(Registration number KZN213)

# Annual Financial Statements
# for the year ended 30 June 2024

# General Information

| | |
|---|---|
| **Legal form of entity** | Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the Republic of South Africa (Act 108 of 1996) |
| **Nature of business and principal activities** | Providing municipal services in terms of the Municipal Systems Act No.32 of 2000 (MSA) and Municipal Finance Management Act No.56 of 2003 (MFMA) to the community of Umzumbe. The provision of services to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment. |
| Executive Committee Members | Councillor Nyuswa BG (Mayor)<br>Councillor Mthethwa SP (Speaker)<br>Councillor Luthuli MZ (Deputy Mayor)<br>Councillor Ndlovu M (Exco Member)<br>Councillor Cele SR (Exco Member)<br>Councillor Luthuli BB (Exco Member) |
| Councillors | Councillor Mweshe NY<br>Councillor Mtambo JY<br>Councillor Zungu MPL<br>Councillor Khanyile RSW<br>Councillor Cele LS<br>Councillor Nzimande SG<br>Councillor Mjwara RL<br>Councillor Ngcobo SC<br>Councillor Msomi MJ<br>Councillor Radebe SC<br>Councillor Tryon BW<br>Councillor Gumede JP<br>Councillor Dlamini S<br>Councillor Biyase NP<br>Councillor Ngcobo M<br>Councillor Kuzwayo PJ<br>Councillor Mtolo SC<br>Councillor Chili ML<br>Councillor Shozi BN<br>Councillor Shabane JD<br>Councillor Msimango Hd<br>Councillor Ndebele TE<br>Councillor Mbatha MM<br>Councillor Luthuli AM<br>Councillor Mngoma BA<br>Councillor Doncabe G<br>Councillor Cele ZZ<br>Councillor Maphumulo SM<br>Councillor Zuma S<br>Councillor Zuke S<br>Councillor Ngwazi T<br>Councillor Qwabe P<br>Councillor Msomi DK |
| **Grading of local authority** | 1 |
| **Accounting Officer** | Mrs S. AN Dlamini (Acting) |
| **Chief Financial Officer (CFO)** | Mr Ntando Duma (Acting) |
| **Registered office** | Sipofu Road<br>Mathulini Tribal Authority<br>4220 |

# General Information

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|---|---|
| **Business address** | Sipofu Road<br>Mathulini Tribal Authority<br>4220<br>Web: www.umzumbe.gov.za |
| **Postal address** | P.O. Box 561<br>Hibberdene<br>4220 |
| **Bankers** | ABSA Bank Limited<br>FNB Bank |
| **Auditors** | Auditor General South Africa<br>Registered Auditors |

# Index



**Abbreviations used:**

| | |
|---|---|
| VAT | Value Added Tax |
| COGTA | Department of Cooperative Governance and Traditional Affairs |
| GRAP | Generally Recognised Accounting Practice |
| DoRA | Division of Revenue Act |
| MIG | Municipal Infrastructure Grant |
| UIF | Unemployment Insurance Fund |
| MFMA | Municipal Finance Management Act |
| PAYE | Pay As You Earn |
| SALGBC | South African Local Bargaining Council |

# Accounting Officer's Responsibilities and Approval

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

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

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

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

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit. The Accounting Officer certifies that the salaries, allowances and benefits of Councillors as disclosed in these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government’s determination in accordance with this Act.

The Accounting Officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2025 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is substantially dependent on the grant allocations through the Division of Revenue Act (DoRA) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umzumbe Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality and is supported by the municipality's Chief Financial Officer.

The annual financial statements set out from page 5, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2024 and were signed on its behalf by the Accounting Officer:

**Mrs S AN DLAMINI**
**Accounting Officer**

## Accounting Officer's Report

The Accounting Officer submits his report for the year ended 30 June 2024.

### 1. Review of activities

**Main business and operations**

The municipality is engaged in provision of municipal services in terms of the Municipal Systems Act no.32 of 2000 (MSA) and Municipal Finance Management Act no.56 of 2003 (MFMA) and operates in South Africa.

Net deficit of the municipality was 14,393,895 (2023: deficit 25,620,504).

### 2. Going concern

We draw attention to the fact that as at 30 June 2024, the municipality had an accumulated surplus (deficit) of 671,440,655 and that the municipality's total assets exceed its liabilities by 671,440,655.

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 municipality is a going concern based on the following:

- Current assets exceed current liabilities
- Under DORA the municipality has been allocated funds for three years 2023/24 to 2025/26
- There is no indication of a possibility of default by the government in paying grants under the Act. This is corroborated by experience where National Treasury has met its obligations year on year and has therefore created a constructive obligation.
- In addition the municipality collects revenue for services rendered and this will augment cashflows in subsequent years.

### 3. Subsequent events

The Accounting Officer is not aware of any matter or circumstance arising since the end of the financial year.

### 4. Accounting Officers' interest in contracts

The Accounting Officer has completed the declaration of interest as required in terms of Supply Chain Regulations.

### 5. Accounting policies

The annual financial statements were prepared in accordance with the MFMA and standards of GRAP including any interpretations of such Statements issued by the Accounting Standards Board and as per the prescribed framework by National Treasury.

### 6. Accounting Officer

The Accounting Officer of the municipality during the year and to the date of this report is as follows:

| Name | Nationality |
| --- | --- |
| Mrs S AN DLAMINI | South African |

### 7. Corporate governance

**General**

The Accounting Officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the Accounting Officer supports the highest standards of corporate governance and the ongoing development of best practices.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance. The accounting officer discusses the responsibilities of management in this respect, at management meetings and monitors the municipality's compliance with the code on a regular basis.

**. Corporate governance (continued)**

**Management meetings**

The Accounting Officer has met the Directors on separate occasions during the financial year. The Accounting Officer schedules to meet the Directors at least once per month.

**Internal audit**

The municipality has its own internal audit function. This is in compliance with the Municipal Finance Management Act, 2003.

**8. Bankers**

The municipality's bankers did not change during the year under review. Absa and FNB were the bankers of the municipality.

**9. Auditors**

The Auditor General South Africa (AGSA) will continue to audit the financial affairs of the municipality.

The annual financial statements set out from page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2024 and were signed on its behalf by:

**Mrs S AN DLAMINI**
**Accounting Officer**

# Statement of Financial Position as at 30 June 2024

| Figures in Rand | Note(s) | 2024 | 2023 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Receivables from exchange transactions | 6 | 1,505,836 | 1,949,901 |
| VAT receivable | 7 | 4,378,217 | 1,208,538 |
| Receivables from non-exchange transactions | 8 | 22,376,154 | 20,247,538 |
| Cash and cash equivalents | 9 | 46,287,800 | 99,690,627 |
| | | **74,548,007** | **123,096,604** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 2 | 644,835,930 | 599,294,929 |
| Intangible assets | 3 | 137,510 | 159,134 |
| | | **644,973,440** | **599,454,063** |
| **Total Assets** | | **719,521,447** | **722,550,667** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Operating lease liability | 4 | 99,325 | 89,275 |
| Payables from exchange transactions | 5 | 37,661,910 | 33,658,188 |
| Unspent conditional grants and receipts | 10 | 7,839,557 | 754,654 |
| Provisions | 11 | 313,000 | 223,000 |
| | | **45,913,792** | **34,725,117** |
| **Non-Current Liabilities** | | | |
| Provisions | 11 | 2,167,000 | 1,991,000 |
| **Total Liabilities** | | **48,080,792** | **36,716,117** |
| **Net Assets** | | **671,440,655** | **685,834,550** |
| Accumulated surplus | | 671,440,655 | 685,834,550 |
| **Total Net Assets** | | **671,440,655** | **685,834,550** |

# Statement of Financial Performance

| Figures in Rand | Note(s) | 2024 | 2023 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Other income | 12 | 5,605,458 | 2,771,751 |
| Interest received - investment | 13 | 9,196,551 | 10,324,622 |
| **Total revenue from exchange transactions** | | **14,802,009** | **13,096,373** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Property rates | 14 | 8,269,915 | 8,244,365 |
| **Transfer revenue** | | | |
| Government grants & subsidies | 15 | 210,591,834 | 205,963,716 |
| Public contributions and donations | 16 | 11,500 | 2,063 |
| **Total revenue from non-exchange transactions** | | **218,873,249** | **214,210,144** |
| **Total revenue** | | **233,675,258** | **227,306,517** |
| **Expenditure** | | | |
| Employee Related Costs | 17 | 79,053,879 | 72,208,111 |
| Remuneration of Councillors | 18 | 22,452,540 | 23,773,737 |
| Depreciation and amortisation | 19 | 24,572,227 | 23,308,460 |
| Finance costs | 21 | 306,260 | 291,140 |
| Debt Impairment | 23 | 1,290,105 | 2,635,089 |
| Contracted services | 25 | 65,337,582 | 67,896,215 |
| General Expenses | 24 | 52,747,011 | 62,735,439 |
| **Total expenditure** | | **245,759,604** | **252,848,191** |
| **Operating deficit** | | **(12,084,346)** | **(25,541,674)** |
| Loss on disposal of assets | | (904,232) | (299,615) |
| Actuarial gains/(losses) | | 86,503 | 467,287 |
| Impairment loss | 20 | (1,491,820) | (246,502) |
| | | **(2,309,549)** | **(78,830)** |
| **Deficit for the year** | | **(14,393,895)** | **(25,620,504)** |

