rand			2021	2020		
8. Property, plant and equipment (continued)						
Nkanyezi Water Supply C0195-3 & C0061-21	Mkhambathini	Water	Planning only - initial completion date to be determined on appointment of contractor - Tender has been awarded 5 Aug 2021	Project could not be reinstated earlier due to funding constraints	41 231 350	34 010 286
Phumlasi Water Supply Upgrade	Mpofana	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	820 881	820 881
Richmond Ac Pipes Replacement	Richmond	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	5 906 405	5 906 405
Richmond Waste Water Treatment Works	Richmond	Sanitation	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints - taken over by Umgeni Water	4 751 919	4 751 919
Rosetta Water Upgrade	Mpofana	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	635 500	635 500
Wartburg AC Pipes Replacement	uMshwathi	Water	Planning only - initial completion date to be determined on appointment of contractor	Project could not be implemented due to funding constraints	653 594	653 594
					349 366 799	323 347 237

The municipality intends to complete the construction of these projects.

The municipality has not recognised any impairment loss relating to the work in progress as these infrastructure assets will be capable of providing the municipality with the intended service potential once construction is completed.

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.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

9. Intangible assets

	2021		2020	
Cost/ Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost/ Valuation	Accumulated amortisation and accumulated impairment
Computer software, other	10 962 022	(9 353 441)	1 608 581	9 361 354
				(9 186 065)
				175 289

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Amortisation	Total
Computer software, other	175 289	1 600 668	(167 376)	1 608 581

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Computer software, other	1 328 714	143 386	(1 296 811)	175 289

Pledged as security

There were no intangible assets pledged as security during the year under review.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

10. Heritage assets

	2021		2020			
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Other - Mayoral Chain	4 000	-	4 000	4 000	-	4 000

Reconciliation of heritage assets 2021

Other - Mayoral Chain

Opening balance	4 000	Total
	4 000	4 000

Reconciliation of heritage assets 2020

Other - Mayoral Chain

Opening balance	4 000	Total
	4 000	4 000

Pledged as security

There were no heritage assets pledged as security during the year under review.

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
11. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Geospatial Grant	856 213	1 993 574
Camperdown WWTP & PTP Grant	4 308 912	4 308 912
EPWP Grant	114 674	-
ORIO Grant	11 550 860	11 550 860
Municipal Infrastructure Grant	-	6 040 433
RASSET & DGDS Grant	126 989	126 989
Disaster Covid 19	-	521 963
Spatial Planning Grant	706 750	1 000 000
IDP Spatial Development Grant	848 175	1 000 000
	18 512 573	26 542 731
Movement during the year		
Balance at the beginning of the year	26 542 731	23 085 118
Additions during the year	236 428 882	193 937 000
Repayment of MIG roll over	(6 040 000)	-
Income recognition during the year	(238 419 040)	(190 479 387)
	18 512 573	26 542 731
<p>The nature and extent of government grants recognised in the annual financial statements is an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attached to government assistance that has been recognised.</p>		
<p>These amounts are invested in a ring-fenced investment until utilised.</p>		
12. Payables from exchange transactions		
Trade payables	168 823 519	153 429 130
Payments Received in Advance (Consumers)	5 215 510	5 498 198
Other payables	7 954 122	15 022 738
Leave Pay Provision	13 729 716	16 356 470
Accrued bonus	6 402 747	6 186 637
Accrued Interest -DBSA Loan	8 489 608	8 928 650
Retentions	22 318 658	18 853 163
Payable Litigations	-	19 830 027
	232 933 880	244 105 013
13. Consumer deposits		
Water	7 258 007	6 844 223
14. Other financial liabilities		
At amortised cost		
DBSA Loan	186 492 367	196 500 346

The loan from the Development Bank of Southern Africa is a total of R230 000 000 borrowed over a 15 year term subject to a fixed 15 year swap rate plus 230 basis points (Average 10%) over the loan period.

An amount of R3 750 000 is held as security for the long term loan. Refer to Note 3.

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Annual Financial Statements for the year ended 30 June 2021

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Figures in Rand 2021 2020

14. Other financial liabilities (continued)

Non-current liabilities

At amortised cost 175 530 248 186 492 443

Current liabilities

At amortised cost 10 962 119 10 007 903

15. VAT payable

Tax payable 66 403 085 36 268 311

16. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Transfer to Current Portion	Total
Post Employment Benefits - Short term	941 671	1 666 000	(941 671)	-	-	1 666 000
Long Service Awards - short term	2 610 000	2 759 000	(2 610 000)	-	-	2 759 000
Employee benefit cost - Long term	22 243 307	2 604 000	(215 329)	(570 978)	(1 666 000)	22 395 000
Long Service awards - Long term	10 455 788	4 539 000	-	-	(2 759 000)	12 235 788
	36 250 766	11 568 000	(3 767 000)	(570 978)	(4 425 000)	39 055 788

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Transfer to short-term	Transfer to payables	Total
Post Employment Benefits	813 955	127 716	-	-	-	941 671
Long Service Awards	1 581 000	1 029 000	-	-	-	2 610 000
Employee benefit cost	21 872 859	1 431 119	(932 955)	(127 716)	-	22 243 307
Long Service awards	11 411 788	1 654 000	(1 581 000)	(1 029 000)	-	10 455 788
Litigation Provision	16 697 842	-	-	-	(16 697 842)	-
	52 377 444	4 241 835	(2 513 955)	(1 156 716)	(16 697 842)	36 250 766

Non-current liabilities	34 630 788	32 699 095
Current liabilities	4 425 000	3 551 671
	39 055 788	36 250 766

These provisions relate to post employment benefits which the municipality is obliged to honour in terms of the prevailing conditions of employment for all staff members.

