



Umzimvubu Local Municipality
Annual financial statements
for the year ended June 30, 2022

AUDITOR GENERAL
SOUTH AFRICA
30 NOV 2022

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

General Information

Legal form of entity	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act No. 117 of 1998) read with section 155 (1) of the Constitution of the Republic of South Africa (Act No. 108 of 1996)
Nature of business and principal activities	Umzimvubu Local Municipality
Executive Mayor	Cllr Z. Ndevu (Appointed on the 8th of November 2021)
Speaker	Cllr S.K Mrukwa (Term ended on the 31st of October 2021) Cllr M. H. Ngqasa (Appointed on the 8th of November 2021) Cllr N.F Ngonyolo (Term ended on the 31st of October 2021)
Chief Whip	Cllr N.F Ngonyolo (Appointed on the 8th of November 2021) Cllr N.G Mdzinwa (Term ended on the 31st of October 2021)
MPAC Chairperson	Cllr M. Mataka (Appointed on the 8th of November 2021) Cllr S.P Myingwa (Term ended on the 31st of October 2021)
Councillors	Appointed on the 8th of November 2021 W1 - Cllr M. Kiviet W2 - Cllr N.Hlanekela W3 - Cllr A. Mkhonto W4 - Cllr L. Mapala-Bera W5 - Cllr T. Ngxabi W6 - Cllr V. P. Gogela W7 - Cllr N. Xolo W8 - Cllr D. Ndema W9 - Cllr A. Jakuja W10 - Cllr W. Z. Nqakwana W11 - Cllr N. Gogela W12 - Cllr P. P. Magujulwa W13 - Cllr C. L. Noqhakala W14 - Cllr S. Mathebe W15 - Cllr M. G. Ngwaqa W16 - Cllr B. R. Khehle-Salukazana W17 - Cllr N. Jwara W18 - Cllr T. E. Sincindi W19 - Cllr V. B. Sobhayi W20 - Cllr X. Lungu W21 - Cllr N. Nomnganga W22 - Cllr M. Kakaza W23 - Cllr Z. G. Mampemvini W24 - Cllr M. B. Jorase W25 - Cllr N. V Giwu W26 - Cllr M. Tuku W27 Cllr S. Faye W28 Cllr L. Mveku Pr Cllr C.N Mnyayiza Pr Cllr N. Sonyabashi Pr Cllr N. B. Mphekeqana-Mdingi Pr Cllr N. Mantshongo Pr Cllr F. F. Sontsi Pr Cllr M. Hlanekela Pr Cllr P. Thingathinga Pr Cllr M. Sonyabashe

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Pr Cllr T. Ntsalaze
Pr Cllr B. T. Ngqasa
Pr Cllr D. N Ntshobane
Pr Cllr C. M. Madyibi
Pr Cllr N. P Nogada
Pr Cllr N. V. Nomnganga
Pr Cllr M. Magobane
Pr Cllr L. Gwentshu
Pr Cllr F. Ntwakumba
Pr Cllr A.N Garane
Pr Cllr N. Nkula
Pr Cllr X. Jona
Pr Cllr T. Sokhanyile
Pr Cllr I. Nodali
Pr Cllr G.N Mdzinwa
Term ended on the 31st of October 2021
W1 - Cllr F.J Hem - passed away on 14 June 2022
W2 - Cllr N. Ntsevu
W3 - Cllr A.P Mkonto
W4 - Cllr N.V Nomaqaqa
W5 - Cllr S. Sifolo
W6 - Cllr N.C Tshayisa
W7 - Cllr M.C Ntsengwana
W8 - Cllr T. Sokhanyile
W9 - Cllr M. Mqulwane
W10 - Cllr P. Makhinzi
W11 - Cllr N. Gogela
W12 - Cllr G.V Lugongolo
W13 - Cllr C.L Noqhakala
W14 - Cllr T.V Hlazo
W15 - Cllr C.N Mnyayiza
W16 - Cllr B. Majalamba
W17 - Cllr S. Mankanku
W18 - Cllr T. Sincindi
W19 - Cllr E.N Ngalonkulu - Lebelo
W20 - Cllr T. Nomkuca
W21 - Cllr V.A Bulana
W22 - Cllr N. Tshalana
W23 - Cllr N.H Kolweni
W24 - Cllr M. Jolobe - passed away on 12 May 2021
W25 - Cllr M. Mbuli
W26 - Cllr M. Tuku
W27 - Cllr N.S Soldat
Pr Cllr F.N Ngonyolo
Pr Cllr S.K Mnukwa
Pr Cllr N.G Mdzinwa
Pr Cllr H.M Ngqasa
Pr Cllr M. Mataka
Pr Cllr A.N Garane
Pr Cllr U.G Makanda



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Pr Cllr T.A Mambi
Pr Cllr P.K Thingathinga
Pr Cllr L.S Maqashalala - passed away on 1st September 2020
Pr Cllr N. Ntshayisa
Pr Cllr L.L Nqatsha
Pr Cllr N.N Gcadinja
Pr Cllr H.N Dandala
Pr Cllr S.A.N Cekeshe
Pr Cllr S.P Myingwa (MPAC Chair)
Pr Cllr X. Jona
Pr Cllr N.A Mantshongo
Pr Cllr F.P Sontsi
Pr Cllr M. Ramabina
Pr Cllr Ntwakumba
Pr Cllr N.V Nomnganga
Pr Cllr T. Ntsalaze
Pr Cllr M. Maliwa
Pr Cllr M. Hlanekelela
Pr Cllr T. Ndara
New Councillors were appointed in November 2021

Capacity and grading of local authority

Grade 3

Accounting Officer

Mr G.P.T Nota

Chief Financial Officer

Mr F.T Fundira

Registered office

ERF 813
Main Street
Kwa-Bhaca
5090

Bankers

First National Bank

Auditors

Auditor-General of South Africa
Registered Auditors

Attorneys

Fikile Ntayiya & Associates
Madlanga & Partners Inc.
Norton Rose Fullbright
Pakade Attorneys
Xolile Ntshulana
Mdledle Incorporation
Conjwa Attorneys
NT Vuba Incorporated Attorneys - Dissolved in 2020
Moepagauta Consulting 18



Legislation governing the municipality's operations

Local Government: Municipal Finance Management Act (Act No. 56 of 2003)
Local Government: Municipal Systems Act (Act No. 32 of 2000)
Local Government: Municipal Structures Act (Act No. 117 of 1998)
Constitution of the Republic of South Africa (Act No. 108 of 1996)
Municipal Property Rates Act (Act No. 6 2004)
Division of Revenue Act (Act No. 1 of 2007)

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

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

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Abbreviations used:

COID	Compensation for Occupational Injuries and Diseases
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards



Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I as the Accounting Officer acknowledge that I am 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, there are sets of 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.

I am 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.

I have reviewed the municipality's cash flow forecast for the 12 months to June 30, 2023 and, in the light of this review and the current financial position, I am 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 community and government 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.

I am primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

I certify that the salaries, allowances and benefits of councillors, as disclosed in note 36 - Councillors remuneration to these annual financial statements, are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act (Act No. 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with the Act.

The annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the Accounting Officer on August 31, 2022 and were signed on its behalf by:

Accounting Officer (G.P.T Nota)
KwaBhaca

Wednesday, August 31, 2022

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Annual Financial Statements for the year ended June 30, 2022

Statement of Financial Position as at June 30, 2022

	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories	3	702,809	752,450
Operating lease receivable	4	13,884,681	11,694,611
Receivables from exchange transactions	5	564,039	1,046,159
Receivables from non-exchange transactions	6	15,445,112	8,400,857
VAT receivable	7	6,860,717	5,568,715
Prepayments	8	1,082,117	1,094,194
Cash and cash equivalents	9	102,908,112	126,823,141
		141,447,587	155,380,127
Non-Current Assets			
Investment property	10	21,816,441	18,071,400
Property, plant and equipment	11	946,435,030	958,424,684
Intangible assets	12	816,437	2,493,266
Heritage assets	13	17,719	17,719
		969,085,627	979,007,069
Total Assets		1,110,533,214	1,134,387,196
Liabilities			
Current Liabilities			
Payables from exchange transactions	14	26,909,242	22,741,586
Payables from Non-exchange transactions	15	3,608,066	8,411,653
Consumer deposits	16	144,372	132,471
Unspent conditional grants and receipts	17	2,353,409	6,521,066
Employee benefits obligations	18	11,635,252	10,558,625
		44,650,341	48,365,401
Non-Current Liabilities			
Employee benefits obligations	18	2,107,000	1,998,000
Provisions	19	7,076,782	4,886,339
		9,183,782	6,884,339
Total Liabilities		53,834,123	55,249,740
Net Assets		1,056,699,091	1,079,137,456
Reserves			
Capital replacement reserve	20	31,842,322	30,874,974
Accumulated surplus		1,024,856,769	1,048,262,482
Total Net Assets		1,056,699,091	1,079,137,456

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* See Note 64

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Annual Financial Statements for the year ended June 30, 2022

Statement of Financial Performance

	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods and other services	22	640,484	1,246,761
Service charges	23	1,216,660	1,210,121
Rental of facilities and equipment	24	3,779,118	3,760,204
Interest received	25	4,823,411	4,364,555
Income from Agency services	26	2,314,487	2,231,470
Licences and permits	27	1,712,956	1,913,901
Operational Revenue	28	168,238	86,530
Fair value adjustments	29	3,745,041	3,341,400
Actuarial gains	18	146,000	144,000
Total revenue from exchange transactions		18,546,395	18,298,942
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	30	48,595,020	17,733,488
Licences and Permits	31	128,961	159,232
Interest received	32	1,490,559	1,533,147
Transfer revenue			
Government grants and subsidies	33	343,484,987	385,456,262
Fines, Penalties and Forfeits	34	4,793,426	3,998,274
Total revenue from non-exchange transactions		398,492,953	408,880,403
Total revenue	21	417,039,348	427,179,345
Expenditure			
Employee related costs	35	(84,546,468)	(80,632,207)
Remuneration of councillors	36	(20,745,017)	(20,077,146)
Depreciation and amortisation	37	(74,477,323)	(110,314,759)
Impairment losses	38	(11,648,718)	(15,918,957)
Finance costs	39	(724,214)	(320,021)
Lease rentals on operating lease	40	(101,903)	(203,849)
Bad debts written off	41	-	(2,216,061)
Inventory Consumed	42	(7,304,566)	(6,134,330)
Contracted services	43	(75,332,404)	(56,271,019)
Transfers and Subsidies Paid	44	(83,621,554)	(1,104,926)
Loss on disposal of assets	45	(2,047,392)	(1,201,173)
Operating costs	46	(78,927,822)	(57,742,501)
Total expenditure		(439,477,381)	(352,136,949)
(Deficit) surplus for the year		(22,438,033)	75,042,396

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* See Note 64

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Statement of Changes in Net Assets

	Capital Replacement Reserve	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	29,972,454	973,597,632	1,003,570,086
Adjustments			
Prior year adjustments 64	-	524,974	524,974
Balance at July 1, 2020 as restated*	29,972,454	974,122,606	1,004,095,060
Changes in net assets			
Surplus (Deficit) for the year	-	75,042,396	75,042,396
Transfers to/from reserves	902,520	(902,520)	-
Total changes	902,520	74,139,876	75,042,396
Opening balance as previously reported	30,874,974	1,045,988,339	1,076,863,313
Adjustments			
Prior year adjustments 64	-	2,273,811	2,273,811
Restated* Balance as at 01 July 2021	30,874,974	1,048,262,150	1,079,137,124
Changes in net assets			
Surplus (Deficit) for the year	-	(22,438,033)	(22,438,033)
Transfers to/from reserves	967,348	(967,348)	-
Total changes	967,348	(23,405,381)	(22,438,033)
Balance at June 30, 2022	31,842,322	1,024,856,769	1,056,699,091
Note(s)	20		



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* See Note 64

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Cash Flow Statement

	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Rates and service charges		43,455,762	15,830,397
Sale of goods and services		14,757,362	232,594
Grants		339,317,330	394,109,535
Cash flows of discontinued operations		-	5,897,702
Other receipts		-	7,188,913
		397,530,454	423,259,141
Payments			
Employee costs		(104,155,858)	(80,442,363)
Suppliers		(169,011,796)	(147,897,290)
Finance costs		(724,214)	(320,021)
Other cash item		1,886	(800,791)
		(273,889,982)	(229,460,465)
Net cash flows from operating activities	48	123,640,472	193,798,676
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(148,199,529)	(168,794,251)
Proceeds from sale of property, plant and equipment	11	644,028	523,522
Purchase of other intangible assets	12	-	(157,390)
Net cash flows from investing activities		(147,555,501)	(168,428,119)
Net increase/(decrease) in cash and cash equivalents		(23,915,029)	25,370,557
Cash and cash equivalents at the beginning of the year		126,823,141	101,452,584
Cash and cash equivalents at the end of the year	9	102,908,112	126,823,141

The accounting policies on pages 13 to 40 and the notes on pages 40 to 100 form an integral part of the annual financial statements.

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* See Note 64

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Annual Financial Statements for the year ended June 30, 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	587,000	-	587,000	640,484	53,484	
Service charges	1,050,000	-	1,050,000	1,216,660	166,660	N1
Rental of facilities and equipment	3,766,000	-	3,766,000	3,779,118	13,118	N2
Interest received - trading	11,724,000	-	11,724,000	4,823,411	(6,900,589)	N3
Agency services	2,203,000	-	2,203,000	2,314,487	111,487	
Licences and permits (exchange)	2,159,000	-	2,159,000	1,712,956	(446,044)	N4
Other revenue	20,800,000	-	20,800,000	168,238	(20,631,762)	N5
Total revenue from exchange transactions	42,289,000	-	42,289,000	14,655,354	(27,633,646)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	46,247,000	6,170,000	52,417,000	48,595,020	(3,821,980)	
Licences and permits (non-exchange)	-	-	-	128,961	128,961	N6
Interest received	-	-	-	1,490,559	1,490,559	
Transfer revenue						
Government grants and subsidies	372,092,000	-	372,092,000	343,484,987	(28,607,013)	
Fines, penalties and forfeits	6,685,000	-	6,685,000	4,793,426	(1,891,574)	N7
Total revenue from non-exchange transactions	425,024,000	6,170,000	431,194,000	398,492,953	(32,701,047)	
Total revenue	467,313,000	6,170,000	473,483,000	413,148,307	(60,334,693)	
Expenditure						
Employee costs	(93,533,000)	6,957,000	(86,576,000)	(84,546,468)	2,029,532	N8
Remuneration of councillors	(22,426,000)	-	(22,426,000)	(20,745,017)	1,680,983	N9
Depreciation and amortisation	(87,769,000)	-	(87,769,000)	(74,477,323)	13,291,677	
Impairment loss/ Reversal of impairments	(9,700,000)	-	(9,700,000)	(11,648,718)	(1,948,718)	
Inventory consumed	(7,332,000)	(1,027,000)	(8,359,000)	(7,304,566)	1,054,434	N12
Debt impairment	(2,100,000)	-	(2,100,000)	-	2,100,000	
Finance costs	-	-	-	(724,214)	(724,214)	
Lease rentals on operating leases	(1,000,000)	-	(1,000,000)	(101,903)	898,097	N13
Contracted services	(70,440,000)	(9,134,000)	(79,574,000)	(75,332,404)	4,241,596	
Transfers and subsidies	(6,704,000)	(4,733,000)	(11,437,000)	(83,621,554)	(72,184,554)	
General expenses	(67,239,000)	(12,241,000)	(79,480,000)	(78,927,822)	552,178	
Total expenditure	(368,243,000)	(20,178,000)	(388,421,000)	(437,429,989)	(49,008,989)	
Operating deficit	99,070,000	(14,008,000)	85,062,000	(24,281,682)	(109,343,682)	
Loss on disposal of assets and liabilities	-	-	-	(2,047,392)	(2,047,392)	
Fair value adjustments	-	-	-	3,745,041	3,745,041	N11