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus / deficit | Total net assets |
|---|---|---|
| Opening balance as previously reported as at 30 June 2021 | 711,443,994 | 711,443,994 |
| Adjustments | | |
| Correction of errors 30 | 11,060 | 11,060 |
| **Balance at 01 July 2022 as restated*** | **711,455,054** | **711,455,054** |
| Surplus for the year | (25,620,504) | (25,620,504) |
| Total changes | (25,620,504) | (25,620,504) |
| **Restated* Balance at 01 July 2023** | **685,834,550** | **685,834,550** |
| Changes in net assets | | |
| Surplus for the year | (14,393,895) | (14,393,895) |
| Total changes | (14,393,895) | (14,393,895) |
| **Balance at 30 June 2024** | **671,440,655** | **671,440,655** |

Note(30)

# Cash Flow Statement

| Figures in Rand | Note(s) | 2024 | 2023 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Receipts from Customers | | 10,461,705 | 5,090,111 |
| Grants | | 257,147,000 | 220,963,716 |
| Interest income | | 9,196,551 | 10,324,622 |
| | | 276,805,256 | 236,378,449 |
| **Payments** | | | |
| Cash Paid to Suppliers and Employees | | (257,720,468) | (248,358,837) |
| **Net cash flows from operating activities** | 26 | **19,084,788** | **(11,980,388)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 2 | (72,422,686) | (81,853,101) |
| Proceeds from sale of property, plant and equipment | 2 | - | 22,824 |
| Purchase of intangible assets | 3 | (64,929) | - |
| **Net cash flows from investing activities** | | **(72,487,615)** | **(81,830,277)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(53,402,827)** | **(93,810,665)** |
| Cash and cash equivalents at the beginning of the year | | 99,690,627 | 193,501,292 |
| **Cash and cash equivalents at the end of the year** | 9 | **46,287,800** | **99,690,627** |

The accounting policies on pages 13 to 30 and the notes on pages 31 to 63 form an integral part of the annual financial statements.

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference See Note 39 |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Other income | 2,225,957 | (282,609) | **1,943,348** | 5,605,458 | **3,662,110** | 1 |
| Interest Earned - External Investments | 11,583,000 | (2,000,000) | **9,583,000** | 9,196,551 | **(386,449)** | |
| **Total revenue from exchange transactions** | **13,808,957** | **(2,282,609)** | **11,526,348** | **14,802,009** | **3,275,661** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 8,269,914 | - | **8,269,914** | 8,269,915 | **1** | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 259,072,000 | 13,829,654 | **272,901,654** | 210,591,834 | **(62,309,820)** | 2 |
| Public contributions and donations | - | - | **-** | 11,500 | **11,500** | |
| **Total revenue from non-exchange transactions** | **267,341,914** | **13,829,654** | **281,171,568** | **218,873,249** | **(62,298,319)** | |
| **Total revenue** | **281,150,871** | **11,547,045** | **292,697,916** | **233,675,258** | **(59,022,658)** | |
| **Expenditure** | | | | | | |
| Employee related costs | (95,799,633) | - | **(95,799,633)** | (79,053,879) | **16,745,754** | 3 |
| Remuneration of councillors | (18,738,355) | - | **(18,738,355)** | (22,452,540) | **(3,714,185)** | 4 |
| General Expenses, Contracted Services, Other expenses and Impairment loss | (167,009,830) | (25,936,825) | **(192,946,655)** | (144,253,185) | **48,693,470** | 5 |
| **Total expenditure** | **(281,547,818)** | **(25,936,825)** | **(307,484,643)** | **(245,759,604)** | **61,725,039** | |
| **Operating deficit** | **(396,947)** | **(14,389,780)** | **(14,786,727)** | **(12,084,346)** | **2,702,381** | |
| Loss on disposal of assets | - | - | **-** | (904,232) | **(904,232)** | |
| Actuarial gains/(losses) | - | - | **-** | 86,503 | **86,503** | |
| Impairment Loss | - | - | **-** | (1,491,820) | **(1,491,820)** | |
| Internal Reserves | 126,965,159 | 14,044,063 | **141,009,222** | - | **(141,009,222)** | 6 |
| | **126,965,159** | **14,044,063** | **141,009,222** | **(2,309,549)** | **(143,318,771)** | |
| **Surplus / (Deficit)** | **126,568,212** | **(345,717)** | **126,222,495** | **(14,393,895)** | **(140,616,390)** | |
| **Capital** | **-** | **-** | **-** | **-** | **-** | |
| Capital Expenditure | (94,051,027) | 4,163,793 | **(89,887,234)** | (72,422,686) | **17,464,548** | 7 |
| | **32,517,185** | **-** | **36,335,261** | **-** | **-** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference See Note 39 |
|---|---|---|---|---|---|---|
| **Cash Flow Statement** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| Net cash (from) from operating activities | 126,568,212 | (345,717) | **126,222,495** | 19,084,788 | **(107,137,707)** | 8 |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | - | - | **-** | (72,422,686) | **(72,422,686)** | 9 |
| Purchase of intangible assets | - | - | **-** | (64,929) | **(64,929)** | |
| **Net cash flows from investing activities** | **-** | **-** | **-** | **(72,487,615)** | **(72,487,615)** | |
| Net increase/(decrease) in cash and cash equivalents | 126,568,212 | (345,717) | **126,222,495** | (53,402,827) | **(179,625,322)** | |
| Cash and cash equivalents at the beginning of the year | - | - | **-** | 99,690,627 | **99,690,627** | |
| **Cash and cash equivalents at the end of the year** | **126,568,212** | **(345,717)** | **126,222,495** | **46,287,800** | **(79,934,695)** | |

# Significant Accounting Policies

| Figures in Rand | Note(s) | 2024 | 2023 |
|---|---|---|---|

### 1. Significant accounting polices

The significant accounting policies applied in the preparation of these annual financial statements are set out below.

### 1.1 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.

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

GRAP - 1 Presentation of Financial Statements
GRAP - 2 Cashflow Statements
GRAP - 3 Accounting Policies, Changes in Accounting Estimates and Errors
GRAP - 5 Borrowing Costs
GRAP - 9 Revenue from Exchange Transactions
GRAP - 12 Inventories
GRAP - 13 Leases
GRAP - 14 Events after the reporting date
GRAP - 17 Property Plant and Equipment
GRAP - 18 Segment Reporting
GRAP - 19 Provisions, Contingent Liabilities and Contingent Assets
GRAP - 21 Impairment of Non-Cash Generating Assets
GRAP - 23 Revenue from Non-exchange Transactions
GRAP - 24 Presentation of Budget Information in Financial Statements
GRAP - 25 Employee Benefits
GRAP - 31 Intangible Assets
GRAP -104 Financial Instruments
GRAP -108 Statutory Receivables
GRAP -109 Accounting by Principals and Agents

The following GRAP standards have been issued but are not yet effective

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the municipality.

GRAP 1 - Presentation of Financial Statements (revised) - The impact of the changes are not material.
GRAP 104 - Financial Instruments (revised) - The impact of the changes is not material.

These accounting policies are consistent with the previous period.

### 1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. The amounts are rounded to the nearest 1 Rand.

### 1.3 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.

## Significant Accounting Policies

### 1.4 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.

**Budget and Actual amounts variances**

Variances between budget and actual amounts are regarded as material when the variance is;

- 10% or greater in the statement of financial position, the statement of financial performance, and the cash flow statement; and
- 5% or greater in capital expenditure.

### 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.

# Significant Accounting Policies

**1.5 Property, plant and equipment (continued)**

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.

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

| Item | Depreciation method | Average useful life |
|---|---|---|
| Computer equipment | Straight-line | 05-18 |
| Solid waste disposal | Straight-line | 05-55 |
| Dwellings | Straight-line | 05-30 |
| Electricity | Straight-line | 05-80 |
| Furniture & office equipment | Straight-line | 07-23 |
| Non Residential dwellings | Straight-line | 10-60 |
| Transport assets | Straight-line | 04-20 |
| Machinery & equipment | Straight-line | 02-20 |
| Roads | Straight-line | 03-100 |

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.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 2).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 2).

Assets Under Construction

Incomplete construction work is stated at historical cost. Depreciation only commence when the asset is available for use and when final conditions are met.

## Significant Accounting Policies

### 1.6 Intangible assets

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

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

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

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

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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 | Straight-line | 3-5 |

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

### 1.7 Financial instruments

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, risk classes (households,business and government), probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Payables from exchange transactions

Payables are initially measured at fair value plus transactional cost, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Receivables from non exchange transactions

Trade receivables from non-exchange transactions are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, risk classes (households,business and government), probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Discounted cash flows are based on applying the prime rate to estimated cash flow projections taking into consideration sampled debtors within their classes as well as objective indicators such as government commitments and legal action application processes, where relevant. Where the initial credit period granted is not in line with practices or legislation in the public sector, the effect of discounting is considered if it is material.

### 1.8 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 - 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.

### 1.9 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).

**1.9 Impairment of non-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 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.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:
- The objective of using the assets.
- The intended use of the asset.

