



uMzinyathi District Municipality
Annual Financial Statements
for the year ended June 30, 2022

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

General Information

Legal form of entity

Municipality

Nature of business and principal activities

The uMzinyathi District Municipality is a municipality that is operating within its constitutional mandate as a water service authority in the form of service delivery to the citizens of South Africa.

Mayoral committee

Mayor

Cllr Alderman PMS Ngubane

Councillors

Cllr NG Mdlalose (Deputy Mayor - Term ended November 2021)

Cllr TH Mchunu (Deputy Mayor)

Cllr FJ Sikhakhane (Speaker)

Cllr LWS Ngubane (EXCO- Term Ended November 2021)

Cllr MS Yengwa (EXCO - Term ended November 2021)

Cllr BP Madondo (Chief Whip - Term ended November 2021)

Cllr RN Ngubane (Chief Whip)

Cllr PM Ngobese (Chief Whip)

Cllr XS Xaba (MPAC Chairperson - Term ended November 2021)

Cllr SP Mbatha (MPAC Chairperson)

Cllr FN Mthethwa (Rules Committee Chairperson)

Cllr CZ Mbatha (Term ended November 2021)

Cllr NC Xaba (Term ended November 2021)

Cllr EM Mkhwanazi (Term ended November 2021)

Cllr TJ Motloung (Term ended November 2021)

Cllr PS Hlophe (Term ended November 2021)

Cllr IL Shabalala (Term ended November 2021)

Cllr M Phakathi (Term ended November 2021)

Cllr B Mthethwa

Cllr SK Radebe

Cllr XP Ndlovu

Cllr BS Chambule

Cllr LC Moloi

Cllr LG Mabaso

Cllr TGL Shabalala

Cllr SN Sithole

Cllr DM Xaba

Cllr ES Shange

Cllr LP Mbhele

Cllr LT Khumalo

Cllr TC Ngubane

Cllr RN Ngubane

Cllr MM Masondo

Cllr SB Mdluli

Cllr JN Khoza

Cllr SG Hlatshwayo

Cllr QM Ngobese

Cllr LS Hoffman

Cllr M Ntshapha

Cllr LB Ntuli

Cllr EM Mdluli

Cllr TL Kunene

Cllr ME Ngobe

uMzinyathi District Municipality

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General Information

	Cllr JB Chonco
Grading of local authority	4
Chief Finance Officer (CFO)	NT Mkhwanazi
Accounting Officer	LH Mthembu
Registered office	39 Victoria Street Princess Magogo Building Dundee 3300
Business address	39 Victoria Street Princess Magogo Building Dundee 3000
Postal address	PO Box 1965 Dundee 3000
Bankers	First National Bank
Auditors	The Auditor General
Telephone	034 219 1500
Website	www.umzinyathi.gov.za
Email	rc3@umzinyathi.gov.za

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

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ABSA	Amalgamated Banks of South Africa
AG	Auditor General
COGTA	Department of Cooperative Governance and Traditional Affairs
COID	Compensation for Occupational Injuries and Diseases
CPI	Consumer Price Index
DM	District Municipality
DORA	Division of Revenue Act
DPW	Department of Public Works
DWS	Department of Water and Sanitation
EPWP	Expanded Public Works Programme
FMCMM	Finance Management Capacity Maturity Model
FMG	Finance Management Grant
FNB	First National Bank
GRAP	Generally Recognised Accounting Practice
IDP	Integrated Development Plan
KZN	KwaZulu Natal
LED	Local Economic Development
LGSETA	Local Government Sector Education and Training Authority
LM	Local Municipality
MEC	Member of Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MPAC	Municipal Public Accounts Committee
MSCOA	Municipal Standard Chart of Accounts
NRA	Normal Retirement Age
PAYE	Pay As You Earn
PFMA	Public Finance Management Act
RRAMS	Rural Road Asset Management Systems
SARS	South African Revenue Service
SCM	Supply Chain Management
SDL	Skills Development Levy

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UIF	Unemployment Insurance Fund
VAT	Value Added Tax
WSDP	Water Services Development Plan
WTW	Water Treatment Works

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Officer's Responsibilities and Approval

The Umzinyathi Municipality is situated at Princess Magogo Building, No.39 Victoria Street, Dundee. It is a grade 4 municipality established in terms of section 12(1) of the Municipal Structures Act No.117 and published in terms of Provincial Government Notice 346 of the 19th of September 2020. The local government operations are assigned by Section 156 and 229 of the South African Constitution and defined specifically in terms of section 83 of the Municipal Structures Act (Act No.117 of 1998). The accounting officer is required by the Municipal Finance Management Act (Act No. 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 June 30, 2023 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 municipality is wholly dependent on the municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The annual financial statements set out on page 7, which have been prepared on the going concern basis, were approved by the Accounting Officer on August 31, 2022:



Accounting Officer
LH Mthembu

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Financial Position as at June 30, 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories	3	2,468,782	1,491,520
Receivables from Non-Exchange Transactions	4	7,554,298	5,246,626
VAT Receivable	5	-	4,022,914
Receivable from Exchange Transactions	6	210,095,699	139,321,061
Cash and Cash Equivalents	7	-	5,295,928
		220,118,779	155,378,049
Non-Current Assets			
Investment Property	8	1,976,377	2,067,958
Property, Plant and Equipment	9	2,522,715,387	2,383,588,027
Intangible Assets	10	1,103,361	1,734,148
Heritage Assets	11	8,655	8,655
Investment in Associates	12	55,866,059	99,650,995
		2,581,669,839	2,487,049,783
Total Assets		2,801,788,618	2,642,427,832
Liabilities			
Current Liabilities			
Finance Lease Obligation	13	-	6,018,697
Payables from Exchange Transactions	14	407,434,444	346,359,039
Transfers Payable	15	1,500,000	-
VAT Payable	20	7,277,650	-
Consumer Deposits	16	451,314	451,314
Employee Benefit Obligation	17	1,225,000	2,023,000
Unspent Conditional Grants and Receipts	18	15,703,551	7,109,788
Provisions	19	26,894,663	26,088,196
Bank Overdraft	7	11,952,720	-
		472,439,342	388,050,034
Non-Current Liabilities			
Employee Benefit Obligation	17	23,721,000	23,707,000
Total Liabilities		496,160,342	411,757,034
Net Assets		2,305,628,276	2,230,670,798
Accumulated Surplus		2,305,628,280	2,230,670,798
Total Net Assets		2,305,628,280	2,230,670,798

* See Note 41

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from Exchange Transactions			
Service Charges	22	86,764,571	74,797,930
Rental of Facilities and Equipment	23	481,793	460,666
Interest Earned on Outstanding Debtors		30,444,412	36,392,239
Other Income	24	55,103	826,291
Interest Received on Investments	25	1,904,348	2,859,616
Total Revenue from Exchange Transactions		119,650,227	115,336,742
Revenue from Non-Exchange Transactions			
Other Revenue			
Donations Received	26	8,405,340	-
Actuarial Gain on Post Retirement Benefit		3,985,000	776,344
Transfer Revenue			
Government Grants & Subsidies	27	688,949,514	713,698,120
Total Revenue from Non-Exchange Transactions		701,339,854	714,474,464
Total Revenue	21	820,990,081	829,811,206
Expenditure			
Employee Related Costs	28	(211,928,039)	(208,431,072)
Remuneration of Councillors	29	(6,427,609)	(5,754,338)
Depreciation and Amortisation	30	(89,961,908)	(99,856,838)
Finance Costs	31	(1,606,975)	(5,429,234)
Lease Rentals on Operating Lease	33	(1,211,731)	(898,110)
Provision for Debt Impairment	34	(19,371,815)	(58,806,424)
Post Retirement Benefit		(3,201,000)	(3,916,789)
Bulk Purchases	35	(27,874,889)	(33,908,842)
Contracted Services	36	(142,427,652)	(161,302,887)
Transfers and Subsidies	37	(10,000,000)	-
Loss on Disposal of Assets and Liabilities		(2,980,966)	(4,528,593)
Share of Surpluses or Deficits from Associates		(43,779,367)	(29,386,643)
General Expenses	38	(189,024,585)	(172,001,635)
Total Expenditure		(749,796,536)	(784,221,405)
(Deficit) Surplus for the Year		71,193,545	45,589,801

* See Note 41

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Changes in Net Assets

Figures in Rand	Accumulated Surplus	Total Net Assets
Opening Balance as Previously Reported	2,196,654,221	2,196,654,221
Adjustments		
Prior Year Adjustments	(11,573,224)	(11,573,224)
Balance at July 1, 2020 as Restated*	2,185,080,997	2,185,080,997
Changes in Net Assets		
Surplus for the Year	45,589,801	45,589,801
Total Changes	45,589,801	45,589,801
Restated* Balance at July 1, 2021	2,234,434,735	2,234,434,735
Changes in Net Assets		
Surplus for the Year	71,193,545	71,193,545
Total Changes	71,193,545	71,193,545
Balance at June 30, 2022	2,305,628,280	2,305,628,280
Note(s)		

* See Note 41

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash Flows From Operating Activities			
Receipts			
VAT Refunds		66,938,856	-
Sale of goods and services		46,227,063	30,825,514
Grants		697,543,065	719,806,260
Interest Income		1,904,348	2,859,616
Other Revenue		474,657	1,467,483
		<u>813,087,989</u>	<u>754,958,873</u>
Payments			
Employee costs		(201,379,096)	(196,564,408)
Suppliers		(350,555,833)	(301,004,168)
Finance Costs		(1,606,975)	(5,429,234)
Remuneration of Councillors		(6,427,609)	(5,754,339)
Transfers and Subsidies		(8,500,000)	-
		<u>(568,469,513)</u>	<u>(508,752,149)</u>
Net cash flows from operating activities	40	<u>244,618,476</u>	<u>246,206,724</u>
Cash Flows from Investing Activities			
Purchase of property, plant and equipment	9	(244,802,778)	(230,855,519)
Purchase of investment property	8	-	(1,005,671)
Purchase of other intangible assets	10	(2,670)	(170,251)
Net Cash Flows from Investing Activities		<u>(244,805,448)</u>	<u>(233,498,924)</u>
Cash flows from financing activities			
Finance Lease Payments		(6,018,697)	(9,787,195)
Net increase/(decrease) in cash and cash equivalents		<u>(6,205,669)</u>	<u>2,920,605</u>
Cash and Cash Equivalents at the Beginning of the Year		5,295,928	2,375,322
Cash and Cash Equivalents at the End of the Year	7	<u>(909,741)</u>	<u>5,295,927</u>

