



UMKHANDLU

UMSHWATHI

MUNICIPALITY

UMSHWATHI LOCAL MUNICIPALITY

**Annual Financial Statements
for the year ended 30 June 2023**

UMSHWATHI LOCAL MUNICIPALITY

(Registration number KZ221)

Annual Financial Statements for the year ended 30 June 2023

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	The provision of services to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.
Mayoral committee	
Executive Mayor	Cllr. G.M. Zondi
	Cllr. N.P. Mdunge (Deputy Mayor)
	Cllr. P.P. Shezi (Exco Member)
	Cllr. S.K. Nxumalo (Exco Member)
	Cllr. M.P. Majosi (Exco Member)
	Cllr. SM Mbatha Ntuli (Speaker)
	Cllr. A.M. Mbuthu
	Cllr. B.E. Mncube
	Cllr. B.K. Mkhize
	Cllr. E.B. Mbongwe
	Clr B.T Zondi (Declared: 07 March 2023)
	Cllr. H. Ngubane
	Cllr. M.P. Dumakude
	Cllr. M.P. Mlobeni
	Cllr. M.Z. Mbewana
	Cllr. N.A. Mbhele
	Cllr. TP Nxumalo
	Cllr. N.E. Cebekhulu
	Cllr. N.H. Chamane
	Cllr. N.R. Khanyile
	Cllr. TA Papiyana
	Cllr. N.W. Gasa
	Cllr. R. Thomas-Govender
	Cllr. S. Jali
	Cllr. KV Gwala
	Cllr. S.J. Luthuli (Deceased: 04 November 2022)
	Cllr. SP Khanyile
	Cllr. V.M. Mncwabe
Grading of local authority	Category 2
Chief Finance Officer (CFO)	E. V. Mdlalose (Mr.) (01 March 2023)
Accounting Officer	N.M. Mabaso
Registered office	Main Road New Hanover 3230
Auditors	Auditor General (SA)

UMSHWATHI LOCAL MUNICIPALITY

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Annual Financial Statements for the year ended 30 June 2023

General Information

Legislation

Constitution of the Republic of south Africa (Act 108 of 1998)
Municipal Finance Management Act (MFMA), Act 56 of 2003
Local Government: Municipal Systems Act (Act 32 of 2000)
Local Government: Municipal Structures Act (Act 117 of 1998)
Municipal Property Rates Act (act of 6 2004)
Division of Revenue Act (Act 1 of 2007)

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

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Abbreviations used:

FMG	Finance Management Grant
GRAP	Generally Recognised Accounting Practice
UIF	Unemployment Insurance Fund
WCA	Housing Development Fund
SDL	Skills Development Levy
WCA	Workers Compensation Fund
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
INEP	Integrated National Electrification Programme
MIG	Municipal Infrastructure Grant
LED	Local Economic Grant

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Annual Financial Statements for the year ended 30 June 2023

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2024 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2023 and were signed on its behalf by:

N.M. Mabaso
Municipal Manager

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(Registration number KZ221)

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Position as at 30 June 2023

Figures in Rand	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Inventories	2	7,137,659	11,768,186
Other debtors: exchange	3	3,587,949	3,164,097
Receivables from exchange transactions	4	1,607,547	1,652,854
Statutory Receivables	5	27,671,937	27,967,244
Other debtors: non-exchange	6	3,027,888	2,197,626
VAT receivable	7	8,534,988	7,590,620
Cash and cash equivalents	8	111,163,388	99,533,548
		162,731,356	153,874,175
Non-Current Assets			
Investment property	9	9,311,697	9,746,211
Property, plant and equipment	10	327,468,419	315,139,624
Intangible assets	11	536,106	886,767
Non-current portion of Acknowledgement of Debt Debtors	6	3,441,284	3,074,251
		340,757,506	328,846,853
Total Assets		503,488,862	482,721,028
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	28,526,370	15,885,809
Unspent conditional grants and receipts	13	819,281	13,319,281
Leave liabilities	14	4,205,749	5,786,288
Provisions	15	748,000	450,358
		34,299,400	35,441,736
Non-Current Liabilities			
Provisions	15	5,061,000	3,031,794
Total Liabilities		39,360,400	38,473,530
Net Assets		464,128,462	444,247,498
Accumulated surplus		464,128,461	444,247,501
Total Net Assets		464,128,461	444,247,501