17. Service charges

Other Service charges	669 723	663 301
Sale of water	281 316 221	261 857 198
Sewerage and sanitation service charges	15 468 601	22 907 404
	297 454 545	285 427 903

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

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Figures in Rand	2021	2020
18. Rental of facilities and equipment		
Garages and parking		
Parking Fees	-	11 177
19. Other income		
Tender Documents	53 348	3 130
Mandela Day Marathon Entrance Fees	-	451 461
Staff Recoveries	21 157	38 142
	<u>74 505</u>	<u>492 733</u>
20. Interest Received - Investment		
Interest revenue		
Bank	2 907 135	6 091 244
21. Interest from Outstanding Debtors		
Interest - Receivables	47 998 807	46 834 729
22. Government grants and subsidies		
Operating grants		
Equitable share	572 040 000	527 986 102
Development Planning Shared Services Grant	-	550 000
SETA Grants	1 018 884	462 299
EPWP Grant	2 956 326	3 368 000
Financial Management Grant	1 000 000	1 000 000
Disaster Management -Covid 19	521 963	372 038
SANBI Grant	7 548 998	6 362 176
Geospatial Grant	1 137 361	806 426
Spatial Planning Grant	293 250	-
IDP Spatial Development Grant	151 825	-
	<u>586 668 607</u>	<u>540 907 041</u>
Capital grants		
Municipal Infrastructure Grant	100 003 433	95 903 567
Rural Roads Assessment Management Grant	2 552 000	2 681 000
Water Services Infrastructure Grant	80 000 000	80 043 255
Covid-19 Capital Grant	41 235 000	-
	<u>223 790 433</u>	<u>178 627 822</u>
	<u>810 459 040</u>	<u>719 534 863</u>
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants revenue recognised	238 419 040	191 548 761
Unconditional grants received	572 040 000	527 986 102
	<u>810 459 040</u>	<u>719 534 863</u>

A total of R236 428 882 (2020: R193 937 000) was transferred / paid to the municipality as conditional grants during the year under review

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

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

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

The municipality provides fully subsidised water and sanitation at a maximum of 6kl per month, including the basic charges for such supply, to approved indigent registered households.

Geospatial Grant

Balance unspent at beginning of year	1 993 574	1 300 000
Current-year receipts	-	1 500 000
Conditions met - transferred to revenue	(1 137 361)	(806 426)
	<u>856 213</u>	<u>1 993 574</u>

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

Water Services Infrastructure Grant

Balance unspent at beginning of year	-	3 843 255
Current-year receipts	80 000 000	80 000 000
Conditions met - transferred to revenue	(80 000 000)	(80 043 255)
Transfer to National Fiscus	-	(3 800 000)
	<u>-</u>	<u>-</u>

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

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Figures in Rand	2021	2020
22. Government grants and subsidies (continued)		
Camperdown WWTP & PTP Grant		
Balance unspent at beginning of year	4 308 912	4 308 912
Conditions still to be met - remain liabilities (see note 11).		
EPWP Grant		
Balance unspent at beginning of year	-	1 955 102
Current-year receipts	3 071 000	3 368 000
Conditions met - transferred to revenue	(2 956 326)	(3 368 000)
Transfer to National Fiscus	-	(1 955 102)
	<u>114 674</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 11).		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	6 040 433	-
Current-year receipts	100 003 000	101 944 000
Conditions met - transferred to revenue	(100 003 433)	(95 903 567)
Repayment of roll over	(6 040 000)	-
	<u>-</u>	<u>6 040 433</u>
Rural Road Asset Management Systems Grant		
Current-year receipts	2 552 000	2 681 000
Conditions met - transferred to revenue	(2 552 000)	(2 681 000)
	<u>-</u>	<u>-</u>
ORIO Grant		
Balance unspent at beginning of year	11 550 860	11 550 860
Conditions still to be met - remain liabilities (see note 11).		
SETA Grants		
Current-year receipts	1 018 884	462 299
Conditions met - transferred to revenue	(1 018 884)	(462 299)
	<u>-</u>	<u>-</u>
RASSET & DGDS Grant		
Balance unspent at beginning of year	126 989	126 989
Conditions still to be met - remain liabilities (see note 11).		
Finance Management Grant		
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	<u>-</u>	<u>-</u>

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
22. Government grants and subsidies (continued)		
SANBI Grant		
Current-year receipts	7 548 998	6 362 176
Conditions met - transferred to revenue	(7 548 998)	(6 362 176)
	<u>-</u>	<u>-</u>
Disaster Covid 19		
Balance unspent at beginning of year	521 963	-
Current-year receipts	-	894 000
Conditions met - transferred to revenue	(521 963)	(372 037)
	<u>-</u>	<u>521 963</u>
Development Planning Shared Services Grant		
Current-year receipts	-	550 000
Conditions met - transferred to revenue	-	(550 000)
	<u>-</u>	<u>-</u>
Spatial Planning Grant		
Balance unspent at beginning of year	1 000 000	-
Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	(293 250)	-
	<u>706 750</u>	<u>1 000 000</u>
Conditions still to be met - remain liabilities (see note 11).		
IDP Spatial Development Grant		
Balance unspent at beginning of year	1 000 000	-
Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	(151 825)	-
	<u>848 175</u>	<u>1 000 000</u>
Conditions still to be met - remain liabilities (see note 11).		
Covid-19 Capital Grant		
Current-year receipts	41 235 000	-
Conditions met - transferred to revenue	(41 235 000)	-
	<u>-</u>	<u>-</u>
23. Fines, Penalties and Forfeits		
Retentions Forfeits	-	473 266
Fines	-	200 000
	<u>-</u>	<u>673 266</u>

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

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24. Other Income from Non-Exchange Transactions

Fruitless and Wasteful Expenditure	7 062 528	-
Irregular Expenditure	8 629 792	-
	<u>15 692 320</u>	<u>-</u>

At a Full Council meeting which took place on 27 August 2021, fruitless and wasteful expenditure at an amount of R7 062 528 and irregular expenditure at an amount of R8 629 792 was resolved to be recoverable by Council. The recovery process is in progress.