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actuarial gains/losses	-	-	-	146,000	146,000	
	-	-	-	1,843,649	1,843,649	
Deficit before taxation	99,070,000	(14,008,000)	85,062,000	(22,438,033)	(107,500,033)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	99,070,000	(14,008,000)	85,062,000	(22,438,033)	(107,500,033)	
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Statement of Financial Position						
Assets						
Current Assets						
Inventories	20,613,000	(526,000)	20,087,000	702,809	(19,384,191)	N14
Operating lease asset	71,000	-	71,000	13,884,681	13,813,681	
Receivables from exchange transactions	-	-	-	564,039	564,039	
Receivables from non-exchange transactions	96,902,000	415,000	97,317,000	15,445,112	(81,871,888)	N14
VAT receivable	-	-	-	6,860,717	6,860,717	N15
Prepayments	-	-	-	1,082,117	1,082,117	N37
Cash and cash equivalents	301,412,000	(56,202,000)	245,210,000	102,908,112	(142,301,888)	N16
	418,998,000	(56,313,000)	362,685,000	141,447,587	(221,237,413)	
Non-Current Assets						
Investment property	13,640,000	-	13,640,000	21,816,441	8,176,441	N17
Property, plant and equipment	1,204,164,000	43,634,000	1,247,798,000	946,435,030	(301,362,970)	N18
Intangible assets	5,349,000	3,500,000	8,849,000	816,437	(8,032,563)	N19
Heritage assets	18,000	-	18,000	17,719	(281)	
	1,223,171,000	47,134,000	1,270,305,000	969,085,627	(301,219,373)	
Total Assets	1,642,169,000	(9,179,000)	1,632,990,000	1,110,533,214	(522,456,786)	
Liabilities						
Current Liabilities						
Payables from exchange transactions	291,493,000	4,828,000	296,321,000	26,909,240	(269,411,760)	
Taxes and transfers payable (non-exchange)	-	-	-	3,608,066	3,608,066	N20
Consumer deposits	92,000	-	92,000	144,372	52,372	N21
Unspent conditional grants and receipts	-	-	-	2,353,409	2,353,409	N22
Employee benefits obligations	2,830,000	-	2,830,000	11,635,252	8,805,252	
	294,415,000	4,828,000	299,243,000	44,650,339	(254,592,661)	
Non-Current Liabilities						
Employee benefits obligations	-	-	-	2,107,000	2,107,000	N25
Provisions	5,728,000	-	5,728,000	7,076,782	1,348,782	N24
	5,728,000	-	5,728,000	9,183,782	3,455,782	
Total Liabilities	300,143,000	4,828,000	304,971,000	53,834,121	(251,136,879)	
Net Assets	1,342,026,000	(14,007,000)	1,328,019,000	1,056,699,093	(271,319,907)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Other NDR	26,017,000	-	26,017,000	31,842,322	5,825,322	N26
Accumulated surplus	1,316,009,000	(14,007,000)	1,302,002,000	1,024,856,771	(277,145,229)	N27
Total Net Assets	1,342,026,000	(14,007,000)	1,328,019,000	1,056,699,093	(271,319,907)	

Cash Flow Statement

Cash flows from operating activities

Receipts

Rates and services	48,926,000	(3,181,000)	45,745,000	43,455,762	(2,289,238)	N27
Other revenue	22,178,000	8,937,000	31,115,000	14,757,362	(16,357,638)	N29
Grants	372,092,000	-	372,092,000	339,317,330	(32,774,670)	N31
	443,196,000	5,756,000	448,952,000	397,530,454	(51,421,546)	

Payments

Suppliers and employees	(267,939,000)	(14,659,000)	(282,598,000)	(273,167,654)	9,430,346	N33
Finance costs	-	-	-	(724,214)	(724,214)	
Other cash item	-	-	-	1,886	1,886	
	(267,939,000)	(14,659,000)	(282,598,000)	(273,889,982)	8,708,018	
Net cash flows from operating activities	175,257,000	(8,903,000)	166,354,000	123,640,472	(42,713,528)	

Cash flows from investing activities

Capital assets	(179,778,000)	(47,134,000)	(226,912,000)	(148,199,529)	78,712,471	N34
Loss on sale of property, plant and equipment	-	-	-	644,028	644,028	N35
Net cash flows from investing activities	(179,778,000)	(47,134,000)	(226,912,000)	(147,555,501)	79,356,499	
Net increase/(decrease) in cash and cash equivalents	(4,521,000)	(56,037,000)	(60,558,000)	(23,915,029)	36,642,971	
Cash and cash equivalents at the beginning of the year	285,867,000	-	285,867,000	126,823,141	(159,043,859)	
Cash and cash equivalents at the end of the year	281,346,000	(56,037,000)	225,309,000	102,908,112	(122,400,888)	

AUDITOR GENERAL
SOUTH AFRICA

30 NOV 2022

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

Note(s)	2022	2021
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1. Presentation of Annual Financial Statements

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

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

They are presented in South African Rand, and rounded off to the nearest Rand which is the municipality's functional currency.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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

The municipality implemented the Municipal Standard Chart of Accounts (mSCOA) during the period ended 30 June 2022 as required in terms of the Municipal Regulations on Standard Chart of Accounts, announced by Government Gazette No 37577 of 22 April 2014, in section 168 of the Local Government: Municipal Finance Management, Act (Act 56 of 2003) and through directives and guidelines from National Treasury.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 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.



Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.4 Investment property

Investment Property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures Investment Property at cost including transaction costs once it meets the definition of Investment Property. However, where an Investment Property was acquired through a non transaction (i.e. where it acquired the Investment Property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed Investment Property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish Investment Properties from owner occupied property or property held for resale:

- Land held for long term capital appreciation rather than for short-term sale in the ordinary course of operations; Based on management's judgement, the following criteria have been applied to distinguish Investment Properties from owner occupied property or property held for resale:
- Land held for a currently undetermined future use (If the municipality has not determined that it will use the land as owner occupied property or for shortterm sale in the ordinary course of operations, the land is regarded as held for capital appreciation);
- A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis (this will include the property portfolio rented out on a commercial basis on behalf of the municipality);
- Property that is being constructed or developed for future use as investment property.

The rent earned does not have to be at a commercial basis or market related for the property to be classified as investment property.

Equipment or Inventory as appropriate:

- Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner occupied property, including (among other things) property held for future use as owner occupied property, property held for future development and subsequent use as owner occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner occupied property;
- Property that is leased to another entity under a finance lease;
- Property held to provide goods and services and also generates cash inflows; and
- Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on Property, Plant and Equipment.

Subsequent Measurement

Fair value

Subsequent to initial measurement investment property is measured at fair value. The fair value of investment property reflects market conditions at the reporting date.

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

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (which ever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property. Valuations are to be carried out with sufficient frequency owing to the prevailing



Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.4 Investment property (continued)

circumstances, that may warrant a revaluation. i.e. erection of a new block of flats next to the rental flat.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Derecognition

The gain or loss arising from the derecognition of an item of Investment Property is included in Surplus or Deficit when the item is derecognised. Gains are not classified as Revenue.

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.5 Property, plant and equipment (continued)

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
Buildings	Straight-line	8 -50
Mobile offices	Straight-line	5 - 10
Electrical infrastructure	Straight-line	15 -50
Roads and Paving Infrastructure	Straight-line	8 - 80
Gravel Roads Infrastructure	Straight-line	3 - 10
Landfill Sites	Straight-line	15 - 90
Community assets	Straight-line	5 - 80
Transport assets	Straight-line	5 - 20
Computer equipment	Straight-line	3 - 20
Furniture, Fittings & Office Equipment	Straight-line	3 - 20
Watercraft	Straight-line	15
Bins & Containers	Straight-line	5 - 20
Specialised Plant and Equipment	Straight-line	2 - 15
Library Books	Straight-line	5 - 20
Leased equipment	Straight-line	Lease period

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.

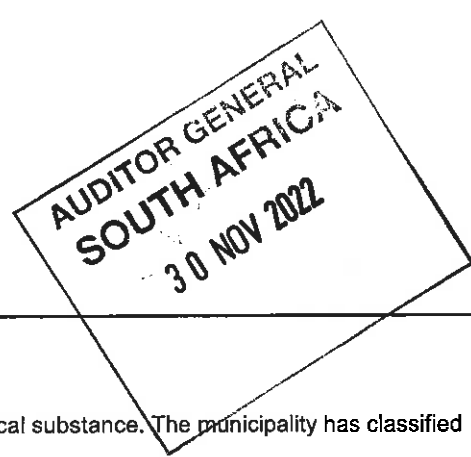
The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 11).

The municipality discloses relevant information relating to assets under construction or development in the notes to the financial statements (see note 11).

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Annual Financial Statements for the year ended June 30, 2022



Accounting Policies

1.6 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance. The municipality has classified computer software and municipal website

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.

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.

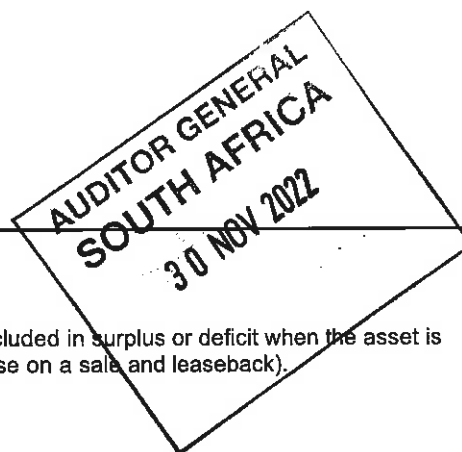
Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	1-4
Website		Indefinite

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies



1.6 Intangible assets (continued)

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

1.7 Heritage assets

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

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

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

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

Heritage Assets are not depreciated owing to uncertainty regarding to their estimated useful lives. The municipality assess at each reporting date if there is an indication of impairment.

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

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

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

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

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

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

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

Subsequently all Heritage Assets are measured at cost, less accumulated impairment losses.

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.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.7 Heritage assets (continued)

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.

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 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.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

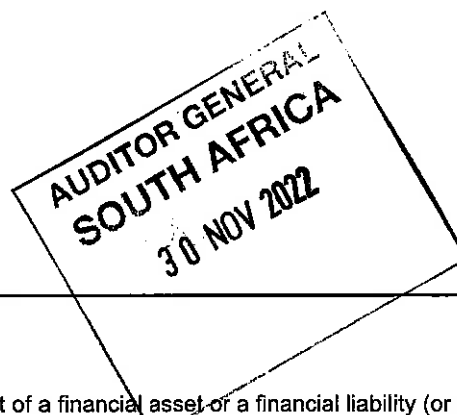
Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

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.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022



Accounting Policies

1.8 Financial instruments (continued)

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 (for example, prepayment, call and similar options) 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 (see the Standard of GRAP on Revenue from Exchange Transactions), 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;
- 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 (other than those arising from interest rate risk or currency risk), 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.

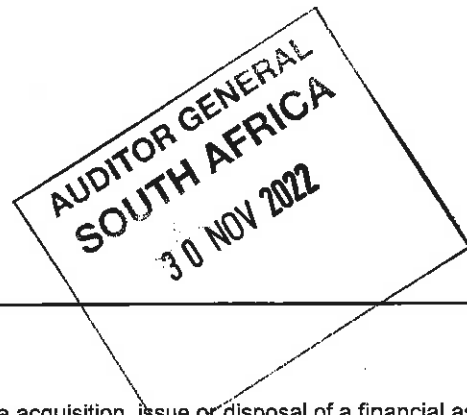
A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised 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.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies



1.8 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

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:

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- 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.

Impairment of Financial Assets

Financial Assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial Assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised through the use of an allowance account.

A provision for impairment of Accounts Receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the Financial Asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Future cash flows in a group of Financial Assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable for the following reasons:

- It is management's judgement that the accounts are not "lost events" in terms of GRAP 104.58.
- State Departments and Entities have to pay their creditors within 30 days in terms of the MFMA.
- Interest is charged on all outstanding balances at a rate of 10% per annum.
- There is an urge from National Treasury that State Departments and Entities should start paying their outstanding debt.

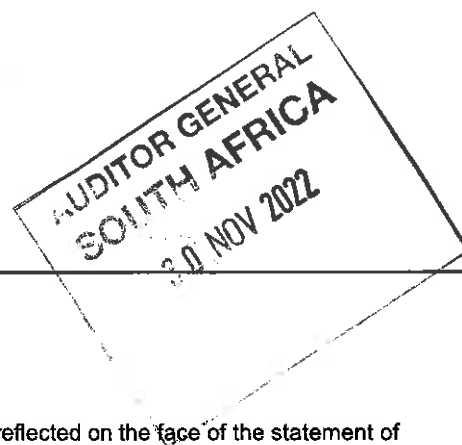
The carrying amount of the Financial Asset is reduced by the impairment loss directly for all Financial Assets carried at Amortised Cost with the exception of Consumer Debtors, where the carrying amount is reduced through the use of an allowance account. When a Consumer Debtor is considered uncollectible, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in Surplus or Deficit.

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1.8 Financial instruments (continued)

Classification

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

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost

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

Class	Category
Consumer deposits	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost

1.9 Inventories

Inventories comprise stationery for distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

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.

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

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

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

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

1.10 Impairment of cash-generating assets

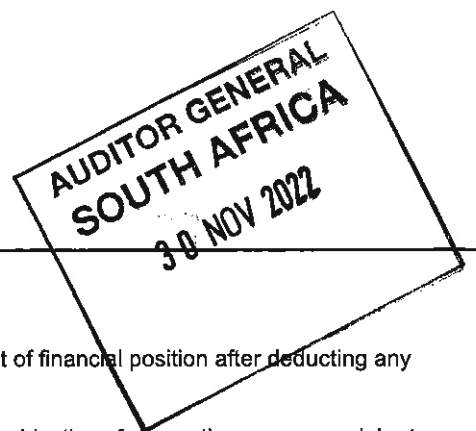
Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

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1.10 Impairment of cash-generating assets (continued)

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.

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:

An impairment of assets measured per the revaluation method reduces the Revaluation Surplus for that asset. The decrease shall be debited directly to a Revaluation Surplus to the extent of any credit balance existing in the Revaluation Surplus in respect of that asset.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase and would be credited directly against the Revaluation Surplus to the extent of any previous impairments recognised against said reserve in respect of that asset.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

1.11 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.

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1.11 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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 51.

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;

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1.11 Provisions and contingencies (continued)

- 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.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money.

The impact of the periodic unwinding of the discount is recognised in Surplus or Deficit as a finance cost as it occurs.

Decommissioning, restoration and similar liability

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to Surplus or Deficit.

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficit.

1.12 Revenue from exchange transactions

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1.12 Revenue from exchange transactions (continued)

Revenue is derived from a variety of sources which include revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

Service Charges

Service Charges are levied in terms of approved tariffs.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to all properties that have improvements. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

Rentals Received

Revenue from the rental of facilities and equipment is recognised on a Straight-line Basis over the term of the lease agreement.

Finance Income

Interest earned on investments is recognised in Surplus or Deficit on the Time-proportionate Basis that takes into account the effective yield on the investment.

Tariff Charges

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

Revenue from Agency Services

Revenue for agency services is recognised on a daily basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

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.

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1.13 Revenue from non-exchange transactions

Rates and taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a Time-proportionate Basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines

Fines constitute both spot fines and summonses.

Revenue for fines is recognised when the fine is issued at the full amount of the receivable. The municipality uses estimates to determine the amount of revenue that the municipality is entitled to collect that is subject to further legal proceedings.

Public Contributions

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Assets acquired from non-exchange transactions are measured at fair value in accordance with GRAP 23.

Government Grants and Receipts

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist. Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in Surplus or Deficit in the period in which they become receivable.