* See Note 41

UMSHWATHI LOCAL MUNICIPALITY

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Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	16	2,725,075	2,662,865
Construction contract revenue	17	9,934,783	7,478,261
Rental of facilities and equipment	18	658,574	533,924
Interest received (trading)	19	796,781	1,343,695
Other income	20	723,949	252,777
Interest received - investment	21	6,545,816	2,685,487
Total revenue from exchange transactions		21,384,978	14,957,009
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	47,233,368	49,589,759
Agency fees	23	3,239,924	2,964,642
Interest earned - outstanding debtors	24	7,833,011	9,425,966
Transfer revenue			
Government grants and subsidies	25	174,356,000	153,331,000
Traffic fines	26	411,043	13,652
Total revenue from non-exchange transactions		233,073,346	215,325,019
Total revenue		254,458,324	230,282,028
Expenditure			
Employee related costs	27	92,428,304	82,706,884
Remuneration of councillors	28	10,323,855	11,105,322
Impairment loss	29	12,252,285	420,611
Depreciation and amortisation	30	21,158,561	21,130,780
Lease rentals on operating lease	31	208,550	228,048
Contribution to Provisions- Debt impairment	32	11,822,320	5,626,449
Contract expenditure	33	9,934,783	7,478,261
Contracted services	34	36,379,798	39,891,200
General Expenses	35	34,393,287	29,290,486
Total expenditure		228,901,743	197,878,041
Gains and (losses)	36	(5,675,618)	(1,103,227)
Surplus for the year		19,880,963	31,300,760

* See Note 41

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Annual Financial Statements for the year ended 30 June 2023

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	409,660,017	409,660,017
Adjustments		
Correction of errors	(50,502)	(50,502)
Prior year adjustments 41	3,337,226	3,337,226
Balance at 01 July 2021 as restated*	412,946,741	412,946,741
Changes in net assets		
Surplus for the year	31,300,760	31,300,760
Total changes	31,300,760	31,300,760
Restated* Balance at 01 July 2022	444,247,498	444,247,498
Changes in net assets		
Surplus for the year	19,880,963	19,880,963
Total changes	19,880,963	19,880,963
Balance at 30 June 2023	464,128,461	464,128,461
Note(s)		

* See Note 41

UMSHWATHI LOCAL MUNICIPALITY

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Annual Financial Statements for the year ended 30 June 2023

Cash Flow Statement

Figures in Rand	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		60,906,147	48,927,049
Grants		130,787,000	131,854,000
Interest income		6,545,816	2,685,487
Other receipts		31,069,000	33,977,000
		<u>229,307,963</u>	<u>217,443,536</u>
Payments			
Employee costs		(104,332,697)	(93,317,542)
Suppliers		(67,967,107)	(56,768,330)
Other cash item		-	8,486,428
		<u>(172,299,804)</u>	<u>(141,599,444)</u>
Net cash flows from operating activities	37	<u>57,008,159</u>	<u>75,844,092</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(45,730,392)	(39,588,729)
Proceeds from sale of property, plant and equipment	10	775,925	306,401
Purchase of other intangible assets	11	-	(46,955)
Proceeds from sale of other intangible assets	11	-	(1,018,191)
		<u>(45,378,319)</u>	<u>(40,347,474)</u>
Cash flows from financing activities			
Net increase/(decrease) in cash and cash equivalents		11,629,840	35,496,618
Cash and cash equivalents at the beginning of the year		99,533,548	1,264,544
Cash and cash equivalents at the end of the year	8	<u>111,163,388</u>	<u>36,761,162</u>

The accounting policies on pages 12 to 24 and the notes on pages 25 to 59 form an integral part of the annual financial statements.