* See Note 41

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from Exchange Transactions						
Service Charges	74,091,698	15,134,570	89,226,268	86,764,571	(2,461,697)	N01
Rental of facilities and equipment	623,920	(4)	623,916	481,793	(142,123)	N02
Interest Earned on Outstanding Debtors	25,106,125	5,000,003	30,106,128	30,444,412	338,284	N03
Other Income	1,244,165	(494,697)	749,468	55,103	(694,365)	N04
Interest Earned on Investments	9,351,000	(6,951,000)	2,400,000	1,904,348	(495,652)	N05
Total revenue from exchange transactions	110,416,908	12,688,872	123,105,780	119,650,227	(3,455,553)	
Revenue from non-exchange transactions						
Taxation revenue						
Donations Received	-	-	-	8,405,340	8,405,340	N06
Acturial Gain on Post Retirement Benefit	-	-	-	3,985,000	3,985,000	N07
Transfer revenue						
Government Grants & Subsidies	700,041,000	4,612,065	704,653,065	688,949,514	(15,703,551)	N08
Total revenue from non-exchange transactions	700,041,000	4,612,065	704,653,065	701,339,854	(3,313,211)	
Total revenue	810,457,908	17,300,937	827,758,845	820,990,081	(6,768,764)	
Expenditure						
Employee Related Costs	(235,812,394)	21,079,530	(214,732,864)	(211,928,039)	2,804,825	N09
Remuneration of Councillors	(5,896,077)	(203,763)	(6,099,840)	(6,427,609)	(327,769)	N10
Depreciation and Amortisation	(96,142,282)	(1,310,414)	(97,452,696)	(89,961,908)	7,490,788	N11
Finance Costs	(390,525)	(334,839)	(725,364)	(1,606,975)	(881,611)	N12
Lease Rentals on Operating Lease	(800,000)	-	(800,000)	(1,211,731)	(411,731)	N13
Debt Impairment	(20,980,121)	4,999,997	(15,980,124)	(19,371,815)	(3,391,691)	N14
Post Retirement Benefit	-	-	-	(3,201,000)	(3,201,000)	N15
Bulk Purchases	(22,589,500)	(2,500,000)	(25,089,500)	(27,874,889)	(2,785,389)	N16
Contracted Services	(66,589,002)	(16,658,046)	(83,247,048)	(142,427,652)	(59,180,604)	N17
Transfers and Subsidies	(10,650,000)	650,000	(10,000,000)	(10,000,000)	-	N18
General Expenses	(114,665,447)	1,212,607	(113,452,840)	(189,024,585)	(75,571,745)	N19
Total expenditure	(574,515,348)	6,935,072	(567,580,276)	(703,036,203)	(135,455,927)	
Operating surplus	235,942,560	24,236,009	260,178,569	117,953,878	(142,224,691)	
Loss on disposal of assets and liabilities	-	-	-	(2,980,966)	(2,980,966)	N20
Share of surpluses or deficits from associates or joint ventures accounted for using the equity method	-	(29,000,000)	(29,000,000)	(43,779,367)	(14,779,367)	N21
	-	(29,000,000)	(29,000,000)	(46,760,333)	(17,760,333)	
Surplus before taxation	235,942,560	(4,763,991)	231,178,569	71,193,545	(159,985,024)	

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	235,942,560	(4,763,991)	231,178,569	71,193,545	(159,985,024)	

uMzinyathi District Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	620,816	870,704	1,491,520	2,468,782	977,262	N22
Receivables from Non-Exchange Transactions	70,091,089	(2,936,968)	67,154,121	7,554,298	(59,599,823)	N23
Receivables from Exchange Transactions	109,709,666	49,591,199	159,300,865	210,095,699	50,794,834	N24
Cash and Cash Equivalents	64,464,062	(59,212,224)	5,251,838	-	(5,251,838)	N25
	244,885,633	(11,687,289)	233,198,344	220,118,779	(13,079,565)	
Non-Current Assets						
Investment Property	733,033	1,244,419	1,977,452	1,976,377	(1,075)	N26
Property, Plant and Equipment	2,806,991,855	(138,092,528)	2,668,899,327	2,522,715,387	(146,183,940)	N27
Intangible Assets	4,935,378	(3,201,230)	1,734,148	1,103,361	(630,787)	N28
Heritage Assets	8,655	-	8,655	8,655	-	N29
Investment in Associates	-	-	-	55,866,059	55,866,059	N30
	2,812,668,921	(140,049,339)	2,672,619,582	2,581,669,839	(90,949,743)	
Total Assets	3,057,554,554	(151,736,628)	2,905,817,926	2,801,788,618	(104,029,308)	
Liabilities						
Current Liabilities						
Payables from Exchange Transactions	209,017,563	(28,130,023)	180,887,540	407,434,444	226,546,904	N31
Transfers Payable	-	-	-	1,500,000	1,500,000	N32
VAT Payable	-	-	-	7,277,650	7,277,650	N33
Consumer Deposits	707,445	(256,131)	451,314	451,314	-	N34
Employee Benefit Obligation	-	-	-	1,225,000	1,225,000	N35
Unspent Conditional Grants and Receipts	-	-	-	15,703,551	15,703,551	N36
Provisions	41,960,241	(15,871,605)	26,088,636	26,894,663	806,027	N37
Bank Overdraft	-	-	-	11,952,720	11,952,720	N38
	251,685,249	(44,257,759)	207,427,490	472,439,342	265,011,852	
Non-Current Liabilities						
Employee Benefit Obligation	23,780,750	35,198,424	58,979,174	23,721,000	(35,258,174)	N35
Total Liabilities	275,465,999	(9,059,335)	266,406,664	496,160,342	229,753,678	
Net Assets	2,782,088,555	(142,677,293)	2,639,411,262	2,305,628,276	(333,782,986)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated Surplus	2,782,088,555	(142,677,293)	2,639,411,262	2,305,628,276	(333,782,986)	N39

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
VAT Refunds	-	-	-	66,938,856	66,938,856	N40
Sale of goods and services	100,845,849	(74,599,785)	26,246,064	46,227,063	19,980,999	N41
Grant Receipts	709,392,000	(4,738,920)	704,653,080	697,543,065	(7,110,015)	N42
Interest income	9,351,000	(6,951,000)	2,400,000	1,904,348	(495,652)	N43
Other receipts	868,085	(5)	868,080	474,657	(393,423)	N44
	820,456,934	(86,289,710)	734,167,224	813,087,989	78,920,765	
Payments						
Employee costs	-	-	-	(201,379,096)	(201,379,096)	N45
Suppliers	(447,152,420)	15,061,388	(432,091,032)	(350,555,833)	81,535,199	N46
Finance Costs	(390,525)	(334,839)	(725,364)	(1,606,975)	(881,611)	N47
Remuneration of Councillors	-	-	-	(6,427,609)	(6,427,609)	N48
Transfers and Subsidies	(10,650,000)	650,000	(10,000,000)	(8,500,000)	1,500,000	N49
	(458,192,945)	15,376,549	(442,816,396)	(568,469,513)	(125,653,117)	
Net cash flows from operating activities	362,263,989	(70,913,161)	291,350,828	244,618,476	(46,732,352)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(287,572,000)	(10,433,559)	(298,005,559)	(244,802,778)	53,202,781	N50
Proceeds from sale of property, plant and equipment	2,000,000	(1,500,000)	500,000	-	(500,000)	N51
Purchase of other intangible assets	-	-	-	(2,670)	(2,670)	N52
Net cash flows from investing activities	(285,572,000)	(11,933,559)	(297,505,559)	(244,805,448)	52,700,111	
Cash flows from financing activities						
Repayment of other financial liabilities	(7,415,189)	7,415,189	-	(6,018,697)	(6,018,697)	N53
Net increase/(decrease) in cash and cash equivalents	69,276,800	(75,431,531)	(6,154,731)	(6,205,669)	(50,938)	
Cash and cash equivalents at the beginning of the year	3,876,000	7,530,645	11,406,645	5,295,928	(6,110,717)	N54
Cash and cash equivalents at the end of the year	73,152,800	(67,900,886)	5,251,914	(909,741)	(6,161,655)	
Reconciliation						

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
N01-						The difference is insignificant.
N02 -						Some of the municipal properties being rented out were vacant during the period.
N03 -						The difference is insignificant.
N04 -						The sale of tender documents was affected by an instruction from National Treasury not to advertise tenders as per the court ruling.
N05 -						The municipality has invested funds for a shorter period due to cash flow challenges.
N06 -						The municipality did not anticipate to receive a grant of this nature from the department.
N07-						There were a number of posts that were budgeted for and not filled during the financial year.
N08 -						The difference is caused by conditional grant conditions that were not met at the end of the financial year. The funds were therefore not recognised as revenue.
N09 -						Some positions budgeted for were not filled including the senior management positions.
N10 -						The difference is insignificant.
N11 -						The municipality had less additions and completed projects than initially expected.
N12 -						The municipality did not budget for the finance cost on late payments.
N13 -						The municipality extended the scope.
N14 -						The debt has increased as customers are failing to settle their accounts as they fall due.
N15 -						The budget on the expected increase or decrease on post retirement could not be reasonably estimated.
N16 -						The municipality started recognising Department of Water and Sanitation for bulk services after an agreement was reached on the historical debt.
N17 -						The municipality has partially outsourced the operations and maintenance which was above the budget allocated.
N18 -						Due to cashflow challenges, the municipality could not transfer the full budget to the entity.
N19 -						There was an increase in the demand for water by the community which resulted to more costs being incurred.
N20 -						The municipality received requests to donate assets that were being disposed in the current year, whilst the budget was sitting on expected proceeds.
N21 -						Uthukela Water as an associate continues to suffer massive losses.
N22 -						The contract was extended for the provision of fuel by a service provider and consumption patterns also change due to the procurement of new vehicles by the municipality.
N23 -						Revenue from non-exchange was incorrectly estimated.
N24 -						The municipality did not estimate the VAT Receivable as the MSCOA Version 6.5 did not allow for the budget to be captured.
N25 -						The municipality could not collect cash as budgeted due to the issue of non-payment by customers.
N26 -						The difference is insignificant.

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
N27						The cost containment measures resulted to a reduced spending rate on non-core items.
N28						The difference is insignificant.
N29						The difference is insignificant.
N30						The entity continues to suffer losses.
N31						Recognition of historical debt from Uthukela Water (Pty) Ltd and Department of Water and Sanitation.
N32						The municipality could not honor all the expected payments due to cash flow constraints.
N33						The municipality did not budget for the VAT.
N34						The difference is insignificant.
N35						The municipality only provided budget for provisions.
N36						The spending trends declined on projects financed by conditional grants.
N37						The difference is insignificant.
N38						The municipality did not budget for an overdraft, the movement was due to payments processed at year end that were released after the reporting date.
N39						The difference is insignificant.
N40						VAT refunds were not budgeted for by the municipality.
N41						There was an increase in the unemployment rate for domestic customers resulting to non-payment of services.
N42						Other grants were received late and the spending trend for projects had declined due to protests and cashflow issues.
N43						The municipality has invested funds for a shorter period due to cash flow challenges.
N44						The sale of tender documents was affected by an instruction from National Treasury not to advertise tenders as per the court rulling and other properties were vacant during the financial year.
N45						The municipality did not allocate the cashflow item accordingly due to the balance sheet budgeting constraints by the financial system.
N46						The municipality is struggling to cash back creditors, they are not settled within 30 days..
N47						The municipality only budgeted for finance lease liability and penalties on late payments were excluded.
N48						The municipality did not allocate the cashflow item accordingly due to the balance sheet budgeting constraints by the financial system.
N49						Due to cashflow challenges the transfers could not be done in full.
N50						The cost containment measures resulted to a decision to reduce spending on non-core items.
N51						The municipality decided to donate assets disposed instead of the auction.
N52						Other intangible assets were not budgeted for and it was a reclassification from Intangibles.
N53						The finance lease liability was settled.

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

N54 - The difference is insignificant.

The accounting policies on pages 18 to 43 and the notes on pages 44 to 88 form an integral part of the annual financial statements.

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

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 No. 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.

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 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.

1.2 Significant judgements and sources of estimation uncertainty

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

Impairment Testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful Lives of Waste and Water Network and Other Assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Allowance for Doubtful Debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment Property

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

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

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.3 Investment Property (continued)

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

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

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

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

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

Cost Model

Investment Property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - buildings	30 years

Investment Property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 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.

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.4 Property, Plant and Equipment (continued)

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

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

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

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

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

Property, Plant and Equipment is carried at cost less accumulated depreciation and any impairment losses.

