



UMSHWATHI MUNICIPALITY
(KZN221)

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2021

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GENERAL INFORMATION

SPEAKER OF COUNCIL : Cllr. N.P. Mdunge

MEMBERS OF THE EXECUTIVE COMMITTEE

Councillor	G.M. Zondi	:	Mayor, Exco Chairperson
Councillor	M.P. Dlamini	:	Deputy Mayor
Councillor	S.M. Mbatha-Ntuli	:	Exco Member
Councillor	N.E. Cebekhulu	:	Exco Member
Councillor	M.P. Majozi	:	Exco Member

CATEGORY OF LOCAL AUTHORITY

CATEGORY TWO (2)

AUDITORS

AUDITOR-GENERAL SOUTH AFRICA

BANKERS

FIRST NATIONAL BANK

REGISTERED OFFICE

Main Road
New Hanover
3230

TELEPHONE

033 - 8166800

MUNICIPAL MANAGER

Mr. N.M. Mabaso

CHIEF FINANCIAL OFFICER

Mr. R.M. Mani

MEMBERS OF THE UMSHWATHI MUNICIPAL COUNCIL

PR	:	Cllr. N.P. Mdunge
PR	:	Cllr. G.M. Zondi
PR	:	Cllr. N.T. Ngubane
PR	:	Cllr. T.C. Dlame
PR	:	Cllr. S.G. Jila
PR	:	Cllr. N.A. Thusi
PR	:	Cllr. B.K. Mkhize
PR	:	Cllr. A.T. Ndlovu
PR	:	Cllr. M.P. Dumakude
PR	:	Cllr. M.P. Majози
PR	:	Cllr. V.M. Mncwabe
PR	:	Cllr. R. Thomas-Govender
PR	:	Cllr. B.E. Mncube
W1	:	Cllr. M.P. Dlamini
W2	:	Cllr. P.M. Dladla
W3	:	Cllr. B.E. Nzama
W4	:	Cllr. N.E. Cebekhulu
W5	:	Cllr. G.H. Ngcobo
W6	:	Cllr. M.W. Mngadi
W7	:	Cllr. S.M. Mbatha-Ntuli
W8	:	Cllr. N.W. Gasas
W9	:	Cllr. E.B. Mbongwe
W10	:	Cllr. C.SS. Zuma-Dube
W11	:	Cllr. L.P. Zondi
W12	:	Cllr. S.J. Luthuli
W13	:	Cllr. N.R. Khanyile
W14	:	Cllr. M.Z. Mbewana

MAYOR : **Councillor G.M. Zondi**

DEPUTY MAYOR : **Councillor M.P. Dlamini**

APPROVAL OF FINANCIAL STATEMENTS

The Annual Financial Statements set out on pages 21 to 59 were approved by the Municipal Manager on 29 October 2020 and presented to and noted by Council on 31 August 2021.

MUNICIPAL MANAGER

(Accounting Officer)

31 August 2021

CHIEF FINANCIAL OFFICER

31 August 2021

Accounting Officer's Report

As the accounting officer of uMshwathi Local Municipality, I am proud to present herewith the annual financial statement for the period ending 30 June 2021.

The annual financial statements are prepared as required in term of section 122 of the Municipal Finance Management Act and submitted to the Auditor General in terms of section 126 (1) (a) of the Municipal Finance Management Act. It is my view that the Annual financial statements fairly present the true financial position of the municipality and all the records to support the same are available for inspection.

I am of the opinion that based on the information provided to me by management and internal audit the systems of internal control provides reasonable assurance that the financial records may be relied upon for the preparation and submission of these annual financial statements. It must be noted that employee salaries are based on the collective agreement signed by labour and the South African Local Government Association. Councillor allowances are within the upper limits as set out in Government Notice 475 dated 24 April 2020.

I have reviewed the Municipality's cash forecast for the year ending 30 June 2021 and in light of this review and the current financial position I am satisfied that the Municipality has access to adequate resources to fulfil all its obligations as required by various provisions of legislations.

Mr. N.M. Mabaso
Municipal Manager

Date: 31 August 2021

**uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

1. BASIS OF PRESENTATION

The Annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP).

The Standards comprise of the following which are effective on 01 April 2020 and before:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 5	Borrowing Costs
GRAP 9	Revenue
GRAP 13	Leases
GRAP 14	Events after Balance Sheet Date
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Asset
GRAP 20	Related Party Transactions
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in the Financial Statements
GRAP 25	Employee Benefits
GRAP 31	Intangible Assets
GRAP 104	Financial Instruments.
GRAP 108	Statutory Receivables
GRAP 109	Principals and Agents

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GRAP statements 4, 6, 7, 8, 10, 11, 12, 16, 27, 34, 35, 36, 37, 38, 100, 101, 103, 105, 106, 107 and 110 have not been implemented since they do not affect the operations of the municipality.

GRAP standards 25 (Revised), 104 (revised), IGRAP 7 (revised) and IGRAP 21 are issued but effective date not yet determined but will not affect the municipality's financial statements when they become effective. The Guideline on accounting for landfill sites has been issued but the effective date is not yet determined however it will not have an effect on the municipality since it does not have a landfill site.

Details of related party transactions are disclosed as per GRAP 20.

These accounting policies and the applicable disclosures have been based on Standards Of International Public Sector Accounting Standards (PSAS) issued by the International Federation of Accountants-Public Sector Committee, International Accounting Standards (IAS) issued by the International Accounting Standards Board, of Generally Accepted Accounting Practice issued by the South African Accounting Practice Boards and the South African Institute of Chartered Accountants' Accounting Practice Committee.

2. PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand

3. GOING CONCERN ASSUMPTION

Significant judgements and 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 too reasonable under the circumstances, the results of which form the basis of making the judgements and other carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The municipality is not aware of any uncertainties that may cast doubt on the going concern of the municipality.

Based on the assumptions and estimates these annual financial statements have been prepared on a going concern basis.

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4. HOUSING DEVELOPMENT FUND

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 01 April 1998 and transferred to a Housing Development Fund. Housing selling schemes both complete and in progress as at 01 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the of the Housing Development Fund can be used only to finance housing developments within the municipality area subject to the approval of the Provincial MEC responsible for housing.

5. ASSETS

5.1 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, is stated at cost, less accumulated depreciation. Land is not depreciated as it is deemed to have an indefinite life.

The cost of items of property, plant and equipment acquired in exchange for a non-monetary or monetary asset, or a combination of monetary and non-monetary assets is measured at its fair value .If the cost cannot be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Assets under construction are recognised as such and capitalized at the cost incurred as at year end. Subsequent expenditure is capitalized when the recognition and measurement criteria of an asset are met.

The GRAP Standard on Impairment of Assets is applied to determine whether an item of property, plant and equipment need to be impaired. Refer to paragraph 14.1.

Depreciation is calculated based on cost, using the straight-line method over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated asset lives:-

	YEAR	OTHER	YEARS
Infrastructure			
Roads and Paving	20	Air Conditioners	5 to 10

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Infrastructure	30	Other Vehicles	5
Electricity	20	Office equipment	5 to 10
Street Lights	25	Furniture and Fitting	5 to 10
		Other items of plant and equipment	5
		Computers and Computer Software	5

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognized in the Statement of Financial Performance.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged against the Revenue.

Depreciation on assets under construction during the year is only provided for once the asset is brought into use.

5.2 INTANGIBLE ASSETS

Computer Software is identified as Intangible Assets and is disclosed as such in the financial statements. The intangible asset is amortised over a period of five years. Intangible assets are disclosed at cost less amortization in the financial statements.

5.3 INVESTMENT PROPERTY

Investment property comprises the Thusong Centre where office are let to various government departments. Each of the leases contains an initial non-cancellable period of 10 years, with annual rents indexed to consumer prices. Subsequent renewals are negotiated with the lessee and historically the average renewal period is five years. Investment property is valued at cost in the annual financial statements

6. FINANCIAL INSTRUMENTS

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

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
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receive cash or another financial asset from another entity; or

exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity.

A financial liability is:

any liability that is a contractual obligation to:

deliver cash or another financial asset to another entity; or

exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity.