25. Employee related costs

Basic	148 416 290	144 241 222
Bonus	12 082 027	11 624 794
Medical aid - company contributions	13 060 903	14 214 791
UIF	917 100	906 895
WCA	1 362 699	2 044 997
SDL	1 854 995	1 949 341
Other - Bargaining Council	61 589	58 637
Leave pay provision charge	(1 509 851)	2 708 338
Cellphone Allowances	129 600	60 970
Group Life Contributions	3 655 606	3 131 644
Standby Allowances	10 946 304	11 624 790
Other - Tool Allowances	1 494 589	1 497 660
Defined contribution plans	31 376 970	29 976 244
Travel, motor car, accommodation, subsistence and other allowances	21 445 246	19 963 878
Overtime payments	9 120 384	8 632 775
Long-service awards	2 905 419	4 859 693
Acting allowances	786 512	220 451
Housing benefits and allowances	1 314 008	1 158 221
Uniforms & Clothing Allowances	76 958	87 384
Shift Allowance	6 162 988	6 473 190
Termination benefits - Curtailment and Settlements	472 022	(1 068 000)
	<u>266 132 358</u>	<u>264 367 915</u>

Remuneration of Municipal Manager

Annual Remuneration	1 277 473	1 277 473
Other	21 600	21 600
Statutory contributions	12 577	13 607
	<u>1 311 650</u>	<u>1 312 680</u>

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25. Employee related costs (continued)

Remuneration of the Chief Financial Officer - S Ndabandaba

Annual Remuneration	465 679	-
Car Allowance	129 500	-
Other	14 400	-
Housing Subsidy	116 687	-
Statutory Contributions	8 157	-
	<u>734 423</u>	<u>-</u>

Council appointed S Ndabandaba as Chief Financial Officer from October 2020 who is still the current incumbent for that portfolio.

Remuneration of the Chief Financial Officer - LM Africa

Heading		
Annual Remuneration	-	880 020
Travel Allowance	-	166 746
Other	-	21 600
Statutory Contributions	-	11 170
	<u>-</u>	<u>1 079 536</u>

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

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25. Employee related costs (continued)

Remuneration of SEM: Corporate Services - N Mkhize

Annual Remuneration	875 080	875 080
Car Allowance	180 000	187 196
Other	21 600	21 600
Statutory contributions	10 424	11 259
	<u>1 087 104</u>	<u>1 095 135</u>

Remuneration of SEM: Community Services - T Ndlela

Annual Remuneration	977 080	977 080
Car Allowance	78 000	78 000
Other	21 600	21 600
Statutory contributions	10 594	11 425
	<u>1 087 274</u>	<u>1 088 105</u>

Remuneration of SEM: Economic Development & Planning - J Martin

Annual Remuneration	703 392	-
Other	14 400	-
Statutory Contributions	8 331	-
	<u>726 123</u>	<u>-</u>

Council appointed J Martin as SEM: Economic Development & Planning as from November 2020 who is still the current incumbent for that portfolio.

Remuneration of SEM: Technical Services

Annual Remuneration	368 381	1 177 694
Car Allowance	90 132	270 395
Contributions to UIF, Medical and Pension Funds	58 055	216 102
Other	7 200	21 600
Statutory Contributions	5 607	-
	<u>529 375</u>	<u>1 685 791</u>

Mr B Mbambo resigned as SEM: Technical Services in October 2020.

26. Remuneration of councillors

Mayor	1 051 128	1 051 128
Deputy Mayor	299 705	250 144
Executive Committee Members	2 895 318	1 266 004
Speaker	849 781	849 781
Councillors	5 795 540	7 389 516
Chief Whip	799 445	799 445
	<u>11 690 917</u>	<u>11 606 018</u>

In-kind benefits

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

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Figures in Rand	2021	2020
27. Depreciation and amortisation		
Property, plant and equipment	46 712 489	44 963 052
Intangible assets	167 376	1 296 811
	46 879 865	46 259 863
28. Finance costs		
Trade and other payables	321 311	7 566 283
Borrowings	20 711 519	17 942 558
	21 032 830	25 508 841
29. Lease rentals on operating lease		
Premises		
Contractual amounts	-	115 409
Equipment		
Contractual amounts	4 435 240	1 219 631
	4 435 240	1 335 040
30. Bulk purchases		
Water	245 082 355	217 391 980
31. Contracted services		
Outsourced Services		
ICT Support Services	1 040 919	-
Business and Advisory	-	631 205
Catering Services	10 000	3 696
Clearing and Grass Cutting Services	2 960 891	3 965 775
Hygiene Services	-	35 358
Meter Management	-	5 500
Professional Staff	1 606 550	-
Sewerage Services	58 798 662	62 775 290
Water Tankers	71 805 509	53 908 954
Consultants and Professional Services		
Business and Advisory	9 324 350	10 588 068
Infrastructure and Planning	22 176 701	28 508 045
Laboratory Services	3 108 341	1 624 138
Legal Cost	11 329 827	2 864 845
Contractors		
Employee Wellness	14 510	2 816
Event Promoters	205 311	9 485 672
Maintenance of Buildings and Facilities	990 950	1 661 766
Medical Services	-	351 796
Safeguard and Security	7 724 393	11 473 289
	191 096 914	187 886 213
32. Transfers and Subsidies		
UMEDA Transfer	6 500 000	5 083 500