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

Property, Plant and Equipment is carried at cost less accumulated depreciation and any impairment losses.

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

Item	Depreciation method	Average useful life
Infrastructure	Straight line	10-100 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.

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

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

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

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

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.5 Infrastructure

The entity recognises infrastructure when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Infrastructure are measured at cost.

A gain or loss arising on initial recognition of infrastructure at fair value less costs to sell and from a change in fair value less costs to sell of infrastructure is included in surplus or deficit for the period in which it arises.

Depreciation is provided on infrastructure where fair value cannot be determined, to write down the cost, less residual value, by equal instalments over their useful lives as follows:

Item	Useful life
Other Infrastructure	20-40 years

1.6 Intangible Assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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 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.

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.6 Intangible Assets (continued)

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

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

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, internally generated	Straight line	5 years

1.7 Heritage Assets

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent Measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

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.

Transfers

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

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

uMzinyathi District Municipality

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Accounting Policies

1.7 Heritage Assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

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

1.8 Investments in associates

An investment in an associate is carried at cost.

The municipality applies the same accounting for each category of investment.

The municipality recognises a share in surplus or deficit in its separate annual financial statements.

1.9 Financial Instruments

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

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability or group of financial assets or financial liabilities and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument or group of financial instruments, the entity shall use the contractual cash flows over the full contractual term of the financial instrument or group of financial instruments.

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

A financial asset is:

- cash;

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.9 Financial Instruments (continued)

- 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 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.

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.

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

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.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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 amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

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

- combined instruments that are designated at fair value;
- 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.

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.9 Financial Instruments (continued)

Initial Recognition

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

The entity recognises financial assets using trade date accounting.

Initial Measurement of Financial Assets and Financial Liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions, where it is the recipient of the loan.

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.9 Financial Instruments (continued)

Subsequent Measurement of Financial Assets and Financial Liabilities

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

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

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

Fair Value Measurement Considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument or based on any available observable market data.

The fair value of a financial liability with a demand feature such as a demand deposit is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

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 or 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 entity 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:

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.9 Financial Instruments (continued)

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 discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly. 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. 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.

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1.9 Financial Instruments (continued)

Derecognition

Financial Assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial Liabilities

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

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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Accounting Policies

1.9 Financial Instruments (continued)

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

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Leases

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

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

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rental are expensed in the period in which they are incurred.

Operating Leases - Lessor

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

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

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

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

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

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.

uMzinyathi District Municipality

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Accounting Policies

1.11 Inventories

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

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

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

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

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.

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.

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

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Accounting Policies

1.12 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.

Value in use

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

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

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.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

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.

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

- 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.

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Accounting Policies

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

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.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

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.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

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.

uMzinyathi District Municipality

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Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

After a reversal of an impairment loss is recognised, 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.

1.14 Employee benefits

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

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

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

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

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

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

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

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

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

uMzinyathi District Municipality

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Accounting Policies

1.14 Employee benefits (continued)

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

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.

Post-employment benefits: Defined contribution plans

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

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

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

Post-employment benefits: Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date. To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

uMzinyathi District Municipality

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Accounting Policies

1.14 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, 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. An annual charge to income is made to cover both these liabilities.

1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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.

uMzinyathi District Municipality

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Accounting Policies

1.15 Provisions and contingencies (continued)

Provisions are not recognised for future operating surplus (deficit).

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.

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 50.

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.

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.15 Provisions and contingencies (continued)

Significant judgements and sources of estimation uncertainty

Impact of COVID-19:

Municipal management considered uncertainty on service delivery which have caused by the outbreak of the COVID-19 pandemic. Several sections of the financial statements such as revenue, provision for bad debts calculations, leave pay provision, receivables collection rate, expenses and going-concern have been effected by the far reaching effects of the COVID-19 pandemic despite the significant decline on the new infections and mortality rate.

1.16 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.

1.17 Comparative figures

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

1.18 Budget information

Municipality 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 municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 7/1/2021 to 6/30/2022.

The budget for the economic entity includes an approved budgets.

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.

1.19 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.

1.20 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.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.21 Irregular expenditure (continued)

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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

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

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or 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 condoned 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 is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Related Parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

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

1.23 Events After Reporting Date

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

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

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

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.23 Events After Reporting Date (continued)

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.

1.24 Presentation Currency

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

1.25 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.26 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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.

1.27 Revenue from Exchange Transactions

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

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

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

Measurement

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

Sale of Goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.27 Revenue from Exchange Transactions (continued)

Rendering of Services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

1.28 Revenue from Non-Exchange Transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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

Measurement

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

Government Grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbusement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.28 Revenue from Non-Exchange Transactions (continued)

Other Grants and Donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.29 Investment Income

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

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

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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 104 (amended): Financial Instruments	April 1, 2020	The adoption had no effect
• Guideline: Guideline on Accounting for Landfill Sites	April 1, 2020	The adoption had no effect
• GRAP 36: Investments in Associates and Joint Ventures	April 1, 2020	The adoption had no effect
• Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	April 1, 2019	The adoption had no effect
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	April 1, 2019	The adoption had no effect
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	April 1, 2019	The adoption had no effect
• GRAP 7 (as revised 2010): Investments in Associates	April 1, 2019	The adoption had no effect
• GRAP 8 (as revised 2010): Interests in Joint Ventures	April 1, 2019	The adoption had no effect
• Directive 7 (revised): The Application of Deemed Cost	April 1, 2019	The adoption had no effect
• GRAP 18 (as amended 2016): Segment Reporting	April 1, 2019	The adoption had no effect
• GRAP 20: Related parties	April 1, 2019	The adoption had no effect
• GRAP 32: Service Concession Arrangements: Grantor	April 1, 2019	The adoption had no effect
• GRAP 105: Transfers of functions between entities under common control	April 1, 2019	The adoption had no effect
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	April 1, 2019	The adoption had no effect
• GRAP 107: Mergers	April 1, 2019	The adoption had no effect
• GRAP 108: Statutory Receivables	April 1, 2019	The adoption had no effect
• GRAP 109: Accounting by Principals and Agents	April 1, 2019	The adoption had no effect
• IGRAP 11: Consolidation – Special purpose entities	April 1, 2019	The adoption had no effect
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	April 1, 2019	The adoption had no effect
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	April 1, 2019	The adoption had no effect
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	April 1, 2019	The adoption had no effect
• IGRAP 19: Liabilities to Pay Levies	April 1, 2019	The adoption had no effect

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
3. Inventories		
Water for distribution	90,356	84,468
Fuel (Diesel, Petrol)	1,388,281	400,236
Chemicals	990,145	1,006,816
	2,468,782	1,491,520
Inventories recognised as an expense during the year	74,377,405	32,367,401
Inventory is valued at lower of cost or net realisable value. Chemical inventory was restated to the report actual balances at year end.		
Inventory Pledged as Security		
No inventory was pledged as security.		
Water for Distribution		
Closing Balance	90,356	84,468
4. Receivables from Non-Exchange Transactions		
Other Receivables	167,665	113,674
Accrued Income	8,276	-
Third Party Receipts	7,378,357	5,132,952
	7,554,298	5,246,626
The receivables from non-exchange were recognised for the employee and suppliers indebted to the municipality. Prior year balances were restated.		
The balance includes an accrued income recognised.		
5. VAT Receivable		
VAT	-	4,022,914
VAT was accounted for on accrual basis and being claimed on a cash basis from SARS.		
6. Receivable from Exchange Transactions		
Gross Balances		
Water	346,527,334	241,710,902
Sewerage	72,010,578	77,554,676
Interest	48,217,872	58,158,557
Housing Rental	621,768	560,752
Debtors with Credit Balances	9,995,825	9,242,037
	477,373,377	387,226,924
Less: Allowance for Impairment		
Water	(186,724,517)	(160,280,836)
Sewerage	(44,425,430)	(47,831,823)
Interest	(36,127,731)	(39,793,204)
	(267,277,678)	(247,905,863)

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
6. Receivable from Exchange Transactions (continued)		
Net Balance		
Water	159,802,817	81,430,066
Sewerage	27,585,148	29,722,853
Interest	12,090,141	18,365,353
Housing Rental	621,768	560,752
Debtors with Credit Balances	9,995,825	9,242,037
	210,095,699	139,321,061
Water		
Current (0 -30 days)	5,619,719	7,995,957
31 - 60 days	8,627,221	8,339,435
61 - 90 days	9,439,922	7,110,360
91 - 120 days	7,607,682	5,722,191
121 - 365 days	315,603,483	212,811,878
Allowance for Impairment	(187,095,210)	(160,549,755)
	159,802,817	81,430,066
Sewerage		
Current (0 -30 days)	1,164,225	1,683,526
31 - 60 days	1,105,371	1,688,761
61 - 90 days	958,250	1,597,882
91 - 120 days	1,075,161	1,349,598
121 - 365 days	67,709,571	71,234,909
Allowance for Impairment	(44,427,430)	(47,831,823)
	27,585,148	29,722,853
Interest		
Current (0 -30 days)	2,389	426
31 - 60 days	192	1,280
61 - 90 days	10,270	-
>121 days	45,306,189	58,156,851
Allowance for Impairment	(33,228,899)	(39,793,204)
	12,090,141	18,365,353
Housing Rental		
Current (0 -30 days)	23,426	10,974
31 - 60 days	23,426	10,974
61 - 90 days	23,426	10,974
91 - 120 days	23,426	10,974
121 - 365 days	528,064	516,856
	621,768	560,752
Debtors with Credit Balances		
Current (0 - 30 days)	9,995,825	9,242,037

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
6. Receivable from Exchange Transactions (continued)		
Summary of Debtors by Customer Classification		
Residential		
Current (0 - 30 days)	5,169,320	7,209,495
31 - 60 days	6,209,692	6,905,272
61 - 90 days	7,422,521	6,602,032
91 - 120 days	5,063,459	6,225,735
121 - 365 days	331,334,028	267,674,821
	<u>355,199,020</u>	<u>294,617,355</u>
Less: Allowance for impairment	(301,952,471)	(247,905,863)
	53,246,549	46,711,492
Commercial		
Current (0 - 30 days)	866,446	2,016,723
31 - 60 days	1,866,074	1,536,468
61 - 90 days	1,332,283	924,368
91 - 120 days	2,159,530	1,016,536
121 - 365 days	44,910,429	41,612,944
	<u>51,134,762</u>	<u>47,107,039</u>
Provincial Government		
Current (0 - 30 days)	769,218	464,666
31 - 60 days	1,680,087	1,598,709
61 - 90 days	1,656,524	1,192,816
91 - 120 days	1,455,991	(159,507)
121 - 365 days	55,481,951	36,945,905
	<u>61,043,771</u>	<u>40,042,589</u>
Total		
Current (0 - 30 days)	6,804,984	9,690,884
31 - 60 days	9,755,853	10,040,449
61 - 90 days	10,411,328	8,719,216
91 - 120 days	8,678,980	6,813,941
121 - 365 days	442,094,925	351,962,532
	<u>477,746,070</u>	<u>387,227,022</u>
Less: Allowance for Impairment	(267,650,371)	(247,905,961)
	210,095,699	139,321,061
Less: Allowance for Impairment		
Current +150 days)	(267,277,678)	(247,905,863)
Reconciliation of Allowance for Impairment		
Balance at beginning of the year	(247,905,863)	(189,099,440)
Contributions to allowance	(19,371,815)	(58,806,423)
	<u>(267,277,678)</u>	<u>(247,905,863)</u>

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

7. Cash and Cash Equivalents

Cash and Cash Equivalents consist of:

Cash on Hand	218	218
Bank Balances	(11,952,938)	5,295,710
	(11,952,720)	5,295,928

The municipality did not have an overdraft at the end of the financial year. The credit balance was due to the payments that were authorised at year end and cleared from the bank after the year end. The total amount of these outstanding payments was R12 862 461.