* See Note 41

UMSHWATHI LOCAL MUNICIPALITY

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Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	2,650,000	89,000	2,739,000	2,725,075	(13,925)	A
Construction contracts	-	-	-	9,934,783	9,934,783	B
Rental of facilities and equipment	570,000	40,000	610,000	658,574	48,574	C
Licences and permits	3,000	2,000	5,000	723,949	718,949	D
Other income	136,000	49,000	185,000	-	(185,000)	E
Interest received - investment	2,140,000	1,100,000	3,240,000	6,545,816	3,305,816	F
Total revenue from exchange transactions	5,499,000	1,280,000	6,779,000	20,588,197	13,809,197	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	48,300,000	4,000,000	52,300,000	47,233,368	(5,066,632)	G
Agency fees	2,550,000	500,000	3,050,000	3,239,924	189,924	
Interest - outstanding debtors	5,000,000	2,500,000	7,500,000	8,629,792	1,129,792	I
Transfer revenue						
Government grants & subsidies	180,281,000	7,500,000	187,781,000	174,356,000	(13,425,000)	
Fines, Penalties and Forfeits	20,000	(10,000)	10,000	411,043	401,043	
Total revenue from non-exchange transactions	236,151,000	14,490,000	250,641,000	233,870,127	(16,770,873)	
Total revenue	241,650,000	15,770,000	257,420,000	254,458,324	(2,961,676)	
Expenditure						
Employee related cost	(87,832,000)	(2,568,000)	(90,400,000)	(92,428,304)	(2,028,304)	
Remuneration of councillors	(9,932,000)	(170,000)	(10,102,000)	(10,323,855)	(221,855)	J
Impairment Loss	-	-	-	(12,252,285)	(12,252,285)	
Depreciation, amortisation and Impairments	(17,500,000)	(23,008,000)	(40,508,000)	(21,158,561)	19,349,439	
Finance costs	(2,000,000)	2,000,000	-	-	-	
Lease rentals on operating lease	-	-	-	(208,550)	(208,550)	L
Debt Impairment	(1,063,000)	(4,818,000)	(5,881,000)	(11,822,320)	(5,941,320)	
Contract expenditure	-	-	-	(9,934,783)	(9,934,783)	
Contracted Services	(49,526,000)	(10,539,000)	(60,065,000)	(36,379,798)	23,685,202	M
General Expenses	(27,780,000)	(9,095,000)	(36,875,000)	(34,393,287)	2,481,713	N
Total expenditure	(195,633,000)	(48,198,000)	(243,831,000)	(228,901,743)	14,929,257	
Operating surplus	46,017,000	(32,428,000)	13,589,000	25,556,581	11,967,581	
Loss on disposal of assets and liabilities	-	-	-	(5,675,618)	(5,675,618)	O
Surplus	46,017,000	(32,428,000)	13,589,000	19,880,963	6,291,963	
Actual Amount on Comparable Basis	46,017,000	(32,428,000)	13,589,000	19,880,963	6,291,963	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

- (A)- This a result of consolidation of properties, closing of businesses and termination of leases
- (B)- The increase is due the implementation of GRAP 11, recognition of contracts revenue from INEP.
- (C)- This is due to tenants that terminates their rental agreements without notification.
- (D)- Increase is due to new rank permits.
- (E)- The increase is due to increase in sale of properties and new developments.
- (F)- The increase is due to increase in investment capital amounts.
- (G)- The decrease in net rates is due to the decrease of the State owned rates randage for the 2022/23 Financial year.
- (I)- The increase is due to the late/ no payments from outstanding debtors.
- (J)- The difference is due to travel allowance under budgeted.
- (L)- Budgeted for under contracted services
- (M)- Certain expenditure that was budgeted for was not incurred due to delays in planning and SCM processes.
- (N)- Certain expenditure that was budgeted for was not incurred due to delays in planning and SCM processes
- (O)- Land held that is reserved for housing development was transferred to the respective beneficiaries.

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	11,768,000	11,768,000	7,137,659	(4,630,341)	
Other debtors: exchange	19,454,000	(4,709,000)	14,745,000	3,587,949	(11,157,051)	
Receivables from exchange transactions	-	-	-	1,826,941	1,826,941	
Statutory Receivables	21,060,000	11,448,000	32,508,000	27,671,937	(4,836,063)	
Other debtors: non-exchange	-	-	-	3,027,888	3,027,888	
VAT receivable	-	-	-	8,534,988	8,534,988	
Cash and cash equivalents	105,963,000	50,828,000	156,791,000	111,163,388	(45,627,612)	
	146,477,000	69,335,000	215,812,000	162,950,750	(52,861,250)	
Non-Current Assets						
Investment property	10,199,000	(1,099,000)	9,100,000	9,311,697	211,697	
Property, plant and equipment	257,777,000	23,655,000	281,432,000	327,468,419	46,036,419	
Intangible assets	453,000	5,760,000	6,213,000	536,106	(5,676,894)	
Statutory receivables	-	-	-	3,441,284	3,441,284	
	268,429,000	28,316,000	296,745,000	340,757,506	44,012,506	
Total Assets	414,906,000	97,651,000	512,557,000	503,708,256	(8,848,744)	
Liabilities						
Current Liabilities						
Leave liabilities	-	-	-	4,205,749	4,205,749	
Payables from exchange transactions	20,873,000	18,924,000	39,797,000	28,526,370	(11,270,630)	
Unspent conditional grants and receipts	-	-	-	819,281	819,281	
Provisions	-	-	-	748,000	748,000	
	20,873,000	18,924,000	39,797,000	34,299,400	(5,497,600)	
Non-Current Liabilities						
Provisions	2,851,000	181,000	3,032,000	5,061,000	2,029,000	
Total Liabilities	23,724,000	19,105,000	42,829,000	39,360,400	(3,468,600)	
Net Assets	391,182,000	78,546,000	469,728,000	464,347,856	(5,380,144)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	391,182,000	78,546,000	469,728,000	468,499,551	(1,228,449)	

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Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

Figures in Rand	Note(s)	2023	2022
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1. Presentation of Annual Financial Statements

These 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 2023 and before:

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

GRAP statements 4, 6, 7, 8, 10, 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.