**Designation**

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

**Identification**

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

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

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

## Significant Accounting Policies

**1.9 Impairment of non-cash-generating assets (continued)**

**Value in use**

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

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

**Depreciated replacement cost approach**

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

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

**Restoration cost approach**

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

**Service units approach**

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

**Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

# Significant Accounting Policies

### 1.9 Impairment of non-cash-generating assets (continued)

**Reversal of an impairment loss**

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

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

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

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

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

**Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

# Significant Accounting Policies

### 1.10 Employee benefits

**Short-term employee benefits**

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

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

**Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The Municipality's employees are members of the Kwazulu - Natal Joint Municipal Pension Fund (a State and Multi Employer Defined Benefit Plan) and Kwazulu Natal Joint Provident Fund (a State and Multi Employer Defined Contribution Plan). Along with other Municipalities in the province of Kwazulu Natal, uMzumbe participates in a multi employer defined plan. As the plan exposes the participating entities to actual risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual municipalities participating in the plan. uMzumbe therefore accounts for the plan as if it were defined contribution plan.

**Long Service Awards**

The municipality has an obligation to provide Long Service Awards Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality’s liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

**Pension, Provident, Retirement Benefits and Group Life Scheme**

The municipality provides retirement benefits for its employees in the form of a defined contribution plans. The municipality is no longer contributing towards retirement benefits for the Councillors as they are now getting a total cost to company package.

A defined contribution plan is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year they become payable.

### 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.

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.

## Significant Accounting Policies

### 1.11 Provisions and contingencies (continued)

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.

Contingent assets and contingent liabilities are not recognised but disclosed as a note in the financial statements.

### 1.12 Revenue from non-exchange transactions

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

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

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

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### 1.12 Revenue from non-exchange transactions (continued)

**Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

**Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

**Property Rates**

Revenue from property rates is recognised when:

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

**Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

**Services in-kind**

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

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

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

### 1.12 Revenue from non-exchange transactions (continued)

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

Conditional Grants and Receipts

Conditional grants, donations and funding are recognised as revenue when:

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

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

### 1.13 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.

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.

**Recognition**

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

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.

### 1.14 Comparative figures

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

### 1.15 Unauthorised expenditure

Unauthorised expenditure means:

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

## Significant Accounting Policies

### 1.15 Unauthorised expenditure (continued)

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

### 1.16 Fruitless and wasteful expenditure

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

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

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

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).

### 1.18 Use of estimates

In the application of the municipality's accounting policies, which are described below, management is required to make judgement, estimates and assumption that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The estimates and associated assumptions are based on historical experiences and other factors that are considered to reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### Impairment of trade and other receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

#### Fair value estimation

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.

#### Provisions

Provisions were raised and management determined an estimate based on the information available.

#### Depreciation and carrying value of items of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgement. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

#### Impairment testing

# Significant Accounting Policies

### 1.18 Use of estimates (continued)

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

### 1.19 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

### 1.20 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.

### 1.21 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

### 1.22 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

# Significant Accounting Policies

**1.22 Events after reporting date (continued)**

- 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.

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.

**1.23 Statutory receivables**

**Identification**

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

**Recognition**

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

**Initial measurement**

The municipality initially measures statutory receivables at their transaction amount.

**Subsequent measurement**

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

**Impairment losses**

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.

# Significant Accounting Policies

### 1.23 Statutory receivables (continued)

- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

**Derecognition**

The municipality derecognises a statutory receivable, or a part thereof, when:

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

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

### 1.24 Inventories

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

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

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

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

### 1.25 Revenue from exchange transactions

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

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

# Significant Accounting Policies

### 1.25 Revenue from exchange transactions (continued)

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

**Measurement**

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

The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the accounting policy on Statutory Receivables).

**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.

**Rendering of services**

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

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

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

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

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

**Interest**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

# Significant Accounting Policies

### 1.26 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting, expenses are recognised when incurred, usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Expenses include write downs of inventory and decreases in fair values of financial instruments classified as held at fair value. Losses on the disposal of non-current assets are reported separately from expenses in the Statement of Financial Performance

Major expense items disclosed in the Statement of Financial Performance include;

- Contracted services – caters for all the external services and is further categorised into outsourced, consultants, professional services and contractors. Repairs and maintenance is also part of contracted services. Outsourced services - the municipality should have capacity to carry out the function but choose to enlist the services of an external service provider. Consultant & professional services - refers to specialist services and skills provided. These skills are unnecessary to maintain inhouse and are required on a once off or temporary basis. Contractors - provides services that are not the core business of the municipality.
- Transfers and grants which relate to expenditure pertaining to free basic services, donations to the community, electrification of the townships, bursaries and general expenses constitute several expense items which are not individually significant.
- Write downs of inventory and decreases in fair values of financial instruments classified as held at fair value.
- Losses on the disposal of non-current assets are reported separately from expenses in the Statement of Financial Performance.
- General Expenses - This relates to operational expenses incurred by the municipality on a day to day basis

An expense is recognised in the municipality's Statement of Financial Performance when, and only when, the following criteria are satisfied:

- The cost or value may involve estimation. Where an item possesses the essential characteristics of an expense but fails to meet the criteria for recognition it is disclosed in the note.

Where an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquisition, for example, repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs. Where future economic benefits are expected to be consumed over several reporting periods e.g. non-current assets, expenses (depreciation) is allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and where a liability is incurred without the recognition of anasset an expense is recognised simultaneously with the recognition of the liability.

### 1.27 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 2023/07/01 to 2024/06/30.

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.

Comparative information is not required for, and has therefore not been presented in, the statement of comparison of budget and actual amounts.

### 2. Property, plant and equipment

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Machinery equipment | 21,119,362 | (12,979,623) | 8,139,739 | 21,820,029 | (11,715,983) | 10,104,046 |
| Furniture and office equipment | 7,208,666 | (4,313,183) | 2,895,483 | 6,698,614 | (3,987,264) | 2,711,350 |
| Transport assets | 16,307,063 | (7,821,278) | 8,485,785 | 16,995,126 | (6,593,786) | 10,401,340 |
| Computer equipment | 7,027,258 | (3,872,100) | 3,155,158 | 7,346,166 | (3,526,255) | 3,819,911 |
| Road Infrastructure | 418,326,477 | (177,001,561) | 241,324,916 | 373,436,484 | (164,762,169) | 208,674,315 |
| Community Assets | 213,906,852 | (46,835,959) | 167,070,893 | 194,392,146 | (39,536,080) | 154,856,066 |
| Solid Waste Disposal | 398,953 | (186,915) | 212,038 | 374,153 | (168,172) | 205,981 |
| Work in Progress | 213,551,918 | - | 213,551,918 | 208,521,920 | - | 208,521,920 |
| **Total** | **897,846,549** | **(253,010,619)** | **644,835,930** | **829,584,638** | **(230,289,709)** | **599,294,929** |

## Notes to the Annual Financial Statements

Figures in Rand

**2. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2024**

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|
| Machinery equipment | 10,104,046 | 371,100 | (38,658) | 118,631 | (1,478,539) | (936,841) | 8,139,739 |
| Furniture and office equipment | 2,711,350 | 833,169 | (66,377) | - | (582,659) | - | 2,895,483 |
| Transport assets | 10,401,340 | - | (470,227) | - | (1,445,328) | - | 8,485,785 |
| Computer equipment | 3,819,911 | 471,172 | (135,586) | - | (1,000,339) | - | 3,155,158 |
| Infrastructure | 208,674,315 | 1,217,186 | (72,596) | 44,483,941 | (12,422,951) | (554,979) | 241,324,916 |
| Community assets | 154,856,066 | 88,700 | (97,922) | 19,780,989 | (7,556,940) | - | 167,070,893 |
| Solid waste disposal | 205,981 | 27,800 | (478) | - | (21,265) | - | 212,038 |
| Work in Progress | 208,521,920 | 69,413,559 | - | (64,383,561) | - | - | 213,551,918 |
| | **599,294,929** | **72,422,686** | **(881,844)** | **-** | **(24,508,021)** | **(1,491,820)** | **644,835,930** |

### 2. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2023**

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|
| Machinery equipment | 9,815,812 | 868,981 | (5,954) | 905,236 | (1,480,029) | - | 10,104,046 |
| Furniture and office equipment | 1,641,968 | 1,239,420 | (26,990) | 313,380 | (440,265) | (16,163) | 2,711,350 |
| Transport assets | 12,087,026 | - | (55,272) | - | (1,630,414) | - | 10,401,340 |
| Computer equipment | 2,890,750 | 1,817,673 | (30,272) | - | (836,460) | (21,780) | 3,819,911 |
| Infrastructure | 189,585,067 | - | (41,758) | 31,133,646 | (11,873,824) | (128,816) | 208,674,315 |
| Community assets | 63,762,672 | 956,121 | (153,262) | 97,319,841 | (6,949,563) | (79,743) | 154,856,066 |
| Solid waste disposal | 60,748 | 172,500 | (8,931) | - | (18,336) | - | 205,981 |
| Work in Progress | 261,395,617 | 76,798,406 | - | (129,672,103) | - | - | 208,521,920 |
| | **541,239,660** | **81,853,101** | **(322,439)** | **-** | **(23,228,891)** | **(246,502)** | **599,294,929** |

**Pledged as security**

No assets were pledged as security:

Delayed Projects

The following projects were delayed because of various reasons

| **Reason for Delays** | | |
|---|---|---|
| The projects are on design stage | - | 1,529,727 |
| The projects are currently under construction, however the projects are on hold | 18,563,641 | 45,982,447 |
| The projects are on procurement stage (Phase3) | - | 43,447,970 |
| The projects were not prioritised for implementation, however they will be implemented in the coming financial year | 13,969,080 | 23,816,987 |
| | **32,532,721** | **114,777,131** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

## 2. Property, plant and equipment (continued)

**Reconciliation of Work-in-Progress 2024**

| | Included within Infrastructure | Included within Community | Total |
|---|---|---|---|
| Opening balance | 123,477,717 | 85,044,207 | 208,521,924 |
| Additions/capital expenditure | 35,654,219 | 33,759,379 | 69,413,598 |
| Transferred to completed items | (44,483,941) | (19,899,620) | (64,383,561) |
| | **114,647,995** | **98,903,966** | **213,551,961** |

**Reconciliation of Work-in-Progress 2023**

| | Included within Infrastructure | Included within Community | Total |
|---|---|---|---|
| Opening balance | 96,253,877 | 165,141,742 | 261,395,619 |
| Additions/capital expenditure | 58,357,486 | 18,440,922 | 76,798,408 |
| Transferred to completed items | (31,133,646) | (98,538,457) | (129,672,103) |
| | **123,477,717** | **85,044,207** | **208,521,924** |

**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** | | |
|---|---|---|
| Roads Infrastructure | 6,210,845 | 29,130,835 |
| Machinery equipment | 1,826,348 | 2,941,876 |
| Transport Assets | 790,711 | 1,015,992 |
| Community Assets | 1,367,096 | 2,194,320 |
| Computer Equipment | - | 3,000 |
| | **10,195,000** | **35,286,023** |

The municipality's assets are unencumbered. 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.