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Figures in Rand	2021	2020
33. General expenses		
Advertising	88 407	726 238
Auditors remuneration	5 157 273	5 224 239
Bank charges	1 275 056	1 890 211
Consulting and professional fees	-	216 000
Consumables	302 136	335 354
Entertainment	-	2 775
Insurance	906 162	757 533
Fleet - Hire Charges	10 215 375	18 731 977
Motor vehicle expenses	221 815	150 705
Fuel and oil	4 402 846	1 437 501
Placement fees	181 757	120 924
Postage and courier	124 812	689 641
Printing and stationery	1 043 820	1 132 013
Promotions	82 307	25 700
Software expenses	2 460 980	2 004 158
Subscriptions and membership fees	190 221	6 175 083
Telephone and fax	1 659 243	2 264 274
Training	584 203	310 150
Travel - local	758 541	1 479 686
Utilities - Other	1 705 012	2 524 816
Uniforms	2 782 627	3 406 446
Bursary	368 523	721 052
Sanitation expenses	19 660 497	-
Purchase of Material	6 438 123	6 772 163
Other expenses	-	134
	<u>60 609 736</u>	<u>57 098 773</u>
34. Loss on Disposal of Assets		
Loss on disposal of assets	<u>(4 702 556)</u>	<u>(3 641 996)</u>
35. Employee benefit obligations		
Defined benefit plan		
The actuarial valuation determined that the retirement plan was in a sound financial position.		
Post retirement medical aid plan		
The municipality operates on five accredited medical aid schemes, namely, Bonitas, KeyHealth, LA Health, SAMWUMed and HosMed.		
Pension benefits		
Pensioners have the option to continue on the option they belonged to on the day of their retirement. The independent valuers, i3 Actuaries and Consultants, have carried out the annual statutory valuation and provided the information required to be disclosed in terms of GRAP 25.		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	36 250 978	35 679 814
Benefits paid	(3 767 000)	(2 394 955)
Net expense recognised in the statement of financial performance	6 571 810	2 966 119
	<u>39 055 788</u>	<u>36 250 978</u>

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

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Figures in Rand	2021	2020
35. Employee benefit obligations (continued)		
Net expense recognised in the statement of financial performance		
Current service cost	1 153 000	1 222 000
Interest cost	3 657 000	3 192 826
Actuarial (gains) losses	2 333 000	(1 448 707)
	<u>7 143 000</u>	<u>2 966 119</u>
Calculation of actuarial gains and losses		
Actuarial (gains) losses – Plan assets	<u>2 333 000</u>	<u>(1 448 707)</u>
Changes in the fair value of plan obligations are as follows:		
Opening balance	36 250 978	35 679 814
Actuarial gains (losses)	2 333 000	(1 448 707)
Contributions by employer	3 657 000	3 192 826
Contributions by plan participants	1 153 000	1 222 000
Benefits paid	(4 337 978)	(2 394 955)
	<u>39 056 000</u>	<u>36 250 978</u>
Key assumptions used		
Assumptions used at the reporting date:		
Discount rates used	2,75 %	4,64 %
Expected rate of return on assets	6,77 %	10,25 %
Medical cost trend rates	8,27 %	8,02 %
Defined contribution plan		
It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.		
The municipality is under no obligation to cover any unfunded benefits.		
36. Auditors' remuneration		
Fees	<u>5 157 273</u>	<u>5 224 239</u>

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Figures in Rand	2021	2020
37. Cash generated from operations		
Surplus	126 270 862	79 098 072
Adjustments for:		
Depreciation and amortisation	46 879 865	46 259 863
Loss on disposal of assets	4 702 556	-
Actuarial gains and losses	2 333 000	-
Finance costs	20 711 518	-
Debt impairment	187 819 718	169 656 439
Movements in provisions	-	(16 126 678)
Movement in benefit assets and liabilities	873 329	-
Movement in leave provision	(1 509 851)	-
Movement in bonus accrual	1 049 955	-
Changes in working capital:		
Inventories	(2 149 921)	122 293
Receivables from exchange transactions	(109 063)	3 113 568
Consumer debtors	(190 722 819)	(19 990 908)
Receivables from non-exchange transactions	(15 692 320)	2 006 345
Payables from exchange transactions	(11 007 863)	152 189 256
VAT	30 134 774	(1 635 138)
Unspent conditional grants and receipts	(8 030 158)	3 457 613
Consumer deposits	413 784	311 451
	<u>191 967 366</u>	<u>418 462 176</u>

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Figures in Rand	2021	2020
38. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment - Infrastructure	361 352 331	52 841 774
Total capital commitments		
Already contracted for but not provided for	361 352 331	52 841 774
Authorised operational expenditure		
Already contracted for but not provided for		
• Office rentals	452 511	594 048
• Other General	15 654 851	7 133 190
	<u>16 107 362</u>	<u>7 727 238</u>
Total operational commitments		
Already contracted for but not provided for	16 107 362	7 727 238
Total commitments		
Total commitments		
Authorised capital expenditure	361 352 331	52 841 774
Authorised operational expenditure	16 107 362	7 727 238
	<u>377 459 693</u>	<u>60 569 012</u>

The committed capital expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	6 916 562	7 553 206
- in second to fifth year inclusive	9 190 800	174 032
	<u>16 107 362</u>	<u>7 727 238</u>

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. No contingent rent is payable.

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39. Contingencies

A matter between the municipality and Yellowdot to the value of R445 790 for unpaid invoices and the early termination of a contract. An amount of R50 000 is further estimated for costs.

Another matter between the municipality and ORIO Funding. The matter is in relation to damages relating to ORIO Funded Projects to the value of R72 000 000. An amount of R800 000 is further estimated for costs.