Financial instruments are initially recognised when the municipality becomes a party to the contractual provisions. Financial assets are recognised using trade date accounting

The municipality has the following financial instruments:

Financial Assets:

Trade and other Receivables from and exchange and non-exchange transactions valued at amortised cost

Cash and cash equivalents valued at amortised cost

Financial Liabilities

Trade and other payables from exchange and non-exchange transactions valued at amortised cost

Finance lease liabilities

Initial Measurement

Financial instruments are initially measured at fair value and plus transaction costs for financial instruments at amortised cost or cost. Fair value is usually the transaction cost at the date of recognition. For financial instruments at amortised cost, if the transaction cost is not market related i.e. no interest is charged for deferred payments or when the account is overdue, or interest charged is at below- market related rate: the municipality determines the fair value. The fair value is the present value of the expected future cash flows, without taking into account any future losses or the possibility of default, discounted using a market related interest rate, adjusted for credit risk over the expected life of the financial instrument. For financial instruments at fair value, the fair value is determined based on quoted prices in an active market. If there is no active market, it is determined using valuation techniques. For financial instruments at cost, the financial instrument is only measured at cost if the fair value can not be measured reliably. Where a financial instrument contains both a liability and a residual interest component, the municipality allocates the instrument into its component parts. The municipality recognises the liability

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at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its components.

Subsequent Measurement

Financial assets and liabilities are subsequently measured either at fair value, or amortised cost or cost using the following categories:

- (a) Financial instruments at fair value
- (b) Financial instruments at amortised cost
- (c) Financial instruments at cost

Financial instruments at fair value comprise financial assets or financial liabilities that are derivatives, combined instruments that are designated at fair value, instruments held for trading, financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost and non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition. Financial instrument at fair value are subsequently measured at fair value with changes in fair value recognised in surplus or deficit.

Financial instruments at amortised cost, are non-derivative financial assets or financial liabilities that have fixed or determinable payments, excluding those the municipality designates at fair value at initial recognition or are held for trading. Financial instruments at amortised cost are subsequently measured at amortised cost using effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated cash flows associated with the financial instrument through the expected life of the instrument (or in some cases a shorter period) to the net carrying amount at initial recognition. Financial assets are subject to annual impairment review.

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

Reclassification of Financial Instruments

The municipality does not reclassify a financial instrument when it is issued or held, except for a combined instrument that is required to be measured at fair value or an investment in residual interest subject to certain requirements.

Gains and losses on Financial Instruments

Gains and losses on fair value measurements, reclassifications, impairment and de-recognition are recognised in surplus or deficit.

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Impairment and Review of Financial Assets**

Financial assets are subject to annual impairment review.

For financial assets at amortised cost; the municipality assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on a financial asset has been incurred, the loss is recognised in surplus or deficit. The municipality assesses financial assets individually, when assets are individually significant, and individually or collectively for financial assets that are not individually significant. Where no objective evidence of impairment exists for an individually assessed asset, (whether individually significant or not), an entity includes the assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. The impairment loss is the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The impairment loss is recognised in surplus or deficit by reducing the carrying amount either directly or through the use of an allowance account. If, in a period after an impairment loss has been recognised, events occur or circumstances change that indicate that the impairment loss recognised in a previous period should be reversed, the municipality reverses the impairment loss previously recognised either directly or by adjusting an allowance account.

For financial assets at cost; the municipality assesses whether there is any objective evidence that a financial asset is impaired. If there is objective evidence that an impairment loss on a financial asset has been incurred, the loss is recognised in surplus or deficit. The impairment loss is the difference between the carrying amount and the present value of estimated future cash flow discounted at the current market rate of return for similar financial assets. The impairment loss is recognised in surplus or deficit by reducing the carrying amount directly. The impairment loss is never reversed in subsequent periods.

De-recognition of Financial Instruments

Financial Assets

The municipality derecognises financial assets using trade date accounting. The municipality derecognises a financial asset only when:

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

- (i) derecognise the asset; and

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- (ii) recognise separately any rights and obligations created or retained in the transfer.

Financial Liabilities

The municipality removes a financial liability from its statement of financial position when , and only, it is extinguished . A financial liability is extinguished when the debtor either:

- (a) Discharges the liability by paying the creditor, normally with cash, other financial liabilities , goods or services.
- (b) Is legally released from primary responsibility for the liability either by process(expires) of law or by the creditor (cancelled). If the debtor has given a guarantee , this condition may still be met.
- (c) Waives the debt or it is assumed by another municipality by way of a non- exchange transaction.

Interest, dividends or similar distributions , losses and gains relating to a financial instrument or a component that is a financial liability should be recognised as revenue or expense in surplus or deficit. A financial asset and a financial liability should be offset and the net amount presented in the statement of financial position when and when , the municipality:

- (i) Currently has a legally enforceable right to set off the recognised amounts; and
- (ii) Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

7. INVENTORIES

The only inventory held is that of consumable stores. The cost of consumable stores is expensed at the time of purchase.

8. BORROWING COSTS

Borrowing costs are recognised as an expense in the Statement of Financial Performance.

9. REVENUE RECOGNITION

9.1 Revenue from exchange transactions

Service charges relating to refuse removal are recognized on a monthly basis in arrears by applying the approved tariff to each property. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month

Interest and rentals are recognized on a time proportionate basis.

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Revenue arising from the application of the approved tariff of charges is recognized when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

Income for agency services is recognized on a monthly basis once the income collected on behalf of agents has been quantified. The income recognized is in terms of an agency agreement.

Finance income from the sale of housing by way of installment sales agreements or finance leases is recognized on a time proportionate basis.

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

Where public contributions have been received but the municipality has not met the condition, a liability is recognized.

9.2 Revenue from non-exchange transactions

Revenue from property rates is recognized when the legal entitlement to this revenue arises. Collection charges are recognized when such amounts are legally enforceable. Penalty interest on unpaid rates is recognized on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognized when payment is received. Donations are recognized on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use.

Contributed property, plant and equipment are recognized when such items of property, plant and equipment are brought into use.

Revenue from the recovery of unauthorized, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognized when the recovery thereof from the responsible Councillors or officials is virtually certain.

10. CONDITIONAL GRANT AND RECEIPTS

Revenue received from conditional grants and donations is recognized as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligation have not been met, a liability is recognized.

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11. PROVISIONS

Provisions are recognized when the Municipality has a present or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. The municipality provides for annual leave and long service awards. The leave provision is based on the number of days accrued to employees at year end multiplied by the daily basic salary applicable on 01 July. The provision for the long service award is valued by an actuary as at year end.

Bank overdrafts are recorded based on the facility utilized. Finance charges on bank overdraft are expensed as incurred.

12 LEASES

Leases for photocopiers are recognised as operating leases and the contractual lease payments are recognised as expenses over the term of the lease.

The hire purchase agreement for the mayor's vehicle is classified as a finance lease and is recognised as an asset in the statement of financial position and the lessor is disclosed as a finance lease obligation.

13. IMPAIRMENT OF ASSETS

13.1 Non-Cash-Generating Assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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

Identification

The entity 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 entity estimates the recoverable service amount of the asset.

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

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

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 is tested for impairment before the end of the current reporting period.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approaches:

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 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 entity 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.

Recognition and measurement

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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 a surplus or deficit.

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.

Reversal of an impairment loss

The entity 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 entity 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.

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.

Re-designation

The re-designation 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 re-designation is appropriate.

14. EMPLOYEE BENEFITS

14.1 Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

14.2 Post-employment benefits: Defined Benefit plans

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

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

15. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003), Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

16. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal System Act (Act No. 32 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality'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.

17. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful 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.

18. COMPARATIVE INFORMATION

18.1 Current Year Comparatives

Budgeted amounts have been included in the annual financial statements for the current and previous financial years

**UMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021
18.2 Prior Year Comparatives**

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified.

19. Presentation of Budget Information

The municipality is typically subject to budgetary limits in the form of an approved budget which is approved by Council through legislation and regulations applicable in preparation of budgets. The budget is prepared on an accrual basis and linked to performance outcome objectives. The reporting requirements puts an onus on the municipality to provide information on whether resources were obtained in accordance with the legally adopted budget.

The budget covers the financial year under review namely 01 July 2019 to 30 June 2020. The budget and the annual financial statements are prepared on the same basis of accounting. A comparison of the budget to actual amounts is reflected in the Statement of comparison of Budget and Actual Amounts.

20. RELATED PARTIES

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Key management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions. Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity.

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favorable than the terms it would use to conclude transactions with another entity or person are disclosed.

21. COMMITMENTS

Commitments for contracts already contracted for in the year under review but to be completed and payable in the following year are disclosed as contracted commitments and the approved capital budget for the following year is disclosed as uncontracted commitments.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

22. 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 municipality uses the cost method to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest at a nominal rate or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised. Nominal interest rate is 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;

**UMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**
and amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate. Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in Accrued interest above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

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.
- 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.

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, is reduced, either directly or through the use of an allowance account.

**uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

In estimating the future cash flows, the municipality considers both the amount and timing of the cash flows that it will receive in future. Where the effect of the time value of money is material the estimated future cash flows are discounted using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable 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 estimate 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 exceeding what the carrying amount of the receivable 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:
 - The receivable is derecognised; 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.

**UMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021
23. PRINCIPALS AND AGENTS**

Identification

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

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement. Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions. The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

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

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to

**uMSHWATHI MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as 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.

For the period under assessment the municipality has the following principal-agent arrangements:

- The municipality acts as an agent to administer the issuing of driver's, learner and vehicle licenses on behalf of the Provincial Department of Transport. The municipality receives a commission for providing the service as an agent
- The municipality constructs electrical infrastructure with funding received from the Department of Energy. The infrastructure is built according to standards set by Eskom. Since the municipality is not an electricity license holder the infrastructure, once complete, is handed over to Eskom. As a result the municipality is an agent in this arrangement

uMSHWATHI LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2021

	Note	2021 R	2020 Restated R
ASSETS			
Non - current assets			
Property , plant and equipment	7	255 697 326	242 379 814
Investment Property	8	245 257 230	230 973 612
Intangible Assets	9	10 199 148	10 669 726
		240 947	736 476
Non-current Current Assets			
Non-current portion of Acknowledgement of Debt Debtors	12	2 026 501	0
		2 026 501	0
Current assets			
Receivables: Non-Exchange Transactions	10	110 458 460	142 162 075
Receivables: Exchange Transactions	10	10 707 699	67 713 802
Other debtors: Exchange	11	7 424 097	13 523 904
Other debtors: Non-Exchange	11	3 061 082	3 019 090
Value Added Tax Receivable	6	1 201 406	5 981 530
Call investment deposits	13	14 539 549	10 578 459
Bank balances and cash	14	67 095 562	39 878 136
		6 429 064	1 467 154
Total Assets		368 182 287	384 541 889
Non - current liabilities			
Non-current portion of Long Service Award Liability	3	2 850 626	2 874 806
		2 850 626	2 874 806
Current liabilities			
Creditors	2	16 987 917	9 216 926
Leave Payable	4	11 245 936	4 643 807
Unspent conditional grants and receipts	5	5 165 580	3 827 815
Current portion of Long Service Award Liability	3	-	419 218
		576 401	326 086
Total Liabilities		19 838 543	12 091 732
Net Assets		348 343 744	372 450 157
NET ASSETS			
Net assets		348 343 744	372 450 157
Accumulated surplus		348 343 744	372 450 157
		348 343 744	372 450 157

uMSHWATHI LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2021

BUDGET		ACTUAL	
2020	2021	2021	2020
R	R	R	Restated R
Revenue from Non-Exchange Transactions			
44 012 000	45 000 000	45 648 893	44 187 273
30 000	5 000	3 835	12 500
2 225 000	2 300 000	2 631 077	1 706 232
108 997 000	142 964 000	7 553 306	8 166 691
27 591 000	27 091 000	134 967 218	108 577 782
182 855 000	217 360 000	217 895 329	190 241 478
Revenue from Exchange Transactions			
2 500 000	2 750 000	2 838 784	2 712 801
700 000	600 000	589 856	595 055
2 000 000	2 000 000	1 883 418	2 485 784
8 000 000	4 500 000	1 051 519	926 929
322 000	219 000	252 550	221 224
13 522 000	10 069 000	6 616 127	6 941 793
196 377 000	227 429 000	224 511 455	197 183 272
EXPENDITURE			
71 195 000	73 939 500	73 933 202	70 007 356
10 155 000	10 365 000	10 230 888	9 997 368
150 000	200 000	84 539	55 162
15 000 000	15 855 000	15 802 591	14 245 959
200 000	0	0	66 302
	Interest Written off	2 047 527	2 218 446
30 770 000	49 747 000	36 224 304	27 599 754
33 013 000	31 808 000	25 204 018	28 810 681
5 000 000	8 000 000	85 090 800	5 168 866
165 483 000	189 914 500	248 617 870	158 169 893
30 894 000	37 514 500	(24 106 415)	39 013 378

uMSHWATHI LOCAL MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2021

	Note	Accumulated Surplus
		R
Balance as per 30 June 2019		331 962 053
Surplus - (deficit) for the year		41 281 823
Original Balance as at 30 June 2020		373 243 876
Prior Year Adjustments	29	-793 710
Restated balance as at 30 June 2020		372 450 166
Surplus for the year		-24 106 415
Balance as at 30 June 2021		<u>348 343 751</u>

uIMSHWATHI LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021 R	2020 Restated R
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Sales of Goods and Services		122 177 163	44 980 168
Grants		134 967 218	108 577 782
Interest Received		1 883 418	2 485 784
Other Receipts		27 091 000	27 591 000
		286 118 799	183 634 734
Payments			
Employee Costs	15/16	-82 600 190	-79 164 509
Suppliers		-142 219 170	-70 573 799
Interest Paid	17	0	-66 302
		-224 819 360	-149 804 610
	19	61 299 439	33 830 125
NET CASH INFLOW FROM OPERATING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	5	(29 120 101)	(26 857 139)
Proceeds from disposal of Assets		(6 357 238)	(6 357 238)
		(29 120 101)	(33 214 377)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of external loans		-	(892 483)
Increase in Investments		(27 217 426)	-
		(27 217 426)	(892 483)
NET CASH FROM FINANCING ACTIVITIES			
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the year		1 467 154	1 743 890
Cash and cash equivalents at the end of the year	14	6 429 064	1 467 154
		4 961 910	(276 736)
	24	4 961 910	(276 736)

uMshwathi Local Municipality
Statement of Comparison of Budget and Actual Amounts
For the Year Ended 30 June 2021

Operational Budget for the period 01 July 2020 to 30 June 2021

The Budget is a zero based budget and is prepared on the accrual basis

Details	Original Budget	Adjustments (S 28)	Final Budget	Actual	Variance	Comments
Revenue from Non-Exchange Transactions						
Property Rates	35 000 000	10 000 000	45 000 000	45 648 893	648 893	The increase in net rates is due to budget rebates not being claimed
Traffic Fines	30 000	-25 000	5 000	3 835	-1 165	
Income for agency services	2 420 000	-120 000	2 300 000	2 631 077	331 077	After the relaxation of the lockdown regulations there was an increase in renewal of vehicle and drivers licences
Grants: Operational	131 970 000	2 997 000	134 967 000	134 967 218	218	
	169 420 000	12 852 000	182 272 000	183 251 023	979 023	
Revenue from Exchange Transactions						
Service Charges	2 750 000	-	2 750 000	2 838 784	88 784	
Rental of facilities and equipment	640 000	(40 000)	600 000	589 856	-10 144	
Interest earned - external investments	2 500 000	(500 000)	2 000 000	1 883 418	-116 582	Due to decrease in interest rates
Interest earned - outstanding debtors	4 500 000		4 500 000	1 051 519	-3 448 481	There was an increase in arrear debt due to impact of the Covid pandemic
Other income	314 000	(95 000)	219 000	252 550	33 550	There was a slight increase in revenue raised from sale of tender documents
	10 704 000	-635 000	10 069 000	6 616 127	-3 452 873	
Total Operating Revenue	180 124 000	12 217 000	192 341 000	189 867 149	-2 473 851	
Operating Expenditure						
Employee Costs	72 143 000	1 796 500	73 939 500	73 933 202	-6 298	Certain budgeted posts were not filled in an attempt to reduce the salary to total cost ratio
Councillor Allowances	10 765 000	(400 000)	10 365 000	10 230 888	-134 112	
Depreciation	6 655 000	9 200 000	15 855 000	15 802 591	-52 409	
Interest Paid	300 000	(300 000)	0	0	0	The budget for finance charges was over budgeted
Other Expenditure	88 958 000	-7 203 000	81 755 000	61 512 862	-20 242 138	Certain expenditure that was budgeted for were not incurred due to the Covid Lockdown
Contribution to Reserves	1 500 000	6 500 000	8 000 000	85 090 800	77 090 800	Debtors were reassessed in terms of GRAP 104 requirements and the impairment provision needed to be increased.
Contribution to Capital	-	-	-	-	-	
Operational Expenditure	180 321 000	9 593 500	189 914 500	246 570 343	56 655 843	
Operating Surplus before Capital Expenditure	-197 000	2 623 500	2 426 500	-56 703 194	-59 129 694	
Capital Transfer Recognised	27 428 000	-337 000	27 091 000	27 091 000	2 029 101	
Surplus for the year before Capital Expenditure	27 231 000	2 286 500	29 517 500	-29 612 194	-61 158 795	

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2020	
	Restated	R
2021		
	R	

1 SEGMENT REPORTING

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

The four functional segments comprise of:
 Governance and administration

Community and public safety which includes community and social services, sport and recreation, public safety, economic and services

Environmental services which includes planning and development, road transport and environmental protection services;

Trading services which includes waste management services;

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

Management does monitor the performance of each segment but does not at present have reliable separate financial information for decision making purposes. Processes have been put in place to generate this information at a transaction level and in the most cost effective manner.