Impairment of Assets

Impairment of the assets above are as a result of a conditional assessment performed during the physical verification of assets exercise.

Assets were disposed during the year after they have reached their useful lives and were no longer useful.

### 3. Intangible assets

| | 2024 | | | 2023 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 1,530,218 | (1,392,708) | 137,510 | 1,754,080 | (1,594,946) | 159,134 |

**Reconciliation of intangible assets - 2024**

| | Opening balance | Additions | Disposals | Amortisation | Total |
|---|---|---|---|---|---|
| Computer software | 159,134 | 64,929 | (22,347) | (64,206) | 137,510 |

**Reconciliation of intangible assets - 2023**

| | Opening balance | Amortisation | Total |
|---|---|---|---|
| Computer software | 238,701 | (79,567) | 159,134 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

### 3. Intangible assets (continued)

**Other information**

The software licences are restricted to the municipality's use. The municipality's assets are unencumbered. The municipality has an assets register which is available for inspection.

### 4. Operating lease liability

| | | |
| --- | --- | --- |
| Current liabilities | 99,325 | 89,275 |

The municipality has a 40 year lease with Ingonyama Trust for the leasing of land on which municipal offices are build on, which is subject to an escalation clause of 10% annually. The lease began on 01 September 2015.

There are no restrictions associated with the lease.

| | | |
| --- | --- | --- |
| **Minimum Lease Payments due** | | |
| Within one year | 2,671 | 2,428 |
| In second to fifth year | 13,633 | 12,394 |
| Over five years and until the end of the lease | 477,472 | 481,382 |
| | **493,776** | **496,204** |

### 5. Payables from exchange transactions

| | | |
| --- | --- | --- |
| Trade payables | 9,212,593 | 2,831,177 |
| Other payables | 2,072,685 | 1,429,126 |
| Advances from the Department of Human Settlements | 328,554 | 1,293,466 |
| Accrued leave pay | 6,095,537 | 5,593,748 |
| Accrued bonus | 1,797,766 | 1,677,616 |
| Deposits received | 72,055 | 57,655 |
| Retention | 17,958,712 | 20,656,354 |
| Debtors with credit balances | 124,008 | 119,046 |
| | **37,661,910** | **33,658,188** |

Advances from the Department of Human Settlements - The municipality manages payments to suppliers on behalf of the Department of Human Settlement for houses being built within the Umzumbe Municipality. No fee is charged for this arrangement.

### 6. Receivables from exchange transactions

| | | |
| --- | --- | --- |
| Sundry debtors | 953,903 | 1,201,699 |
| Interest accrued | 310,336 | 689,095 |
| Creditors with debit balances | 241,597 | 59,107 |
| | **1,505,836** | **1,949,901** |

### 7. VAT receivable

| | | |
| --- | --- | --- |
| VAT | 4,378,217 | 1,208,538 |

### 8. Trade and other receivables from non exchange transactions

| | | |
| --- | --- | --- |
| **Gross balances** | | |
| Rates | 36,291,713 | 32,872,993 |

## Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

### 8. Trade and other receivables from non exchange transactions (continued)

| | | |
| --- | --- | --- |
| **Less: Allowance for impairment** | | |
| Rates | (13,915,559) | (12,625,455) |
| **Net balance** | | |
| Rates | 22,376,154 | 20,247,538 |
| **Rates** | | |
| > 180 days | 22,376,154 | 20,247,538 |

**Summary of debtors by customer classification**

| | | |
| --- | --- | --- |
| **Residential** | | |
| > 180 days | 8,317,684 | 7,617,124 |
| | 8,317,684 | 7,617,124 |
| Less: Allowance for impairment | (8,317,684) | (7,617,124) |
| | - | - |
| **Business/ Commercial** | | |
| > 180 days | 8,008,471 | 7,350,851 |
| | 8,008,471 | 7,350,851 |
| Less: Allowance for impairment | (1,844,351) | (1,684,264) |
| | **6,164,120** | **5,666,587** |
| **National and provincial government (State)** | | |
| > 180 days | 19,965,559 | 17,905,019 |
| | 19,965,559 | 17,905,019 |
| Less: Allowance for impairment | (3,753,525) | (3,324,067) |
| | **16,212,034** | **14,580,952** |
| **Total** | | |
| > 180 days | 36,290,609 | 32,872,993 |
| | 36,290,609 | 32,872,993 |
| Less: Allowance for impairment | (13,914,455) | (12,625,455) |
| | **22,376,154** | **20,247,538** |
| **Less: Allowance for impairment** | | |
| > 180 days | (13,915,559) | (12,625,455) |
| **Reconciliation of allowance for impairment** | | |
| Balance at beginning of the year | (12,625,455) | (9,990,366) |
| Contributions to allowance | (1,290,104) | (2,635,089) |
| | **(13,915,559)** | **(12,625,455)** |

### 8. Trade and other receivables from non exchange transactions (continued)

**Statutory receivables**

**Transaction(s) arising from statute**

All receivables from non-exchange transactions arise from the property rates billed to customers as a result of the application of the Municipal Property Rates Act.

Revenue from non-exchange transactions is recognised according to GRAP 23 and is disclosed in **Note 1**5.

Statutory Receivables are disclosed in Note 8. All Receivables from non-exchange transactions falls under Statutory Receivables.

**Receivables from non-exchange transactions past due but not impaired**

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2024, 22,376,154 (2023: 20,247,538) were past due but not impaired.

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

| | 2024 | 2023 |
| --- | --- | --- |
| 3 months past due | 22,376,154 | 20,247,538 |

### 9. Cash and cash equivalents

Cash and cash equivalents consist of:

| | 2024 | 2023 |
| --- | --- | --- |
| Cash on hand | 50,411 | 42,553 |
| Bank balances | 35,089,447 | 88,894,342 |
| Short-term deposits | 11,147,942 | 10,753,732 |
| | **46,287,800** | **99,690,627** |

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
| --- | --- | --- | --- | --- | --- | --- |
| | 30 June 2024 | 30 June 2023 | 30 June 2022 | 30 June 2024 | 30 June 2023 | 30 June 2022 |
| ABSA BANK LTD - Port Shepstone - 40-7276-2850 | 34,880,318 | 87,860,512 | 181,967,346 | 34,880,318 | 87,732,272 | 181,846,355 |
| ABSA Housing Account - Port Shepstone - 40-7278-0715 | 28,784 | 988,326 | 933,711 | 28,784 | 988,326 | 933,711 |
| ABSA MIG Account - Port Shepstone 40 - 7277-6506 | 180,346 | 173,744 | 167,151 | 180,346 | 173,744 | 167,151 |
| FNB - Call Account - 62733650205 | 5,464,256 | 5,070,046 | 4,775,330 | 5,464,256 | 5,070,046 | 4,775,330 |
| FNB Fixed Deposit account - 74089581050 | 5,683,686 | 5,683,686 | 5,683,686 | 5,683,686 | 5,683,686 | 5,683,686 |
| **Total** | **46,237,390** | **99,776,314** | **193,527,224** | **46,237,390** | **99,648,074** | **193,406,233** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 10. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises:**

| **Unspent conditional grants and receipts** | | |
|---|---|---|
| Disaster Management Grant | 119,101 | 119,101 |
| KZN Sports Grant | 50,000 | 50,000 |
| Fire Fighting Grant | 374,778 | 374,778 |
| Integrated National Electrification Programme | 2,563,089 | - |
| Massification Grant | 2,383,423 | 210,775 |
| Municipal Infrastructure Grant | 2,289,181 | - |
| Municipal Disaster Relief Grant | 59,985 | - |
| | **7,839,557** | **754,654** |

**Movement during the year**

| | | |
|---|---|---|
| Balance at the beginning of the year | 754,654 | 837,370 |
| Grants received during the year | 94,193,000 | 66,101,000 |
| Income recognition during the year | (87,108,097) | (66,101,000) |
| Grant transferred to National Treasury | - | (82,716) |
| | **7,839,557** | **754,654** |

See note 15 for reconciliation of grants from National/Provincial Government.