An amount of R658 280 is claimed by Zain Brothers for payment of a sub-contractor that provided a service and is yet to be paid by the contractor. An amount of R50 000 is further estimated for costs.

A claim of R3 150 000 against the municipality for damages suffered by plaintiff KA Murdoch from a motor vehicle accident in the Howick area. An amount of R80 000 is further estimated for costs.

A motor vehicle claim against the municipality by T Sheshoka for R364 640. An amount of R50 000 is further estimated for costs.

A claim by Hilton Development Comm for the amount of R100 000 for delays in the provision of sewerage services resulting in delays in their project implementation.

A civil claim of R546 062 by G Shabalala against the municipality for damage to property caused by storm water drainage.

A matter between the municipality and Ms N Moodley where she is seeking reinstatement to her previous role as well as back pay to the value of R2 000 000.

N Moodley is suing the municipality for unfair dismissal R200 000.

No provision has been made in the financial statements for all of the above liabilities.

40. Related parties

Relationships	
Municipal Entity	uMgungundlovu Economic Development Agency
Controlling entity	uMgungundlovu District Municipality
Councillors	Refer to Note 24
Senior Management	Refer to Note 23

Related party transactions

Allocated to Entity

UMEDA Operational Cost Allocation	6 500 000	5 083 500
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41. Events after the reporting date

The looting and vandalising of businesses and properties, respectively, by rioting citizens that took place in KwaZulu Natal in the month of July 2021 resulted in the damage of municipal property. The extent of the loss incurred by the municipality as a result of this is still being assessed and/or investigated.

42. Water Losses

Water loss	70 919 831	52 238 561
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The total amount of water available for distribution was 22 783 989 kL of which 15 279 245 kL was sold resulting in water losses of 7 504 744 kL (33%) for 2020/21 compared to 6 662 310 kL (27%) for 2019/20.

The volume of water losses has increased as a result of water leakages not reported timeously; illegal connections (especially in the rural areas); flat rate charge to customers in certain areas; and faulty meters.

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Annual Financial Statements for the year ended 30 June 2021

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Figures in Rand	2021	2020
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42. Water Losses (continued)

As part of the Revenue enhancement Programme, the municipality is identifying illegal connections as well as faulty meters and installing new meters.

43. Fruitless and wasteful expenditure

Opening balance	6 779 250	6 742 647
Opening balance as restated	6 779 250	6 742 647
Add: Fruitless and Wasteful Expenditure - prior year	283 278	-
Add: Fruitless and Wasteful Expenditure - current year	-	3 634 812
Less: Amounts recoverable - prior period	(6 779 251)	-
Less: Amount recoverable - current year	(283 277)	(3 598 209)
Closing balance	-	6 779 250

Amounts recoverable

At a Full Council meeting which took place on 27 August 2021, fruitless and wasteful expenditure at an amount of R7 062 528 was resolved to be recoverable by Council. The recovery process is in progress.

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44. Irregular expenditure		
Opening balance	50 249 515	34 627 658
Correction of prior period error	-	667 022
Opening balance as restated	50 249 515	35 294 680
Add: Irregular Expenditure - prior period	933 086	-
Add: Irregular Expenditure - current year	12 399 165	22 950 464
Less: Amounts recoverable - prior period	(8 629 792)	-
Less: Amount written off	(20 535 851)	-
Less: Amount written off - prior period	-	(7 995 629)
Closing balance	34 416 123	50 249 515

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Figures in Rand	2021	2020
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44. Irregular expenditure (continued)

Amounts recoverable

At a Full Council meeting which took place on 27 August 2021, irregular expenditure at an amount of R8 629 792 was resolved to be recoverable by Council. The recovery process is in progress.

Irregular Expenditure Written off by Council

On 27 August 2021, after the council committee investigations, council adopted the council committee recommendations to write-off an amount of R 20 535 851. These amounts were concluded to be amounts not incurred in vain (ie. there was value for money). This amount was written off in line with section 32(2)(b) of the MFMA which states that after investigation by a council committee, irregular expenditure may be certified by the council as irrecoverable and written off by the council.

Expenditure incurred on expired contracts	22 470	7 995 629
Failure to follow SCM processes	20 513 381	1 017 354
	<u>20 535 851</u>	<u>9 012 983</u>

Irregular Expenditure Incurred During the Year

Expenditure incurred on expired contracts	6 000	744 915
Expenditure of EPWP staff	-	5 105
Failure to follow SCM Processes	19 472	15 678 500
Failure to follow Section 116(3) of the MFMA	9 653 693	6 331 944
Non-compliance with SCM Regulation 43	2 714 000	190 000
Non-compliance with SCM Regulation 44	6 000	-
	<u>12 399 165</u>	<u>22 950 464</u>

Irregular Expenditure Incurred During the Prior Year

Expenditure incurred on expired contracts	933 085	-
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45. Unauthorised expenditure

Opening balance	182 429 395	96 932 997
Opening balance as restated	182 429 395	96 932 997
Add: Unauthorised Expenditure - current period	86 575 122	182 429 395
Less: Amounts written off prior period	(182 429 395)	(96 932 997)
Closing balance	86 575 122	182 429 395

An amount of R86 575 122 unauthorised expenditure was incurred in the current financial year (2020: R182 429 395). This was due to the actual expenditure being more than the approved operating expenditure budget. The main contributions to the excess expenditure being the debt impairment resulting from the non-payment of debtors and the increased contribution for depreciation of assets. Furthermore, the lease rentals on operating lease costs were budgeted for in the contracted services category instead of the operating lease category resulting in a saving in contracted services and an over-expenditure in operating lease costs.

In August 2020 after the council committee investigations, council adopted the council committee recommendations to write-off an amount of R110 373 105 as the excess expenditure predominantly related to non-cash items in the attempt to align with GRAP 104. The balance of R 72 056 290 was written off on 27 August 2021 on the same premise.