Financial report per Segment

Governance and Administration

Revenue	192 872 717.17	165 031 505.12
Expenditure	-132 903 076.00	-136 857 718.54
Surplus	59 969 641.17	28 173 786.58

Community and Public Safety

Revenue	1 545 898.74	1 755 723.82
Expenditure	-5 182 555.14	-6 681 423.54
Surplus	-3 636 656.40	-4 925 699.72

Environmental/Road Transport

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	Restated R
Revenue	27 254 055.67	27 683 240.47
Expenditure	-30 253 411.80	-13 245 713.52
Surplus	-2 999 356.13	14 437 526.95

Waste Management Service

Revenue from Exchange Transactions	2 838 783.68	2 712 801.28
Segment Expenditure	-2 243 848.14	-1 385 037.44
Surplus	594 935.54	1 327 763.84
Total	53 928 564	39 013 378

2 CREDITORS

Trade creditors	2 438 991	3 114 189
Retentions Held	1 530 899	1 493 140
Housing	5 223 621	0
Unallocated Receipts	743 459	36 478
Debtors with Credit Balances	1 308 966	
	11 245 936	4 643 807

3 Provision for Long Service Award

Non Current Liability for Long Service Award	2 850 626	2 874 806
Current Liability for Long Service Award	576 401	326 086
	3 427 027	3 200 892

An actuarial valuation was done for the provision for Long Service Awards to Current employees as at 30 June 2021 in terms of GRAP 25 and a liability raised accordingly. Due to the uncertainty of who will be entitled to the award an actuarial valuation was done on all employees based on their date of appointment together with the policy on the qualifying of the Long Service Award.

The approach taken in this valuation has been made with reference to the guidelines issued by the Actuarial Society of South Africa (ASSA), in particular, the Advisory Practice Note 207 as issued by ASSA.

Changes in the Present Value of the defined benefit obligation is as follows:

Opening Balance	3 200 892	2 924 646
Expense recognised in Statement of Financial Performance	226 135	276 246
Closing Balance	3 427 027	3 200 892

Expense recognised in Statement of Financial Performance

UMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	Restated R
Current Service Cost	316 318	319 048
Interest Cost	-357 269	280 733
Actuarial Loss	267 086	-323 535
	226 135	276 246
Key Assumptions Used		
Discount Rate	8.00%	8.00%
Inflation Rate	3.00%	3.00%
Salary Increase Rate	4.00%	4.00%

Mortality Rate
 Average Retirement Age 63 years
 Pre-retirement Mortality SA 85/90 with 1 year downward age rating for females

	2021	2020
	R	Restated R
4 Leave Payable		
Opening Balance	3 827 815	3 263 846
Leave Paid	-1 231 912	-1 140 502
Unutilised Leave	2 595 903	2 123 344
Current Contribution	2 569 677	1 704 471
Closing Balance	5 165 580	3 827 815

Provision for leave relates the number of days accumulated by employees during the reporting period. The provision is calculated on the leave balance due on 30 June 2021. This is the amount the employee will be entitled to should the employee cease employment on 30 June 2021. The municipality is not aware of the time when the leave will be paid out since this is dependent on the time when the employee ceases to be an employee

5 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

5.1 Conditional grants from other spheres of government

Total conditional grants and receipts	0	419 218
	0	419 218
MIG		
Opening Balance	-	-
Received During the year	27 091 000	27 591 000
Expended During the year	-27 091 000	-27 591 000
Closing Balance	0	0
FMG		
Opening Balance	-	-

UMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	Restated R
Received During the year	1 900 000	1 970 000
Expended During the year	-1 900 000	-1 970 000
Closing Balance	0	0
Public Works: EPWP		
Opening Balance	-	-
Received During the year	1 192 999	1 322 000
Expended During the year	-1 192 999	-1 322 000
Closing Balance	0	0
DoE Funding: INEP Grant		
Opening Balance	-	-
Received During the year	7 997 000	5 000 000
Expended During the year	-7 997 000	-5 000 000
Closing Balance	0	0

The INEP grant received is for projects carried out on behalf of the Department of Energy. The municipality does not have a license for distribution of electricity thus the projects are carried out on an agency basis. The grant received is not recognised as income and the expenditure incurred is set off against the grant received.

Provincial Grant: Department of Arts and Culture

Opening Balance	-	-
Received During the year	2 940 000	2 851 000
Expended During the year	-2 940 000	-2 851 000
Closing Balance	0	0

Disaster Relief Grant

Opening Balance	419 218	-
Received During the year	0	953 000
Expended During the year	-419 218	-533 782
Closing Balance	0	419 218

6 VAT Receivable

VAT refundable	14 539 549	10 578 459
	14 539 549	10 578 459

VAT is payable on the receipts/payment basis. Refer to Note 28.2 for breakdown of VAT receivable

7 PROPERTY, PLANT AND EQUIPMENT

Reconciliation of carrying value

	Buildings	Land	Roads Infrastructure	Furniture & Equipment	Vehicles	Machinery & Tools	Total

UMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 Restated R
Carrying value at 1 July 2020		
Cost	116 302 647	11 798 151
Accumulated depreciation	(23 559 632)	(8 807 221)
- Cost	92 743 015	2 990 931
	184 506 417	10 044 379
	(67 046 214)	(6 741 232)
	117 460 202	3 303 146
WIP	897 336	1 925 764
	1 028 429	3 336 510
Acquisitions	93 640 351	2 990 931
Capital under construction	2 574 780	459 828
Depreciation	1 849 202	311 350
- based on cost	(3 851 448)	(952 919)
	(8 827 070)	(1 018 748)
	-186 298	-14 836 485
Carrying value at 30 June 2021		
Cost	118 877 427	12 257 979
Accumulated depreciation	(27 411 080)	(7 759 981)
- Cost	91 466 347	4 497 998
	196 707 748	12 969 265
	(75 873 285)	(7 759 981)
	120 834 463	5 209 284
WIP	2 746 537	13 160 893
	10 414 356	23 661 176
	131 248 819	24 971 171
	856 363	245 257 230
Reconciliation of carrying value		
Carrying value at 1 July 2019		
Cost	112 086 466	1 639 618
WIP	243 946	1 635 413
Accumulated depreciation	(20 622 803)	(7 817 886)
- Cost	112 330 412	8 095 574
	166 436 584	8 095 574
	(59 567 942)	(6 017 633)
	166 436 584	1 635 413
	106 868 642	855 309
	16 759 390	780 103
	1 240 592	129 500
	1 028 429	24 522 853
	(3 439 448)	2 269 021
	(1 310 442)	-13 108 066
	(7 799 441)	-
	1 310 442	-

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 Restated R
Depreciation Adjustment	3 947	801 738
Carrying value at 30 JUNE 2020		
Cost	116 302 647	336 074 501,26
WIP	1 484 538	2 512 966,71
Accumulated depreciation		
- Cost	(23 559 632)	(107 613 854)
	94 227 553	230 973 614
	11 232 041	3 303 146
	118 488 631	731 311
	2 990 931	(1 033 601)
	(8 807 221)	(6 741 232)
	3 303 146	(107 613 854)

The following Repair and Maintenance Costs were incurred during the year in maintaining the municipality's Property, Plant and Equipment:
Roads 11 086 103
Buildings 6 873 175

Note: A report has been submitted to Council recommending that fully depreciated assets be written off from the Fixed Assets Register. In the meantime it was decided not to reassess the useful lives of these assets.