The following bank accounts were opened and closed during the financial year.

Bank	Type of account	Account number
ABSA	Fixed Deposit	2079922073.00
FNB	Fixed Deposit	74906662470.00
FNB	Fixed Deposit	74929672373.00
FNB	Fixed Deposit	74940433118.00
Standard Bank	Call deposit	420111972.00
Standard Bank	Fixed Deposit	308632095-016
Standard Bank	Fixed Deposit	308632095-017
Standard Bank	Fixed Deposit	308632095-018
Standard Bank	Fixed Deposit	308632095-019
Standard Bank	Fixed Deposit	308632095-020
Standard Bank	Fixed Deposit	308632095-021
Standard Bank	Fixed Deposit	308632095-022
Standard Bank	Fixed Deposit	308632095-023
Standard Bank	Fixed Deposit	308632095-024
Nedbank	Fixed Deposit	037337000049-019
Nedbank	Fixed Deposit	037337000049-020
Nedbank	Fixed Deposit	037337000049-021

Cash and Cash Equivalents Pledged as Collateral

Total financial assets pledged as collateral:	70,000	70,000
The amount not exceeding the sum of R70 000 for bulk posting agreement.		

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

7. Cash and Cash Equivalents (continued)

The municipality had the following bank accounts

Account Number / Description	Bank Statement Balances			Cash Book Balances		
	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2022	June 30, 2021	June 30, 2020
FNB 62358106279	837,408	8,789,196	11,182,513	837,408	3,159,826	1,880,993
FNB 62358438044	10,000	10,000	-	10,000	9,990	283,325
ABSA 9330621802	16,422	20,350	210	16,422	20,350	211
FNB 74321014438	1,766	-	631	1,766	-	631
FNB 62353578564	343	-	474	343	-	30,848
FNB 62821498476	-	15	13,425	-	15	13,425
FNB 62861386194	-	74	120	-	(74)	-
FNB 62865115408	-	768,117	-	-	2,098,132	-
INVESTEC 1100 461 826 500	34	34	34	34	34	34
INVESTEC 1100 461 826 502	-	-	9,760	-	-	9,760
INVESTEC 1100 461 826 503	42,896	3,728	120	42,897	3,728	121
NEDBANK 7337000049	393	3,270	10,879	380	3,270	10,880
NEDBANK 73370000049 000016	273	-	-	273	265	-
STANDARD 308632095 003	-	-	-	-	-	138,821
STANDARD 308632095 006	-	-	173	-	173	173
PETTY CASH	-	218	-	218	218	6,100
Total	909,535	9,595,002	11,218,339	909,741	5,295,927	2,375,322

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

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8. Investment Property

	2022			2021		
	Cost / Valuation	Accumulated Depreciation and Accumulated Impairment Loss	Carrying value	Cost / Valuation	Accumulated Depreciation and Accumulated Impairment Loss	Carrying Value
Investment property	2,586,275	(609,898)	1,976,377	2,586,276	(518,318)	2,067,958

Reconciliation of investment property - 2021

Investment property	Opening balance 2,067,958	Depreciation (91,581)	Total 1,976,377
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Reconciliation of investment property - 2021

Investment property	Opening Balance 733,033	Additions 1,005,671	Prior Year Restatement (Additions) 419,760	Depreciation (90,506)	Total 2,067,958
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uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

9. Property, Plant and Equipment

	2022			2021		
	Cost / Valuation	Accumulated Depreciation and Accumulated Impairment	Carrying Value	Cost / Valuation	Accumulated Depreciation and Accumulated Impairment Loss	Carrying Value
Land	5,022,200	-	5,022,200	5,022,200	-	5,022,200
Buildings	30,185,070	(12,827,253)	17,357,817	29,414,086	(11,869,493)	17,544,593
Plant and Machinery	36,276,306	(26,730,569)	9,545,737	37,671,213	(23,725,939)	13,945,274
Motor Vehicles	84,993,479	(39,931,430)	45,062,049	78,543,419	(28,747,295)	49,796,124
Office Equipment	15,082,384	(10,287,321)	4,795,063	14,868,618	(8,709,125)	6,159,493
Infrastructure	1,602,566,137	(740,514,732)	862,051,405	1,558,118,377	(669,554,785)	888,563,592
Infrastructure Work In Progress	1,543,667,208	-	1,543,667,208	1,367,617,893	-	1,367,617,893
Buidling Work In Progress	35,213,908	-	35,213,908	34,938,858	-	34,938,858
Total	3,353,006,692	(830,291,305)	2,522,715,387	3,126,194,664	(742,606,637)	2,383,588,027

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

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9. Property, Plant and Equipment (continued)

Reconciliation of Property, Plant and Equipment - 2022

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment Loss	Total
Land	5,022,200	-	-	-	-	-	5,022,200
Buildings	17,544,593	770,983	-	-	(957,759)	-	17,357,817
Plant and Machinery	13,945,274	375,055	(286,919)	-	(4,487,673)	-	9,545,737
Motor Vehicles	49,796,124	6,744,089	(270,565)	-	(11,177,712)	(29,887)	45,062,049
Office Equipment	6,159,493	1,288,720	(526,391)	-	(2,082,711)	(44,048)	4,795,063
Infrastructure	888,563,592	15,524,539	(2,847,573)	33,725,495	(70,558,861)	(2,355,787)	862,051,405
Infrastructure Work In Progress	1,367,617,893	221,394,450	(11,619,640)	(33,725,495)	-	-	1,543,667,208
Buidling Work In Progress	34,938,858	275,050	-	-	-	-	35,213,908
	2,383,588,027	246,372,886	(15,551,088)	-	(89,264,716)	(2,429,722)	2,522,715,387

uMzinyathi District Municipality

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9. Property, Plant and Equipment (continued)

Reconciliation of Property, Plant and Equipment - 2021

	Opening Balance	Additions	Additions through transfer of functions / mergers	Disposals	Transfers - Expenditure	Transfers	Depreciation	Impairment Loss	Total
Land	5,022,200	-	-	-	-	-	-	-	5,022,200
Buildings	18,082,692	380,266	-	-	-	-	(918,365)	-	17,544,593
Plant and Machinery	18,164,310	351,001	-	-	-	-	(4,457,816)	(112,221)	13,945,274
Motor Vehicles	56,524,113	5,521,027	-	-	-	-	(10,949,978)	(1,299,038)	49,796,124
Office Equipment	6,566,820	1,608,135	-	(98,512)	-	-	(1,916,950)	-	6,159,493
Infrastructure	910,131,310	-	1,216,681	(3,168,981)	-	69,893,604	(80,994,463)	(8,514,559)	888,563,592
Infrastructure Work In Progress	1,214,201,244	224,268,741	-	-	(958,488)	(69,893,604)	-	-	1,367,617,893
Buidling Work In Progress	34,645,019	293,839	-	-	-	-	-	-	34,938,858
	2,263,337,708	232,423,009	1,216,681	(3,267,493)	(958,488)	-	(99,237,572)	(9,925,818)	2,383,588,027

Pledged as Security

No infrastructure assets or property, plant and equipment were pledged as security:

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Total
Opening Balance	34,938,859	1,393,859,592	1,428,798,451

uMzinyathi District Municipality

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Figures in Rand	2022	2021	
9. Property, Plant and Equipment (continued)			
Reconciliation of Work-in-Progress 2021			
	Included within Infrastructure	Included within Community	Total
Opening Balance	34,645,020	1,214,201,244	1,248,846,264
Additions/Capital Expenditure	293,839	224,268,753	224,562,592
Transferred to Completed Items	-	(44,610,405)	(44,610,405)
	34,938,859	1,393,859,592	1,428,798,451

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

Contracted Services: Maintenance of Buildings and Facilities	953,092	5,399,305
Contracted Services: Maintenance of Equipment	9,129,724	3,021,866
Contracted Services: Unspecified Assets	17,217,451	10,310,358
	27,300,267	18,731,529

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.

Funding of property, plant and equipment acquisitions

Disclosure : Halted Projects

Muden Bulk Water Supply Scheme (P1)	256,383,307	250,904,949
Ophathe Water Supply Scheme (P2)	17,772,614	12,772,614
Douglas Water Supply Scheme (P3)	48,860,764	56,703,206
Umzinyathi Disaster Centre	35,213,908	34,938,858
Greytown Bulk Water	334,245,207	331,025,913
Umsinga Regional Bulk Water	182,813,595	-
Mbono Water Supply	76,857,904	76,857,904

P1: Delays were caused by the COVID-19 regulations on social distancing and lockdown. The contractor is on site and the project is proceeding as planned.

P2: The appointed contractor was liquidated, a new contractor was appointed and the project is now proceeding as planned.

P3: Delays were caused by the COVID-19 regulations on social distancing and lockdown. The contractor is on site and the project is proceeding as planned.

P4: The project was delayed by an investigation which has not been concluded. The project is in progress.

P5: The project was delayed by the lack of funding.

P6: Delays were caused by the COVID-19 regulations on social distancing and lockdown. Other phases of the project were completed during the financial year.

The following projects related to projects for which business plans were not funded. Feasibility study costs recognised as an expense:

- Nquthu North Eastern Services
- Hlimbithwa Water Supply
- Kranskop Borehole

uMzinyathi District Municipality

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9. Property, Plant and Equipment (continued)

- Hlazakazi Water Supply

P7: The project is delayed due to lack of funding to complete the project.

uMzinyathi District Municipality

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10. Intangible Assets

	2022			2021		
	Cost / Valuation	Accumulated Amortisation and Accumulated impairment Loss	Carrying value	Cost / Valuation	Accumulated Amortisation and Accumulated Impairment Loss	Carrying value
Computer Software, Other	3,113,048	(2,009,687)	1,103,361	3,233,770	(1,499,622)	1,734,148

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Disposals	Amortisation	Total
Computer Software, Other	1,734,148	2,670	(27,842)	(605,615)	1,103,361

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Disposals	Amortisation	Total
Computer Software, Other	3,740,378	170,251	(1,261,099)	(915,382)	1,734,148

uMzinyathi District Municipality

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11. Heritage Assets

	2022			2021		
	Cost / Valuation	Accumulated Impairment Losses	Carrying Value	Cost / Valuation	Accumulated Impairment Losses	Carrying Value
Ornamental Chains	8,655	-	8,655	8,655	-	8,655

Reconciliation of Heritage Assets 2021

Ornamental Chains	Opening balance 8,655	Total 8,655
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Reconciliation of Heritage Assets 2021

Ornamental Chains	Opening balance 8,655	Total 8,655
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uMzinyathi District Municipality

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Figures in Rand		2022	2021		
12. Investment in Associate					
Investments in Associates					
Name of Company	Determination of ownership interest	% ownership interest 2022	% ownership interest 2021	Carrying amount 2022	Carrying amount 2021
uThukela Water (Pty) Ltd	Investment	33.00 %	33.00 %	55,866,059	99,650,995
				55,866,059	99,650,995
				<u>55,866,059</u>	<u>99,650,995</u>

The carrying amounts of the Associate are shown net of impairment losses.

The separate annual financial statements of the Associate are available at the registered office of the associate.