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

Non-cash	147 178 881	109 627 166
Cash	(60 603 759)	72 802 229
	86 575 122	182 429 395

Analysed as follows: non-cash

Depreciation and amortisation	3 106 218	759 863
Debt impairment	144 072 663	104 656 439
Impairment of Assets	-	4 210 864
	147 178 881	109 627 166

Analysed as follows: cash

Bulk purchases	(49 425 645)	22 066 980
Contracted services	(21 264 759)	23 235 344
Finance costs	(6 517 170)	(2 041 159)
Employee related costs	(6 679 151)	29 387 767
Remuneration of Councillors	(2 091 337)	964 918
General Expenditure	20 939 063	(927 030)
Lease rental on operating lease	4 435 240	115 409
	(60 603 759)	72 802 229

46. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	2 946 058	2 929 404
Amount paid - current year	(2 946 058)	(2 929 404)
	-	-

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

Audit fees

Current year subscription / fee	3 549 707	-
Amount paid - current year	(3 531 120)	3 788 871
Amount paid - previous years	-	(3 788 871)
	<u>18 587</u>	<u>-</u>

PAYE and UIF

Current year subscription / fee	45 272 425	41 725 590
Amount paid - current year	(45 272 425)	(41 725 590)
	<u>-</u>	<u>-</u>

Pension and Medical Aid Deductions

Current year subscription / fee	44 437 873	43 816 820
Amount paid - current year	(44 437 873)	(43 816 820)
	<u>-</u>	<u>-</u>

VAT

VAT payable	<u>66 403 085</u>	<u>36 268 311</u>
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VAT payable is made up VAT receivable from SARS of R3 841 338 based on VAT returns submitted as well as VAT output and VAT input accruals.

During the year VAT due to SARS amounting to R1 268 215 was paid.

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

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46. 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 R	Outstanding more than 90 days R	Total R
Ragavaloo A (Mr)	5 030	12 904	17 934
Dladla ME (Mr)	1 172	-	1 172
Dlamini MP (Mr)	11 065	3 340	14 405
Holmes (Mr)	1 819	-	1 819
Mungroo NA (Mr)	8 749	89 131	97 880
Lake H (Ms)	853	-	853
Nkuna SD (Mr)	1 639	19 047	20 686
Mabhida N (Ms)	1 031	9 205	10 236
Ntuli JB (Mr)	462	-	462
Ragavaloo A (Mr)	912	20 446	21 358
Zondi DP (Mr)	5 303	132 056	137 359
	38 035	286 129	324 164

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Ragavaloo A (Mr)	275	19 198	19 473
Dladla ME (Mr)	-	374	374
Dlamini MP (Mr)	55	2 802	2 857
Mungroo NA (Mr)	9 247	61 013	70 260
Lake H (Ms)	-	90	90
Nkuna SD (Mr)	424	24 862	25 286
Mabhida N (Ms)	284	6 496	6 780
Ntuli JB (Mr)	234	1 295	1 529
Ragavaloo A (Mr)	3 560	8 660	12 220
Zondi DP (Mr)	1 023	115 069	116 092
	15 102	239 859	254 961

47. 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 Council and includes a note to the annual financial statements.

The municipality recorded deviations totaling R7 222 542 (2020: R20 601 123) in the current financial year.

A total of R568 298 (2020: R14 434 445) deviations related to cases where there was an emergency.

A total of Rnil (2020: R296 240) deviations related to cases where the goods/services were produced or available from a single provider only.

A total of R6 654 244 (2020: R5 870 439) deviations related to exceptional cases where it was impractical or impossible to follow the official procurement process.

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48. Budget differences

Material differences between budget and actual amounts

There was excess expenditure to the final budget of 9% for the current year (2020: 12.3%). This was mainly due to increased contributions for debt impairment and depreciation. There were no other material differences between the final budget and the actual amounts.

49. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	<u>126 270 868</u>	<u>77 168 066</u>
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50. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

Operating activities

Actual amount as presented in the budget statement	<u>192 406 407</u>	<u>418 462 176</u>
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Investing activities

Actual amount as presented in the budget statement	<u>(167 506 666)</u>	<u>(364 201 049)</u>
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Financing activities

Actual amount as presented in the budget statement	<u>(31 158 538)</u>	<u>(11 874 155)</u>
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Net cash generated from operating, investing and financing activities	<u>(6 258 797)</u>	<u>42 386 972</u>
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51. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	186 492 367	196 500 346
Used to finance property, plant and equipment	<u>(194 981 976)</u>	<u>(205 428 996)</u>
	<u>(8 489 609)</u>	<u>(8 928 650)</u>

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

52. Other revenue

Other income from exchange transactions	<u>74 505</u>	<u>492 733</u>
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53. Public contributions and donations

COGTA - Plant and Equipment Donation	-	7 028 676
Mandela Day Marathon Sponsorships	-	<u>3 672 214</u>
	<u>-</u>	<u>10 700 890</u>

54. Operating surplus

Operating surplus for the year is stated after accounting for the following:

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54. Operating surplus (continued)