Unspent conditional grants are financial liabilities that are separately reflected on the statement of financial position. They represent unspent government grants, subsidies and contributions from government organs.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:



- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the statement of financial performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the statement of financial performance.

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1.13 Revenue from non-exchange transactions (continued)

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the statement of financial position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in Surplus or Deficit.

Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised as revenue when the recovery thereof from the responsible councillors or officials became virtually certain in a financial period subsequent to the period when the actual unauthorised, irregular, fruitless and wasteful expenditure was incurred.

1.14 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:





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1.14 Significant judgements and sources of estimation uncertainty (continued)

Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

Impairment of Financial Assets

Accounting Policy 1.8 on Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

Accounting Policy 1.8 on Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

Impairment of Trade Receivables:

The calculation in respect of the impairment of Debtors is based on an assessment of the extent to which Debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This is performed per service-identifiable categories across all classes of debtors.

Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property

As described in Accounting Policies and the municipality depreciates its Property, Plant & Equipment and amortises its Intangible Assets, over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses. In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses. In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management. Estimated impairments during the year to Plant and Equipment, and Intangible Assets are disclosed in Notes 8 and 9 to the Annual Financial Statements, if applicable.

Defined Benefit Plan Liabilities

As described in Accounting Policy 1.18 Employee Benefits – Post-employment Benefits, the municipality obtains actuarial valuations of its Defined Benefit Plan Liabilities. The defined benefit obligations of the municipality that were identified are Post retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in the relevant Notes to the Annual Financial Statements.

Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring Provisions and when measuring Contingent Liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

Budget Information

Deviations between budget and actual amounts are regarded as material difference

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1.14 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

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 [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. 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 [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation 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 18 - Provisions.

Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 1.18.

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1.14 Significant judgements and sources of estimation uncertainty (continued)

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.

1.15 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.16 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.

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.

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1.16 Leases (continued)

Operating leases - lessee

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

1.17 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.

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

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

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

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

Useful life is either:

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

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined.

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

1.18 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.

Umzimvubu Local Municipality

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Accounting Policies

1.18 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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

Umzimvubu Local Municipality

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Accounting Policies

1.18 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

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.

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Accounting Policies

1.18 Employee benefits (continued)

Other post retirement obligations

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

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.19 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.

1.20 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all deficits 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, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract on a systematic and rational basis; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

1.21 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

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Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.21 Accounting by principals and agents (continued)

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.22 Insurance fund

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

1.23 Comparative figures

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

1.24 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.24 Unauthorised expenditure (continued)

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

Unauthorised expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.25 Fruitless and wasteful expenditure

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

Fruitless and wasteful expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.26 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.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 is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.27 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.28 Segment information

A segment is an activity of an entity:

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

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

Measurement

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

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

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Annual Financial Statements for the year ended June 30, 2022

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1.29 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 is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2021-07-01 to 2022-06-30.

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

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

1.30 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.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

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.

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

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.31 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.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Accounting Policies

1.31 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.

1.32 Accumulated Surplus

In order to finance the provision of Infrastructure and other items of Property, Plant and Equipment from internal sources, amounts are transferred from the Accumulated Surplus/(Deficit) to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the Investment Policy of the municipality.
- The CRR may be utilised for the purpose of purchasing items of Property, Plant and Equipment and may not be used for the maintenance of these items.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR and the Accumulated Surplus/(Deficit) is credited by a corresponding amount.

1.33 Bad Debts written off

Consumer debtors

When the municipality identifies consumer debtors whose debts appear to be irrecoverable even after the whole credit control and debt collection process has been followed in terms of trying to obtain payment, then such accounts be regarded as irrecoverable.

Once the debt is regarded as irrecoverable during the year it must be grouped with others so that the report is presented to Council to solicit a resolution to write off irrecoverable debts.

Traffic fines

Traffic fines debtors are assessed for each reporting period to establish their collectability. Once traffic fines debtors are regarded as irrecoverable during the course of the year, a report of all traffic fines doubtful debtors is presented to Council to solicit a resolution to write off irrecoverable debts

Traffic fines infringements that have not been served within a period of 18 months of the date of the alleged offence be withdrawn and/or warrants to the arrest that have not been executed within 2 years after the date of authorisation thereof be returned with the control documents to the relevant Magistrate for cancellation as per the National Prosecuting Authority of South Africa. (UNIFORM NATIONAL INSTRUCTION IN RESPECT OF TRAFFIC INFRINGEMENTS MATTERS ISSUED BY VARIOUS LAW ENFORCEMENT AGENCIES)

Notes to the Annual Financial Statements

2022

2021

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:

Grp 1	Presentation of Financial Statements	Expected impact:
<ul style="list-style-type: none">• Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards	April 1, 2021	

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Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
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2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Guideline on Accounting for Landfill Sites	Not yet determined	Not expected to impact results but may result in additional disclosure
• GRAP 25 (as revised): Employee Benefits	Not yet determined	Not expected to impact results but may result in additional disclosure
• IGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	Not yet determined	Not expected to impact results but may result in additional disclosure
• Guideline: Guideline on the Application of Materiality to Financial Statements	Not yet determined	Not expected to impact results but may result in additional disclosure
• GRAP 104 (as revised): Financial Instruments	April 1, 2025	Not expected to impact results but may result in additional disclosure
• IGRAP 21: The Effect of Past Decisions on Materiality	April 1, 2023	Not expected to impact results but may result in additional disclosure
• GRAP 2020: Improvements to the standards of GRAP 2020	April 1, 2023	Not expected to impact results but may result in additional disclosure
• GRAP 1 (amended): Presentation of Financial Statements	April 1, 2023	Not expected to impact results but may result in additional disclosure

2.4 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2022 or later periods but are not relevant to its operations:

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Notes to the Annual Financial Statements

	2022	2021
3. Inventories		
Finished goods	702,809	752,450
Inventories recognised as an expense during the year	7,304,566	6,134,330
Inventory consumables are held for own use and measured at the lower of cost and current replacement cost. No write downs of inventory to net realisable value were required.		
Inventory pledged as security		
No inventories have been pledged as collateral for the liabilities of the municipality.		
There was no inventory retained as personal protective equipment, by the municipality.		
4. Operating lease asset (liability)		
Current assets	13,884,681	11,694,611
Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. The lease receivable recognised is in respect of Non-cancelable Operating Leases.		
Leasing Arrangements		
The operating lease relate to Property owned by the municipality with lease terms of 2 to 50 years (2020/21 - 2 to 50 years) with an option to extend.		
All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.		
Amounts receivable under Operating Leases		
At the Reporting Date the following minimum payments were receivable under Non-cancelable Operating Leases for Property, plant and equipment, which are receivable as follows:		
Reconciliation		
Opening balances	11,694,610	9,440,012
Effects of straightlining for the year	2,190,071	2,254,598
	13,884,681	11,694,610
Operating Lease Arrangements		
Up to 1 Year	1,023,834	1,414,122
2 to 5 years	1,750,951	1,663,524
More than 5 years	119,788,289	119,788,289
	122,563,074	122,865,935
5. Receivables from exchange transactions		
Consumer debtors - Refuse	539,328	829,858
Consumer debtors - Rentals	24,711	216,301
	564,039	1,046,159

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Notes to the Annual Financial Statements

	2022	2021
5. Receivables from exchange transactions (continued)		
Refuse		
Current (0 - 30 Days)	298,195	151,412
31 - 60 Days	149,009	141,309
61- 90 Days	135,227	137,770
More than 90 days	10,886,754	7,377,895
Impairment	(10,929,857)	(6,978,529)
	539,328	829,857
Rental		
Current (0- 30 Days)	14,124	14,062
31 - 60 Days	43,399	8,662
61- 90 Days	2,662	8,662
More than 90 days	931,440	1,164,495
Impairment	(966,914)	(979,580)
	24,711	216,301
Summary of refuse debtors by customer classification:		
Business / commercial		
Current (0- 30 Days)	57,912	29,481
31 - 60 Days	26,329	26,011
61- 90 Days	25,460	25,086
More than 90 days	3,170,151	1,651,388
Impairment	(3,245,320)	(1,693,302)
	34,532	38,664
Government		
Current (0- 30 Days)	27,664	20,382
31 - 60 Days	13,597	20,247
61- 90 Days	12,163	19,745
More than 90 days	368,416	563,065
	421,840	623,439
Residential		
Current (0- 30 Days)	212,620	101,550
31 - 60 Days	109,083	95,051
61- 90 Days	97,604	92,939
More than 90 days	7,348,187	5,163,442
Impairment	(7,684,537)	(5,285,227)
	82,957	167,755

There are no trade and other receivables pledged as security.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

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5. Receivables from exchange transactions (continued)

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its credit risk credit control. No external credit ratings is performed.

Consumers receivables from refuse removal are billed monthly. Interest is charged on overdue receivables from exchange transactions at a rate of 10% per annum.

The municipality enforces its approved credit policy to ensure the recovery of receivables. None of the financial assets that are fully performing have been renegotiated in the last year.

Fair value of trade and other receivables

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

Trade and other receivables past due but not impaired

Receivables from exchange transactions which are government debt and past due are not considered to be impaired.

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

1 month past due	13,597	20,247
2 months past due	12,163	19,745
3 months past due	368,416	563,065

Trade and other receivables impaired

As of June 30, 2022, trade and other receivables of R 12,460,810 (2021: R 7,808,386) were impaired and provided for.

The amount of the provision was R 11,896,771 as of June 30, 2022 (2021: R 6,978,529).

Reconciliation of provision for impairment of trade and other receivables -

Refuse		
Opening balance	6,978,529	6,176,469
Provision for impairment	3,951,328	802,060
	10,929,857	6,978,529

Reconciliation of provision for impairment of trade and other receivables -

Rentals		
Opening balance	979,580	503,040
Provision for impairment	-	476,540
Reversal of impairment	(12,666)	-
	966,914	979,580

6. Receivables from non-exchange transactions

Fines	3,804,694	487,668
Consumer debtors - Rates	11,640,418	7,913,189
	15,445,112	8,400,857

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Notes to the Annual Financial Statements

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	2022	2021
6. Receivables from non-exchange transactions (continued)		
Assessment Rates		
Current (0- 30 Days)	1,236,302	654,751
31 - 60 Days	540,611	744,318
61 - 90 Days	528,888	527,397
91 - 120 Days	34,922,839	30,662,231
Impairment	(25,588,222)	(24,640,955)
	11,640,418	7,947,742
Traffic fines		
Current (0- 30 Days)	172,110	289,519
31 - 60 Days	95,672	294,955
61 - 90 Days	116,376	282,267
91 - 120 Days	5,575,455	2,330,143
Impairment	(2,154,960)	(2,709,216)
	3,804,653	487,668
Summary of assessment rates debtors by customer classification:		
Residential		
Current (0- 30 Days)	367,579	201,836
31 - 60 Days	169,348	237,372
61 - 90 Days	162,272	176,956
91 - 120 Days	5,360,362	7,251,321
Impairment	(5,845,168)	(7,453,803)
	214,393	413,682
Business / Commercial		
Current (0- 30 Days)	862,394	449,582
31 - 60 Days	368,295	499,498
61 - 90 Days	363,649	347,109
91 - 120 Days	18,852,604	16,658,808
Impairment	(19,743,054)	(17,187,152)
	703,888	767,845
Government		
Current (0- 30 Days)	6,329	3,333
31 - 60 Days	2,968	7,449
61 - 90 Days	2,967	3,333
91 - 120 Days	10,709,874	6,752,102
	10,722,138	6,766,217

Umzimvubu Local Municipality

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Notes to the Annual Financial Statements

2022 2021

6. Receivables from non-exchange transactions (continued)

Statutory receivables general information

Transaction(s) arising from statute

Statutory receivables arise from the implementation of the Municipality Property Rates Act through levying of property rates to the properties in Umzimvubu and also through implementation of the Administrative Adjudication of Road Traffic Offences Act through issuing of traffic fines to offenders.

Statutory receivables are as summarised in this note above.

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its credit risk credit control. No external credit ratings is performed.

Consumers receivables from rates are billed monthly for business and residential households. Government accounts are billed annually. Interest is charged on overdue consumers receivables at a rate of 10% per annum.

No interest is charged on overdue traffic fines debtors.

The municipality enforces its approved credit policy to ensure the recovery of receivables. None of the financial assets that are fully performing have been renegotiated in the last year.

Statutory receivables impaired

As of June 30, 2022, Statutory receivables of R43,188,253 (2021: R35,785,581) were impaired and provided for.

The amount of the provision was R27,743,182 as of June 30, 2022 (2021: R27,350,171).

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are government debt and past due are not considered to be impaired.

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

1 month past due	2,968	7,449
2 months past due	2,667	3,333
3 months past due	10,709,874	6,752,102

Reconciliation of provision for impairment of receivables from non-exchange transactions - Assessment rates

Opening balance	24,640,955	21,740,732
Provision for impairment	947,267	2,900,223
	25,588,222	24,640,955

Reconciliation of provision for impairment of receivables from non-exchange transactions - Traffic fines

Opening balance	2,709,216	33,691,186
Provision for impairment	-	2,709,216
Amounts written off as uncollectible	-	(33,691,186)
Unused amounts reversed	(554,256)	-
	2,154,960	2,709,216

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements



	2022	2021
7. VAT receivable		
VAT	6,860,717	5,568,715

VAT is payable/refundable on the receipts/payment basis. Only once payment is received from debtors, payment made to creditors, VAT is paid over/received from to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for the late payments is charged according to SARS.

8. Prepayments

SALGA Fees Prepayment	1,082,117	1,094,194
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9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	54,922,010	55,335,007
Current Investments	47,986,102	71,488,134
Net Bank, Cash and Cash Equivalents	102,908,112	126,823,141

Cash and cash equivalents pledged as collateral

Total cash and cash equivalents pledged as collateral for security deposit to Eskom	161,400	161,400
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The municipality had the following bank accounts

Account number and description	Bank statement balances			Cash book balances		
	June 30, 2022	30 June 2021	30 June 2020	June 30, 2022	30 June 2021	30 June 2020
FNB-Service Delivery Reserve - 620-3325-4723	63,217,351	66,746,777	45,496,534	54,552,329	66,746,777	45,496,533
FNB-Operational Investment - 620-2945-0715	2,967,181	17,509,188	21,374,832	2,967,181	17,509,188	21,374,933
FNB-Municipal Infrastructure Grant(MIG) -620-8603-6714	17,396	2,851,686	593,039	17,396	2,851,686	593,050
FNB-Guarantee Investment-620-6874-2157	317,973	310,891	304,992	3,217,973	310,891	304,991
FNB-Financial Management Grant(FMG)-622-7618-7294	3,160	2,727	24,154	3,160	2,727	24,154
FNB-Electrification Programme - 622-8856-0925	2,352,948	1,131,113	2,400,000	2,352,948	1,131,113	2,400,000
Primary Account FNB a/c No: 620-2218-3727	3,516,063	449,680	840,842	3,516,063	449,680	857,720
FNB-Traffic Fine-627-5889-3905	572,481	557,618	445,737	572,481	557,618	445,737
FNB-Housing Project Fund 628-9151-9971	775,112	6,163,050	-	775,112	6,163,050	-
FNB Solidarity Fund 628-5499-2099	194,150	190,403	-	194,150	190,403	-
FNB Retention 628-6002-9000	165,848	18,046	-	165,848	18,046	-
FNB ENATIS Transactions 629-1034-4837	2,619,920	-	-	2,619,920	-	-
Nedbank - Capital Replacement	31,842,322	30,891,961	29,989,441	31,953,552	30,891,961	29,989,441
Total	108,561,905	126,823,140	101,469,571	102,908,113	126,823,140	101,486,559

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

	2022	2021
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10. Investment property

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	21,816,441	-	21,816,441	18,071,400	-	18,071,400

Reconciliation of investment property - 2022

	Opening balance	Fair value adjustments	Total
Investment property	18,071,400	3,745,041	21,816,441

Reconciliation of investment property - 2021

	Opening balance	Fair value adjustments	Total
Investment property	14,730,000	3,341,400	18,071,400

Fair value of investment properties 21,816,441 18,701,400

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. No impairment losses have been recognised on investment Property of the municipality at the reporting date.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

2022 2021

10. Investment property (continued)

Amounts recognised in surplus or deficit

Rental revenue from Investment property	3,594,628	3,603,921
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Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, for administration purposes, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

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.