### 11. Provisions

**Reconciliation of provisions - 2023**

| | Opening Balance | Utilised during the year | Actuarial Loss (Gain) | Current Service cost | Finance Cost | Total |
|---|---|---|---|---|---|---|
| Long Service Awards | 2,345,000 | (310,713) | (467,287) | 356,000 | 291,000 | 2,214,000 |

| | | |
|---|---|---|
| Non-current liabilities | 2,167,000 | 1,991,000 |
| Current liabilities | 313,000 | 223,000 |
| | **2,480,000** | **2,214,000** |

**Provision for Long Service Awards**
A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2024 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2024 by a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

**The principal assumptions used for the purposes of the actuarial valuations were as follows:**

| | | |
|---|---|---|
| Discount Rate | 11.48% | 13.85% |
| CPI (Consumer Price Inflation) | 6.30% | 8.75% |
| Normal Salary Increase Rate | 7.30% | 9.75% |
| Net Effective Discount Rate | 3.90% | 3.74% |

**The effect of a 1 % increase movement in the assumed rate of salary inflation is as follows:**

| | | |
|---|---|---|
| Total Accrued Liability | 2,662,000 | 2,378,000 |
| Current Service Cost | 348,000 | 329,000 |
| Interest cost | 313,000 | 310,000 |
| | **3,323,000** | **3,017,000** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

### 11. Provisions (continued)

**The effect of a 1 % decrease movement in the assumed rate of salary inflation is as follows:**

| | | |
| --- | --- | --- |
| Total Accrued Liability | 2,317,000 | 2,066,000 |
| Current Service Cost | 298,000 | 281,000 |
| Interest cost | 271,000 | 267,000 |
| | **2,886,000** | **2,614,000** |

### 12. Other income

| | | |
| --- | --- | --- |
| Tender Income | 103,043 | 103,478 |
| Hire of facilities and equipment | 5,423,337 | 2,391,528 |
| Insurance Refund | - | 209,880 |
| Transaction Handling Fees | 52,959 | 51,875 |
| Operators and Public Drivers Permits | 7,906 | 7,088 |
| Building plan approval | 6,583 | 5,553 |
| Licences and Permits | 4,530 | 1,749 |
| Clearance Certificates | 7,100 | 600 |
| | **5,605,458** | **2,771,751** |

### 13. Interest received - investments

**Interest revenue**

| | | |
| --- | --- | --- |
| Interest Received on Investments | 9,196,551 | 10,324,622 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 14. Property rates

**Rates**

| | | |
|---|---|---|
| Residential | 169,470 | 169,470 |
| Commercial | 373,950 | 373,950 |
| State | 6,197,668 | 6,172,118 |
| Communal Land | 961,393 | 961,393 |
| Agriculture | 1,213,750 | 1,213,750 |
| Public Benefit Organization | 22,358 | 22,358 |
| Vacant Land | 97,760 | 97,760 |
| Less: Income forgone | (766,434) | (766,434) |
| | **8,269,915** | **8,244,365** |

The municipality maintains a property valuation roll in accordance with the Municipal Property Rates Act.

The property valuation roll is available for inspection.

**Valuations**

| | | |
|---|---|---|
| Residential | 16,947,000 | 16,947,000 |
| Commercial | 37,395,000 | 37,395,000 |
| State | 629,864,000 | 627,309,000 |
| Communal Land | 384,557,000 | 384,557,000 |
| Agriculture | 485,500,000 | 485,500,000 |
| Public Benefit Organization | 8,943,000 | 8,943,000 |
| Vacant Land | 9,776,000 | 9,776,000 |
| | **1,572,982,000** | **1,570,427,000** |

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A new general valuation roll will be implemented from 01 July 2024.

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

## 15. Government grants & subsidies

| | | |
| --- | --- | --- |
| **Operating grants** | | |
| Equitable share | 162,954,000 | 154,862,716 |
| Financial Management Grant | 1,850,000 | 1,850,000 |
| Municipal Employment Initiative Grant | 1,000,000 | - |
| Expanded Public Works Program | 1,431,000 | 1,699,000 |
| | **167,235,000** | **158,411,716** |
| **Capital grants** | | |
| Municipal Infrastructure Grant | 27,644,819 | 38,552,000 |
| Municipal Disaster Relief Grant | 15,712,015 | 9,000,000 |
| | **43,356,834** | **47,552,000** |
| | **210,591,834** | **205,963,716** |

**Financial Management Grant**

| | | |
| --- | --- | --- |
| Current-year receipts | 1,850,000 | 1,850,000 |
| Conditions met - transferred to revenue | (1,850,000) | (1,850,000) |
| | - | - |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

## 15. Government grants & subsidies (continued)

**Municipal Employment Initiative Grant**

| | | |
|---|---|---|
| Current-year receipts | 1,000,000 | - |
| Conditions met - transferred to revenue | (1,000,000) | - |
| | **-** | **-** |

**Expanded Public Works Program**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 43,805 |
| Current-year receipts | 1,431,000 | 1,699,000 |
| Conditions met - transferred to revenue | (1,431,000) | (1,699,000) |
| Grant transferred to National Treasury | - | (43,805) |
| | **-** | **-** |

**Disaster Management Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 119,101 | 119,101 |
| Conditions met - transferred to revenue | - | - |
| | **119,101** | **119,101** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

## 15. Government grants & subsidies (continued)

**KwaZulu-Natal Sports**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 50,000 | 50,000 |

**Fire Fighting Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 374,778 | 374,778 |

**Integrated National Electrification Programme**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 38,911 |
| Current-year receipts | 23,506,000 | 15,000,000 |
| Conditions met - transferred to revenue | (20,942,911) | (15,000,000) |
| Grant transferred to National Treasury | - | (38,911) |
| | **2,563,089** | **-** |

The Municipality (The Agent) manages payments to suppliers on behalf of Eskom (The Principal) for Electrical Infrastructure being built within the Umzumbe Municipality. No agency fee is charged for this arrangement.

**Massification Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 210,775 | 210,775 |
| Current-year receipts | 20,700,000 | - |
| Conditions met - transferred to revenue | (18,527,352) | - |
| | **2,383,423** | **210,775** |

The Municipality (The Agent) manages payments to suppliers on behalf of Department of Cooperative Governance and traditional Affairs (The Principal) for Electrical Infrastructure being erected within the Umzumbe Municipality (Siphofu Electrification in Ward 12) . No agency fee is charged for this arrangement.

**Municipal Infrastructure Grant**

| | | |
|---|---|---|
| Current-year receipts | 29,934,000 | 38,552,000 |
| Conditions met - transferred to revenue | (27,644,819) | (38,552,000) |
| | **2,289,181** | **-** |

**Municipal Disaster Relief Grant**

| | | |
|---|---|---|
| Current-year receipts | 15,772,000 | 9,000,000 |
| Conditions met - transferred to revenue | (15,712,015) | (9,000,000) |
| | **59,985** | **-** |

## 16. Public contributions and donations

| | | |
|---|---|---|
| Donations | 11,500 | 2,063 |

The donation relates to a water pump donated by Aqua Darshan Foundation to be used at Inkanini Sport Centre.

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

## 17. Employee related costs

| | | |
| --- | --- | --- |
| Basic Salary | 46,277,342 | 42,435,908 |
| Bonus | 3,363,481 | 3,024,288 |
| Medical aid - company contributions | 2,079,645 | 2,044,005 |
| Unemployment Insurance Fund | 343,119 | 307,843 |
| Skills Development Levy | 647,883 | 604,166 |
| Leave pay provision charge | 1,231,139 | 808,389 |
| Pension Contribution | 6,196,874 | 5,962,479 |
| Travel, motor car, accommodation, subsistence and other allowances | 10,233,174 | 10,982,329 |
| Overtime payments | 6,107,940 | 3,114,985 |
| Acting allowances | 321,787 | 666,414 |
| Other Salary costs | 2,251,495 | 2,257,305 |
| | **79,053,879** | **72,208,111** |

**Remuneration of Municipal Manager**

| | | |
| --- | --- | --- |
| Annual Remuneration | 341,428 | 770,215 |
| Car Allowance | 115,521 | 243,179 |
| Leave Payout | - | 200,062 |
| Other | 33,457 | 73,842 |
| Acting Allowance | 36,324 | - |
| | **526,730** | **1,287,298** |

Mr S. Shangase was the Acting Municipal Manager from July to October 2024.