Movements in Carrying Amount

Opening Balance	99,650,995	129,037,638
Share in Deficit of Associate	(43,812,986)	(29,386,643)
	<u>55,838,009</u>	<u>99,650,995</u>

Interests in controlled entities

Consequences of changes in the controlling entity's ownership interest in a controlled entity that resulted in a loss of control

Summary of economic entity's interest in associate

Revenue	182,411,478	166,797,465
Expenses	(315,178,103)	(255,962,593)
Net Profit	(132,766,625)	(89,050,432)
Percentage Share in Associate	33.00 %	33.30 %
Share of Deficit of Associate	(43,812,986)	(29,386,643)
Total Assets	888,722,854	983,651,563
Total Liabilities	(471,837,513)	(433,999,596)
Net Assets	416,885,341	549,651,867

13. Finance Lease Obligation

Minimum lease payments due

- within one year	-	6,018,697
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Present value of minimum lease payments due

- within one year	-	6,018,697
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14. Payables from Exchange Transactions

Trade Payables	294,100,956	258,096,733
Payments Received in Advance	9,995,825	9,242,037
Salary Control	300,795	(660,077)
Third Parties Payable	10,259,189	-
Retentions	86,563,569	74,311,433
Bonus Accrual	6,214,110	5,368,913
	<u>407,434,444</u>	<u>346,359,039</u>

uMzinyathi District Municipality

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14. Payables from Exchange Transactions (continued)		
There was a reclassification of balances from Trade Payables to Salary Control.		
15. Transfers Payable		
Transfers Payable	1,500,000	-
16. Consumer Deposits		
Water	451,314	451,314
The Consumer deposits relates to monies paid for connections before any services could be rendered. These amounts relates to prior period deposits.		
17. Employee Benefit Obligations		
Defined Benefit Plan		
Post Retirement Medical Aid Plan		
The amounts recognised in the Statement of Financial Position are as follows:		
Carrying Value		
Post Employment Medical Benefit	(14,023,000)	(14,209,000)
Long Service Award	(10,923,000)	(11,521,000)
	(24,946,000)	(25,730,000)
Non-Current Liabilities	(23,721,000)	(23,707,000)
Current Liabilities	(1,225,000)	(2,023,000)
	(24,946,000)	(25,730,000)
Changes in the present value of the defined benefit obligation are as follows:		
Opening Balance	14,209,000	15,276,718
Current Service Costs	1,204,000	1,389,859
Interest Costs	1,459,000	2,221,865
Benefits paid	(282,000)	(96,073)
Application of maximum summary	-	(847,000)
Actuarial gain	(2,567,000)	(3,736,369)
	14,023,000	14,209,000
Changes in the present value of long service awards liability are as follows:		
Opening Balance	11,521,000	7,312,837
Current Service Costs	1,518,000	739,634
Interest Costs	1,043,000	630,266
Benefits Paid	(1,741,000)	(968,762)
Policy Amendments	-	2,314,000
Actuarial Loss/(Gain)	(1,418,000)	1,493,025
	10,923,000	11,521,000

uMzinyathi District Municipality

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17. Employee Benefit Obligations (continued)

Calculation of Actuarial Gains and Losses

Post Employment Benefits	(1,418,000)	(4,583,369)
Long Service Awards	(2,567,000)	3,807,025
	(3,985,000)	(776,344)

Key Assumptions Used

Assumptions used at the reporting date:

Discount Rates Used	11.37 %	10.37 %
Consumer Price Index	5.49 %	5.48 %
Salary Increase Rate	7.54 %	6.48 %
Net Effect Discount Rate	3.57 %	3.17 %

Salaries - Changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases.

The basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets, is as follows:

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17. Employee Benefit Obligations (continued)

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 11.85% per annum has been used. The corresponding index-linked yield at this term is 4.11%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 30 June 2022.

Plan B

Health Care Cost Inflation Rate

A health care cost inflation rate of 8.46% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.96%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 3.13% which derives from $((1+11.85\%)/(1+8.46\%))-1$.

The expected inflation assumption of 6.96% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (4.11%) and those of fixed interest bonds (11.85%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: $((1+11.85\%-0.50\%)/(1+4.11\%))-1$.

The next contribution increase was assumed to occur with effect from 1 January 2023.

Maximum Subsidy Inflation Rate

This assumption is required to reflect estimated future changes in the maximum amount to which subsidies are limited. This maximum amount is set at R 5,007.00 per family per month for the year ending 30 June 2023. The annual increases to this maximum amount are periodically specified by the local government bargaining council.

Recent past annual increases balanced with sustainability needs of employees have resulted in this assumption being set at 75% of salary inflation. The future salary inflation assumption of 7.96%, was set to be 1.00% above expected CPI inflation. Thus a maximum subsidy inflation assumption of 5.97% per annum was used. The next increase to the maximum subsidy was assumed to occur with effect from 1 July 2023.

Replacement Ratio

This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

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17. Employee Benefit Obligations (continued)

Average Retirement Age

The normal retirement age of employees is 65. It has been assumed that employees will retire at age 63 on average, which then implicitly allows for expected rates of ill-health and early retirement. Employees who have passed the assumed average retirement age, have been assumed to retire at their next birthday.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables, adjusted for female lives. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants

It has been assumed that female spouses will be five years younger than their male counterparts. Furthermore, we've assumed that 60% of eligible employees on a health care arrangement at retirement will have a subsidised spouse dependant. For current retiree members, actual subsidised spouse dependants were used and the potential for remarriage was ignored.

Financial Variables

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%.

Medical Aid Benefit

Age Band

20					Promotional Increases
25					9 %
30					9 %
35					6 %
40					6 %
40					5 %
50+					3 %
					38

Withdrawal Assumptions

Age	2022 Males	2022 Females	2021 Males	2021 Females
20-24	9	9	9	9
25-29	8	8	8	8
30-34	6	6	6	6

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17. Employee Benefit Obligations (continued)				
35-39	5	5	5	5
40-44	5	5	5	5
45-49	4	4	4	4
50-54	3	3	3	3
	40	40	40	40

Long Service Awards

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 249 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth. The table below contains a summary of the benefit policy:

Completed Years of Service

Years	Total Long Service Award % of Annual Salary	Formula Used to Calculate Long Service Award
5	2 %	05/249*Annual Salary
10	4 %	10/249*Annual Salary
15	8 %	20/249*Annual Salary
20, 25, 30, 35, 40 and 45	12 %	30/249*Annual Salary

Membership Data

Current Employees	2022	2021 (Restated)
Number of Employees	435	504
Average Annual Salary	291,136	275,030
Average Age (Years)	43	42
Number of Spouses	9	9
	291,623	275,585

18. Unspent Conditional Grants and Receipts

Unspent conditional grants and receipts comprises of:

Unspent Conditional Grants and Receipts

Regional Bulk Infrastructure Grant	-	7,109,788
Water Services Infrastructure Grant	8,703,551	-
Disaster Management	5,000,000	-
Emergency Drilling of Boreholes	2,000,000	-
	15,703,551	7,109,788

See note 27 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

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19. Provisions			
Reconciliation of Provisions - 2022			
	Opening Balance	Movements	Total
Leave Provision	26,088,196	806,467	26,894,663
Reconciliation of Provisions - 2021			
	Opening Balance	Movements	Total
Leave Provision	17,663,467	8,424,729	26,088,196
An adjustment of R440 was made on the 2020/21 financial year for an account that was incorrectly allocated to Provisions.			
20. VAT Payable			
Tax Refunds Payables	7,277,650	-	
21. Revenue			
Service Charges	86,764,571	74,797,930	
Rental of Facilities and Equipment	481,793	460,666	
Interest Earned on Outstanding Debtors	30,444,412	36,392,239	
Other Income	55,103	826,291	
Interest Received on Investments	1,904,348	2,859,616	
Property rates	8,405,340	-	
Actuarial Gain on Post Retirement Benefit	3,985,000	776,344	
Government Grants & Subsidies	688,949,514	713,698,120	
	820,990,081	829,811,206	
The amount included in revenue arising from exchanges of goods or services are as follows:			
Service Charges	86,764,571	74,797,930	
Rental of Facilities and Equipment	481,793	460,666	
Interest Earned on Outstanding Debtors	30,444,412	36,392,239	
Other Income	55,103	826,291	
Interest Received on Investment	1,904,348	2,859,616	
	119,650,227	115,336,742	
The amount included in revenue arising from non-exchange transactions is as follows:			
Taxation Revenue			
Donations Received	8,405,340	-	
Actuarial Gain Post Retirement Benefit	3,985,000	776,344	
Transfer Revenue			
Government Grants & Subsidies	688,949,514	713,698,120	
	701,339,854	714,474,464	
22. Service Charges			
Sale of Water	98,484,801	75,392,827	
Sewerage and Sanitation Charges	13,442,142	16,471,563	
Cost of Free Basic Services	(25,162,372)	(17,066,460)	
	86,764,571	74,797,930	

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Figures in Rand	2022	2021
23. Rental of Facilities and Equipment		
Premises		
Rental Income	481,793	460,666
24. Other Income		
Tender Documents	50,209	406,961
Administration Fees	4,894	419,330
	55,103	826,291
25. Interest on Investments		
Interest Revenue		
Bank	1,904,348	2,859,616
26. Donations Received		
Donations		
Donations Received	8,405,340	-

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27. Government Grants and Subsidies		
Operating Grants		
Equitable Share	402,121,000	430,525,000
LGSETA	407,065	183,260
Expanded Public Works Programme	4,841,000	5,457,000
Local Government Finance Management Grant	1,550,000	1,500,000
RRAMS	2,330,000	2,300,000
Development Planning Shared Services	-	338,148
Spatial Development Framework Support Management	-	663,500
	411,249,065	440,966,908
Capital Grants		
Municipal Infrastructure Grant	206,904,000	184,868,000
Regional Bulk Infrastructure Grant	-	9,628,212
Water Services Infrastructure Grant	65,296,449	78,235,000
Emergency Drilling of Boreholes Grant	5,500,000	-
	277,700,449	272,731,212
	688,949,514	713,698,120

Equitable Share

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

All registered indigents receive a monthly subsidy of 6 kilo litres @ R8.01 exclusive of VAT, which is funded from the grant.

LGSETA

Current-year receipts	407,065	183,260
Conditions met - transferred to revenue	(407,065)	(183,260)
	-	-

Conditions still to be met - remain liabilities (see note 18).

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

Expanded Public Works Programme

Current-year receipts	4,841,000	5,457,000
Conditions met - transferred to revenue	(4,841,000)	(5,457,000)
	-	-

uMzinyathi District Municipality

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27. Government Grants and Subsidies (continued)

All conditions for the grant were met. EPWP projects must comply with the project selection criteria determined in the EPWP grant manual, the EPWP guidelines set by Department of Public Works (DPW) and the Ministerial Determination updated annually on 1 November each year. Eligible municipalities must sign a funding agreement with the DPW before the first grant disbursement, with their final EPWP project list attached. Reports must be loaded on the EPWP reporting system within 15 days after the end of every quarter in order for progress to be assessed. Municipalities must maintain beneficiary and payroll records as specified in the audit requirements in the EPWP grant manual. The EPWP grant cannot be used to fund the costs of permanent municipal personnel; however, a maximum of five per cent of the grant can be used to fund contract based capacity required to manage data capturing and onsite management costs related to the use of labour intensive methods. The EPWP grant can only be utilised for EPWP purposes, for the projects approved in each municipality's EPWP project list. To receive the first planned grant disbursement, eligible municipalities must submit a signed Incentive. Subsequent grant disbursements are conditional upon eligible municipalities reporting quarterly on EPWP performance within the required timeframes. Municipalities must implement their approved EPWP project list and meet agreed job creation targets. EPWP branding must be incorporated on any existing signage as per corporate identity manual.