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

Impairment of Investment property

No impairment losses have been recognised on Investment property of the municipality at the reporting date.

Work-in-progress

The municipality had no capital projects for Investment property which were not completed at year-end.

Delayed projects

No projects that are currently in progress are experiencing significant delays. No projects for the period was halted.

Umzimvubu Local Municipality
Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

11. Property, plant and equipment

	2022			2021		
	Cost/ Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/ Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	36,425,970	-	36,425,970	36,425,970	-	36,425,970
Buildings	435,278,259	(128,480,705)	306,797,554	396,766,930	(118,606,559)	278,160,371
Infrastructure	1,797,310,490	(1,224,557,582)	572,752,908	1,784,189,169	(1,160,077,528)	624,111,641
Computer equipment	12,383,371	(5,651,379)	6,731,992	9,104,878	(6,201,180)	2,903,698
Machinery and Equipment	12,861,528	(7,720,275)	5,141,253	12,143,508	(6,686,549)	5,456,959
Office equipment	12,057,766	(6,649,394)	5,408,372	11,766,557	(7,413,775)	4,352,782
Transport Assets	20,611,213	(7,434,232)	13,176,981	13,732,768	(6,719,505)	7,013,263
Total	2,326,928,597	(1,380,493,567)	946,435,030	2,264,129,780	(1,305,705,096)	958,424,684

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Transfer Out - Donated Assets	Depreciation	Impairment loss	Total
Land	36,425,970	-	-	-	-	-	36,425,970
Buildings	278,160,371	38,511,329	-	-	(9,782,270)	(91,876)	306,797,554
Infrastructure	624,111,641	92,455,278	(191,000)	(77,440,532)	(58,957,309)	(7,225,170)	572,752,908
Computer equipment	2,903,698	5,316,415	(165,737)	-	(1,322,384)	-	6,731,992
Machinery and Equipment	5,456,959	1,122,679	(36,685)	-	(1,401,700)	-	5,141,253
Office equipment	4,352,782	2,869,907	(823,152)	-	(991,165)	-	5,408,372
Transport Assets	7,013,263	7,976,445	(287,584)	-	(1,525,143)	-	13,176,981
Total	958,424,684	148,252,053	(1,504,158)	(77,440,532)	(73,979,971)	(7,317,046)	946,435,030

Umzimvubu Local Municipality
Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

11. Property, plant and equipment (continued)
Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	36,425,970	-	-	-	-	36,425,970
Buildings	225,621,686	60,500,982	-	(7,962,297)	-	278,160,371
Roads Infrastructure	627,358,687	102,604,576	-	(96,938,995)	(8,912,627)	624,111,641
Computer equipment	2,698,032	1,281,339	(36,887)	(1,036,900)	(1,886)	2,903,698
Machinery and Equipment	5,941,275	1,172,980	(95,574)	(1,464,623)	(97,099)	5,456,959
Office equipment	4,134,756	1,370,031	(156,118)	(976,885)	(19,002)	4,352,782
Transport Assets	7,894,982	2,005,216	(1,436,116)	(1,450,819)	-	7,013,263
	910,075,388	168,935,124	(1,724,695)	(109,830,519)	(9,030,614)	958,424,684

Assets pledged as security

The municipality did not pledge any of its assets as security.

Change in estimate

A change in the estimated remaining useful lives of various assets of the Municipality based on their assessment conducted as at 30 June 2022 will result in the following decreases in depreciation for property plant and equipment in the 2022 financial year and an increase in depreciation in the future periods as follows:

	Infrastructure assets	Buildings	Total
The impact on the statement of financial performance (decrease in Depreciation) in the 2022 financial year	(37,582,290)	(75,170)	(37,657,460)
The impact on the statement of financial performance (increase in Depreciation) in the future periods	70,260,672	100,522	70,361,194
	32,678,382	25,352	32,703,734

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

2022 2021

11. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Buildings	Total
Opening balance	125,000,641	76,677,042	201,677,683
Additions/capital expenditure	92,455,278	38,511,329	130,966,607
Transfers to other sphere of government	(77,440,532)	-	(77,440,532)
Transferred to completed items	(91,160,404)	(110,083,996)	(201,244,400)
	48,854,983	5,104,375	53,959,358

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Buildings	Total
Opening balance	77,087,268	70,713,112	147,800,380
Additions/capital expenditure	102,604,576	60,500,982	163,105,558
Transferred to completed items	(54,691,203)	(54,537,052)	(109,228,255)
	125,000,641	76,677,042	201,677,683

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	9,028,254	8,295,132
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Total Expenditure related to Repairs and Maintenance Projects

Total Expenditure related to Repairs and Maintenance Projects

Maintenance of Buildings and Facilities	2,976,321	1,182,955
Maintenance of Computer Equipment	465,944	1,413,464
Maintenance of Infrastructure assets	1,597,286	2,327,634
Maintenance of Machinery and Equipment	534,125	576,802
Maintenance of Transport assets	3,535,627	2,794,277

Delayed projects

The municipality has projects that are currently experiencing delays or were halted. For each project, the reason for the delay or halting of the project are noted. The carrying amount of those assets included in the balance of Property, Plant and Equipment are listed below:

Nophoyi Sport Field- The project is in our 3YCP with the intentions to advertise and complete the project. Service provider was terminated due to poor progress on site. The only outstanding item to complete the project was the grassing, however the recent heavy rainfalls caused major damages on the sport field. Expenditure to date is R3 390 430 (2021: R3 390 430).

Silindini Bridge- Similar to Tyinira, the high water levels had huge delays on the project and moreover the river banks were washed by these high volumes of water flows as such this resulted additional scope of works which was not catered for in our tender documentation. The extension of time was granted, and the Contractor awaiting the approval of VO for major earthworks that were not part of the scope. The project is still under construction. The project is budgeted to be completed in the 22/23 financial year, the appointed service provider surrendered the project due to financial constraints. Expenditure to date is R8 393 986 (2021: R7 685 768).

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

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11. Property, plant and equipment (continued)

Infrastructure services on Municipal Plots (Scientific roots) – The project is in our 3YCP with the intention to implement the project. The appointment was only for the professional services. The detailed designs were done and due to budgetary constraints, the Municipality was unable to proceed with the actual construction. The project is budgeted for implementation in the 2022/23 financial year, and it will be advertised before the end of first quarter of the said financial year. Expenditure to date is R1 167 567 (2021: R1 167 567).

Upgrading of Emaxesibeni Streetlight Along CBD - The installation of streetlights infrastructure was installed, commissioned for functionality however the cables were stolen and some damaged before the project was officially handed over to the municipality. The material for repairing the cables is budgeted for in the 2022/23 financial year for completion and handing over. Expenditure to date is R6 989 977 (2021: R6 989 977).

Umzimvubu Local Municipality
Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

12. Intangible assets

	2022		2021			
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, internally generated	150,000	-	150,000	1,181,843	-	1,181,843
Computer software	3,207,707	(2,541,270)	666,437	4,661,609	(3,350,186)	1,311,423
Total	3,357,707	(2,541,270)	816,437	5,843,452	(3,350,186)	2,493,266

Reconciliation of intangible assets - 2022

	Opening balance	Disposals	Amortisation	Total
Municipal Website	1,181,843	(1,031,843)	-	150,000
Computer software	1,311,423	(147,634)	(497,352)	666,437
	2,493,266	(1,179,477)	(497,352)	816,437

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Amortisation	Total
Municipal Website	1,181,843	-	-	1,181,843
Computer software	1,638,273	157,390	(484,240)	1,311,423
	2,820,116	157,390	(484,240)	2,493,266

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

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12. Intangible assets (continued)

Other information

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance see Note 38.

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality.

Intangible Assets with Indefinite Useful Lives

The municipality amortises all its Intangible Assets, but not the Website as it is considered to be constantly maintained and therefore have an indefinite economic useful life and such assets are regarded as having indefinite useful lives.

The useful lives of the Intangible Assets remain unchanged from the previous year.

Impairment of Intangible Assets

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

Work-in-Progress

The municipality had no capital projects for Intangible Assets which were not completed at year-end.

Delayed Projects

No projects that are currently in progress are experiencing significant delays. No projects for the period was halted.

Umzimvubu Local Municipality
Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

13. Heritage assets

	2022		2021	
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation
Mayoral chain	17,719	-	17,719	17,719
				Accumulated impairment losses
				Carrying value
				17,719

Reconciliation of heritage assets 2022

Mayoral chain

Opening balance	17,719	Total
		17,719

Reconciliation of heritage assets 2021

Mayoral chain

Opening balance	17,719	Total
		17,719

Notes to the Annual Financial Statements

13. Heritage assets (continued)

All of the municipality's Heritage Assets are held under freehold interests and no Heritage Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Heritage Assets of the municipality.

Depreciation and Impairment

In accordance with GRAP 103, a Heritage Asset have an indefinite life and their value appreciates over time due to their cultural, environmental, educational, natural scientific, technological, artistic or historical significance; and shall not be depreciated but an entity shall assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the entity shall estimate the recoverable amount or the recoverable service amount of the heritage asset.

Impairment of Heritage Assets

No impairment losses have been recognised on Heritage Assets of the municipality at the reporting date.

Heritage Assets measured after recognition using the Cost Model

The municipality's Heritage Assets are accounted for according to the cost model and therefore no fair value has been determined.

Work-in-Progress

The municipality had no capital projects for Heritage Assets which were not completed at year-end.

Delayed Projects

No projects that are currently in progress are experiencing significant delays. No projects for the period was halted.

14. Payables from exchange transactions

Trade payables	8,996,665	5,847,988
Retentions	1,001,498	1,380,629
Department of Transport	511,069	-
Accruals	16,400,010	15,512,969
	26,909,242	22,741,586

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

	2022	2021
15. Payables from Non-Exchange Transactions		
Department of Housing amounts held in trust	387,631	6,160,485
Advance receipts - Taxes	3,220,435	2,251,168
	3,608,066	8,411,653
16. Consumer deposits		
Rental Deposits	144,372	132,471
17. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Financial Management Grant	462	-
Intergrated National Electrification Programme	2,352,948	3,021,066
Extended Public Works Programme - Cleansing Project Peri-Urban	-	3,500,000
	2,353,410	6,521,066
Movement during the year		
Balance at the beginning of the year	6,521,066	4,028,188
Additions during the year	101,102,331	112,882,474
Income recognition during the year	(105,269,987)	(110,389,596)
	2,353,410	6,521,066

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 33 for reconciliation of grants from National/Provincial Government.

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

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

18. Employee benefits obligations

Reconciliation of employee benefits obligations - 2022

	Opening Balance	Additions	Utilised during the year	Interest costs	Actuarial (gain) / loss	Total
Bonus accrual	2,217,780	2,366,877	(2,217,779)	-	-	2,366,878
Provision for leave pay	7,740,975	1,618,335	(1,102,209)	-	-	8,257,101
Provision for performance bonus	277,870	689,272	(277,869)	-	-	689,273
Long Service Awards Liability	2,320,000	381,000	(322,000)	196,000	(146,000)	2,429,000
	12,556,625	5,055,484	(3,919,857)	196,000	(146,000)	13,742,252

Reconciliation of employee benefits obligations - 2021

	Opening Balance	Additions	Utilised during the year	Interest costs	Actuarial (gain) / loss	Total
Bonus accrual	2,180,142	2,217,779	(2,180,141)	-	-	2,217,780
Provision for leave pay	7,514,452	1,661,657	(1,435,134)	-	-	7,740,975
Provision for performance bonus	470,187	277,870	(470,187)	-	-	277,870
Long Service Awards Liability	2,197,000	347,000	(229,000)	149,000	(144,000)	2,320,000
	12,361,781	4,504,306	(4,314,462)	149,000	(144,000)	12,556,625

Non-current liabilities
Current liabilities

2,107,000
11,635,252
13,742,252

1,998,000
10,558,625
12,556,625

Provision for leave pay

Staff Leave accrues to the staff of the municipality on an annual basis, subject to certain conditions. The liability is an estimate of the amount due at the reporting date.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

2022

2021

18. Employee benefits obligations (continued)

Provision for performance bonus

A performance bonus, is for senior managers and assistant managers. It is not guaranteed and as it is based on the achievements of the individual against the targets set out in his/her performance agreement. The payment of bonuses is purely based on performance then there is no legal obligation on a municipality to make such payments.

However a constructive obligation is created through the assessment of employees' performance throughout the year and the fact that the municipality has a practice of paying performance bonuses.

Long service awards liability

Long Service Awards are provided to employees who achieve certain predetermined milestones of service within the municipality

The following members are eligible for long service bonuses:

In-service members		159	160
Eligible Employees	Female	Male	Total
Number of eligible employees	91	68	159
Average annual earnings	209,250	218,766	213,320
Average age	41.8	42.8	42.2
Average past service	9.0	9.5	9.2
	-	-	-

The earnings disclosed above and used in the valuation include an increase of 4.90% as at 1 July 2022, as per the SALGBC Circular No.: 01/2022.

Unfunded Accrued Liability

Total value of liabilities	2,429,000	2,320,000
Value of assets	-	-
	2,429,000	2,320,000
Expected current portion of liability (due within 12 months)	208,000	322,000
Expected non-current portion of liability (due thereafter)	2,221,000	1,998,000
	2,429,000	2,320,000

Key Actuarial Assumptions used are as follows:

Discount rate	10,98%	9,06%
General Salary Inflation (long-term)	7,33%	5,76%
Net Effective Discount Rate applied to salary-related Long Service	3,4%	3,12%
Average retirement age	62	62

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

2022 2021

18. Employee benefits obligations (continued)

The next general earnings increase was assumed to take place on 1 July 2023.

Last Valuation

The last valuation was performed in July 2021.

Actuarial Valuation Method

The Projected Unit Credit Method has been used to value the liabilities. The valuation meets the requirements of GRAP 25 as well as those of Advisory Practice Note 301 issued by the Actuarial Society of South Africa. The valuation was prepared by ARCH Actuarial Consulting.

The amounts recognised in the Statement of Financial Performance are:

Employee related costs - Current Service Cost	381,000	347,000
Finance Charges - Interest Cost	196,000	149,000
Actuarial Losses / (Gain)	(146,000)	(144,000)
Expected benefits vesting / paid during the year (N1)	(322,000)	(322,000)
	109,000	30,000

N1 - This is the total value of the long-service awards that were expected to be awarded to eligible employees over the year, based on the data at the previous valuation date. Employees are usually entitled to take this award in whole or in part as cash, with the remainder taken as leave. Therefore, this figure should not be confused as being only the amount of cash paid out in respect of the award. It represents the amount actually paid out in cash and the portion that was either taken or "stored" as leave.

If the actual amount of benefits vested is to be included instead in the above table, then the Actuarial Loss / (Gain) must change to exactly offset the impact, such that the Closing Accrued Liability remains unchanged. For example, if the actual amount of benefits vested was R100,000 lower than the estimate (based on last year's data), then the Actuarial Loss / (Gain) would have to reduce by R100,000 to leave the Closing Accrued Liability as is.