Refer to Appendix B for more detail on property, plant and equipment

Assets Under Construction:

Disability Skills Centre	1 853 335	113 075
Construction of Mithizane Creche	110 880	110 880
High Mast Lighting	353 325	353 325
Road L714	1 144 449	0
Construction of Nazo Road	94 000	0
Cool Air/Dalton Intersection	470 032	0
Construction of Gwala Road	285 536	0
Thokozane Community Centre	428 997	320 056
Completion of Efaye Sportsfield	0	587 202
Construction of D239 - Design Cost	8 420 339	1 028 429
	13 160 893	2 512 967

WIP Opening Balance: 01 July 2020
Transferred 2020/2021

	2 512 967	12 744 516
	587 202	12 500 570
	1 925 764	243 946
Current Year's WIP	11 235 129	2 269 021
WIP as at 30 June 2021	13 160 893	2 512 967

UMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

8 INVESTMENT PROPERTY

	2021 R	2020 Restated R
Cost	14 117 347	14 117 347
Accumulated Depreciation	-3 447 621	-2 977 042
Carrying Value: 01 July 2020	10 669 726	11 140 304
Additions: Current Year	0	0
Cost as at 30 June 2019	14 117 347	14 117 347
Depreciation: Current Year	-470 578	-470 578
Depreciation as at 30 June 2021	-3 918 199	-3 447 621
Carrying Value at end of the year	10 199 148	10 669 726

The Thusong Centre is classified as Investment Property due to the nature of rentals collected from the Government Departments. Investment Property is depreciated on a straight line basis over 30 years

9 INTANGIBLE ASSETS

Software Licences and LAN Network

Cost: 30 June 2020	3 658 417	3 658 417
Accumulated Amortisation	-2 921 941	-2 254 626
Carrying Value 01 July 2020	736 476	1 403 791
Additions - 2020/21	0	0
Amortisation for the year	-495 529	-667 315
	-495 529	-667 315
Cost: 30 June 2020	3 658 417	3 658 417
Accumulated Amortisation	-3 417 470	-2 921 941
Carrying Amount 30 June 2021	240 947	736 476

The software and network is being amortised over 5 years being its useful life.

10 RECEIVABLES

Balances at 30 June 2021

	Gross balance	Provision for doubtful debts	Net balance
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Receivables from Exchange Transactions
 Service debtors

	6 231 532	-5 170 465	1 061 067
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uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	Restated R
Rental	1 179 347	96 262
Sundry Other: Interest	58 355 547	6 266 768
	65 766 426	7 424 097
Receivables from Non-Exchange Transactions		
Rates	50 614 342	8 009 757
Collection Fees	11 974 586	1 285 944
Other	13 148 388	1 411 998
	75 737 316	10 707 699
Total	141 503 741	18 131 796

Ageing

	Current	30 Days	60 Days	90 Days	120 days	+ 150 Days	Total
	4 466 470	2 579 190	2 531 260	2 249 699	2 273 912	127 403 211	141 503 741
Agriculture/Commercial	2 174 751	903 867	1 002 005	877 890	875 724	31 575 507	37 409 743
Government	922 660	783 931	734 795	660 221	759 196	47 018 022	50 878 826
Residential	1 369 059	891 393	794 460	711 588	638 992	48 809 682	53 215 173

Balances at 30 June 2020

Receivables from Exchange Transactions

Service debtors	5 225 099	-793 014	4 432 085
Other: Interest and Rental	27 960 509	-18 868 689	9 091 820
	33 185 607	-19 661 703	13 523 904
Receivables from Non-Exchange Transactions			
Rates	89 129 056	-21 415 254	67 713 802
Total	122 314 663	-41 076 957	81 237 706

Ageing

	(0 - 30 days)	31 - 60 days	61 - 90 days	91 - 120 days	> 120 days	Total
	3 652 959	1 965 661	1 691 988	1 653 013	113 351 042	122 314 663
Agriculture	941 901	424 797	360 316	360 086	15 095 871	17 182 972
Commercial	687 449	363 860	295 389	291 725	9 384 787	11 023 210
Government	690 847	412 171	398 900	378 431	44 891 608	46 771 958
Residential	1 332 761	764 833	637 383	622 771	43 978 775	47 336 524

The carrying value of debtors is assumed to approximate its fair value since interest is charged on accounts once gone into arrears. An estimate is made of doubtful debts based on a review of outstanding debtors at year end. The current provision is considered reasonable since the bulk of the debtors are rates and

UMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	Restated
		R

Government Departments. The amount owing by government departments is R 46 477 407 (46 771 958- 2020), the biggest debt being that owed by the Department Water Affairs, namely, R28 260 330. Debtors have not been discounted since interest is charged on arrear balance on a monthly basis.

STATUTORY RECEIVABLES

GRAP 108 requires receivable to be split between Statutory and Contractual receivables. In the case of uMshwathi Municipality receivables arising from levying rates on properties and issuing of traffic fines will result in Statutory Receivables. Currently these receivables are included in Consumer debtors and other debtors respectively.

The transitional relief of implementation of GRAP 108 within 3 years has been voluntarily adopted for the current year while the municipality is splitting its receivables. The municipality plans to be GRAP 108 compliant in the 2021/22 financial year.

11 OTHER DEBTORS

District Municipality	404 245	404 245
Thokazane housing	1 438 745	1 438 745
Department of Housing	165 332	165 332
Housing Debtors	946 550	946 550
Accrued Interest	106 211	64 219
	3 061 082	3 019 090

Debtors: Traffic Fines	24 035	24 035
Balance Brought Forward	24 035	24 763
Fines Issued	62 950	125 000
Payments Received	-3 835	-13 228
Impairment based on Historical payment rate	-59 115	-112 500
Current portion of Acknowledge of Debt Debtors	523 506	5 303 630
Overpayment	163 902	163 902
Other	489 962	489 962
	1 201 406	5 981 530
Total other debtors	4 262 488	9 000 620

12 NON CURRENT RECEIVABLES

Acknowledgement of Debt over 12 months

2 026 501

13 CALL INVESTMENT DEPOSITS

32 day/90 day deposits

	67 095 562	39 878 136
	67 095 562	39 878 136

Investments are 32 day and /or 90 day money market accounts. A call account is also held in which the equitable share is transferred

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

when received. Funds are transferred from the call account as and when required.

Bank	Account No.	2021 R	2020 Restated R
Standard: Call Investment	0536 -1443-4-14	21 949	21 092
FNB			
Investment 1	62101572081	37 559 356	10 580 017
Investment 2	62101572172	141 219	138 526
Call Account	62101571710	23 130 369	23 089 749
Call Account: Housing	62214429799	85 784	84 194
Call Account	74491854045	891 511	862 039
ABSA *			
Investment 1	20- 66260264	5 265 375	5 102 519
		67 095 562	39 878 136

14 BANK BALANCES AND CASH

The Municipality has the following bank accounts:
 FNB - Primary Bank Account: 62025459232

	62025459232	2 700	2 700
Cash on Hand		6 426 364	1 464 454
Bank balances and cash		6 429 064	1 467 154
		6 426 391	1 380 704

Cash and cash equivalents included in the cash flow statement comprise the following amounts:

15 REVENUE FROM NON EXCHANGE TRANSACTIONS

Property Rates	2021 R	2020 Restated R
Actual		
Agricultural	11 327 517	11 164 071
Residential	15 000 184	13 164 231
Commercial	8 829 693	8 451 936
Public service infrastructure	0	0
State	10 491 499	11 407 035
Total assessment rates	45 648 893	44 187 273
Gross Rates	75 119 455	72 291 220
Rebates	-29 470 563	-28 103 947
Net Rates	45 648 893	44 187 273

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	Restated
		R
4 619 555 000		4 602 939 000
250 743 000		250 743 000
1 300 983 000		1 278 047 000
446 894 000		452 162 451
1 301 593 000		1 387 577 000
107 528 000		105 028 000
44 871 000		43 121 000
239 355 000		72 923 000
8 311 522 000		8 192 540 451

Rates is raised on on market values of properties as per the valuation roll.at a rate randage approved in the budget. The general valuation roll is updated on a cycle of 5 years. The last General Valuation Roll was last prepared in July 2017. The new roll will be prepared for implementation from 01 July 2022.

Rebates are given as approved by Council when approving the budget. The rebates approved for the 2019/20 were as follows:

Residential Properties	30%
Agricultural Properties	52%
Rural Residential	52%

Valuations as at 01 July 2017

Agricultural	4 619 555 000
Small Holding	250 743 000
Residential	1 300 983 000
Commercial/Industrial	446 894 000
Government	1 301 593 000
Public Benefit Organisations	107 528 000
Places of Worship	44 871 000
Other	239 355 000
Total property valuations	8 311 522 000

The valuation of Rural Residential and residential categories is disclosed as a consolidated value as Rural/Residential. The valuation of the commercial and industrial categories is consolidated and disclosed under Commercial/Industrial. Valuation of all Government categories is consolidated and disclosed under the category of Government

16 Principal-Agent Arrangement

Income from Motor Licensing

Incomes from Agency Services is made up of commission earned from administering the Motor Licensing section on behalf of Department of Transport on an agency basis. Only the commission received is recognised as income. The main cost related to this arrangement is the employee costs for the section.