Local Government Finance Management Grant

Current-year receipts	1,550,000	1,500,000
Conditions met - transferred to revenue	(1,550,000)	(1,500,000)
	<u>-</u>	<u>-</u>

All conditions for the grant were met. Finance Management Grant funding can be used towards the following: establishment of a Budget and Treasury Office (BTO) with positions filled by appropriately qualified personnel, establishment of SCM capacity, an Internal Audit unit and Audit Committees, at least five interns appointed over a multi-year period on-going review, revision and submission of FMG support plans to National Treasury that address weaknesses in financial management, acquisition, upgrade and maintenance of financial management systems to produce multi-year budgets, in-year reports, Service Delivery and Budget Implementation Plans, Annual Financial Statements, annual reports and automated financial management practices including the municipal Standard Chart of Accounts review and adoption of a delegation system, support the training of municipal officials in financial management towards attaining the minimum competencies, as regulated in Government Gazette 29967 of June 2007, preparation and timely submission of annual financial statements for audits, support implementation of corrective actions to address audit findings in municipalities that received adverse and disclaimer opinions, technical support in financial management to municipalities must include the transfer of skills to municipal officials, the preparation of a financial recovery plan and the implementation thereof, where appropriate, implementation of financial management reforms and addressing shortcomings identified in the Financial Management Capability Maturity Model (FMCMM) Assessment Report for that municipality, ensuring timely submission of the FMG support plan consistent with the conditions of the grant. Regular, timely submission of reports with completed information, Expenditure must be maintained at appropriate levels.

Rural Roads Asset Management Systems

Current-year receipts	2,330,000	2,300,000
Conditions met - transferred to revenue	(2,330,000)	(2,300,000)
	<u>-</u>	<u>-</u>

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27. Government Grants and Subsidies (continued)

All conditions for the grant were met. The grant was utilised to provide local municipalities with validated information to enable municipalities to identify and prioritise road maintenance requirements within their own budgets, to improve the condition and extend the lifespan of road infrastructure within the district.

Development Planning Shared Services

Balance unspent at beginning of year	-	338,148
Conditions met - transferred to revenue	-	(338,148)
	<u>-</u>	<u>-</u>

Some conditions for grants were not met during the prior year. An approval of grant was obtained from KZN COGTA for funds to be carried forward to 2020/21 financial year. Conditions of this grant were met in the current year.

The grant was used to optimise planning function and resources in the district to increase efficiency and to reduce cost of service. Create an environment of learning where junior and inexperienced staff can be mentored by more senior officials. Promote continuity where the loss of one staff member should not disrupt services. Promote integration and alignment of IDP to spatial development initiatives.

Spatial Development Framework Support Management

Balance unspent at beginning of year	-	663,500
Conditions met - transferred to revenue	-	(663,500)
	<u>-</u>	<u>-</u>

Municipal Infrastructure Grant

Current-year receipts	206,904,000	184,868,000
Conditions met - transferred to revenue	(206,904,000)	(184,868,000)
	<u>-</u>	<u>-</u>

All conditions of grant were met. Municipalities must prioritise MIG for eligible beneficiaries and infrastructure that includes: basic residential infrastructure for the poor for water, sanitation, roads, waste management, streetlighting, community facilities as well as associated municipal bulk and connector infrastructure new or upgrading of municipal bulk, connector and reticulation infrastructure to support existing areas and the formalisation of settlements renewal of eligible infrastructure servicing the poor subject to the confirmation by the relevant sector department of the state of infrastructure and a commitment from the municipality of how on-going operations and maintenance of the renewed infrastructure will be funded and performed maintenance of roads infrastructure mainly servicing the poor.

Regional Bulk Infrastructure Grant

Balance unspent at beginning of year	7,109,788	-
Current-year receipts	-	16,738,000
Conditions met - transferred to revenue	-	(9,628,212)
Conditions not met - recalled	(7,109,788)	-
	<u>-</u>	<u>7,109,788</u>

All conditions for the grant were met.

uMzinyathi District Municipality

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Figures in Rand	2022	2021
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27. Government Grants and Subsidies (continued)

Water Services Infrastructure Grant

Current-year receipts	74,000,000	78,235,000
Conditions met - transferred to revenue	(65,296,449)	(78,235,000)
	8,703,551	-

Conditions still to be met - remain liabilities (see note 18).

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

Disaster Management Grant

Current-year receipts	5,000,000	-
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Conditions still to be met - remain liabilities (see note 18).

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

Emergency Drilling of Boreholes Grant

Current-year receipts	7,500,000	-
Conditions met - transferred to revenue	(5,500,000)	-
	2,000,000	-

Conditions still to be met - remain liabilities (see note 18).

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

uMzinyathi District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
28. Employee Related Costs		
Basic Salary	137,868,773	134,150,396
Bonus	10,629,985	9,599,816
Medical Aid	6,282,575	5,721,543
Unemployment Insurance Fund	1,023,336	886,793
Skills Development Levy	1,784,430	1,685,025
Leave Provision	5,725,048	9,384,756
Standby Allowance	5,509,874	5,333,135
Defined Contribution Plan	1,622,006	1,059,962
Overtime	13,820,700	15,844,784
Acting Allowance	1,830,197	2,103,018
Car Allowance	3,958,931	3,725,391
Housing Allowance	784,044	722,289
Pension	20,491,096	17,616,483
Telephone Allowance	498,060	503,619
Bargaining Council Levies and Other	98,984	94,062
	211,928,039	208,431,072
Remuneration of Municipal Manager		
Annual Remuneration	748,605	748,605
Car Allowance	101,184	101,184
Housing Allowance	140,831	140,831
Telephone Allowance	18,000	45,000
	1,008,620	1,035,620
Remuneration of Chief Finance Officer		
Annual Remuneration	600,300	600,300
Car Allowance	120,000	120,000
Housing Allowance	29,217	29,217
Telephone	18,000	18,000
Other	21,541	6,292
	789,058	773,809
Remuneration of Senior Manager Technical Services		
Annual Remuneration	400,200	99,384
Car Allowance	70,000	17,383
Housing Allowance	30,071	7,468
Telephone Allowance	10,500	2,608
	510,771	126,843
The Senior Manager Technical Services resigned during the financial year. The position was vacant at year end.		
Remuneration of Senior Manager Corporate Services		
Annual Remuneration	628,375	686,009
Car Allowance	136,598	66,000
Housing Allowance	48,390	54,944
Telephone Allowance	18,000	18,000
Other	52,365	870
	883,728	825,823

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand

	2022	2021
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28. Employee Related Costs (continued)

Remuneration of Senior Manager Planning and Development

Annual Remuneration	686,009	628,375
Car Allowance	66,000	136,598
Housing allowance	54,944	48,390
Telephone	18,000	18,000
Other	4,170	-
	829,123	831,363

The note has been restated to reconcile to the balances disclosed on the statement of financial performance.

29. Remuneration of Councillors

Mayor	786,618	831,461
Deputy Mayor	718,249	677,064
Speaker	639,685	617,603
Councillors	4,283,057	3,628,210
	6,427,609	5,754,338

In-kind Benefits

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

The Mayor, Deputy Mayor and Speaker each have the use of separate Council owned vehicles for official duties.

The Mayor, the Deputy Mayor and Speaker have bodyguards.

Additional Information

The disclosure note has been amended to correct an error on the previous financial year.

30. Depreciation and Amortisation

Property, Plant and Equipment	89,961,908	99,856,838
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31. Finance Costs

Interest on Long Term Liability	802,543	4,913,083
Interest on Late Payments	804,432	516,151
	1,606,975	5,429,234

32. Operating Lease

The municipality (lessee) is renting out office space from Aheers (Lessor) from which a monthly rental is payable by the municipality.

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
33. Lease Rentals on Operating Lease		
Premises		
Contractual Amounts	200,546	334,068
Office Equipment		
Contractual Amounts	1,011,185	564,042
	1,211,731	898,110
34. Debt Impairment		
Debt Impairment	19,371,815	58,806,424
35. Bulk Purchases		
Water	27,874,889	33,908,842
Water Distribution Losses		
Water Produced (units)	12,970,535	12,912,367
Water Produced (units)	-	(12,970,535)
Water Sold (units)	-	6,037,607
Total	(6,638,022)	(6,874,760)
Monetary Value of:		
Water Losses	-	26,021,045
Percentage Loss:		
Technical losses	- %	51 %
		61 %
<p>The purchase price from for raw water from Uthukela Water was at R3,92 for 2022, (2021: R3,81). Umzinyathi District Municipality is mostly dominated with rural areas. Most of the rural areas have stand pipes per standards set by Water Affairs. Other rural areas have no water infrastructure therefore water tankers are delivering water to them and these tankers are getting water from our plants and collection points sets in our network. The district municipality experienced a lot of burst pipes in our reticulation line due to aging infrastructure Illegal connections in most of the rural areas have a huge impact in unaccounted water as they are not metered. The district municipality experienced increasing internal leaks from domestic consumers and there's a programme that we will be running to fix leaks.</p>		
36. Contracted Services		
Outsourced Services		
Catering Services	1,158,307	462,579
Cleaning Services	109,167	90,688
Professional Staff	41,470,811	82,359,624
Security Services	27,869,058	24,633,831
Sewerage Services	8,751,509	16,872,236
Consultants and Professional Services		
Business and Advisory	33,532,314	18,393,375
Legal Services	126,819	-

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
36. Contracted Services (continued)		
Contractors		
Artists and Performers	135,047	-
Event Promoters	1,124,000	-
Maintenance of Buildings and Facilities	953,092	5,399,305
Maintenance of Equipment	9,211,507	2,408,605
Maintenance of Unspecified Assets	17,217,451	9,743,292
Medical Services	32,794	14,668
Sports and Recreation	428,576	544,784
Stage and Sound Crew	37,700	27,900
Pauper Burial Services	269,500	352,000
	142,427,652	161,302,887
37. Transfers		
Other Transfers		
Umzinyathi Development Agency	10,000,000	-
38. General Expenses		
Advertising	3,039,002	4,162,624
Auditors Remuneration	4,223,408	4,317,057
Bank Charges	224,396	423,166
Bursaries	116,994	(659,962)
Consumables	27,847,627	20,454,133
Entertainment	80,681	264,753
Hire Charges	25,931,576	33,635,829
Commission	1,300,680	2,916,140
Conferences and Seminars	56,144	-
IT Expenses	1,699,376	3,687,630
Staff Hiring	20,188,476	15,840,375
Fuel and Oil	51,997,264	42,315,793
Postage and Courier	-	2,223
Protective Clothing	328,635	2,062,628
Project Management	-	103,300
Leasings	4,938,950	4,862,555
Subscriptions and Membership Fees	5,839,224	133,358
Telephone	1,652,598	1,244,805
Transport and Freight	47,000	18,500
Travel	5,451,636	5,517,956
Water and Electricity	32,106,560	24,414,995
Specimen and Samples	62,123	83,289
Information Technology Consumables	7,515	449,863
Awards	-	280,000
Other Expenses	1,884,720	5,470,625
	189,024,585	172,001,635
Items were reclassified from General Expenses and reclassified on items within the Contracted Services.		
39. Auditors' Remuneration		
Fees	4,223,408	4,317,057

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
40. Cash Generated From Operations		
Surplus	71,193,545	45,589,801
Adjustments for:		
Depreciation and amortisation	89,961,908	99,856,838
Gain / Losses	2,980,966	4,528,593
Share in Deficit	43,779,367	29,386,643
Debt impairment	19,371,815	58,806,424
Movements in retirement benefit assets and liabilities	(784,000)	3,140,445
Movements in provisions	806,467	8,425,169
Donations Received	8,405,340	-
Changes in working capital:		
Inventories	(977,262)	(464,573)
Receivables from Exchange Transactions	(90,146,453)	(84,443,836)
Receivables from Non-Exchange Transactions	(2,307,672)	1,006,817
Payables from Exchange Transactions	80,940,128	50,982,142
VAT	11,300,564	23,284,121
Transfers Payable	1,500,000	-
Unspent Conditional Grants and Receipts	8,593,763	6,108,140
	244,618,476	246,206,724

uMzinyathi District Municipality

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41. 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 to address audit findings up to 2020/21 financial year:

Error 01 (E01)

During the previous financial years, a balance of R64 191 401 was recognised as a bulk figure on the balances for Trade Payables as a bulk figure. Uthukela Water thereafter submitted individual invoices and balances making up the value. The R64 191 401 was reversed against the Accumulated Surplus to correct balances.