Sensitivity Analysis on the Unfunded Accrued Liability

Assumption	% Change	Liability	% Change
Central assumptions		2,429,000	
General earnings inflation rate	+1%	2,553,000	5%
	-1%	2,314,000	-5%
Discount rate	+1%	2,308,000	-5%
	-1%	2,562,000	5%
Average retirement age	+2 years	2,531,000	4%
	-2 years	2,288,000	-6%
Withdrawal rates	x2	1,936,000	-20%
	x0,5	2,755,000	13%

Sensitivity Analysis on Current-Service and Interest Costs for year ending 30/06/2022

Assumption	Change	CurrentSvc. Cost	Interest Cost	Total	% Change
Central assumptions		381,000	196,000	577,000	
General earnings inflation rate	+1%	407,000	207,000	614,000	6%

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

			2022	2021	
18. Employee benefits obligations (continued)					
	-1%	358,000	186,000	544,000	-6%
Discount rate	1%	360,000	206,000	566,000	-2%
	-1%	405,000	185,000	590,000	2%
Average retirement age	+2 years	393,000	204,000	597,000	3%
	-2 years	366,000	185,000	551,000	-5%
Withdrawal rates	x2	276,000	152,000	428,000	-26%
	x0,5	457,000	225,000	682,000	18%

Sensitivity Analysis on Current-Service and Interest Costs for year ending 30/06/2023

	Change	CurrentSvc. Cost	Interest Cost	Total	% Change
Central assumptions		410,000	256,000	666,000	
General earnings inflation rate	+1%	436,000	269,000	705,000	6%
	-1%	386,000	243,000	629,000	-6%
Discount rate	+1%	389,000	264,000	653,000	-2%
	-1%	434,000	245,000	679,000	2%
Average retirement age	+2 years	422,000	267,000	689,000	3%
	-2 years	394,000	240,000	634,000	-5%
Withdrawal rates	x2	302,000	201,000	503,000	-24%
	x0.5	487,000	291,000	778,000	17%

19. Provisions

The municipality operates two landfill sites situated at emaXesibeni (Mount Ayliff) and kwaBhaca (Mount Frere). In accordance with legislation and to comply with the Department of Water Affairs (DWA) and Department of Economic Development and Environmental Affairs (DEDEAT) on the landfill waste sites, the municipality raises a provision every year for the estimated cost of rehabilitating the land over which the sites are situated.

Due to uncertainties about the amount or timing of these costs, the provision has been made for this cost based on the construction budget to rehabilitate the landfill site at 30 June 2022 at a rate of 11.05% taking into account price escalation of 7.23% relating to inflation. The estimated years for the rehabilitating these sites are 11 years for at emaXesibeni (Mount Ayliff) and 35.2 years for kwaBhaca (Mount Frere).

A valuation of the rehabilitation was conducted by an independent valuer (One Pangaea Expertise & Solutions) and a liability has been raised. Movements in the provision are recognised in the Statement of Financial Performance. The Provision has been determined on the basis of a recent independent financial requirement and viability.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

	2022	2021	
19. Provisions (continued)			
Reconciliation of provision for environmental rehabilitation			
Current liabilities	-	-	
Non-current liabilities	7,076,782	4,886,339	
	7,076,782	4,886,339	
Reconciliation of provision for environmental rehabilitation			
Opening balance	4,886,339	4,574,445	
Change in discount factor	1,609,705	140,873	
Interest cost	528,214	171,021	
New cell restoration	52,524	-	
	7,076,782	4,886,339	
The amounts recognised in the Statement of Financial Performance are:			
Balance of change in provision of obligations	1,662,229	140,873	
Interest cost	528,214	171,021	
	2,190,443	311,894	
Unfunded Accrued Liability			
Value of obligation	7,076,872	4,886,339	
Value of assets	-	-	
	7,076,872	4,886,339	
Total raw costs for 30 June 2022 for closure and rehabilitation			
	Mt Ayliff	Mt Frere	Total
Planning for closure	862,288	1,003,272	1,865,560
Rehabilitation and closure	2,914,857	3,854,265	6,769,122
Post-Closure monitoring	2,855,219	3,625,527	6,480,746
New Cell restoration	-	235,463	235,463
	6,632,364	8,718,527	15,350,891
Key Actuarial Assumptions used are as follows:			
Discount rate (D)	11,05%	10,81%	11,28%
Consumer price inflation	7,23%	7,07%	6,61%
Net Discount rate $((1+D)/(1+H)-1)$	3,56%	3,5%	4,38%
Remaining life of site: Mt Frere	35	36	
Remaining life of site : Mt Ayliff	11	12	
Excavatable cover depth	2,5m		
Cover to waste ration	1 to 4		
20. Capital replacement reserve			
Capital replacement reserve		30,874,974	29,972,454
Transfer into capital replacement reserve		967,348	902,520
		31,842,322	30,874,974

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

	2022	2021
21. Revenue		
Sale of goods	640,484	1,246,761
Service charges	1,216,660	1,210,121
Rental of facilities and equipment	3,779,118	3,760,204
Interest received - Exchange	4,823,411	4,364,555
Agency services	2,314,487	2,231,470
Licences and permits - Exchange transactions	1,712,956	1,913,901
Actuarial gains	146,000	-
Actuarial gains	-	144,000
Fair value adjustments	3,745,041	3,341,400
Operational Revenue	168,238	86,530
Licences and Permits - non-exchange transactions	128,961	159,233
Property rates	48,595,020	17,733,488
Interest received - Non-exchange	1,490,559	1,533,147
Government grants & subsidies	343,484,987	385,456,262
Fines, Penalties and Forfeits	4,793,426	3,998,274
	417,039,348	427,179,346

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SOUTH AFRICA
30 NOV 2022**

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

Sale of goods	640,484	1,246,761
Service charges	1,216,660	1,210,121
Rental of facilities and equipment	3,779,118	3,760,204
Interest received - Exchange	4,823,411	4,364,555
Agency services	2,314,487	2,231,470
Licences and permits	1,712,956	1,913,901
Actuarial gains	146,000	144,000
Operational Revenue	168,238	86,530
Fair value adjustments	3,745,041	3,341,400
	18,546,395	18,298,942

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

Taxation revenue		
Property rates	48,595,020	17,733,488
Licences or permits	128,961	159,232
Interest received - Non-exchange	1,490,559	1,533,147
Transfer revenue		
Government grants & subsidies	343,484,987	385,456,262
Fines, Penalties and Forfeits	4,793,426	3,998,274
	398,492,953	408,880,403

22. Sale of goods and other services

Advertisement	161,206	177,891
Building plans	117,673	429,705
Cemetery and burials	29,259	34,478
Clearance certificate	25,281	13,687
Entrance fees	-	3,325
Special concert	-	548
Application fees for land use	-	1,837
Sale of goods	307,065	585,290
	640,484	1,246,761

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

	2022	2021
23. Service charges		
Refuse removal	1,216,660	1,210,121

The amounts disclosed above for revenue from Service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

24. Rental of facilities and equipment

Facilities and equipment

Adhoc rental income from other assets	184,490	156,282
Investment property	3,594,628	3,603,922
	3,779,118	3,760,204

Rental income generated are at market related premiums. All rental income recognised is therefore market related.

25. Interest received - Exchange Transactions

Interest received - Exchange transactions

Interest received - debtors	500,894	482,344
Interest received - bank	113,923	128,504
Interest received - investments	4,208,594	3,753,707
	4,823,411	4,364,555

26. Agency services

Vehicle Registration	2,314,487	2,231,470
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Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

2022 2021

26. Agency services (continued)

The municipality is an agent for the Provincial Department of Transport as well as the Eastern Cape Department of Human Settlements.

Department of Transport

The Municipality is an agent for the Department of Transport wherein it is delegated to register and licence motor vehicles on its behalf.

There are no assets or liabilities that are held or incurred on behalf of the principal and recognised in our financial statements. The risks associated with the principal-agent relationship that exist on any monies collected by the municipality on behalf of the principal lies solely with the municipality.

During the year, all collections made are banked and paid over to the Department of Transport on a weekly basis. The income due to the municipality according to the agreement is 19% of the amount collected subject to certain conditions as per the Service Level Agreement and National Road Traffic Act, Act 93 of 1996. During the year, a total of R12 181 511 (2021: R11 744 579) was collected gross of commission.

All monies due to the principal were transferred to the principal and no amounts were owing at year end.

Minimal risk was transferred from the Department of Transport, as the principal, to Umzimvubu Municipality, as the agent, beyond the cash collected on behalf of the principal.

Eastern Cape Department of Human Settlements.

The Municipality is acting as an agent to the EC Department of Human Settlement into a principal agent arrangement entered between the municipality and the department. In this agreement is between Human Settlements and the municipality, transactions are done with a third party which is the Contractor building the houses on behalf of the Department.

The amount received from the Department that remained unspent at year end was R387 631 (2021: R6 160 485), and the municipality is expected to use this money during the next 12 months. The department did not transfer any risks to the municipality in this arrangement. A total of R5 772 854 (2021: R0) was spent on behalf of the principal during the financial year.

The municipality does not receive any compensation for acting as an agent from this agreement.

27. Licences and permits

Motor vehicle licences	169,041	213,705
Trading licences	78	-
Driver licence certificate	1,543,837	1,700,196
	1,712,956	1,913,901

28. Operational Revenue

Other income	168,238	86,530
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29. Fair value adjustments

Fair value adjustment for investment properties	3,745,041	3,341,400
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Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

	2022	2021
30. Property rates		
Rates received		
Property rates	48,595,020	17,733,488
Property rates billing per customer classification		
Residential	2,269,437	1,727,195
Commercial	4,932,318	4,939,878
State	41,393,265	11,066,415
	48,595,020	17,733,488

Annual valuation are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions. Rates tariffs remain the same as 2021 (Agricultural 0.0017, Residential 0.0058, Business 0.0140, Vacant stands 0.0140, Government properties 0.0186, and Public service Infrastructure 0.0015).

Rates are levied monthly on property owners and are payable on the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is levied at a rate of 10% as determined by council on outstanding rates amounts.

Welfare organisations are exempted from the payment of rates, while the first R15 000 of the valuation on improved residential properties exempted from payment of rates. An additional rebate of 25% of the current year rates are allowed for senior citizens, disabled persons and medically boarded property owners. There is a 15% rebate of rates allowed for the three years of a newly developed property from the date of issuance of certificate of occupancy.

Valuations

Residential	498,746,100	498,746,100
Commercial	352,408,500	352,408,500
State	2,307,400,000	582,171,976
	3,158,554,600	1,433,326,576

31. Licences and permits (non-exchange)

Trading	128,961	159,232
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32. Interest received - Non-Exchange Transactions

Interest received - debtors	1,490,559	1,533,147
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Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

	2022	2021
33. Government grants & subsidies		
Operating grants		
Equitable share	238,026,000	274,947,000
Departmental agencies and accounts (SETA)	188,999	119,577
Expanded Public Works Programme (EPWP)	3,413,000	2,700,000
Provincial Arts and Culture grants - Library	749,999	750,584
Finance Management Grant (FMG)	1,719,538	1,700,000
Extended Public Works Programme - Cleansing Project Peri-Urban	3,500,000	-
	247,597,536	280,217,161
Capital grants		
Municipal Infrastructure Grant	48,951,000	55,423,091
Integrated National Electrification Grant	33,668,118	21,711,924
Provincial: Department of Cooperative Government & Traditional Affairs (COGTA)	-	613
Small Town Revitalisation	13,268,333	28,103,473
	95,887,451	105,239,101
	343,484,987	385,456,262
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	87,834,000	113,002,050
Unconditional grants received	288,215,331	274,947,000
	376,049,331	387,949,050
National Governments		
Balance unspent at beginning of year	3,021,066	4,026,990
Current-year receipts	325,110,000	352,776,000
Conditions met - transferred to revenue	(325,777,656)	(353,781,924)
	2,353,410	3,021,066
Provincial governments		
Balance unspent at beginning of year	3,500,000	1,197
Current-year receipts	14,018,331	36,873,050
Conditions met - transferred to revenue	(17,518,331)	(33,374,247)
	-	3,500,000
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Current-year receipts	238,026,000	274,947,000
Conditions met - transferred to revenue	(238,026,000)	(274,947,000)
	-	-
Municipal Infrastructure Grant		
Current-year receipts	48,951,000	55,423,000
Conditions met - transferred to revenue	(48,951,000)	(55,423,000)
	-	-

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

	2022	2021
33. Government grants & subsidies (continued)		
Conditions still to be met - remain liabilities (see note 17).		
These grants are allocated for the construction of roads. Provide for new, rehabilitation and upgrading of municipal infrastructure as part of upgrading of poor households, micro enterprises and social institutions.		
Financial Management Grant		
Current-year receipts	1,720,000	1,700,000
Conditions met - transferred to revenue	(1,719,538)	(1,700,000)
	462	-
Conditions still to be met - remain liabilities (see note 17).		
This grant is allocated for the implementation of financial management reforms required by the MFMA.		
Expanded Public Works Programme Grant		
Current-year receipts	3,413,000	2,700,000
Conditions met - transferred to revenue	(3,413,000)	(2,700,000)
	-	-
Conditions still to be met - remain liabilities (see note 17).		
This grants is implementation of labour intensive programmes and help in creating employment in the community.		
Intergrated National Electrification Programme		
Balance unspent at beginning of year	3,021,066	4,026,991
Current-year receipts	33,000,000	20,706,000
Conditions met - transferred to revenue	(33,668,118)	(21,711,925)
	2,352,948	3,021,066
Conditions still to be met - remain liabilities (see note 17).		
This grant is utilised for addressing electrification backlog of all existing and planned residential dwellings (including informal settlements, new, and existing dwellings) and installation of relevant bulk infrastructure.		
Small Town Revatilization		
Current-year receipts	13,268,333	28,103,473
Conditions met - transferred to revenue	(13,268,333)	(28,103,473)
	-	-
Conditions still to be met - remain liabilities (see note 17).		
This is a town revitalization project initiated by the Office of the Premier to revitalize Emaxisebeni town and KwaBhaca. Invoices are paid by the office of the premier on presentation by the service provider.		
Provincial Arts and Culture grants - Library		
Balance unspent at beginning of year	-	584
Current-year receipts	750,000	750,000
Conditions met - transferred to revenue	(750,000)	(750,584)
	-	-

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

	2022	2021
33. Government grants & subsidies (continued)		
Conditions still to be met - remain liabilities (see note 17).		
This grants is used for to pay for Kwa-Bhaca and Emaxesibeni Library expenses.		
SETA Grant		
Current-year receipts	188,999	119,577
Conditions met - transferred to revenue	(188,999)	(119,577)
	-	-
Conditions still to be met - remain liabilities (see note 17).		
Grant received from SETA and used for employee trainings and development.		
Provincial: Department of Cooperative Government & Traditional Affairs (COGTA)		
Balance unspent at beginning of year	-	613
Conditions met - transferred to revenue	-	(613)
	-	-
Conditions still to be met - remain liabilities (see note 17).		
Extended Public Works Programme - Cleansing Project Peri-Urban		
Balance unspent at beginning of year	3,500,000	-
Current-year receipts	-	3,500,000
Conditions met - transferred to revenue	(3,500,000)	-
	-	3,500,000
Conditions still to be met - remain liabilities (see note 17).		
This grant is used to creat job opportunities through the cleaning of rivers and water reticulation sites.		
Changes in level of government grants		
Based on the allocations set out in the Division of Revenue Act, (Act 9 of 2021), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.		
34. Fines, Penalties and Forfeits		
Law Enforcement Fines	3,510,193	3,371,481
Pound Fees Fines	1,283,233	626,793
	4,793,426	3,998,274

Umzimvubu Local Municipality

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Notes to the Annual Financial Statements

	2022	2021
35. Employee related costs		
Basic	54,578,604	52,473,102
Bonus	4,841,583	4,587,693
Medical aid - company contributions	4,389,624	4,037,220
UIF	435,376	407,451
WCA	469,398	430,372
SDL	901,442	662,813
Leave pay provision charge	1,541,154	226,523
Defined contribution plans	8,812,205	8,572,447
Travel, motor car, accommodation, subsistence and other allowances	4,524,989	3,576,760
Overtime payments	569,052	1,781,907
Long-service awards	59,001	228,606
Housing benefits and allowances	2,359,771	2,564,031
Bargaining Council Levy	24,268	22,822
Standby Allowance	1,040,001	1,060,460
	84,546,468	80,632,207

36. Remuneration of councillors

Executive Mayor	864,660	905,123
Speaker	675,727	732,530
Chief Whip	611,443	686,437
Executive Committee	6,867,504	4,633,102
Councillors	11,725,683	13,119,954
	20,745,017	20,077,146

In-kind benefits

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

The Executive Mayor and Speaker have use of a Council owned vehicle for official duties.