	2 631 077	1 706 232
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Housing Projects

The municipality is acting as the Project Manager for housing projects being carried out by the Department of Housing in the municipal area. No income is received by the municipality in acting as the project manager.

INEP Grant received from Department of Energy

The municipality constructs electrical infrastructure with funding received from the Department of Energy. The infrastructure is built according to standards set by Eskom. Since the municipality is not an electricity licence holder the infrastructure, once complete, is handed over to Eskom. As a result the municipality is an agent in this a arrangement. Expenditure incurred on the project is netted off against the grant received from the department. The allocation of R 7 997000.00 for the current year was fully expensed.

17 REVENUE FROM EXCHANGE TRANSACTIONS

Refuse removal

	2 838 784	2 712 801
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uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	Restated R
Interest earned - external investments	1 883 418	2 485 488
Interest earned - outstanding debtors	1 051 519	9 093 620
	5 773 721	14 291 909
<hr/>		
Equitable share	128 516 000	101 901 000
Conditional Grants: Operating	6 451 218	6 676 782
	134 967 218	108 577 782
Conditional Grants: Capital	27 091 000	27 591 000
	162 058 218	136 168 782
<hr/>		
FMG	1 900 000	1 970 000
Department of Public Works: EPWP	1 192 000	1 322 000
Department of Arts and Culture	2 940 000	2 851 000
Disaster Relief Grant	419 218	533 782
Operational Conditional Grants	6 451 218	6 676 782
MIG	27 091 000	27 591 000
Capital Conditional Grants	27 091 000	27 591 000
Total Conditional Grants	33 542 218	34 267 782

19 OTHER INCOME

Fees: Photocopies	5 910	23 122
Fees: Rates Clearance	45 951	33 861
Interest: Current Account	6 953	35 008
Community Hall	17 541	27 561
Maintenance: Tender Fees and Building Plans	163 056	92 240
Cemetery	6 174	3 652
Library Fines	965	823
Taxi Rank Permits	6 000	4 956
Gain on Disposal of Assets	0	0
	252 550	221 224

20 EMPLOYEE RELATED COSTS

Employee related costs - salaries and wages	50 388 084	47 798 635
Employee related costs - contributions to UIF, pension and medical costs	13 973 526	12 995 785
Travel, vehicle, accommodation, subsistence and other allowances	3 101 837	3 082 816
Housing benefits and allowances	614 323	608 200
Overtime payments	199 042	184 903
Standby Allowance	1 455 474	1 493 646
Bonus	3 625 459	3 248 927
Skills Levy/Bargaining Council	575 458	594 443

UMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	Restated R
Total employee related costs	73 933 202	70 007 356

There were no loans to employees.

Included in Employee Related costs:

Remuneration of the Municipal Manager

Remuneration	760 239	760 239
Car allowance	506 826	506 826
	1 267 066	1 267 066

Remuneration of the Chief Financial Officer

Annual remuneration	916 967	916 967
Car allowance	123 360	123 360
	1 040 327	1 040 327

**Remuneration of other managers
30-Jun-2021**

	2021	2020
	R	Restated R
Total employee related costs	73 933 202	70 007 356

30-Jun-2020

Annual remuneration	624 196	875 847
Car allowance	416 131	164 480
	1 040 327	1 040 327

21 REMUNERATION OF COUNCILLORS

	2021	2020
	R	Restated R
Total employee related costs	73 933 202	70 007 356

Annual remuneration	624 196	875 847
Car allowance	416 131	164 480
	1 040 327	1 040 327

	2021	2020
	R	Restated R
Total employee related costs	73 933 202	70 007 356

Mayor
Deputy Mayor
Speaker
Executive committee members
Councillors
Skills Levy

Being a full time councillors the Mayor and the Speaker have the use of an office and a council vehicle for official duties

22 INTEREST PAID

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	Restated R
External loans	0	66 302
	0	66 302

23 OPERATING LEASES - RENTALS: COPIERS

The municipality has recognised the lease on photocopiers as operating leases and recognised the payments of 213 637.10. The lease is effective from 01 September 2019.

Operating Lease Commitments:

- within 1 year
- within 2 to 5 years

	100 952	100 952
	33 651	134 603
	134 603	235 556

24 CASH GENERATED BY OPERATIONS

- Surplus for the year
- Depreciation
- Contributions to provisions- non-current
- Operating surplus before working capital changes
- Change in Working Capital

	-24 106 415	39 013 378
	15 802 591	14 245 959
	85 090 800	5 168 866
	76 786 977	58 428 203
	-15 481 919	-24 598 078
	61 305 058	33 830 125

25 RELATED PARTY TRANSACTIONS

The municipality is administered by 5 senior managers namely the Municipal Manager (Accounting Officer); the Chief Financial Officer; General Manager: Corporate Services; General Manager: Technical Services and the General Manager: Community Services who are accountable to the Council. During the year the following remuneration was paid to the managers:

	Basic Salary	Car Allowance	Total
Municipal Manager	760 239	506 826	1 267 065
Chief Financial Officer	916 967	123 360	1 040 327
General Manager: Corporate Services	855 287	185 040	1 040 327
General Manager: Technical Services	624 196	416 131	1 040 327
General Manager: Community Services	875 847	164 480	1 040 327
	4 032 536	1 395 837	5 428 373

The Remuneration for Councillors is disclosed in Note 16

Other Related Party Transactions:

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	Restated R
Award made to a suppliers whose owner is a spouse of an employee.		
Supplier: Coco Haven		
Employee: Ms. N. Sahibdeen		
Value of Awards: R346 572.68		
Supplier: Nzamza Protection Services		
Employee: Ms. N. Zuma		
Value of Awards: R30 000.00		
Supplier: Yamayotha Construction		
Employee: Ms. S. Dlamini		
Value of Awards: R144 900.00		
26 CONTRACTED SERVICES		
Advertisements	150 092	271 341
Provision of Free Basic Electricity	1 201 218	1 249 723
Induction and Team Building		0
Information Technology	4 646 272	4 717 452
Insurance	675 576	637 576
Internal Audit	776 465	248 062
Job Evaluation	0	22 029
Landscaping and Grasscutting	128 546	
Legal Expenses	262 446	319 327
Machinery	12 863	0
Motivational Speaker		0
Plant Hire	195 000	250 250
Postage & Stamps	320 455	170 922
Pound	110 000	143 000
Refuse Removal	1 827 057	809 478
Rental: Copiers	213 637	420 435
Repairs and Maintenance	17 858 155	11 579 666
Repairs and Maintenance: Vehicles	951 460	
Professional Fees: Development of LUMS/Land Audit	608 641	527 722
Professional Fees: Review of LUMS/Land Audit		0
Security	2 743 267	2 310 728
Small Contractor Development	704 912	970 112
Subscriptions	801 235	735 372
Support for SAGE	801 313	909 468
Tools	0	8 700
Town Planning	762 469	424 245
Training	152 592	510 100
	5 889 846	

UMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	Restated R
Valuation Fees	320 634	364 047
	36 224 304	27 599 754
27 GENERAL EXPENSES		
Accommodation	0	196 982
Audit Fee: External	1 432 263	1 453 549
Awareness Campaign	0	54 730
Bank Charges	91 026	81 041
Bursaries	331 822	182 592
Catering	819 454	810 075
Chemicals and Oil Dispersants		0
Communication: Budget Process	975 434	610 073
Conferences & Seminars	41 490	36 886
Consulting Fees	321 239	282 415
Council and Management Strategic Plan	217 384	0
Crime Prevention		60 685
Disaster Management	90 782	238 944
Employee Medical Test	182 873	169 314
EPWP Stipend	3 341 997	796 600
Facilitation	1 715 232	1 144 516
Gardening and Block Making Projects in Various Wards	967 221	617 822
Hygiene Services	136 495	560 149
IDP Review	512 829	484 542
Law Enforcement	0	87 195
Machinery	5 594	20 836
Maintenance of Fire Equipment	57 805	70 921
Mapping of Graves	109 000	0
Materials	625 816	494 847
Mayoral Support for Families of Drowning Victims	167 717	136 356
Occupational Health and Safety	823 670	0
Pauper Burials	38 480	54 126
Performance Awards	22 056	60 545
Pest Control	199 490	176 000
Plant Hire		535 061
Printing and Stationery	279 270	356 922
Protective Clothing	499 496	668 448
Purchases: Electricity	2 381 757	2 829 862
Refreshments	93 572	162 994
Road Signs	106 707	0
SMME Support	940 716	1 541 708
Sound	27 250	151 957

UMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020 Restated
	R	R
Substance and Travelling	955 893	2 704 880
Telephones	1 901 694	2 343 296
Tools	99 372	46 484
Transport	706 245	1 133 778
Transport/Vehicle Cost	2 188 723	2 851 224
Ward Committee Stipends	1 546 459	1 505 849
Water Consumption	170 468	180 967
Workmen's Compensation	79 229	2 515 870
Youth Workshops	0	399 641
World Aids Day Forum	0	0
	25 204 018	28 810 681

28 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

28.1 Audit fees	1 432 263	1 453 549
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28.2 VAT		
Opening balance	10 578 459	2 495 543
Current year output VAT	-737 036	-792 252
Current year input VAT	9 532 073	9 738 190
VAT Audit - Input VAT	0	5 769 190
Amount refunded by SARS	-4 834 714	-6 632 212
Amount due from SARS	14 538 783	10 578 459

28.3 PAYE and UIF		
Current year payroll deductions and Council UIF contributions	10 507 774	10 054 803
Amount paid - current year	10 507 774	10 054 803

28.4 Pension and medical aid deductions		
Current year payroll deductions and Council contributions	20 125 957	18 586 585
Amount paid - current year	20 125 957	18 586 585

28.5 Councillors arrear consumer accounts		
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UMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	Restated R

No Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2021

28.6 Reclassifications

Fines have been reclassified as fines under other income in the statement of financial performance

Traffic Fines	4 800	12 500
Library Fines	965	823
	5 765	13 323

28.7 Contributions to Provisions

Leave Provision	2 569 677	1 704 471
Long Service Award	226 135	276 246
Bad Debts	82 294 988	3 188 149
	85 090 800	5 168 866

Substance and Travelling included in General Expenses

Accommodation	583 156	1 732 359
Car Rental	1 800	36 611
Flights	8 200	810 604
Incidental	0	93 306
Own Transport	362 738	32 000
	955 893	2 704 880

Repairs and Maintenance has been reclassified and included in Contracted Services in the statement of Financial Performance

Road Maintenance	10 961 435	6 747 849
Maintenance	124 668	522 868
Environment Maintenance	0	58 900
Materials	11 086 103	7 329 617
Building Maintenance		
Creches	1 016 670	624 205
Halls/Sportsfields	3 500 360	2 159 312
Office Buildings	2 200 200	1 236 783
Libraries	155 945	198 350
	6 873 175	4 218 651
Equipment Maintenance	0	0
Plant Maintenance	0	149 338

UMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	R
Total Repairs and Maintenance	17 959 278	149 338
	<u>17 959 278</u>	<u>11 697 606</u>
		Restated
		<u>11 697 606</u>
29 PRIOR YEAR ERROR		
Invoices for Pound Management Received in Current Year	0	26 579 642
Contracted Services 30 June 2020	0	50 000
Prior Year Invoice from Cowcatchers received late in current Year	0	26 629 642
Closing Balance		<u>26 629 642</u>
Payables 30 June 2020	0	4 593 807
Prior Year Invoice from Cowcatchers received late in current Year	0	50 000
Closing Balance		<u>4 643 807</u>
Accumulated Depreciation adjusted after recalculation due to 2020 audit finding		
Accumulated Depreciation 30 June 2020	0	108 415 592
Adjustment after Recalculation	0	-801 736
Closing Balance	0	107 613 856
Adjustment to Input VAT subsequent to VAT Audit Carried out by MaxProf		
VAT as at 30 June 2020	0	4 809 269
Adjustment to Input VAT subsequent to VAT Audit	0	5 769 190
Closing Balance	0	10 578 459
Arrear Interest Reversal for interest charged incorrectly on various debtor accounts		
Debtors at 30 June 2020		75 028 437
Reversal of Arrear Interest		-7 314 636
Closing Balance		67 713 802
Accumulated Surplus		
Balance as at 30 June 2020		373 243 867
Invoices for Pound Management Received in Current Year	0	-50 000
Depreciation Adjustment		801 736
Input VAT Adjustment		5 769 190
Reversal of Arrear Interest		-7 314 636
Closing Balance		372 450 157
30 CAPITAL COMMITMENTS		
Commitments in respect of capital expenditure:		
- approved and contracted for	17 195 175	2 662 905
Infrastructure	17 195 175	2 662 905
The commitments disclosed is net of Value Added Tax		

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	Restated R
	17 195 175	2 662 905
	17 195 175	2 662 905

This expenditure will be financed from Government Grants

31 RETIREMENT BENEFIT INFORMATION

Certain Councillors and Certain employees belong to defined benefit plan of the Natal Joint Superannuation and Retirement funds, and the Municipal Councillors' Pension Fund. Employees of uMshwathi make up less than 1 % of the total members of the funds. uMshwathi's liability in these funds could not be determined owing mainly to the assets not being allocated to each Municipality and one set of financials being prepared for each fund and not per municipality. These funds are subject to a triennial actuarial valuation. The last statutory valuation was performed in March 2018 on the Retirement and Provident Funds and in March 2017 on the Superannuation Fund.

Current Year's Contribution

	12 955 224	11 938 636
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31.1 SUPERANNUATION FUND

The actuarial value of total assets was R11 054.038 million at the actuarial date.
 valuation date of 31 March 2017

- 26.1.1. surplus of R 0.00 million in respect of pensioners (funding level 100.0%)
- 26.1.2. surplus of R 0.00 million in respect of members (funding level 100 %)
- 26.1.3. the fund was thus 100,0% funded
- 26.1.4. the fund did not hold an investment reserve.
- 26.1.5. the total contribution rate payable, including the surcharge by and on behalf of members, exceeded that required for future service by 1,41% of member's pensionable emoluments
- 26.1.6. An additional contribution by way of a surcharge amounting to 9.5% of salaries is currently in place to fund the deficit. This surcharge will build up the Solvency Reserve.

31.2 RETIREMENT FUND

The actuarial value of total assets was R4 055.121 million at the actuarial valuation date of 31 March 2018

- 26.2.1. surplus of R 0.00 in respect of pensioners (funding level 100,0%)
- 26.2.2. deficit of R 148.694 million in respect of members (funding level 91.1%)
- 26.2.3. the fund was thus 96.1 funded
- 26.2.4. the fund did not hold an investment reserve
- 26.2.5. the total contribution rate payable will include a surcharge of 16.5% payable to reduce the deficit in the fund.

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 Restated R
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31.3 PROVIDENT FUND

The actuarial value of total assets was R4 105.682 million at the actuarial valuation date of 31 March 2018

26.2.1. surplus/deficit of R 0.00 and the funding level is 94.66%

26.2.3. the fund was thus 94.66 funded

26.2.4. the fund did not hold an investment reserve

32 CONTINGENT LIABILITIES

Pending Litigation Cases
Zabalaza Mshengu/uMshwathi Municipalities and others

This is a declaratory application sought by labour tenants against various municipalities including uMshwathi Municipality. The order sought is that the municipalities install water connections and access to basic sanitation including installing ventilation, improved pit and refuse collection.

	300 000	300 000
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uMshwathi/N.N. Maistry and other

This is an application brought by uMshwathi Municipality against N.N. Maistry. The municipality sought an order interdicting the Respondent from allowing people to erect and construct structures on the farm without first complying with the Spatial Planning and Land Use Management laws.

	300 000	300 000
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33 RISK MANAGEMENT

The municipality's activities expose it to a variety of financial risks: market risk (fair value interest rate risk and cash flow interest rate risk) credit risk and liquidity risk. The municipality has developed a comprehensive risk strategy in terms of Treasury Regulation 28.1 in order to monitor and control these risks. Internal Audit function reports quarterly to the Audit Committee, an independent body that monitors risks and policies implemented to mitigate risk exposures. The risk management process relating to each of these risks is discussed under the headings below.

Liquidity risk

The entity manages liquidity risk through proper management of working capital, capital expenditure and actual forecast cash flows and its cash management policy. Adequate reserves and liquid resources are also maintained.

Interest rate risk

As the municipality has no significant interest-bearing assets, the entity'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 and trade receivables. The entity only deposits cash with major banks with high quality

UMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	Restated R

credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an on-going basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customers, taking into account its financial position, past experience and other factors.