Error 02 (E02)

There was an amount of R440 incorrectly linked to Provisions instead of Receivables from Exchange Transactions.

Error 03 (E03)

There was a dispute on invoices for a creditor which was resolved and invoices were recognised against the Bulk Purchases for 2021 and Accumulated Surplus for the prior years. The total value of transactions were as follows:

R245 592 071.78 and VAT of R34 364 874

R175 069 502.25 and VAT of R24 414 575.10

Error 04 (E04)

There was a dispute on invoices for a creditor which was resolved and invoices were recognised against the Bulk Purchases for 2021. The total value was R8 707 569.46 and VAT amounting to R1 294 027.40.

Error 05 (E05)

There was a dispute on invoices for a creditor which was resolved and invoices were recognised against the Bulk Purchases for 2021. The total value was R5 159 737.18 and VAT amounting to R705 508.30.

Error 06 (E06)

There was an error that resulted to an amount of R6 815 332 being duplicated when the transaction was derecognised on Payables for VAT omitted in 2019/20 financial year. The adjustment was processed against Accumulated Surplus.

Error 07 (E07)

The error related to a transaction that was captured on an incorrect period. The amount was R1 900 775.64. The adjustment was processed against Accumulated Surplus for Machinery.

Error 08 (E08)

uMzinyathi District Municipality

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41. Prior Year Adjustments (continued)

The error related to an unallocated deposit that was not correctly classified at the time of reporting. The reclassification was between Payables and Accumulated Surplus amounting to R1 164 359.22.

Error 09 (E09)

The error related to Receivables from Exchange Transaction R968 675.35 for sanitation service where an incorrect tariff was utilised. The adjustment was passed against the accumulated surplus.

Error 10 (E10)

The error related to Receivables from Exchange Transaction R279 160.27 and VAT of R36 418.13 for water service where an incorrect tariff was utilised. The adjustment was passed against the accumulated surplus.

Error 11 (E11)

The error related to refunds that were incorrectly allocated in the prior year for a legacy balance that was written off. The amount of R20 700 was adjusted against the Accumulated Surplus.

Error 12 (E12)

The arrangement relate to the balance that was reclassified as a receivable, the amount was R18 500.

Error 13 (E13)

The recognition of a receivable resulting from an overpayment of acting allowance to an employee, amounting to R95 173.86.

Error 14 (E14)

The recognition of an adjustment on balances for the creditor's account for bulk services in the prior years. The adjustment was passed against Accumulated Surplus ton the value of R25 523 437.34.

Error 15 (E15)

There was an omission in the prior year of two invoices for Bulk Purchases for 2021 financial year which were recognised. The invoice amounts were as follows:

Invoice 1 R2 145 808.75 with VAT of R279 888.12

Invoice 2 R2163 891.41 and VAT of R282 246.71

Error 16 (E16)

Training cost of R1 567 500 and depreciation of R386 622 was not previously capitalised in 2020/21 financial year. The adjustment was passed against the Accumulated Surplus.

Error 17 (E17)

The adjustment was for recognising completed projects for the prior year amounting to R26 241 696. The transfer was from Work in Progress to Infrastructure.

Error 18 (E18)

Reversing an accrual incorrectly recognised for an amount of R1090 910.

Error 19 (E19)

uMzinyathi District Municipality

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41. Prior Year Adjustments (continued)

Interest was overstated by R30 793 in 2019/20 financial year.

Error 20 (E20)

On receivables prior year audit findings based on incorrect rate tariff used for both sanitation and water. A further adjustment was done for customers that incorrectly benefited from being indigents.

Error 21(E21)

The adjustment relates to payments that were incorrectly allocated to an account linked post employment benefit R301 481.

Errors 22 (E22)

An adjustment of R1409 205 was processed as depreciation for completed projects on infrastructural assets.

Error 23 (E23)

An adjustment was processed to correct a journal of R12 million for outstanding cheques reversed.

uMzinyathi District Municipality

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41. Prior Year Adjustments (continued)

Statement of Financial Position

2021

	Note	As Previously Reported	Correction of Error	Reclassification	Restated
VAT Receivable (E03, E04, E05, E14, E15)		-	15,820,718	(11,797,804)	4,022,914
Receivable from Exchange Transactions (E02, E09, E10,)		140,530,231	(1,208,732)	(440)	139,321,059
Cash and Cash Equivalents (E23)		11,378,811	(6,082,883)	-	5,295,928
Receivable from Non-Exchange Transactions (E12, E13)		-	7,554,298	-	7,554,298
Property Plant and Equipment (E07, E16, E17, E22)		2,384,783,044	(1,195,017)	-	2,383,588,027
Payables from Exchange Transactions (E01, E03, E04, E05, E06, E08, E14, E15, E23)		(305,711,663)	(101,722,781)	-	(407,434,444)
VAT Payable (E03, E04, E05, E14, E15)		(11,797,804)	-	11,797,804	-
Provisions (E02)		(26,088,636)	-	440	(26,088,196)
Accumulated Surplus (E01, E06, E07, E08, E09, E10, E14, E16, E12, E13, E21)		(2,258,737,460)	28,126,662	-	(2,230,610,798)
		(65,643,477)	(58,707,735)	-	(124,351,212)

Statement of Financial Performance

2021

	Note	As Previously Reported	Correction of Error	Reclassification	Restated
Employee Related Costs (E21)		(208,129,582)	-	(301,490)	(208,431,072)
Bulk Purchases (E03, E04, E05, E15, E30)		(18,699,089)	(15,209,753)	-	(33,908,842)
Post Employment Benefit (E21)		(4,218,270)	-	301,490	(3,916,780)
Contracted Services (E11)		(161,354,987)	-	(27,900)	(161,382,887)
General Expenses (E11)		(172,029,535)	-	27,900	-
Depreciation (E22)		(98,447,633)	(1,409,205)	-	(99,856,838)
Surplus For The Year		(662,879,096)	(16,618,958)	-	(679,498,054)

uMzinyathi District Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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42. Related Parties

Relationships
Associates

Uthukela Water (Pty) Ltd. The entity is an investment in associate of Amajuba District Municipality, Newcastle Local Municipality and Umzinyathi District Municipality, and is responsible for supplying these municipalities with bulk water services.

Related Party Balances

Amounts Included in Property Plant and Equipment

Umzinyathi Development Agency	734,751	-
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The amount relates to moveables that were transferred from the municipality to the entity.

Amounts Included in Trade Payable

Uthukela Water (Pty) Ltd	83,819,563	65,449,839
Uthukela Water (Pty) Ltd	-	6,290,707
Umzinyathi Development Agency	-	3,357,657

Amounts Included in Transfers and Subsidies

Umzinyathi Development Agency	10,000,000	-
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Umzinyathi Development Agency

The municipality has successfully established an entity for the financial year 2021/22 which will be reporting in terms of the MFMA as a separate entity. The entity is 100% controlled by Umzinyathi District Municipality. Annual financial statements will be consolidated.

Key Management

Please refer to Note 28 above for a detailed breakdown of the remuneration of key management personal as the municipality considers key management personal a related party of the municipality.

Department of Cooperative Governance and Traditional Affairs

The KZN Department of COGTA is considered a related party of the municipality as the municipality is currently placed under administration and COGTA has appointed a Ministerial representative (at the cost of the KZN Department of COGTA) to assist the municipality with the implementation of governance systems and procedures. The Ministerial representative participates in the financial and operating policy decisions of the municipality, hence the KZN Department of COGTA has significant influence over the municipality. Therefore, due to the significant influence exercised by the KZN Department of COGTA, the municipality and COGTA are related parties.

Key management information

uMzinyathi District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
43. Commitments		
Authorised Capital Expenditure		
Already contracted for but not provided for		
• Authorised Capital Expenditure	265,683,258	363,373,885
Total capital commitments		
Already contracted for but not provided for	265,683,258	363,373,885
Authorised Operational Expenditure		
Already contracted for but not provided for		
• Authorised Operational Expenditure	22,801,591	13,628,839
Total Operational Commitments		
Already contracted for but not provided for	22,801,591	13,628,839
Total Commitments		
Total Commitments		
Authorised capital expenditure	265,683,258	363,373,885
Authorised operational expenditure	22,801,591	13,628,839
	288,484,849	377,002,724

This committed expenditure relates to property and operating expenditure that will be financed by government grants and own revenue generated. Commitments are more than twelve months.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	882,646	809,134
- in second to fifth year inclusive	378,240	13,633,989
	1,260,886	14,443,123

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

44. Fruitless and Wasteful Expenditure

Opening balance as previously reported	5,054,163	4,777,538
Correction of prior period error	25,939,130	-
Opening balance as restated	30,993,293	4,777,538
Add: Expenditure identified - current	677,531	276,625
Closing balance	31,670,824	5,054,163

The previously reported opening balance of R5054 163 has been adjusted for the standing time on Greytown Bulk Project. The adjusted amount was R25 762 652 of 2019/2020 financial year. The amount was reclassified from an irregular expenditure disclosure.

uMzinyathi District Municipality

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45. Deviation From Supply Chain Management Regulations		
Quotations:		
In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.		
Bids:		
In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.		
SCM Regulations 36		
Expenditure incurred	114,947	1,740,961
46. Irregular Expenditure		
Opening balance as previously reported	1,688,124,201	1,388,196,058
Correction of prior period error	(14,353,765)	-
Opening balance as restated	1,673,770,436	1,388,196,058
Add: Irregular Expenditure - Current	136,708,770	299,928,143
Closing Balance	1,810,479,206	1,688,124,201
Cases Under Investigation		
Municipal Systems Act	1,023,653,895	1,023,653,893
Adjustments		
The opening balance was restated due to the standing time reallocated to fruitless and wasteful expenditure.		
47. Unauthorised Expenditure		
Opening balance as previously reported	469,541,854	176,988,447
Opening Balance as Restated	469,541,854	176,988,447
Add: Expenditure identified - current	405,735,080	292,553,407
Closing Balance	875,276,934	469,541,854
48. Additional Disclosure in Terms of Municipal Finance Management Act		
Audit Fees		
Opening balance	1,350,692	-
Current Year Fees	4,913,716	4,985,309
Amount Paid - Current Year	(3,205,971)	(3,634,617)
Amount paid - previous years	(1,350,692)	-
	1,707,745	1,350,692
PAYE and UIF		
Current Year Subscription/ Fee	35,128,427	28,605,445

uMzinyathi District Municipality

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Notes to the Annual Financial Statements

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48. Additional Disclosure in Terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Current Year Subscription / Fee	24,945,282	22,820,409
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VAT

VAT Receivable	(7,277,650)	4,022,914
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All VAT returns have been submitted by the due date throughout the year.