**Remuneration of Chief Financial Officer**

| | | |
| --- | --- | --- |
| Annual Remuneration | 680,510 | 109,903 |
| Car Allowance | 221,091 | 35,505 |
| Other | 24,421 | 4,959 |
| | **926,022** | **150,367** |

**Remuneration Corporate Services Director**

| | | |
| --- | --- | --- |
| Annual Remuneration | 680,510 | 384,662 |
| Car Allowance | 223,676 | 124,266 |
| Other | 68,642 | 25,552 |
| | **972,828** | **534,480** |

**Remuneration of Technical Services Director**

| | | |
| --- | --- | --- |
| Annual Remuneration | 213,027 | 638,930 |
| Car Allowance | 77,214 | 228,366 |
| Other | 126,307 | 69,837 |
| | **416,548** | **937,133** |

The Director resigned at the end of Ocober 2024 and the position has been vacant for the remainder of the financial year

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 17. Employee related costs (continued)

**Remuneration of Social & Community Services Director**

| | | |
|---|---|---|
| Annual Remuneration | - | 583,978 |
| Car Allowance | - | 188,331 |
| Leave Payout | - | 119,608 |
| Other | - | 109,864 |
| Acting Allowance | 29,824 | - |
| | **29,824** | **1,001,781** |

Mr Pilani Zama was the Acting Director from July to October 2024 and thereafter the position was vacant

### 18. Remuneration of councillors

| | | |
|---|---|---|
| Mayor | 971,777 | 954,878 |
| Deputy Mayor | 786,080 | 779,659 |
| Speaker | 486,460 | 792,927 |
| Councillors | 20,208,223 | 21,246,273 |
| | **22,452,540** | **23,773,737** |

### 19. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 24,508,021 | 23,228,893 |
| Intangible assets | 64,206 | 79,567 |
| | **24,572,227** | **23,308,460** |

### 20. Impairment loss

**Impairments**

| | | |
|---|---|---|
| Property, plant and equipment | 1,491,820 | 246,502 |

### 21. Finance costs

| | | |
|---|---|---|
| Trade and other payables - Interest on overdue accounts | 19,260 | 140 |
| Interest recognised on long service awards provision | 287,000 | 291,000 |
| | **306,260** | **291,140** |

### 22. Auditors' remuneration

| | | |
|---|---|---|
| Fees | 2,911,199 | 1,635,900 |

### 23. Debt impairment

| | | |
|---|---|---|
| Contributions to debt impairment provision | 1,290,105 | 2,635,089 |

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 24. General expenses

| | | |
|---|---|---|
| Advertising, Publicity and Marketing | 7,229,770 | 6,926,098 |
| Auditors remuneration | 2,911,199 | 1,635,900 |
| Bank charges | 125,526 | 116,788 |
| Ward Committees | 2,215,940 | 2,142,200 |
| Bursaries | 480,687 | 703,294 |
| Achievements and awards | 517,710 | 151,363 |
| Consumables | 8,749,501 | 7,489,666 |
| Entertainment | - | 7,000 |
| Hire charges | 1,397,365 | 2,928,758 |
| Insurance | 1,296,442 | 1,249,821 |
| Lease Rentals on Operating Lease | 323,249 | 267,196 |
| Licences & Tracking | 406,389 | 358,642 |
| Printing and stationery | 2,650,494 | 3,868,697 |
| Subscriptions and membership fees | 1,116,228 | 1,082,866 |
| Communication | 5,340,125 | 7,130,077 |
| Transport and events | 3,061,900 | 2,896,480 |
| Training | - | 9,802 |
| Subsistence and Travel | 4,205,583 | 5,910,439 |
| Electricity | 850,579 | - |
| Solid waste disposal | 1,371,709 | 739,500 |
| Free basic services | 5,067,736 | 11,052,043 |
| Uniform and Protective Clothing | 1,248,054 | 1,664,405 |
| Personnel Agency Fees | 18,642 | 9,193 |
| Registration Fees:Seminars, Conferences, Workshops and Events | 73,206 | 198,140 |
| Honoraria (Voluntarily Workers) | 44,150 | 73,250 |
| Municipal Services | 401,306 | 1,193,959 |
| Car Valet and Washing Services | - | 120 |
| Workmen's Compensation Fund | 1,365,053 | 2,690,767 |
| Assets less than the Capitalisation Threshold | 134,768 | 2,775 |
| Signage | - | 36,200 |
| Allocations In-kind:Non-profit Institutions | 143,700 | 200,000 |
| | **52,747,011** | **62,735,439** |

### 25. Contracted services

| | | |
|---|---|---|
| **Outsourced Services** | | |
| Burial Services | 122,300 | - |
| Catering Services | 3,616,506 | 3,665,475 |
| Clearing and Grass Cutting Services | 312,701 | 786,300 |
| Medical Services | - | 48,939 |
| Professional Staff | 3,060,974 | 3,419,310 |
| Security Services | 10,440,009 | 5,080,042 |
| | | |
| **Consultants and Professional Services** | | |
| Business and Advisory | 17,650,781 | 11,206,667 |
| Infrastructure and Planning | 15,596,897 | 6,297,022 |
| Legal Cost | 3,145,624 | 254,669 |
| | | |
| **Contractors** | | |
| Artists and Performers | 579,000 | 965,500 |
| Audio-visual Services | 5,900 | 39,300 |
| Employee Wellness | 166,910 | 172,578 |
| Interior Decorator | 35,900 | 10,500 |
| Repairs and Maintenance | 10,195,000 | 35,286,023 |
| Stage and Sound Crew | 409,080 | 663,890 |
| | **65,337,582** | **67,896,215** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 26. Cash generated from operations

| | 2024 | 2023 |
|---|---|---|
| Deficit | (14,393,895) | (25,620,504) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 24,572,227 | 23,308,460 |
| Loss on disposal of assets | 904,232 | 299,615 |
| Impairment loss | 1,491,820 | 246,502 |
| Debt impairment | 1,290,105 | 2,635,089 |
| Movement in operating lease accrual | 10,050 | 12,724 |
| Movements in provisions | 266,000 | (131,000) |
| Non-cash items | (31) | 11,055 |
| **Changes in working capital:** | | |
| Receivables from exchange transactions | 444,065 | 829,058 |
| Receivables from non-exchange transactions | (3,418,721) | (3,917,455) |
| Payables from exchange transactions | 4,003,712 | (8,872,448) |
| VAT | (3,169,679) | (698,768) |
| Unspent conditional grants and receipts | 7,084,903 | (82,716) |
| | **19,084,788** | **(11,980,388)** |

### 27. Commitments

**Authorised capital expenditure**

| | 2024 | 2023 |
|---|---|---|
| **Approved and contracted for:** | | |
| • Infrastructure | 327,303,571 | 411,827,544 |

This committed expenditure relates to Infrastructure and will be financed by Government Grants.

Commitments for the prior year were restated due to an error which resulted in commitments being understated by R321 296 419.00

### 28. Contingencies

Contigencies arising from pending litigation on contractual disputes and claims for damages.

Litigation is in the process against the municipality relating to several contractual disputes and claims for damages. As the conclusion of the process is dependent on the setting of dates by the respective courts, timing of the economic outflow is therefore uncertain. Amounts disclosed do not include legal fees. Details of the claims are listed below;

| | 2024 | 2023 |
|---|---|---|
| **Contigent Liabilities** | | |
| The municipality is being sued by the following companies for service rendered and not paid ( WBHO Construction, Mashi-Mollo Civil Engineers & Agriculturists (Pty) Ltd). | 4,800,000 | 4,800,000 |
| The municipality is being sued by Dlamindlovu Consulting Engineers (Pty) Ltd for service rendered and not paid | 1,255,198 | 1,255,198 |
| | **6,055,198** | **6,055,198** |

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 29. Related parties

The municipality contributes annually to South Coast Tourism and Investment Enterprise for the promotional activities and developmental activities within the Municipality. Ugu South Coast Development Agency and Ugu South Coast Tourism Authority where combined to form South Coast Tourism and Investment Enterprise.

**Related party balances**

| **Amounts included in General Expenses regarding related parties** | | |
|---|---|---|
| South Coast Tourism and Investment Enterprise | 2,248,765 | 2,137,096 |

Senior management and council are further classified as related parties. Refer to note 18 and note 19.

Section 45 and 44 of SCM Regulations

Awards to business associates in service of state

As a result of the 2023/24 audit, expenditure of R814 648.00 - (2023 - R 1 180 058) related to awards to business associates of persons in the service of the state. This information came to the attention of the Municipality towards the finalisation of the 2023/24 audit in the current year.

| **Purchases from related parties** | | |
|---|---|---|
| Ndosi Trading Enterprise - related to Freedom Nomkhosi Ngubo Data Capture EPWP | 103,900 | 67,800 |
| Ez'bukwayo events - related to Ntokozo Cyril Khomo – Manager: Special Projects | 20,480 | 75,250 |
| Skhonkwana Trading Enterprise - related to Mama Pretty Girl I Zungu - Councillor | - | 160,308 |
| Mkhokho Ka Mzalelwa Tradings (Pty) Ltd - related to Freedom Nomkhosi Ggubo - Data Capture EPWP | 12,500 | 11,000 |
| Imfusi Construction and Projects - Related to Marcia Mary Mfecane - Councillor | 274,268 | 59,500 |
| Sambulintwenhle - Related to Lorraine Nondumiso Shozi - Registry Clerk | 26,000 | 161,238 |
| Manganga General Trading - Related to Lorraine Nondumiso Shozi - Registry Clerk | - | 193,162 |
| Amadlakela Trading - Related to Ms Mondli Kwani - Technical Manager | 220,500 | 272,000 |
| Sthathu Investments - Related to NN Nontobeko Shobede - Electrician | 158,000 | 179,800 |

### 30. Prior-year adjustments

**Contracted Services**

1. Duplicate invoice for VIP catering for community meetings. The invoice was accrued on 30 June 2020. The amount duplicated was R3 400. It resulted in the overstatement of Contracted Services by R3 400.00 and Payables from exchange transactions by R3 400.00

2. Repairs and maintenance invoices for vehicles were duplicated. The invoices were accrued in June 2021. The amount duplicated resulted in the overstatement of Contracted Services by R7 660.00 and Payables from exchange transactions by R7 660.00

3. This relates to an invoice for catering which was raised in Sage 200 and the work was never performed. Payables from exchange transactions was overstated by R3 000.00 and Contracted services was overstated by R3 000.00.