Additional information

The salaries, allowance and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa and within the limits set by the Remuneration of Public Office Bearers Act No 20 of 1998.

37. Depreciation and amortisation

Property, plant and equipment	73,979,971	109,830,519
Intangible assets	497,352	484,240
Total Depreciation and Amortisation	74,477,323	110,314,759

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

	2022	2021
38. Impairment loss		
Impairments		
Property, plant and equipment	7,317,045	9,030,634
Receivables from Exchange Transactions	3,951,328	1,278,875
Receivables from Non-exchange Transactions	947,267	5,609,448
	12,215,640	15,918,957
Reversal of impairments		
Receivables from Non-exchange Transactions	(554,256)	-
Receivables from Exchange Transactions	(12,666)	-
	(566,922)	-
Total impairment losses (recognised) reversed	11,648,718	15,918,957
39. Finance costs		
Interest on employee benefits	196,000	149,000
Interest on provision for landfill sites	528,214	171,021
	724,214	320,021
40. Lease rentals on operating lease		
Equipment		
Contractual amounts	101,903	203,849
41. Debt impairment		
Bad debts written off	-	2,216,061
42. Inventory consumed		
Inventory consumed	7,304,566	6,134,330
43. Contracted services		
Outsourced services		
Business and Advisory	129,950	179,920
Catering Services	227,333	134,114
Internal Auditors	901,154	605,283
Personnel and Labour	12,221,944	10,546,163
Professional Staff	-	23,643
Security Services	16,306,215	12,601,803
Traffic Fines Management	511,654	-
Consultants and professional services		
Business and Advisory	14,073,099	12,793,961
Infrastructure and Planning	2,532,511	2,426,949
Legal Cost	4,036,005	3,587,078



Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

	2022	2021
43. Contracted services (continued)		
Contractors		
Building	1,011,505	598,384
Catering Services	4,007,225	4,578,327
Employee Wellness	27,840	29,024
Event Promoters	1,008,001	880,673
Graphic Designers	-	225,800
Maintenance of Buildings and Facilities	1,688,942	1,025,955
Maintenance of Equipment	4,516,040	2,713,990
Maintenance of Unspecified Assets	2,904,321	2,327,634
Tracing Agents and Debt Collectors	8,595,750	992,318
Safeguard and Security	267,915	-
Stage and Sound Crew	365,000	-
	75,332,404	56,271,019
44. Transfer and subsidies		
Operational Grants		
Bursaries for scarce skills	1,681,063	368,178
Monatory allocations	745,783	736,748
Transfer of assets to Eskom	77,440,532	-
SMME Development	3,754,176	-
	83,621,554	1,104,926
45. Loss on disposal of assets		
Carrying value of assets disposed off - Property, plant and equipment	1,504,158	1,843,550
Carrying value of assets disposed off - Intangible assets	1,187,262	-
Cash receipts from insurance proceeds	(644,028)	(642,377)
	2,047,392	1,201,173

Facts and circumstances of the disposal

Municipal assets were either damaged, lost or they were found to offer limited service potential and were thus disposed.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

	2022	2021
46. Operating costs		
Achievements and awards	1,251,196	823,176
Advertising fees	3,444,904	3,500,650
Auditors fees	4,428,400	4,522,749
Bank charges	333,092	316,231
Bursaries (Employees)	826,374	675,938
Communication	6,098,939	4,644,208
Drivers licences and permits	194,656	169,534
External computer services	1,160,118	855,250
Fines and penalties	895	700
Hire charges	16,922,766	10,118,769
Indigent relief	7,028,154	5,888,387
Insurance underwriting	5,035,649	2,337,417
Learnerships and internships	424,045	2,086,098
Municipal services	6,053,851	1,525,232
Printing publications and books	689,669	680,097
Professional bodies membership and subscriptions	1,658,236	1,523,366
Registration fees	6,202,671	4,166,921
Remuneration to ward committees	2,901,800	3,784,830
Resettlement cost	58,403	-
Seating allowance for traditional leaders	44,000	189,600
Signage	191,250	-
Transport provided as part of departmental activities	2,173,376	1,684,300
Travel agency and visa's	389,325	163,272
Travel and subsistence	6,784,796	3,190,530
Uniform and protective clothing	1,642,521	2,215,068
Vehicle licensing	79,987	70,113
Wet fuel	2,908,749	2,610,065
	78,927,822	57,742,501
47. Auditors' remuneration		
Fees	4,428,400	4,522,749

AUDITOR GENERAL
SOUTH AFRICA
30 NOV 2022

Umzimvubu Local Municipality

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Notes to the Annual Financial Statements

	2022	2021
48. Cash generated from operations		
Surplus for the year	(22,438,033)	75,042,396
Adjustments for:		
Depreciation and amortisation	74,477,323	110,314,759
Losses on Disposal of Property, Plant and Equipment	2,047,392	1,201,173
Fair value adjustments	(3,745,041)	(3,341,400)
Impairment loss	11,648,718	15,918,957
Debt impairment	-	2,216,061
Movements in operating lease assets and accruals	(2,190,071)	(2,273,599)
Transfer of functions to Eskom	77,440,532	-
Contributions to employee benefit for the year	560,501	118,000
Actuarial gain - Employee benefit	(146,000)	(144,000)
Movement in provision account for above and also in the debtors movement	196,000	320,021
Provision for leave	516,126	(154,706)
Finance costs - Landfill site provision	528,214	245,525
Changes in working capital:		
Inventories	49,641	146,792
Receivables from exchange transactions	(3,456,542)	(4,780,140)
Consumer debtors	(7,437,266)	(2,079,399)
Prepayments	12,077	-
Payables from exchange transactions	4,167,646	(6,684,737)
VAT	(1,292,001)	(800,791)
Taxes and transfers payable (non-exchange)	(4,803,587)	6,014,468
Unspent conditional grants and receipts	(4,167,657)	2,492,878
Increase in Operating lease liability	11,901	26,418
Movement in provisions	(1,630)	-
Movement in provisions for landfill site	1,662,229	-
	123,640,472	193,798,676

49. Financial instruments disclosure

Categories of financial instruments

2022

Financial assets

	At amortised cost	Total
Refuse	539,332	539,332
Rentals	24,711	24,711
Property Rates	11,640,418	11,640,418
Fines	3,804,694	3,804,694
Call deposits	47,986,102	47,986,102
Bank balances	54,922,011	54,922,011
	118,917,268	118,917,268

Financial liabilities

	At amortised cost	Total
Trade payables	25,907,744	25,907,744
Retentions	1,001,498	1,001,498
Taxes and transfers payable (non-exchange)	3,608,066	3,608,066
	30,517,308	30,517,308

2021

Umzimvubu Local Municipality

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	2022	2021
49. Financial instruments disclosure (continued)		
Financial assets		
	At amortised cost	Total
Refuse	829,858	829,858
Rentals	216,301	216,301
Property Rates	7,913,189	7,913,189
Fines	487,668	487,668
Call deposits	71,488,134	71,488,134
Bank deposits	55,335,007	55,335,007
	136,270,157	136,270,157
Financial liabilities		
	At amortised cost	Total
Trade payables	21,360,965	21,360,965
Retentions	1,380,629	1,380,629
Taxes and transfers payable (non-exchange)	8,411,653	8,411,653
	31,153,247	31,153,247
50. Commitments		
Authorised capital expenditure		
Already contracted and provided for		
• Buildings	23,239,437	37,021,995
• Infrastructure	24,306,975	27,909,560
• Other financial assets	281,000	961,910
	47,827,412	65,893,465
Total capital commitments		
Already contracted and provided for	47,827,412	65,893,465
This Expenditure will be financed as follows:		
Total commitments		
Grant funding	23,997,225	33,535,050
Internal funding	23,830,187	32,358,415
	47,827,412	65,893,465

The commitments presented above are inclusive of VAT.

Umzimvubu Local Municipality

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	2022	2021
51. Contingencies		
Contingent Assets		
Umzimvubu Local Municipality vs Mbali Rural Developers CC (Arbitration) A claim in favour of the municipality was awarded of R220 601. To enforce the arbitration award, the municipality seeks to attach movables to satisfy the claim. The Writ of execution is with the office's Sheriff of Kokstad for service.	220,601	220,601
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
South African Police Services (SAPS), case number CAS 69/11/2018 (under investigation) The municipality has a case of fraud, in which funds were lost to the Municipality. In the year under review a contingent asset of R812 307. Matter has been withdrawn from the roll.	-	812,307
Umzimvubu Local Municipality vs Vuyo Chitha An Application to release Mr Vuyo Chitha's pension fund to ULM where Mr Chitha is liable to pay the Municipality an amount of R 102 000 to ULM. As it stands counsel has been briefed to make an application in court ordering the Pension fund to release the funds to ULM for settlement. The pension fund number and pension fund that Mr Chitha was registered to has been requested from ULM so as to complete application.	350,000	350,000
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
	570,601	1,382,908
Contingent Liabilities		
Prince Madikizela - General (Case No. 4258/16): In this matter the plaintiff is suing the Municipality, claiming a sum of R 600,000 arising out of malicious and unlawful arrest contumelia. The matter has, due to the death of the plaintiff and by agreement between the parties, been finalised and closed.	-	840,000
Lindelwa Nyokana vs Umzimvubu Local Municipality (Case No. 40/18): In this matter the plaintiff suing the Municipality for negligence. She is claiming a sum of R 37,484.55. The estimated legal fees are in the sum of R 40 000. The matter is still new, legal processes are still exchanged between parties.	200,000	200,000
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Umzimvubu Local Municipality vs Millennium Development Trust (Case No. GOM/ULM/0089/ad): Millennium Development Trust (Litigation) Extension 6 Development / Assisting LLM and providing legal opinion on merits of success with regard to cancellation/ termination of agreement between ULM and MDT and instructions to institute High Court legal proceedings with the assistance of Junior and Senior Counsel. The two parties are considering out of court engagements through an arbitration.	-	1,500,000

Umzimvubu Local Municipality

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	2022	2021
51. Contingencies (continued)		
Umzimvubu Local Municipality vs Thandeka Mgeyi and 4 others Case No.2914/2019	400,000	400,000
The municipality is seeking eviction order from court. The respondents invaded its RDP houses. The matter was referred for oral evidence. Matter waiting for trial date.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Umzimvubu Local Municipality vs Rawutini Yicokise Gawulana & Others	200,000	200,000
Land Invasion on ERF 188 in MaXesibeni. The matter appeared in court on the 9th of February 2021. Application dismissed with costs. ULM shall file documents to appeal. Application for leave to appeal has since been filed and awaiting judgement on same.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Andiswa Gxobole -Nomthwa's Projects v Umzimvubu Local Municipality	200,000	50,000
Demand for full payment of monies paid by the Director of Nomthwa Projects to effect repairs and installation of electricity at the Fresh Produce Market building belonging to ULM. The municipality is to prepare and file a plea as per the amended particulars of claim. The matter is still pending before the High Court.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Phumza Vitshima vs Umzimvubu Local Municipality Case No. P256/19	-	908,312
Alleged unlawful termination of applicant's contract of employment on 01 August 2011. Contractual damages to the amount of R508 312.08. The municipality have filed their application for leave to appeal and was dismissed with costs the consequence of which the Municipality was bound to settle the Applicants claim in the amount of R508 312.08.		
The matter is finalised as the Municipality has paid the judgement debt.		
Notemba Millicent Mpiti vs Umzimvubu Local Municipality	-	200,000
Case No. 3209/2019.		
Unlawful occupation of property that belongs to Ms Mpiti by Ms Manxusa. The municipality is cited as the 2nd respondent on the matter. The matter is due to appear in court on the opposed roll in July 2021. Matter was postponed to 11 November 2021 to allow the applicant to supplement its papers and for the Municipality to file its Answering Affidavit. The Municipality has since served and filed its answering affidavit.		
The matter is finalised, and the 1 st respondent has been ordered to vacate the applicants premises. The applicant was also ordered to pay the wasted costs of the Municipality.		
The Municipality shall take the necessary steps to recover its wasted costs per the order		

Umzimvubu Local Municipality

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	2022	2021
51. Contingencies (continued)		
Umzimvubu Local Municipality vs M Zibuke Clothing & Multipurpose & Another: Case No. 2570/2017	300,000	200,000
The municipality seeks an eviction order against the respondents at TRANSIDO KwaBhaca. The matter is opposed, it was set down on 28 May 2020 and it was postponed to 4th of June 2020 due to lockdown. The matter did not proceed on 4th of June 2020 because the Judge indicated that evictions were not possible during lockdown, consequently it was removed from the roll with no order as to costs. The matter is set down to 10th of February 2022 for arguments.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Jane Ntombesithathu Nkondlwana vs Umzimvubu Local Municipality		20,000
ULM is 3rd respondent to the matter and the court has instructed as follows: "that the third respondent if need be, be and is hereby ordered to conduct an investigation into the welfare of respondent no 1 and 2 and provide them with accommodation where necessary as being part of its Constitutional mandate. The matter was finalised on 20 January 2022 and judgement in favour of the applicant.		
Prince Mbusi Mdlalose vs Umzimvubu Local Municipality Case No. 3359/2019	850,000	850,000
The plaintiff alleges that he was unlawfully arrested by the Municipal Traffic Officer on 10 September 2017, then handed him over to Mt Frere Police Station allegedly for exceeding the speed limit, detained for 7 hours and released on bail of R500,00. Pleadings closed and the matter ready for trial.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Umzimvubu Local Municipality vs Nedbank Ltd and Another Case No. 3766/2020		1,500,000
The municipality is claiming for the refund of its money which was claimed fraudulently consequently was paid to Nedbank. Nedbank is defending the matter contending that it was correct in releasing the refunds to the account holder.		
The matter was withdrawn from the roll.		
Umzimvubu Local Municipality vs Cllr Sobane Khulile Mnu kwa		200,000
The Municipality initiated hearing against the Mayor for a motor vehicle accident involving the Mayoral Motor Vehicle.		
The matter has since been finalised and the Cllr Sobane Khulile Mnu kwa was found guilty on Counts 1 and 2 as set out in the Charge Sheet.		
Concerned Group of Sigidini Administrative Area - Mt Ayliff vs Umzimvubu Local Municipality Case No. 1986/2021	200,000	200,000
26 May 2021, the matter was before Court and was postponed to 06 July 2021 and the Court directed that the Municipality file its replying affidavit. Municipality has since filed its heads of arguments and awaiting date of hearing.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		

Umzimvubu Local Municipality

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	2022	2021
51. Contingencies (continued)		
Momelezi Methusi vs Umzimvubu Local Municipality Case No. 206/2020	80,000	80,000
Claim in respect of collision allegedly as a result of recklessness and negligent driving of the defendant's driver/employee. The matter was before court and the Municipality called its witnesses. The leading of witness evidence has since concluded. Awaiting delivery of judgement.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
PriceWaterHouseCoopers vs Umzimvubu Local Municipality Case No. 1351/2020	910,209	910,209
Claim in respect of services allegedly rendered in 2015, 2016 and 2019. The matter has been defended and consultation with the client is due. Application for rescission of default judgement granted in favour of the Municipality and a plea shall follow. The Municipality is preparing to file its plea.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Economic Freedom Fighters vs Umzimvubu Local Municipality Case No. 983/2021	700,000	700,000
High Court Application wherein the EFF seeks to declare ULM's dress code policies unlawful and unconstitutional and in the alternative to review and set aside ULM's dress code policies. A notice of intention to oppose was served and filed. Also, answering Affidavit has also been prepared, served and filed. Awaiting Applicant's reply, if any.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Simphiwe Mhlongo vs Umzimvubu Local Municipality Case No. 91/2014	400,000	200,000
This matter dates back to 2014 where the Municipality was sued by the Plaintiff for his unlawful arrest by the second defendant who at the time was employed by the Municipality. The trial commenced, evidence was led and argued to completion. However, the presiding magistrate passed away before delivering judgement. This necessitated a trial <i>de novo</i> . The new trial is to commence on a date to be agreed between the parties at a pre-trial conference.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Dumisile Yozi vs Umzimvubu Local Municipality	500,000	500,000
The plaintiff intends to sue the Municipality for damages amounting to R300 000 as a result of unlawful conduct he was subjected to by the Municipality's law enforcement officers. Notice of intention to institute legal proceedings received. Awaiting receipt of summons.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		