Councillors and Employees' Arrear Consumer Accounts

The following councillors and employees had arrear accounts outstanding for more than 90 days at June 30, 2022:

June 30, 2022	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Nhlebelo S S	2,958	11,402	14,360
Mokhantso M T	5,103	8,407	13,510
Ndlovu N Z T	1,887	11,228	13,115
Chambule B S	1,674	8,841	10,515
Zungu Z	768	8,985	9,753
Shangase C B	1,469	3,103	4,572
Mawila M P	558	4,001	4,559
Mnguni N M	277	2,980	3,257
Shangase C B	44	1,985	2,029
Buthlezi A F	766	794	1,560
Thungo B P	484	634	1,118
Mtshali T C	221	261	482
Maphumulo S	437	-	437
Moodley S	1	56	57
	16,647	62,677	79,324

June 30, 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Balwanth D R	3,056	72,716	75,772
Yengwa M S	247	14,431	14,678
Nhlebelo S S	(743)	2,279	1,536
Buthlezi A F	194	2,002	2,196
Zungu Z	188	1,769	1,957
Shangase C B	551	1,024	1,575
Thungo B P	19	941	960
Mnguni N M	10	1,071	1,081
Ndlovu N Z T	5	559	564
	3,527	96,792	100,319

uMzinyathi District Municipality

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48. Additional Disclosure in Terms of Municipal Finance Management Act (continued)

Supply Chain Management Regulations

Suppliers with family and spouses in the service of the state

Brand Partners (Hon Nomusa Dube-Ncube MEC)	1,686,426	1,734,775
Mathew Francis (B Sivparsad :Msunduzi Municipality)	-	216,617
Mathew Francus (S Mahlangu : Ilembe District Municipality)	-	216,617
MDG (PK Gcaleka :Umzinyathi District Municipality)	502,181	1,512,850
Sizokwakha Security (PP Sithole :Umzinyathi district Municipality)	5,277,221	5,107,021
Tradewind Maintenance (Unkown :Transnet)	-	578,680
	7,465,828	9,366,560

Suppliers in the Service of the State

Goba (Trueman Goba: National Home Builders Registration Council)	-	4,098,229
MyLucy (Malusi Njoko: Passenger Rail Agency of South Africa)	-	415,001
Oxior Civil Enterprise JV Katsila (M Mafuma :Public Works - Mpumalanga)	3,671,455	11,651,868
	3,671,455	16,165,098

Non-compliance with the Municipal Finance Management Act

The municipality had cases of non-compliance on the following matters:

49. COVID-19 Expenditure

The municipality did not incur further capital expenditure under the COVID-19 interventions for the current financial year.

Expenditure Incurred

Msinga Emergency Water Supply	-	7,967,046
General Expenditure	199,295	16,402,094
	199,295	24,369,140

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50. Contingencies

Contingent liabilities incurred relating to interests in other entities

Municipality

Litigations and value of claims pending against the municipality were estimated at **R167 806 998**, are as follows:

1. Mining Pressure Systems vs Umzinyathi DM

The claim is in respect of the services renders under a cession agreement with Phumi JV Ishishini, the estimated liability is R12 117 748.

2. Mining Pressure Systems vs Umzinyathi DM

The claim is in respect of the services renders under a cession agreement with Bankuna, the estimated liability is R10 293 853.

3. Thuthu Nibambo vs Umzinyathi DM

The claim is in respect of an unlawful appointment of a service provider, the estimated liability is R759 200.

4. L Mthembu and Associates vs Umzinyathi DM

The claim is in respect of the services rendered which were not verified by the municipality, the estimated liability is R391 880.

5. L Mthembu and Associated vs Umzinyathi DM

The claim is in respect of services rendered which were not verified by the municipality, the estimated liability is R453 518.

6. Ubuso Obuhle Trading (Pty) Ltd vs Umzinyathi DM

The claim is in respect of services rendered under a cession agreement, the estimated liability is R898 406.

7. Brand Partners vs Umzinyathi DM

The claim is in respect of services rendered not verified by the municipality, the estimated liability is R2 369 370.

8. Enerst Cloete and Associates vs Umzinyathi DM

The claim is in respect of legal fees claimed, the estimated liability is R489 941.

9. Pipe Jack Gauteng vs Umzinyathi DM

The claim is in respect of services rendered under a cession agreement with Phumi JV Ishishini, the estimated liability is R140 033 082.

Labour Matters

1. Umzinyathi DM vs Gcabashe

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50. Contingencies (continued)

2. Umzinyathi DM vs Buthelezi
3. Umzinyathi DM vs Buthelezi
4. Umzinyathi DM vs Dlamini
5. Umzinyathi DM vs Hlongwane
6. Umzinyathi DM vs Ndlovu (the matter was concluded after the reporting period)

Associates

Contingent liabilities incurred relating to the entity's interests in associates, are as follows:

1. Umvoti/ uThukela Water (Pty) Ltd

Umvoti presented to the municipality an outstanding balance of R407 585 owing by uThukela Water (Pty) Ltd the water service authority whom was responsible for the water reticulation function within the district. Umvoti has liaised with uThukela Water (Pty) Ltd to pay the outstanding balance however uThukela Water (Pty) Ltd has advised Umvoti that the debt be settled by Umzinyathi, since uMzinyathi took over the reticulation function on the 1st of July 2013. The dispute arises because neither uThukela Water (Pty) Ltd or Umvoti has submitted proof of the liability or debt in a form an invoice or any relevant supporting documentation.

2. Uthukela Water (Pty) Ltd

There's a dispute for an amount of R43 400 474 between uThukela water (Pty) Ltd and Umzinyathi District Municipality as uThukela water (Pty) Ltd claims that the municipality owes an amount of R110 734 609 which can not be proven in full

Contingent Assets

Litigations and value of claims pending in favour of the municipality were estimated at **R120 522 877**, details are as follows:

1. Umzinyathi vs Soni

Umzinyathi DM is suing Mr Soni for domestic water consumption, the estimated claim is R327 416.

2. Umzinyathi vs Trustee Prembhai Family Trust

Umzinyathi DM is suing Mr Soni for domestic water delivery, the estimated claim is R955 867.

3. Umzinyathi vs Fusion Guarantee

Umzinyathi DM won the conter claim against Soundrite who can no longer honor the claim due to affordability. The municipality has a guarantee contract permitting a claim to be instituted against Fusion Guarantee. The estimated claim is R7 356 034.

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50. Contingencies (continued)

4. Umzinyathi vs Tsotetsi Mchunu Inc.

Umzinyathi DM is suing the law firm for unduly benefiting for the services rendered, the estimated claim is R4 963 560.

5. Umzinyathi vs AC Industrial

Umzinyathi DM is suing the service provider for assets constructed that had missing or incorrect co-ordinates. The claim is in terms of Section 106 of the MFMA. The estimated claim is R95 070 000.

6. Umzinyathi DM vs TR Malunga

Umzinyathi DM is suing the former accounting officer for the financial loss suffered with regards to the contract of the service provider that was terminated without following a due process. The estimated claim is R11 850 000.

51. Events After the Reporting Date

There were two events that occurred after the balance sheet date on contingencies previously disclosed.

- A labour matter between the municipality and the employee (Umzinyathi DM vs Ndlovu) was concluded after the reporting date.

- A claim against Umzinyathi DM by the service provider for the services that were rendered under a cession agreement was withdrawn.

52. Going Concern

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

53. Financial Viability

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.

The Provincial Executive Council of KwaZulu-Natal and MEC for Department of Co-operative Governance and Traditional Affairs, resolved to intervene in terms of Section 139 (1) (b) of the Constitution at the municipality and appointed the Ministerial representative. The terms of reference specified the functions of the Ministerial representative which also include the implementation of governance systems and procedures including oversight of the administration including the ratification of decisions taken by the Municipal Council, the Executive Committee, Municipal Manager and Section 56 Managers in terms of the authority. The Provincial intervention does not have an impact on the municipality's ability to continue as a going concern.

In assessing the financial viability, management identified indicators that the municipality is in financial distress affecting its ability to continue operating normally. These indicators are summarised below:

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53. Financial Viability (continued)

- Adverse liquidity ratios.

Liquidity ratios were calculated as follows:

Current Ratio

The municipality recorded a current ratio of 24% in 2022 (2021: 41%) in the current year. The municipality is required to maintain the current ratio of at least 150% in order to ensure that current assets are adequate to cover its current liabilities.

Cash Ratio

The municipality recorded a cash ratio of 0% in 2022 (2021: 3%) in the current year. The municipality is required to maintain the cash ratio of at least 100% in order to ensure that adequate funds are available to cover its current liabilities.

Quick Ratio

The municipality recorded a current ratio of 23% in 2022 (2021: 58%) in the current year. The municipality is required to maintain the quick ratio of at least 100% in order to ensure that adequate funds are available to cover its current liabilities. The outstanding gross receivables from exchange transactions balance has increased significantly by almost 33% (2022:R ;2021: R112 026 179), and the majority of the debtors have been outstanding for over 365 days. The surplus for the year of the municipality has also decreased by % due to below norm collection rates from debtors.

- Deteriorating creditors days.

- The increase in net debtors' balances.

The following measures will be implemented by management as part of the revenue enhancement strategy and cost containment strategy:

- The expenditure committee will be formed to monitor the implementation of the cost containment strategy and to ensure economically efficient spending.

- The revenue enhancement task team will be appointed to implement and monitor the revenue enhancement strategy and identification of additional revenue streams.

- The debt collection strategies have been implemented to reduce the issue of debtors not paying timeously.

- The financial recovery plan was adopted and monitored on a monthly basis.

- The municipality will be considering obtaining a long term debt to recover from the current status whilst strengthening the debt collection measures.

Despite the above negative indicators, the municipality continues to adopt the going concern assumption as it is management's view that the municipality will continue to operate in its present form in the foreseeable future, as it is primarily funded by government grants and will continue to be funded from the DoRA in the foreseeable future. In addition, management has embarked on an aggressive programme of debt recovery to ensure improved future cash inflows. The improvement by and large from the previous financial year position is encouraging and testament to the measures put in place.

54. Risk Management

Financial Risk Management

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54. Risk Management (continued)

Liquidity Risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. 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.

The municipality's approach is to ensure that sufficient liquidity is available to meet its liabilities when due. The municipality uses cash flow forecasts to ensure that sufficient cash is available to meet expected operating expenses.

Credit Risk

Receivables

Receivables are amounts owing by consumers and are presented net of impairment loss. The municipality has a credit control policy in place and the exposure to credit risk is monitored continuously. The municipality establishes an allowance for doubtful debts that represents its estimate of anticipated losses in respect of receivables. Payments of accounts of consumer debtors who are unable to pay, are negotiated in line with the 'credit control policy and terms of payments are agreed upon with the consumer.

Cash and Cash Equivalents

The municipality limits its exposure to credit risk by investing with only reputable financial institutions and within specific guidelines set in accordance with Council's approved investment policy. The municipality does not consider there to be any significant exposure to credit risk

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

Financial Assets

VAT Receivable	-	3,368,641
Receivable from Exchange Transactions	215,477,114	139,281,926
Receivable from Non-Exchange Transactions	121,503	113,674
Cash and Cash Equivalents	-	11,378,811
	215,598,617	154,143,052

Financial Liabilities

Payables from Exchange Transactions	469,380,640	377,641,333
Consumer Deposits	451,514	451,514
	469,832,154	378,092,847

Market Risk

Interest rate risk

The municipality's policy is to manage interest rate risk so that fluctuations in variable costs do not have a material impact on surplus. All long term debts are subject to fixed rates.