4. Consultancy fees for Sage 200 System was captured twice, one through an Accounts Payable batch and one through a purchase order. The amount duplicated was R60 538.84 exclusive of VAT. The VAT Amount was R9 080.83. This resulted in Contracted Services being overstated by R60 538.84, VAT Receivables was overstated by R9 080.83 and Payables from exchange transactions was overstated by R69 619.67

**Property, Plant and Equipment**

**30. Prior-year adjustments (continued)**

1. Work in Progress - Duplicate invoice for Ngcengesi access road where this invoice was accrued to the main contractor but there was a cession to a sub contractor. Work in Progress was overstated by R631 069.93.. VAT Receivable was overstated by R94 660.49. Payables from exchange transactions was overstated by R725 730.42

2. Work in progress was wrongly expensed instead of being capitalised. The amount expensed was R61 206.09. This resulted in General Expenses being overstated by R61 206.00 and Work in Progress understated by R61 206.09

**Payables from exchange transactions**

1. Payables from exchange transactions - Reversal of INEP GRANT REVENUE VAT was mistakenly reversed in the control account for Payroll. The amount misposted was R1 956 521.75. Payables from exchange transactions was overstated by R1 956 521.75 and Other Income was understated by R1 956 521.75

**General Expenses**

1. This expense relates to a ward committee stipend which was duplicated. The amount involved was R3 000.00. This resulted in General Expenses being overstated by R3 000.00 and Payables from exchange transactions was overstated by R3 000.00

The correction of these errors resulted in the adjustments below:

**Statement of financial position**

**2022**

| | Note | As previously reported | Correction of errors | Restated |
| --- | --- | --- | --- | --- |
| Payables from exchange transactions | | (42,530,642) | 11,060 | (42,519,582) |
| Accumulated surplus | | (711,443,994) | (11,060) | (711,455,054) |
| | | **(753,974,636)** | **-** | **(753,974,636)** |

**2023**

| | Note | As previously reported | Correction of errors | Restated |
| --- | --- | --- | --- | --- |
| VAT receivable | 7 | 1,312,279 | (103,741) | 1,208,538 |
| Property, plant and equipment | 2 | 599,864,793 | (569,864) | 599,294,929 |
| Payables from exchange transactions | 5 | (36,423,620) | 2,765,432 | (33,658,188) |
| Accumulated surplus | | (683,742,723) | (2,091,827) | (685,834,550) |
| | | **(118,989,271)** | **-** | **(118,989,271)** |

**Statement of financial performance**

**2023**

| | Note | As previously reported | Correction of errors | Restated |
| --- | --- | --- | --- | --- |
| Other Income | | (815,229) | (1,956,522) | (2,771,751) |
| Contracted services | 25 | 67,959,754 | (63,539) | 67,896,215 |
| General expenditure | 24 | 62,796,145 | (60,706) | 62,735,439 |
| **Surplus for the year** | | **129,940,670** | **(2,080,767)** | **127,859,903** |

**Cash flow statement**

**30. Prior-year adjustments (continued)**

**2023**

| | Note | As previously reported | Correction of errors | Restated |
|---|---|---|---|---|
| Cash flow from operating activities | | | | |
| Cash Paid to Suppliers and Employees | | (247,788,975) | (569,862) | (248,358,837) |
| Cash flow from investing activities | | | | |
| Proceeds from sale of property, plant and equipment | | (82,422,963) | 569,862 | (81,853,101) |

**31. Risk management**

**Financial risk management**

The municipality's activities expose it to a variety of financial risks: market risk, interest rate 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. Risk management is carried under policies approved by the Accounting Officer. Municipality budget and treasury department identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The Accounting Officer provides written principles for overall risk management, as well as written policies covering specific areas, such as, interest rate risk, credit risk and investment of excess liquidity.

**Liquidity risk**

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.

Interest rate risk

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

**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.

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

| Financial instrument | 2024 | 2023 |
|---|---|---|
| Trade and other receivables from non exchange transactions (Rates) | 22,376,154 | 20,247,538 |
| Cash and Cash Equivalents | 46,287,800 | 99,690,627 |

**32. 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.

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

### 33. Events after the reporting date

As a result of uMzumbe Local Municipality being place under Provincial Administration (Section 139)(1)(b), there were a number of issues the Administrator(Ministerial representative) had to deal with as part of his mandate, one such issue was Unauthorised, Irregular, Fruitless and Wasteful Expenditure. We have a appointed a company to investigate figures included in the UIFW schedules for 2022/23 and 2023/24 financial years and also to examine the entire population to test and ensure completeness of our unauthorised, irregular, fruitless and wasteful expenditure. This wad done in July 2024. The outcome of this investigations will ultimately tabled before council for a decision and possible consequence management.

### 34. Unauthorised expenditure

| | 2024 | 2023 |
| --- | --- | --- |
| Opening balance as previously reported | 2,379,003 | 2,379,003 |

### 35. Fruitless and wasteful expenditure

| | 2024 | 2023 |
| --- | --- | --- |
| Add: Fruitless and wasteful expenditure identified - current | 19,260 | 16,070 |
| Less: Amount written off - current | (19,260) | (16,070) |
| **Closing balance** | **-** | **-** |

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 36. Irregular expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 16,457,097 | 166,147 |
| Add: Irregular expenditure - current year | 603,249 | 16,290,950 |
| **Closing balance** | **17,060,346** | **16,457,097** |

**Incident**: During the year, the municipality incurred irregular expenditure amounting to R603 249 as a result of Bid Adjudication Committee not being properly constituted for contracts awarded in the prior financial years.

**Action:** The matter was reviewed and tabled at Council.

**Incident**: During the audit, it was concluded that the municipality incurred irregular expenditure to the amount of R603 249.00 as a result of an appointment of a service providers which was deemed to be irregular.
**Action**: The matter was reviewed and will be tabled at Council.

**Incidents/cases identified/reported in the current year include those listed below:**

| | Disciplinary steps taken/criminal proceedings | | |
|---|---|---|---|
| Competitive bidding not invited | | - | - |
| Bid Adjudication Committee not being properly constituted | The matter was reviewed and tabled at Council | 391,000 | 16,290,950 |
| Non-compliance with SCM regulation | The matter was reviewed and tabled at Council | 212,249 | 166,147 |
| | | **603,249** | **16,457,097** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

## 37. Additional disclosure in terms of Municipal Finance Management Act

### Contribution to Local Government Associations

| | | |
|---|---|---|
| Current year subscription / fee | 1,066,958 | 1,015,134 |
| Amount paid - current year | (1,066,958) | (1,015,134) |
| | - | - |

### Audit fees

| | | |
|---|---|---|
| Current year subscription / fee | 3,347,879 | 1,635,900 |
| Amount paid - current year | (3,257,302) | (1,635,900) |
| | **90,577** | - |

### PAYE and UIF

| | | |
|---|---|---|
| Current year subscription / fee | 14,540,771 | 15,453,772 |
| Amount paid - current year | (14,540,771) | (15,453,772) |
| | - | - |

### Pension and Medical Aid Deductions

| | | |
|---|---|---|
| Current year subscription / fee | (13,212,290) | 12,834,095 |
| Amount paid - current year | (13,212,290) | (12,834,095) |
| | **(26,424,580)** | - |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 38. Multi employer retirement benefit

Umzumbe Local Municipality makes provision for retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All full-time employees belong to the KwaZulu Natal Joint Municipal Pension Fund, which are made up by the Retirement, Superannuation and Provident Funds. Councillors have the option to belong to the Pension Fund for Municipal Councillors.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation. For both the Superannuation and Retirement Funds valuations making use of the Discontinuance Method Approach have been included as well.

**DEFINED CONTRIBUTION SCHEMES**

Kwazulu-Natal Joint Municipal Pension Fund:

The scheme is subject to an actuarial valuation. The latest interim actuarial valuation was performed as at 31 March 2019.

As reported by the Actuaries, the Fund was not in a sound financial position but the surcharge is expected to eliminate deficit by 2021. The asset composition was appropriate to the nature of the liabilities and the investment strategy was suitable for the fund. In addition, the Fund’s reinsurance arrangements were appropriate.

# Notes to the Annual Financial Statements



## 39. Actual expenditure versus budgeted expenditure variance explanations

Refer to Statement of Comparison of Budget and Actual Amounts for the comparison of actual expenditure versus budgeted expenditure:

1) Other income - The increase was due to VAT input on expenditure on Integrated National Electrification Programme and Massification grant being recognised as other income as the municipality is acting agent and is not capitalising these grants.

2) Government grants and subsidies - The budget included INEP, which is subject to a Principal - Agent relationship, meaning we can not recognise revenue on it. The MIG grant allocation was cut due to underspending

3) Some Senior Management positions were vacant during the year.

4) Costs incurred for the remuneration of councillors was more than budgeted due to the payment of back pay to councillors and increase in allowances for travel and subsistence.

5) General Expenses, Contracted Services & Other expenses budget savings were due to cost containment measures put in place by the municipality to monitor and manage expenditure.

6) The reduction in budget allocations for Capital Grants affected capital expenditure

7) Internal reserves were used to fund part of recurring and capital expenditure.

8) The shortfall on cashflow from operating activities was financed by internal reserves. This explains why we have a reduction in cash and cash equivalents balances.

9) Some capital projects have been started in the current year and will completed in subsequent years and this explains why the budgeted capital expenditure wasn't exhausted in the current year.

## 40. Segment information

### General information

### Identification of segments

The report is based municipality departments which are reportable segments and where performance is measurable. Management uses these same segments for compilation of the IDP,SDBIP, budget and monthly and quarterly reporting. The segments were organised around type of service delivered and target market. Management uses the same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

Information reported about these segments is used by management as a basis for evaluating the segments’ performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

### Aggregated segments

The segments of the municipality were not aggregated.