Umzimvubu Local Municipality

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	2022	2021
51. Contingencies (continued)		
Umzimvubu Local Municipality vs Nolubabalo Khuzani & 62 Others	400,000	-
The municipality is seeking a court order to evict the respondents illegally occupying RDP houses at Chithwa Village, Ext5 in MaXesibeni. ULM lawyers have served a notice in terms of the Ple Act, to request a date of hearing of the matters (Main application and incidental application).		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Fikile Bhekizulu vs Umzimvubu Local Municipality and others	-	-
Application to declare immovable property belonging to the respondent that of the applicant as well as compelling the deed register to effect a rectification transfer.		
This claim is not financially related and there is no monetary value estimated. It is uncertain whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Zolile Makaula vs Umzimvubu Local Municipality and others	-	-
Application for eviction of the respondent.		
This claim is not financially related and there is no monetary value estimated. It is uncertain whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Umzimvubu Local Municipality vs Jabulani Hardware	-	-
Application by the Municipality for declaratory relief as well as interdictory relief arising from land zoning.		
This claim is not financially related and there is no monetary value estimated. It is uncertain whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Sivumela village vs Umzimvubu Local Municipality Case No. 1161	-	-
High court application for interdict to declare the Municipality's decision to prioritise the electrification of Maxhegweni village over Sivumele village unlawful.		
This claim is not financially related and there is no monetary value estimated. It is uncertain whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Ayalneh Mandefra Fantaye vs Umzimvubu Local Municipality	440,000	-
The plaintiff demands an amount of R150 000.00 as a result of vehicle collision that includes the municipal truck in January 2021. Notice of intention to institute legal proceedings received. Awaiting the service of Summons by the Plaintiff.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Siti Cargo vs Umzimvubu Local Municipality	950,000	-
Damages of R5 861 678 allegedly suffered by the plaintiff in respect of the termination of contract, contract number: UMZ/2018/19/INFRA/MIG/005 for construction of Silindini bridge. Municipal Attorneys are in the process of preparing an advisory memorandum and amending its plea accordingly.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		

Umzimvubu Local Municipality

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	2022	2021
51. Contingencies (continued)		
Geollocate vs Umzimvubu Local Municipality	623,748	-
The plaintiff is claiming an amount of R152 720 allegedly due by ULM in respect of services rendered. Letter of demand. The municipality is still to determine work done by the service provider then advise lawyers. Summons have since been received and the Municipality has filed its Plea in response and the matter is trial ready.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Zilindile Mrhamba and Chief Baphathe Makaula vs Umzimvubu Local Municipality: case number 28/2020	200,000	-
Unlawful demarcation of sites on land reserved for development of a Sportsfield in Semeni / Dungu. The Municipal legal representatives have since filed the Municipality's Replying Affidavit per the Court order. Awaiting allocation of date on the opposed roll.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Nodelile H Conjwa & 8 others :case number- 1531/2012	5,000,000	-
The plaintiff's attorneys issued letters of demand on behalf of the plaintiffs. They are claiming that the municipal officials unlawfully demolished their structures at Papanana location, KwaBhaca. Application for the consolidation of the matters was granted successfully. The matter is now set down for the commencement of the trial under one case number.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
	12,553,957	9,658,521

Umzimvubu Local Municipality

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2022 2021

52. Related parties

Receivables from related parties

Staff and councillors debt

Cllr Mdzinwa	420	-
Cllr Garane	265	8,032
T Ngcongca-Madotyeni	-	5,105
GPT Nota (Municipal Manager)	827	-
KP Dlamini-Tshazi (Senior Manager - Manager Community Services)	2,291	-

The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. No bad debts were written off or recognised in respect of amounts owed by Related parties.

The amounts outstanding are unsecured and will be settled in cash. Consumer deposits were received from Councillors, the Municipal Manager and Section 57 personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Purchases from Related Parties - GRAP 20 disclosure

The municipality bought goods from the following companies, which are considered to be Related Parties:

Glenhope Trading	2,536,051	4,907,587
Related person: Qaba Zembe		
Company Capacity: Owner (wife)		
Municipal Capacity: Snr Manager		
2nd World Guest House	7,000	6,600
Related person: Mr Mdzinwa		
Company Capacity: Owner (husband)		
Municipal Capacity: Chief Whip.		
Brotherly Love Trading & Projects	-	138,800
Related person: Qaba Zembe		
Company Capacity: Owner (wife)		
Municipal Capacity: Snr Manager		
	2,543,051	5,052,987

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length.

Key management information

Mayor	Mayor	1
Councillors	Councillors	55
Municipal Managers	Municipal Managers	1
Senior management	Senior management	5

Remuneration of management

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

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2022

2021

52. Related parties (continued)

Management class: Councillors

2022

Name	Basic salary	Allowances	Contributions to funds	Total
Executive Mayor - Cnl Z Ndevu (Appointed on 9 November 2021)	255,385	216,961	72,621	544,967
Executive Mayor - Cnl SK Mnu kwa (Term ended on 30 October 2021)	171,028	129,614	41,414	342,056
Speaker - Cnl HM Ngqasa (Appointed on 9 November 2021)	206,490	197,247	41,915	445,652
Speaker Cnl FN Ngonyolo (Term ended on 30 October 2021)	136,823	100,870	35,953	273,646
Chief whip -Cnl FN Ngonyolo (Appointed on 9 November 2021)	194,266	177,854	50,238	422,358
Chief whip - Cnl NG Mdzinwa (Term ended on 30 October 2021)	128,272	109,031	19,241	256,544
Executive committee Councillors	2,280,237	2,120,387	432,626	4,833,250
	5,977,442	6,495,459	1,153,643	13,626,544
	9,349,943	9,547,423	1,847,651	20,745,017

2021

Name	Basic salary	Allowances	Contributions to funds	Total
Executive Mayor - Cnl SK Mnu kwa	430,430	371,305	109,172	910,907
Speaker - Cnl FN Ngonyolo	344,344	298,538	95,387	738,269
Chief whip - Cnl NG Mdzinwa	322,823	315,191	52,808	690,822
Executive committee Councillors	2,154,391	2,083,131	426,676	4,664,198
	5,736,658	6,115,192	1,221,100	13,072,950
	8,988,646	9,183,357	1,905,143	20,077,146

Councillors were compensated within the limits set by the Remuneration of Public Office Bearers Act No. 20 of 1998.

In-kind Benefits

Councillors may utilise official Council transportation when engaged in official duties. The Executive Mayor and Speaker have use of Council owned vehicles for official duties.

Management class: Executive management

2022

Name	Basic salary	Car and other allowances	Annual Bonus	Performance bonus	Contributions to Funds	Total
Remuneration of Municipal Manager - GPT Nota	886,716	517,251	73,893	-	2,249	1,480,109
Remuneration of the Chief Financial Officer - FT Fundira	649,164	378,679	54,097	-	2,249	1,084,189
Remuneration of the Manager Local Economic Development - SC Ntinzi	649,164	378,679	54,097	-	2,249	1,084,189



Umzimvubu Local Municipality

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			2022			2021
52. Related parties (continued)						
Remuneration of the Manager Infrastructure and Planning - LJ Moleko	649,164	378,679	54,097	-	2,249	1,084,189
Remuneration of the Manager Chief Operations Officer - N Zembe	715,793	417,546	59,650	76,351	2,249	1,271,589
Remuneration of the Manager Corporate Services - TT Madotyeni-Ngcongca	649,164	378,679	54,097	47,850	2,249	1,132,039
Remuneration of the Manager Community Services - KP Dlamini-Tshazi	649,164	378,679	54,097	-	2,249	1,084,189
	4,848,329	2,828,192	404,028	124,201	15,743	8,220,493

2021

Name	Basic salary	Car and other allowances	Annual Bonus	Performance bonus	Other benefits received	Total
Remuneration of Municipal Manager - GPT Nota	886,716	517,251	71,880	73,893	12,931	1,562,671
Remuneration of the Chief Financial Officer - FT Fundira	649,164	378,679	54,097	-	10,554	1,092,494
Remuneration of the Manager Local Economic Development - SC Ntinzi	649,164	378,679	54,097	-	10,714	1,092,654
Remuneration of the Manager Infrastructure and Planning - LJ Moleko	649,164	378,679	54,097	41,150	10,554	1,133,644
Remuneration of the Manager Chief Operations Officer - N Zembe	715,793	417,546	59,649	76,593	11,615	1,281,196
Remuneration of the Manager Corporate Services - TT Madotyeni-Ngcongca	649,164	378,679	40,573	-	10,647	1,079,063
Remuneration of the Manager Community Services - KP Dlamini-Tshazi	649,164	378,679	36,065	-	10,519	1,074,427
	4,848,329	2,828,192	370,458	191,636	77,534	8,316,149

53. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the . Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Umzimvubu Local Municipality

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2022

2021

53. Risk management (continued)

Liquidity risk

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

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

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Market risk

Interest rate risk

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

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

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

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

The municipality had no floating rate long-term financial instruments at year-end requiring an Interest Rate Sensitivity Analysis.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

2022

2021

54. Segment reporting

Identification of segments

For management purposes, the municipality is organised and operates in nine key functional segments (or business units). To this end, management monitors the operating results of these business units for the purpose of making decisions about resource allocations and assessment of performance. Revenues and expenditures relating to these business units are allocated at a transactional level. Costs relating to the governance and administration of the municipality are not allocated to these business units.

The nine key business units comprise of:

1. Citizens and Community safety

This segment consists of all services provided by the municipality to citizens & for community safety.

2. Executive and Council

This segment consists of all services provided by Council and Executive to the community.

3. Budget and treasury office

This segment consists of all services for the providing of finance and administration operations of the municipality.

4. Office of the Municipal Manager

This segment consists of all services for the providing of governance and administration for the municipality.

5. Infrastructure and Project management unit

This segment consists of all services for the providing of infrastructure to the community.

6. Public Safety

This segment consists of all services for the providing of public safety to the community.

7. Road Transport

This segment consists of all services for the providing of road transport and infrastructure to the community.

8. Sport and Recreation

This segment consists of all services for sports & recreation provided to the community.

9. Waste Management

This segment consists of waste management services provided to the community.

No individually material operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on nonfinancial metrics and the segment's operating surplus or deficit, measured consistently with the accounting policies applied in the Annual Financial Statements. There are no differences in measurement of these reportable segments' surplus/deficit and that of the entity's surplus/deficit nor are there any differences in measurement of assets and liabilities.

Inter-business unit services are not valued and are deemed to have been supplied for no consideration and are therefore not eliminated. However, the quality of services provided internally is monitored as part of the nonfinancial service performance information.

The municipality operates within 27 community wards, the municipality does however not monitor operating results for these geographical segments, and operational results are only monitored within the business units as previously disclosed.

Management assesses that the measurement principles of the accrual basis are most consistent with those used in measuring the corresponding amounts in the entity's financial statements. The accrual measure of surplus or deficit and assets or liabilities is therefore used in the segment report. There are no differences in the measurements between segments..

Segment surplus or deficit

Umzimvubu Local Municipality
Annual Financial Statements for the year ended June 30, 2022

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	Municipal Governance & Administration	Finance & Administration	Economic & Environmental Services	Roads & Infrastructure	Community Services	Public Safety	Total
Revenue							
Service charges	-	-	-	-	1,216,660	-	1,216,660
Rental of facilities and equipment	-	629,490	2,965,138	2,999	181,491	-	3,779,118
Interest earned on outstanding debtors	-	4,823,411	-	-	-	-	4,823,411
Income from agency services	-	-	-	-	-	2,314,487	2,314,487
Licences and permits	-	-	-	-	-	1,712,956	1,712,956
Other income	-	54,540	-	585,944	-	-	640,484
Operational revenue	-	168,238	-	-	-	-	168,238
Actuarial gains	-	146,000	-	-	-	-	146,000
Fair value adjustment	-	3,745,041	-	-	-	-	3,745,041
Revenue from non exchange transactions							
Property rates	-	48,595,020	-	-	-	-	48,595,020
Government grants and subsidies	-	239,934,537	-	95,887,451	7,662,999	-	343,484,987
Interest received	-	1,490,559	-	-	-	-	1,490,559
Fines	-	1,283,233	-	-	-	3,510,193	4,793,426
Licences and permits	-	-	-	-	-	128,961	128,961
Total segment revenue	-	300,870,069	2,965,138	96,476,394	9,061,150	7,666,597	417,039,348
Municipality's revenue							417,039,348

Umzimvubu Local Municipality
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Notes to the Annual Financial Statements

	Municipal Governance & Administration	Finance & Administration	Economic & Environmental Services	Roads & Infrastructure	Community Services	Public Safety	Total
Expenditure							
Employee costs	(1,620,753)	(63,429,883)	(6,622,850)	(111,095)	(8,712,093)	(4,049,794)	(84,546,468)
Remuneration of councillors	(20,745,017)	-	-	-	-	-	(20,745,017)
Depreciation and amortisation	-	(3,227,935)	-	-	(71,249,388)	-	(74,477,323)
Impairment losses	-	(9,688,596)	-	(1,960,122)	-	-	(11,648,718)
Finance costs	-	-	-	-	(724,214)	-	(724,214)
Operating lease rentals	-	(101,903)	-	-	-	-	(101,903)
Inventory consumed	-	-	-	-	(7,304,566)	-	(7,304,566)
Contracted services	(1,075,413)	(2,536,987)	(35,213,650)	(15,245,896)	(14,236,981)	(7,023,477)	(75,332,404)
Transfers and subsidies	-	(988,905)	(3,754,176)	(77,440,532)	(1,437,941)	-	(83,621,554)
Operational costs	(6,949,079)	(41,765,465)	(3,828,040)	(8,414,926)	(2,908,749)	(15,061,563)	(78,927,822)
Loss on disposal of assets	-	-	-	(2,047,392)	-	-	(2,047,392)
Total segmental expenditure	(30,390,262)	(121,739,674)	(49,418,716)	(105,219,963)	(106,573,932)	(26,134,834)	(439,477,381)
Total segmental surplus/(deficit)	(30,390,262)	179,130,395	(46,453,578)	(8,743,569)	(97,512,782)	(18,468,237)	(22,438,033)
Assets							
Segment assets	(28,557,549)	(1,830,092,504)	(11,593,172)	1,780,950,494	1,174,091,038	25,734,907	1,110,533,214
Segment liabilities	(1,436,892)	253,481,268	(84,905,109)	105,995,282	(3,033,767)	(323,934,905)	(53,834,123)
Segment net assets	(29,994,441)	(1,576,611,236)	(96,498,281)	1,886,945,776	1,171,057,271	(298,199,998)	1,056,699,091
Total net assets as per Statement of financial Position							1,056,699,091

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Notes to the Annual Financial Statements