Operating lease charges

Premises

- Contractual amounts

- 115 409

Equipment

- Contractual amounts

4 435 240 1 219 631

4 435 240 1 335 040

Impairment on property, property and equipment

- 4 210 864

Amortisation on intangible assets

167 376 1 296 811

Depreciation on property, plant and equipment

46 712 489 44 963 052

Employee costs

280 156 270 275 973 934

55. Revenue

Service charges

297 454 545 285 427 903

Rental of facilities and equipment

- 11 177

Other income from exchange transactions

74 505 492 733

Interest received - investment

2 907 135 6 091 244

Other income from non-exchange transactions

15 692 320 -

Interest on outstanding debtors

47 998 807 46 834 729

Government grants & subsidies

810 459 040 719 534 863

Public contributions and donations

- 10 700 890

Fines, Penalties and Forfeits

- 673 266

1 174 586 352 1 069 766 805

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

Service charges

297 454 545 285 427 903

Rental of facilities and equipment

- 11 177

Other income from exchange transactions

74 505 492 733

Interest received - investment

2 907 135 6 091 244

Interest on outstanding debtors

47 998 807 46 834 729

348 434 992 338 857 786

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

Transfer revenue

Government grants & subsidies

810 459 040 719 534 863

Public contributions and donations

- 10 700 890

Fines, Penalties and Forfeits

- 673 266

Other income from non-exchange transactions

15 692 320 -

826 151 360 730 909 019

56. Sundry debtors disclosure

Gross balances

Sundry debtors

16 198 802 16 198 802

Less: Allowance for impairment

Sundry debtors

(10 875 847) (10 875 846)

Net balance

Sundry debtors

5 322 955 5 322 956

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56. Sundry debtors disclosure (continued)

Included in above is receivables from exchange transactions

Sundry debtors	5 322 955	5 322 956
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Net balance

<u>5 322 955</u>	<u>5 322 956</u>
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Sundry debtors

> 150 days	5 322 955	5 322 956
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Summary of debtors by customer classification

Sundry debtors

> 150 days	16 198 802	16 198 802
------------	------------	------------

<u>16 198 802</u>	<u>16 198 802</u>
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Less: Allowance for impairment

(10 875 847)	(14 410 552)
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Correction of prior period error

-	3 534 705
---	-----------

<u>5 322 955</u>	<u>5 322 955</u>
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Reconciliation of allowance for impairment

Balance at beginning of the year	(10 875 847)	(8 968 010)
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Contributions to allowance	-	(5 442 541)
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Correction of prior period error	-	3 534 705
----------------------------------	---	-----------

<u>(10 875 847)</u>	<u>(10 875 846)</u>
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57. Revaluation reserve

Opening balance	24 628 860	24 628 860
-----------------	------------	------------

<u>24 628 860</u>	<u>24 628 860</u>
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58. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2021

	Housing development fund	Total
Opening balance	8 127	8 127

<u>8 127</u>	<u>8 127</u>
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Ring-fenced internal funds and reserves within accumulated surplus - 2020

	Housing development fund	Total
Opening balance	8 127	8 127

<u>8 127</u>	<u>8 127</u>
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59. Impairment of assets

Impairments

Property, plant and equipment	-	(4 210 864)
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Infrastructure projects were completed and commissioned over the years pending the construction of settlements in local municipalities. The construction of these settlements was however delayed due to funding issues and these schemes have since been vandalised.

<u>-</u>	<u>(4 210 864)</u>
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60. Debt impairment

Debt impairment	<u>187 819 718</u>	<u>169 656 439</u>
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61. Prior-year adjustments

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

Statement of financial position

2020

	Note	As previously reported	Correction of error	Restated
Accumulated Surplus		(1 649 386 587)	(104 950)	(1 649 491 537)
Accumulated Impairment - Consumer Debtors		(774 163 770)	(3 534 705)	(777 698 475)
Accumulated Impairment - Sundry Debtors		(14 410 552)	3 534 705	(10 875 847)
Payables from exchange transactions		(234 411 217)	(9 693 796)	(244 105 013)
Other financial liabilities		(195 421 093)	8 928 650	(186 492 443)
		<u>(2 867 793 219)</u>	<u>(870 096)</u>	<u>(2 868 663 315)</u>

Statement of financial performance

2020

	Note	As previously reported	Correction of error	Re-classification	Restated
Operating Leases - Premises		115 409	-	1 219 631	1 335 040
Contracted Services		189 105 844	-	(1 219 631)	187 886 213
Employee Related Costs		263 602 771	765 145	-	264 367 916
Surplus for the year		<u>452 824 024</u>	<u>765 145</u>	<u>-</u>	<u>453 589 169</u>

Errors

The following prior period errors adjustments occurred:

Overpayment of Councillor

The prior period error of R104 950 relates to the overpayment of a Councillor. A debtor has been raised and is reduces as and when monies are recovered from the Councillor.

Misallocation of Debt Impairment Provision

The prior period error of R3 534 705 relates to the misallocation of the Debt Impairment Provision relating to Consumer debtors to Accumulated Impairment of Sundry debtors.

Correction of Overtime Expense

The prior period error of R765 145 relates to the the recording of overtime expenditure in the incorrect period.

Misallocation of Operating Leases

The prior period error of R1 219 631 relates to the misallocation of Operating Leases to Maintenance of Buildings.

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61. Prior-year adjustments (continued)

Irregular expenditure

Closing Balance as previously reported	-	48 565 139
Adjustment to opening balance	-	667 022
Adjustment to amount written off	-	1 017 354
Restated closing balance	-	50 249 515

The adjustments made to irregular expenditure are as a result of amounts erroneously included in the opening balance of irregular expenditure as at 30 June 2020; and amounts erroneously included in the amount written off.

Other Financial Liabilities

The accrued interest of R9 693 796 relating to the the DBSA loan was was erroneously included in the non-current portion of the other financial liabilities balance.

62. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Liquidity risk

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

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

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	31 081 691	31 081 691	93 245 073	124 326 764
Payables	320 236 992	-	-	-
At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	21 073 788	38 890 845	74 177 428	11 256 192
Payables	307 618 153	-	-	-

The municipality holds an investment of R3 750 000 as security for the loan owing to the Development Bank of South Africa. The investment is re-invested annually for the duration of the loan term.

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62. 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.