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

### 40. Segment information (continued)

**Types of services by segment**

These reportable segments as well as the services for each segment are set out below:

| **Reportable segment** | **Services** |
| --- | --- |
| Corporate Services | Provides legal and administration management services including human capital, information and communication technology to the municipality for the generation of economic benefits and service potential. |
| Finance | Provides financial administration to the municipality for generation of economic benefits and service potential. |
| Mayor's Office | Provides political leadership to the municipality for the generation of economic benefits and service potential. |
| Municipal Manager | Provides for administration, leadership, performance monitoring, integrated development plan, risk management and internal audit functions to the municipality for the generation of economic benefits and service potential. |
| Planning and Development | Provides for waste management, town planning , local economic development and environment sustainability for the generation of economic benefits and service potential. |
| Social and Community Development | Provides social services, public safety, public spaces, libraries and indigents administration to the municipality for generation of economic benefits and service potential. |
| Technical Services | Road transport, electricity , housing and building inspection, project management unit, waste water management and all infrastructure services to the municipality for the generation of economic benefits and service potential. |

### 40. Segment information (continued)

**Segment surplus or deficit, assets and liabilities**

**2024**

| | CORPORATE SERVICES | FINANCE | MAYOR'S OFFICE | MUNICIPAL MANAGER | PLANNING AND DEVELOPMENT | SOCIAL AND COMMUNITY DEVELOPMENT | TECHNICAL SERVICES | Total |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| Other income | - | 5,586,438 | - | - | 19,020 | - | - | 5,605,458 |
| Interest received - investment | - | 9,196,551 | - | - | - | - | - | 9,196,551 |
| Property rates | - | 8,269,915 | - | - | - | - | - | 8,269,915 |
| Government grants & subsidies | - | 164,804,000 | - | - | 1,000,000 | - | 44,787,834 | 210,591,834 |
| Public contributions and donations | - | 11,500 | - | - | - | - | - | 11,500 |
| Actuarial gains/losses | - | 86,503 | - | - | - | - | - | 86,503 |
| **Total segment revenue** | **-** | **187,954,907** | **-** | **-** | **1,019,020** | **-** | **44,787,834** | **233,761,761** |
| **Entity's revenue** | | | | | | | | **233,761,761** |
| **Expenditure** | | | | | | | | |
| Employee Related Costs | 13,262,899 | 11,081,153 | 17,789,768 | 1,425,843 | 6,006,643 | 15,935,111 | 13,552,462 | 79,053,879 |
| Remuneration of Councillors | - | - | 22,452,540 | - | - | - | - | 22,452,540 |
| Depreciation, Amortisation and Impairment | 1,000,339 | 23,571,888 | - | - | - | - | - | 24,572,227 |
| Finance costs | - | 306,260 | - | - | - | - | - | 306,260 |
| Debt Impairment | - | 1,290,105 | - | - | - | - | - | 1,290,105 |
| Contracted services | 14,146,527 | 2,152,022 | 5,202,053 | 3,773,067 | 30,671,671 | 3,181,396 | 6,210,846 | 65,337,582 |
| General Expenses | 24,145,613 | 3,384,805 | 12,694,149 | 416,979 | 3,108,246 | 5,404,596 | 3,592,623 | 52,747,011 |
| Loss on disposal of assets | 904,232 | - | - | - | - | - | - | 904,232 |
| Impairment loss | 1,491,820 | - | - | - | - | - | - | 1,491,820 |
| **Total segment expenditure** | **54,951,430** | **41,786,233** | **58,138,510** | **5,615,889** | **39,786,560** | **24,521,103** | **23,355,931** | **248,155,656** |
| **Total segmental surplus/(deficit)** | | | | | | | | **(14,393,895)** |

# Notes to the Annual Financial Statements

Figures in Rand

## 40. Segment information (continued)

| | CORPORATE SERVICES | FINANCE | MAYOR'S OFFICE | MUNICIPAL MANAGER | PLANNING AND DEVELOPMENT | SOCIAL AND COMMUNITY DEVELOPMENT | TECHNICAL SERVICES | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| **Current Assets** | - | - | - | - | - | - | - | - |
| Receivables from exchange transactions | - | 1,505,836 | - | - | - | - | - | 1,505,836 |
| VAT receivable | - | 4,378,217 | - | - | - | - | - | 4,378,217 |
| Receivables from non-exchange transactions | - | 22,376,154 | - | - | - | - | - | 22,376,154 |
| Cash and Cash Equivalents | - | 46,287,800 | - | - | - | - | - | 46,287,800 |
| **Non-Current Assets** | - | - | - | - | - | - | - | - |
| Property, plant and equipment | - | 465,832,149 | 7,208,666 | - | - | - | 171,795,115 | 644,835,930 |
| Intangible Assets | - | 137,510 | - | - | - | - | - | 137,510 |
| **Total segment assets** | **-** | **540,517,666** | **7,208,666** | **-** | **-** | **-** | **171,795,115** | **719,521,447** |
| **Total assets as per Statement of financial Position** | | | | | | | | **719,521,447** |
| **Liabilities** | | | | | | | | |
| **Current Liabilities** | - | - | - | - | - | - | - | - |
| Operating lease liability | - | 99,325 | - | - | - | - | - | 99,325 |
| Payables from exchange transactions | - | 37,661,910 | - | - | - | - | - | 37,661,910 |
| Unspent Conditional Grants and Receipts | - | 7,235,689 | - | - | - | 374,778 | 229,090 | 7,839,557 |
| Provisions | - | 313,000 | - | - | - | - | - | 313,000 |
| **Non-Current Liabilities** | - | - | - | - | - | - | - | - |
| Provisions | - | 2,167,000 | - | - | - | - | - | 2,167,000 |
| Net Assets | - | - | - | - | - | - | - | - |
| Accumulated Surplus | - | 685,834,550 | - | - | - | - | - | 685,834,550 |
| Deficit for the year | - | (14,393,895) | - | - | - | - | - | (14,393,895) |
| **Total segment liabilities and Net Assets** | **-** | **718,917,579** | **-** | **-** | **-** | **374,778** | **229,090** | **719,521,447** |
| **Total liabilities and Net Assets as per Statement of financial Position** | | | | | | | | **719,521,447** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
|---|---|---|

### 41. Accounting by principals and agents

The municipality is a party to principal-agent arrangements.

Details of the arrangements are as follows:

**Details of the arrangements are as follows: Details of the arrangements are as follows:**

Umzumbe Local Municipality is party to a principal-agent arrangements with the Department of Energy and Kwazulu-Natal Department of Cooperative Governance and Traditional Affairs. The Department of Energy provides the Municipality with a grant in terms of the Integrated National Electrification Programme (INEP). The municipality is the agent. The municipality implements electricity infrastructure construction and infills in rural areas on behalf of Eskom using the INEP and Massification grants. Once completed, these projects are handed over to Eskom for energising and future maintenance and do not form part of the municipality's assets. The Massification grant comes from the Kwazulu-Natal Department of Cooperative Governance and Traditional Affairs and the Municipality is the agent. The Massification grant is used to specifically to electrify areas within the Umzumbe Municipality as per Grant Agreement. No agency fees are charged for the above principal - agent arrangements

**Municipality as agent**

**Resources held on behalf of the principal(s), but recognised in the entity's own financial statements**

The municipality currently holds an amount of R2 563 089 (2023 - R0) that belongs to the Department of Energy that was transferred to the municipality during the current financial year and was not utilised. The municipality will apply for a rollover of the remaining amount so that is it not returned to the principle but utilised for electricity infills projects in the next financial year.

The municipality currently holds an amount of R2 383 423 (2023 - R210,775) that belongs to the Kwazulu-Natal Department of Cooperative Governance and Traditional Affairs that was rolled over to the municipality during the current financial year and was not utilised. The municipality will apply for a rollover of the remaining amount so that is it not returned to the principle but utilised for electricity infills projects in the next financial year.

**Additional information**

**Receivables and/or payables recognised based on the rights and obligations established in the binding arrangement(s)**

**Reconciliation of the carrying amount of payables**

| | | |
|---|---|---|
| **Integrated National Electrification Programme Grant** | | |
| Opening balance | - | 38,911 |
| Receipts from the principal | 23,506,000 | 15,000,000 |
| Expenses incurred on behalf of the principal | (20,942,911) | (15,000,000) |
| Amounts transferred to the principal | - | (38,911) |
| | **2,563,089** | **-** |
| **Massification Grant** | | |
| Opening balance | 210,775 | 210,775 |
| Receipts from the principal | 20,700,000 | - |
| Expenses incurred on behalf of the principal | (18,527,352) | - |
| | **2,383,423** | **210,775** |
| **All categories** | | |
| Opening balance | 210,775 | 249,686 |
| Receipts from the principal | 44,206,000 | 15,000,000 |
| Expenses incurred on behalf of the principal | (39,470,263) | (15,000,000) |
| Amounts transferred to the principal | - | (38,911) |
| | **4,946,512** | **210,775** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2024 | 2023 |
| --- | --- | --- |

### 42. Section 36 deviations

During the year the Accounting Officer approved minor breaches in terms of section 36 (1) (b) as well as section 36 (1) (a) amounting to R4,744,842.51 (2023 - R7,709,147.79)

Deviations from, and ratification of minor breaches of, procurement processes (Section 36 of The Municipal Supply Chain Management Regulations) Section 36 were due to the following reasons:

a) It was impractical or impossible to follow the official procurement processes - R4 744 842.51

The Accounting Officer recorded the reasons for any deviations in terms of sub regulation 1(a) and (b) and reported them to Council.