34 Financial Instruments

Financial Assets

Receivables		
Receivables from Exchange Transactions	7 424 097	13 523 904
Receivables from Non-Exchange Transactions	8 009 757	75 028 437

Cash and Cash Equivalents

Call Investments		
Bank	67 095 562	39 878 136
Cash Floats and Petty Cash	6 426 364	1 464 454
	2 700	2 700
	88 958 481	129 897 632

Financial Liabilities

Trade and Other Payables		
	11 245 936	4 593 807
	11 245 936	4 593 807

UMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

2020
Restated
R

2021
R

35 Deviations

The following is a list of expenditure for which there was a deviation from the normal SCM process

DATE REQUESTED	APPROVED DATE	DEPARTMENT	REASONS FOR DEVIATING	Motivation	COMPANY AWARDED	AMOUNT	VOTE NUMBER
24/08/2020	24/08/2020	Corporate Service	Emergency	network for Warburg, Dalton and Cool Air due to damaged that was done by microwave disinfection of	Family Business	24 745.50	O0001/IE00796/F0041/X046
24/08/2020	24/08/2020	Corporate Service	Emergency	Reception area and Photocopy office due to COVID 19 confirmed case Disinfection of	Skhalamazoo Cont	12 950.00	O0016-12/IE00683/F0041/X046
24/08/2020	24/08/2020	Corporate Service	Emergency	Municipal Vehicles, Tractors and 6 Guard Houses office due to COVID 19 confirmed case	Skhalamazoo Cont	4 680.00	O0016-12/IE00683/F0041/X046
24/08/2020	24/08/2020	Corporate Service	Emergency	Disinfection of Municipal Vehicles and Municipal Offices due to COVID 19 confirmed case	Mawoli Pest and C	6 000.00	O0016-12/IE00683/F0041/X046
01.09.2020	01.09.2020	Technical Services	Exceptional Circumstance	Service Provider appointed to clear and remove waste at Appelsbosch during Community protesting	Lourance Trading B	23 782.00	O2391-13/IE00651/F0041/X116
04.02.21	04.02.21	Community	Emergency	The truck had still a breakdown and requisition was not done because offices were closed from 24 December 21 until 11 Jan 21 this was also due to COVID 19	Mahlezijo (Pty)(Lid	105 000.00	O1273-9/IE00695/F0041/X1320/001/COMM
23.02.2021	23.02.2021	Corporate services	Single provider	Renewal of endpoint and mail servers.	Gagasu IT	78 200.00	O0001/IE00794/F0041/X052/R/1321
23.02.2021	23.02.2021	Corporate	Exceptional circumstances	Replacement of a LAN/WAN infrastructure at Cool air damage by lightning	Machisha Consultin	47 350.00	O0001/IE00794/F0041/X052/R/1321
22/04/2021	22/04/2021	Corporate Services	Emergency	Disinfection of Offices after positive covid 19 cases	Nduleko Business B	21 980.90	O1264-13/IE00659/F0041/X106

uMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

								2021	2020
								R	Restated R
04.02.21	04.02.21	Community	Emergency	The truck had a breakdown and went for repairs. UD trucks promised to bring truck back before the 22 Dec 2020 and the day they indicated that, the truck is still not ready.	uMsamo Group (Pt		97 500.00		O1273-9/IE00695/F0041/X1320/001/COMM
Total deviations							422 188.40		

36 Irregular Expenditure

Opening Balance	1 323 591	37 367 964
Cleared during the year	-1 055 464	
Irregular Expenditure Current Year	0	0
Discovered during the audit	124 900	1 323 591
Condoned During the Year:		
Irregular Expenditure Prior 2019		-34 218 400
Irregular Expenditure 2019		-3 149 564
Closing Balance	393 027	1 323 591

37 Unauthorised Expenditure

Opening Balance	0	3 006 293
Contribution to Provisions	77 090 800	0
Condoned During the Year:		
Unauthorised Expenditure: Prior 2019	0	-1 221 380
Unauthorised Expenditure: 2019	0	-1 784 913
	77 090 800	0

UMSHWATHI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 Restated R
38 Fruitless and Wasteful Expenditure		
Opening Balance	0	24 431
Traffic Fine not Recovered	0	0
Penalty for late submission of WCA Return Condoned by Council	0	-24 431
	0	0

The previous year's fruitless and wasteful expenditure was condoned by Council on 29 October 2020

uMSHWATHI LOCAL MUNICIPALITY : ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2021
APPENDIX B (1) (Not Audited)

REVENUE	2021 Actual R	2021 Budget R	2021 Variance R	2021 Variance %	Explanation of significant variances
Property rates	45 648 893	45 000 000	648 893	1%	The increase in net rates is due to the over budget for rebates on Government Properties
Service charges	2 838 784	2 750 000	88 784	3%	There were some additional applications for refuse removal during the year
Rental of facilities and equipment	589 856	600 000	-10 144	-2%	Some premises were not used during the lockdown
Interest earned - external investments	1 883 418	2 000 000	-116 582	-6%	Investments were held for longer periods during the year thus an increase in interest earned
Interest earned - outstanding debtors	1 051 519	4 500 000	-3 448 481	-77%	Relief on interest was given between April and June was given due to the Covid Lockdown
Income for agency services	2 631 077	2 300 000	331 077	14%	Due to the Covid Lockdown the Motor licensing office was closed between April and June
Government grants and subsidies	134 967 218	142 964 000	-	0%	
Traffic Fines	3 835	5 000	-1 165	-23%	Traffic fine reduced by the court
Other income	252 550	219 000	33 550	15%	Income from resources such as hall rentals, taxi ranks and building plans was less due to the lockdown
MIG Funds	27 091 000	27 091 000	-	0%	
Total Revenue	216 958 149	227 429 000	-2 474 069	(1)	
EXPENDITURE					
Employee related costs	73 933 202	73 939 500	-6 298	(0)	
Remuneration of Councillors	10 230 888	10 365 000	-134 112	(1)	
Depreciation	15 802 591	15 855 000	-52 409	(0)	
Contracted services	36 224 304	49 747 000	-13 522 696	(27)	Certain expenditure that was budgeted for were not incurred due to the Covid Lockdown
General expenses	25 288 558	32 008 000	-6 719 442	(21)	Certain expenditure that was budgeted for were not incurred due to the Covid Lockdown
Contribution to Reserves	85 090 800	8 000 000	77 090 800	964	
Capital Contribution	-	0	-		
Total Expenditure	246 570 343	189 914 500	56 655 843	30	
Surplus (Deficit) for the year	(29 612 194)	37 514 500	(59 129 912)		

APPENDIX B (2) (Not Audited)

uMSHWATHI LOCAL MUNICIPALITY : ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2021

	2021 Additions R	2021 Under Construction R	2021 Total Additions R	2021 Budget R	2021 Variance R	2021 Variance %	Explanation of significant variances
Construction works	19 593 241	1 994 017	21 587 258	23 018 000	(1 430 742)	(6)	
Community Assets	19 593 241	1 994 017	21 587 258	23 018 000	-1 430 742		
Buildings	1 987 578	1 849 202	3 836 780	4 410 000	(573 220)	(13)	There was a delay in the implementation of some of the projects due to the lockdown
Other Assets	1 987 578	1 849 202	3 836 780	4 410 000	-573 220		
Office and accounting machines	0	-	0	350 000	(350 000)	(100)	Furniture and equipment was planned to be purchased in the last quarter but due to the lockdown no purchases were made.
Furniture and fittings	459 828	-	459 828	300 000	159 828		
Machinery	311 350	-	311 350	1 700 000	(1 388 650)	(82)	Brush cutters were needed urgently for the cemetery section
Vehicles	2 924 886	-	2 924 886	5 723 500	(2 798 614)	(49)	
Other	0	-	0	2 050 000	(2 050 000)		
	3 696 064	-	3 696 064	10 123 500	(6 427 436)		
Total	25 276 882	3 843 218	29 120 101	37 551 500	(8 431 399)	(22)	

APPENDIX C to Annual Financial Statements as at 30 June 2021 (Not Audited)
 UMSHWATHI LOCAL MUNICIPALITY - DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, ACT 56 OF 2003

Description	Name of organ of State	Unspent balance at 1 July 2020		Received 2020/21	Expenditure 2020/21		Transfer 2020/21	Unspent balance at 30 June 2021		Compliance with grant conditions	Conditions of Grant
		R			R			R			
MIG	National Government	-		27 091 000	R	-27 091 000	-	-	YES	Expenditure to be in terms of projects registered	
Dept. of Arts & Culture	Dept. of Arts & Culture	-		2 940 000		-2 940 000		-	YES		
Department of Energy	Department of Energy	-		7 987 000		-7 987 000		-	YES		
Department of Public Works: EPWP	Dept of Public Works: EPWP	-		1 192 000		-1 192 000		-	YES		
FMG	National Government	-		1 900 000		-1 900 000		-	YES	Expenditure in terms of Implementation Plan submitted	
Disaster Relief Grant	National Government	419 218		0		-419 218		0	YES	Expenditure in terms of Implementation Plan submitted	
		419 218		41 120 000		-41 539 218		0	0		