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.

Financial instrument	2021	2020
Cash and Cash Equivalents	82 389 734	88 648 531
Trade Receivables	92 090 036	89 077 872

Market risk

Interest rate risk

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

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

63. Going concern

The current ratio for the the current financial year is 0.59:1; the collection rate is 45% and the cash coverage ratio is 0.95. This indicates that the municipality does not have sufficient cash resources to meet its obligations, however if we look at an overall picture, the total assets exceed the total liabilities which indicates that the municipality is solvent. The municipality receives grants to fund operating activities as well as capital commitments.

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 1 774 997 255 and that the municipality's total assets exceed its liabilities by R 1 799 626 115.

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

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64. Actual operating expenditure versus budgeted operating expenditure

Refer to the Statement of Comparison of Budget and Actual Amounts for a comparison of actual operating expenditure versus budgeted operating expenditure. The reasons for the variances are as follows:

Note 61.1 Billed less than anticipated.

Note 61.2 These amounts relate to income received for tender documents and staff recoveries.

Note 61.3 Received more revenue not anticipated when budgeting resulting from interest from investments and bank accounts..

Note 61.4 Billed less interest on outstanding debtors than anticipated.

Note 61.5 Conditional grants received but not yet spent at year end.

Note 61.6 .Saving on employee costs.

Note 61.7 Saving on remuneration of councillors.

Note 61.8 Under provision of depreciation of assets at the time of compiling the budget.

Note 61.9 Saving on interest charged.

Note 61.10 Lease rental costs budget under contracted services.

Note 61.11 Additional impairment due to higher than anticipated outstanding debtor balances aged beyond 90 days.

Note 61.12 Saving due to reduction in water purchased from bulk service provider.

Note 61.13 Reduced spending due to cost containment measures.

Note 61.14 Unavoidable expenditure incurred.

Note 61.15 Asset disposal not anticipated at the time of compiling the budget.

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65. Segment information

General information

Identification of segments

The municipality is organised and reports to management and governance structures on the basis of five major functional areas: Budget and Treasury, Community Services, Planning and Economic Development/LED/Tourism, Technical Services and Corporate and other support services/units. These are based on municipal powers as cited on the IDP as well as municipal classification per the standard chart of accounts.

A segment is an activity of an entity:

(a) that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity.

(b) whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and

(c) for which separate financial information is available.

Within these functional areas, 3 reportable segments were identified by management. Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes

The identified reportable segments are as follows:

Community Services

Planning and Economic Development

Trading Services

Aggregated segments

The grouping of these segments is consistent with the functional classification of government activities which considers the nature of the services, the beneficiaries of such services and the fees charged for the services rendered.

Types of goods and/or services by segment

The type of goods and services in these services are those consistent with the provision of basic services to municipal customers and community. The nature of the services generate economic benefits for the municipality as well improve the service potential of the municipality.

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65. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2021

	Community Services	Planning and Economic Development	Trading Services	Total
Revenue				
Revenue from non-exchange transactions	110 067 849	9 497 075	195 695 753	315 260 677
Revenue from exchange transactions	-	-	345 354 838	345 354 838
Total segment revenue	110 067 849	9 497 075	541 050 591	660 615 515
Interest revenue				3 005 648
Other income				74 505
Non-exchange Revenue				510 890 682
Total revenue reconciling items				513 970 835
Municipality's revenue	110 067 849	9 497 075	541 050 591	1 174 586 350
Expenditure				
Salaries and wages	(95 689 223)	-	(87 148 194)	(182 837 417)
Other expenses	(13 864 410)	(8 719 088)	(471 564 799)	(494 148 297)
Finance Costs	-	-	(21 032 830)	(21 032 830)
Debt Impairment	-	-	(187 819 718)	(187 819 718)
Total segment expenditure	(109 553 633)	(8 719 088)	(767 565 541)	(885 838 262)
Other Expenses				(157 774 668)
Loss on Disposal of Assets				(4 702 556)
Total expenditure reconciling items				(162 477 224)
Municipality's expenditure				(1 048 315 486)
Municipality's surplus (deficit) for the period	514 216	777 987	(226 514 950)	126 270 864

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	Community Services	Planning and Economic Development	Trading Services	Total
65. Segment information (continued)				
Assets				
Current Assets	1 237 138	98 599	112 328 824	113 664 561
Non-current Assets	-	-	2 111 097 986	2 111 097 986
Total segment assets	1 237 138	98 599	2 223 426 810	2 224 762 547
Current Assets				80 996 003
Non-current Assets				44 523 267
Total assets as per Statement of financial Position	1 237 138	98 599	2 223 426 810	2 350 281 817
Liabilities				
Current Liabilities	862 747	1 819 062	254 159 221	256 841 030
Non-current Liabilities	-	-	175 530 248	175 530 248
Total segment liabilities	862 747	1 819 062	429 689 469	432 371 278
Current Liabilities				83 653 635
Non-current Liabilities				34 630 788
Total liabilities as per Statement of financial Position	862 747	1 819 062	429 689 469	550 655 701

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65. Segment information (continued)

Measurement of segment surplus or deficit, assets and liabilities

The nature of differences between the measurements of the reportable segments' surplus or deficit and the entity's surplus or deficit and discontinued operations

The municipality applies the same measurement basis on the information disclosed for the reportable segment as that of the municipal financial statements, except for departmental charges which are allocated between the departments based on consumption, expenditure incurred or any other relevant basis of allocation agreed-upon by the respective departments. On the municipal financial statements, departmental charges are eliminated. There are no other allocations to the reportable segments.

Information about geographical areas

Although the municipality operates in several geographical areas across different wards, these areas are irrelevant for users of the financial statements to make decisions about the entity as the goods or services provided are substantially the same.