2021

	Municipal Governance & Administration	Finance & Administration	Roads & Infrastructure	Community Services	Public Safety	Total
Revenue						
Service charges	-	-	-	1,210,121	-	1,210,121
Rental of facilities and equipment	-	3,603,921	9,476	146,806	-	3,760,203
Interest earned on outstanding debtors	-	2,015,491	-	-	-	2,015,491
Agency services	-	-	-	-	2,231,470	2,231,470
Other income	-	918,805	414,486	-	2	1,333,293
Interest received	-	3,882,210	-	-	-	3,882,210
Actuarial gains	-	144,000	-	-	-	144,000
Licences and permits	-	-	-	-	1,913,901	1,913,901
Fair value adjustments	-	3,341,400	-	-	-	3,341,400
Revenue from non exchange transactions						
Property rates	-	17,733,488	-	-	-	17,733,488
Government grants and subsidies	-	276,766,936	103,620,016	5,069,310	-	385,456,262
Licences and permits	-	-	159,232	-	-	159,232
Fines	-	626,329	3,371,945	-	-	3,998,274
Total segment revenue	-	309,032,580	107,575,155	6,426,237	4,145,373	427,179,345
Municipality's revenue						427,179,345
Expenditure						
Employee costs	(4,349,487)	(32,923,253)	(15,165,665)	(12,860,869)	(15,332,933)	(80,632,207)
Remuneration of councillors	(20,077,147)	-	-	-	-	(20,077,147)
Depreciation and amortisation	-	(44,902,876)	-	(65,411,883)	-	(110,314,759)
Impairment losses	-	(6,888,323)	-	(9,030,634)	-	(15,918,957)
Lease rentals on operating lease	-	(203,849)	-	-	-	(203,849)
Bad debts written off	-	(2,216,061)	-	-	-	(2,216,061)
Finance costs	-	-	-	(320,021)	-	(320,021)
Inventory consumed	(592)	(3,265,004)	(359,598)	(2,016,025)	(493,111)	(6,134,330)
Contracted services	(6,327,793)	(20,063,433)	(9,146,304)	(7,426,782)	(13,306,707)	(56,271,019)
Transfers and subsidies	-	(1,104,926)	-	-	-	(1,104,926)
Operational costs	(8,565,103)	(35,315,150)	(11,070,039)	(1,637,816)	(1,154,393)	(57,742,501)
Loss on disposal of assets	-	(1,201,172)	-	-	-	(1,201,172)
Total segment expenditure	(39,320,122)	(148,084,047)	(35,741,606)	(98,704,030)	(30,287,144)	(352,136,949)
Total segmental surplus/(deficit)	(39,320,122)	160,948,533	71,833,549	(92,277,793)	(26,141,771)	75,042,396
Segment Assets and Liabilities						
Segment assets	121,066	34,176,199	1,092,899,441	46,834	7,143,656	1,134,387,196
Segment Liabilities	-	(49,805,598)	-	(4,490,750)	(953,392)	(55,249,740)
Net assets /(liabilities) of the segments	121,066	(15,629,399)	1,092,899,441	(4,443,916)	6,190,264	1,079,137,456
Total assets as per Statement of financial Position						1,079,137,456

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

55. Fruitless and wasteful expenditure

Opening balance as previously reported	871,710	812,367
Add: Expenditure identified - current	-	61,343
Less: Amounts recovered - current	(7,668)	(2,000)
Closing balance	864,042	871,710

Fruitless and wasteful expenditure is presented inclusive of VAT

The case relates to 3 officails that were formally placed at the E-Natis officials and the result of Disciplinary proceedings led to the recovery that is in progress at reporting date.

56. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by the council, any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager, noted by Council and bids where the formal procurement processes could not be followed must be noted in the Annual Financial Statements.

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

Supplier name and Reason for Deviation

SABC Corporation (Pty) Ltd	-	68,207
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Awareness campaigns about municipal programmes and projects flowing from IDP which are targeted to local audience being Umzimvubu community amongst all radio stations, it was evidenced that Umhlobo Wenene has the highest listenership in the area of Umzimvubu and therefore impractical to obtain quotations from other service providers but directly from SABC Corporation (Pty) Ltd for such services.

SABC Corporation (Pty) Ltd	-	47,783
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It will be impractical to follow SCM processes in terms of requesting quotations as per SCM thresholds due to the fact that the nature of the services requires the municipality to do it directly to one service provider being SABC Umhlobo Wenene.

The municipality intends to do awareness about municipal programmes and projects flowing from IDP which targeted local audience being Umzimvubu community and amongst all radio stations it has been evidence that Umhlobo Wenene has the highest listenership in the area of Umzimvubu Jurisdiction hence Umhlobo Wenene at an amount of R47 782.

Government Printing Works - Printing	-	22,087
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Gazette of Municipal by –Laws is the only service provider done this type of service by Government Printing works. The municipality was Gazetting of By-Laws (2020: Building plan fees.)

Government Printing Works - Printing	-	3,026
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Gazette of Municipal by –Laws is the only service provider done this type of service by Government Printing works. The municipality was Gazetting Rates tariffs for 2020/21.

	-	141,103
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Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

57. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

Current year subscription / fee	1,094,194	901,820
Amount paid - current year	(1,094,194)	(901,820)

Audit fees

Opening balance	2,944	-
Current year subscription / fee	5,092,660	5,201,161
Amount paid - current year	(5,095,604)	(5,198,217)

PAYE and UIF

Current year subscription / fee	18,541,438	18,129,742
Amount paid - current year	(18,541,438)	(18,129,742)

Pension and Medical Aid Deductions

Current year subscription / fee	18,488,533	18,186,309
Amount paid - current year	(18,488,533)	(18,186,309)

Councillors' arrear consumer accounts

Refer to the related party disclosure note 52

June 30, 2022	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor A. N. Garane	177	-	177
Councillor Mdzinwa	2,866	-	2,866
	3,043	-	3,043

June 30, 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor A. N. Garane	1,367	6,666	8,033

Supply chain management regulations

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 City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Interest charged on outstanding debtors - [MFMA 64 (2)(g)]

In terms of section 64 (2)(g) of the MFMA the municipality must charge interest on arrears, except where the council has granted exemptions in accordance with its budget related policies and within a prescribed framework. The municipality charges interest on outstanding debtors account at a rate of 10% per annum as approved by the council.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

58. SCM regulation 45 disclosures

The municipality bought goods from the following companies, where the directors are (related to) government officials.

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length:

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

58. SCM regulation 45 disclosures (continued)

MPI Attorneys Related person: L Madlanga Company Capacity: Owner (brother) Municipal Capacity: Official	-	962,052
Sips and Zozo Trading Related person: Dikwayo Siphokazi Company Capacity: Owner (brother) Municipal Capacity: Official	24,200	24,260
Misestozz Trading Related person: Mygirl Ntshengulana Company Capacity: Owner (husband) Municipal Capacity: Official	120,770	39,000
Litto Trading Related person: Canca Nokwazi Company Capacity: Owner (husband) Municipal Capacity: Official	-	794,000
Njola Mhle Construction Related person: N. Xashimba Company Capacity: Owner (brother) Municipal Capacity: Official	96,000	43,500
Myoza-Myoza Trading Related person: B. Jokazi Company Capacity: Owner (wife) Municipal Capacity: Official	4,354,502	1,389,365
Madstoff Related person: A. Jojo Company Capacity: Owner (husband) Municipal Capacity: Official	-	366,438
MNP Daughters Related person: A .Mdledle Company Capacity: Owner (mother) Municipal Capacity: Official	257,018	119,490
Siya and Aya Engineering Related person: A .Tandwa Company Capacity: Owner (Wife) Government official: Department of Health Official	4,683,196	6,027,742
Zimomo Trading Related person: A .Fikeni Company Capacity: Owner (Child) Municipal Capacity: Official	13,665	-
Tolta Development Projects Related person: N. Ndongeni Company Capacity: Owner (Sister) Municipal Capacity: Official	5,390	-

Umzimvubu Local Municipality

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Notes to the Annual Financial Statements

59. COVID-19 Additional disclosure

At the end of March 2020, the COVID-19 virus was declared a pandemic by the World Health Organisation and by the South African Government. South Africa entered into lockdown on 26th March 2020, which meant that businesses that were not seen as essential had to shut down.

This then meant any facilities that are normally rented out by the municipality had to be shut down and the affordability customers was negatively affected as such debt collection reduced even further. COVID-19 had a significant impact on the amounts as disclosed on the Annual Financial Statements. The affected areas were mainly debtors, cash and cash equivalent, debtor's impairment.

All areas of society were affected by the global pandemic as a result of the COVID-19 virus. South African government announced the national state of disaster and further gazetted regulations implementing National lockdown Level 5. The declaration of the national state of disaster as published in Gazette No 43096 on the 15th March 2020 and extended thereafter has had an impact which meant that businesses that were not seen as essential had to shut down.

COVID 19 had a significant impact on the amounts as disclosed on the Annual Financial Statements. The affected areas were mainly debtors, cash and cash equivalent, debtor's impairment and spending particularly on capital grants which the municipality under performed and resulted to unspent conditional grants. The Municipality has applied and for roll over to National Treasury.

The municipality continued to provide services during the national state of national disaster and raised revenue in accordance with services provided under both exchange and non-exchange revenue. Management has assessed that there have been no material changes in revenue raised for services. The nationwide lockdown has had a negative impact on the entity's recovery of income generated. The municipality in its assessment of impairment has considered the consumers risk profile and payment history.

Management has considered the impact of COVID-19 and that there have been no material changes in the use of asset that would require a change in the expected useful life of assets.

No material information has come to the attention of management to suggest that there is a going concern issue. The financial statements for the year ended 30 June 2022 have been prepared under the going concern assumption.

The amount spent by the council on COVID-19 related expenses for the year ended 30 June 2022 is R106 800 (2021: R955 447).

60. Operational revenue

Other income - (rollup)	168,238	86,530
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61. Operating (deficit) surplus

Operating (deficit) surplus for the year is stated after accounting for the following:

Operating lease charges		
Equipment		
• Contractual amounts	101,903	203,849

62. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:

- nature of the event.
- estimation of its financial effect or a statement that such an estimation cannot be made.

63. Unauthorised expenditure

Add: Unauthorised expenditure - current	77,440,532	-
Less: Amount authorised - current	(77,440,532)	-
Closing balance	-	-

Umzimvubu Local Municipality

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Notes to the Annual Financial Statements

63. Unauthorised expenditure (continued)

During the year, assets worth R77 440 532 which relate to the electrification network of rural areas that are funded by INEP Grant were transferred to Eskom. These asset are budgeted for under Capital Expenditure during the time they are constructed. There is no additional budget raised for the accounting entry of the transfer when the assets are completed as this would result in budgeting for the same expenditure twice. The effect of the transfer of functions and subsequent recognition of the transfer in the statement of financial performance leads to Unauthorised Expenditure.

This was presented to Council on the 24 June 2022 for authorisation.

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

Non-cash	77,440,532	-
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Analysed as follows: non-cash

Transfer of functions to Eskom	77,440,532	-
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64. 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:

N1: Being adjustment to PPE to capitalise the increase in provision for landfill site restaoration with actuarial calculations and the related accumulated depreciation

N2: Reclassification Prepayments that were previously classified as receivables from exchange transaction.

N3: Being reclassification of Department of Housing liability from Unspent Conditional liability to Payables from non-exchange transactions.

N4: Being recognition of the unspent grant from Office of the Premier at time of receipt.

N5: The effects of the changes to the accumulated surplus

Statement of financial position

2020

	Note	As previously reported	Correction of error	Restated
Property, plant and equipment N1		909,550,414	524,974	910,075,388
Accumulated surplus N1		(973,597,627)	(524,974)	(974,122,601)
		(64,047,213)	-	(64,047,213)

2021

	Note	As previously reported	Correction of error	Re-classification	Restated
Prepayments N2		-	-	1,094,194	1,094,194
Property, plant and equipment N1		957,769,345	655,339	-	958,424,684
Trade and other Receivables from Exchange Transactions N2		2,140,354	-	(1,094,194)	1,046,160
Payables from Non-exchange transactions N3		(2,251,168)	-	(6,160,485)	(8,411,653)
Unspent conditional grants and receipts N4		(14,300,023)	1,618,472	6,160,485	(6,521,066)
Accumulated surplus N5		(1,045,988,665)	(2,273,811)	-	-(1,048,262,476)
		(102,630,157)	-	-	(102,630,157)

Umzimvubu Local Municipality

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Notes to the Annual Financial Statements

64. Prior-year adjustments (continued)

Statement of financial performance

2021

	Note	As previously reported	Correction of error	Restated
Revenue from non-exchange transactions - Government grants and subsidies N4		383,837,790	1,618,472	385,456,262
Revenue from exchange transactions - Fair value adjustments N1		3,200,527	140,873	3,341,400
Depreciation and amortisation N1		(110,304,251)	(10,508)	(110,314,759)
Adjustment to surplus for the year N5		(73,293,558)	(1,748,837)	(75,042,395)
Surplus for the year		203,440,508	-	203,440,508

65. Budget differences

Material differences between budget and actual amounts

Below are explanations of variances that are more than 10% between budgeted amounts and actual amounts for the year.

N1: The variance is as a result of over collection against the budget

N2 : The cause of the variance is poor collection from rentals although there are measures in place to improve collection

N3: Variance is as a result of over budgeting and the impact of interest rate fluctuations due to economy still recovering from covid 19

N4: collection targets could not be met since hawkers are still recovering from the effects of lockdown

N5: Vat receivable is budgeted as revenue however on receipts it goes to vat receivables under current assets

N6: the variance for licences and forfeits- non exchange were not budgeted for

N7: Variance caused by grace period the given by national department of transport

N8: Cost containment regulation is a contributing factor towards cutting travelling costs

N9: the variance identified is as a result of over budgeting

N11: Variance is as result of fair value adjustment to investment property

N12: There was over budgeting on inventory due the factor for every inventory consumed segment the was a need of budgeting for acquisition of inventory

N13: The identified difference is caused by under-budgeting on operating lease

N14: the variance identified is as a result of over budgeting

N15: the variance is caused by receivables budgeted under revenue

N16: The identified variance is caused by over budgeting on Cash and cash equivalents

N17: The identified difference is called by acquiring new assets

N18: The anticipated acquisition of PPE could not be met

N19: The anticipated acquisition of Intangible assets could not be met

N20: The identified variance is as a result of taxes and transfers not budgeted for

Umzimvubu Local Municipality

Annual Financial Statements for the year ended June 30, 2022

Notes to the Annual Financial Statements

65. Budget differences (continued)

N21: The variance is as a result of untraceable deposits

N21: The variance is as a result of unspent grants not being budgeted for

N22: The variance is as a result provisions being under budgeted for

N23: The variance is as a result provisions being under budgeted for

N24: The variance is as a result provisions being under budgeted for

N26: The identified difference is as a result of under budgeting on NDR

N27: The variance is as a result of poor revenue collection

N27: The difference is due to under collection on rates due to COVID 19 constraint encountered by residents

N28: The difference is due to under collection on service charge due to COVID 19 constraint encountered by residents

N29: The variance is due to budgeting of vat refunds which is accounted for separately

N31: Some the grants we anticipated to receive were never full received e.g OTP grant and Human settlement grant

N30: The identified difference is due to increase in repo rate

N33: the variance is caused by implementation of cost containment regulation

N32: the variance is caused by confusion caused by constitutional court judgement on SCM regulations, municipality had to stop the procurement of capital assets

N35: There was no budget allocated for the disposal of Assets

N36: There was no budget allocated for the disposal of Assets

N37: Prepayments are not budgeted for. The municipality took advantage of discounts offered by SALGA hence the prepayment was made.

Umzimvubu Local Municipality

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Notes to the Annual Financial Statements

65. Budget differences (continued)

66. Going concern

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 ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these are listed below:

(i) The Council adopted the 2021 to 2024 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to supported the ongoing delivery of municipal services to residents reflected that the Budget was cash-backed over the three-year period.

(ii) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

(iii) Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the Budget. The cash management processes is complemented by monthly and quarterly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.

(iv) As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the annual financial statements 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.