1.1 Presentation currency

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

1.2 Going concern assumption

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

UMSHWATHI LOCAL MUNICIPALITY

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Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty

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 about 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.

1.4 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.

1.5 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.

1.6 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:-

Item	Depreciation method	Average useful life (years)
Furniture and fixtures	Straight-line	5-10
Motor vehicles	Straight-line	5
Office equipment	Straight-line	5-10
• Air Conditioners		5-10
Computer and computer software	Straight-line	5
Infrastructure	Straight-line	
• Roads and Paving		20
• Infrastructure		30
• Electricity		20
• Street Lights		25
Other property, plant and equipment	Straight-line	5

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Accounting Policies

1.6 Property, plant and equipment (continued)

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.

1.7 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.

1.8 Financial instruments

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

A financial asset is:

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

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

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

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.
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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 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.

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1.8 Financial instruments (continued)

Subsequent Measurement

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

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

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

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Accounting Policies

1.8 Financial instruments (continued)

Financial Assets

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

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- 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 derecognise the asset; and 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:

- Discharges the liability by paying the creditor, normally with cash, other financial liabilities , goods or services.;
- 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.
- 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:

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

1.9 Inventories

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

1.10 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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1.10 Construction contracts and receivables (continued)

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.11 Borrowing costs

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

1.12 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.

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.

1.13 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.

Conditional Grants 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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Accounting Policies

1.14 Provisions and contingencies

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..

1.15 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.

1.16 Impairment of cash-generating assets

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. 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.

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Accounting Policies

1.16 Impairment of cash-generating assets (continued)

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 oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

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

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 impairment loss

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

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

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

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

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

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

Redesignation

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

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Accounting Policies

1.17 Employee benefits

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits: 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:

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

1.18 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.

1.19 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.

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Accounting Policies

1.20 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.

1.21 Comparative figures

Current Year Comparatives

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

Prior Year Comparatives

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

1.22 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.

1.23 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.

1.24 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.

1.25 Statutory receivables

Identification

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

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

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

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Accounting Policies

1.25 Statutory receivables (continued)

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

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

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

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.

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Accounting Policies

1.25 Statutory receivables (continued)

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.

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:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

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

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

Binding arrangement

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

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

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1.26 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

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

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

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

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

Recognition

The municipality, as 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

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
2. Inventories		
Consumable stores	233,940	-
Unsold Properties Held for Resale	6,903,719	11,768,186
	7,137,659	11,768,186
Inventories recognised as an expense during the year	2,874,027	1,095,700
Land reserved for housing development of Amount R4 864 467 were transferred to the respective beneficiaries during the year under review.		
Inventory pledged as security		
No inventory was pledged as security.		
3. Other debtors: exchange		
Fuel deposits	100,000	-
Accrued Interest	533,078	209,226
District Municipality	404,245	404,245
Thokazane housing and Department of Housing	1,604,076	1,604,076
Housing Debtors	946,550	946,550
	3,587,949	3,164,097
4. Receivables from exchange transactions		
Service debtors	1,514,242	1,390,786
Rental	93,305	262,068
	1,607,547	1,652,854
Receivables from Exchange Transactions		
Service debtors		
Gross	6,230,951	7,456,458
Impairment	(4,716,709)	(6,065,674)
	1,514,242	1,390,784
Rental		
Gross	1,053,617	1,405,040
Impairment	(960,312)	(1,142,972)
	93,305	262,068

UMSHWATHI LOCAL MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand

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4. Receivables from exchange transactions (continued)

Receivables from Exchange Transactions Agieng-2023

	Waste Management	Rental	Total
Current	276,858	20,974	297,832
30 Days	194,294	20,974	215,268
60 Days	153,979	17,150	171,129
90 Days	124,871	13,522	138,393
120 Days	122,637	8,775	131,412
+150 Days	5,358,312	972,220	6,330,532
	6,230,951	1,053,615	7,284,566

5. Statutory Receivables

Interest	4,213,761	11,840,920
Collection Fees	689,257	2,145,521
Consumer debtors - Rates	22,672,671	13,941,866
Traffic Fines	96,248	38,937
	27,671,937	27,967,244

UMSHWATHI LOCAL MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
5. Statutory Receivables (continued)		
Statutory Receivables		
Rates		
Gross	88,783,917	74,746,992
Impairment	(66,111,247)	(60,805,126)
	22,672,670	13,941,866
Collection Fees		
Gross	3,278,555	11,502,852
Impairment	(2,589,298)	(9,357,331)
	689,257	2,145,521
Interest		
Gross	70,283,663	63,483,115
Impairment	(66,069,902)	(51,642,195)
	4,213,761	11,840,920
Ageing of Statutory receivables		
Current	3,915,254	5,774,440
30 Days	2,711,062	2,867,418
60 Days	2,382,562	2,650,236
90 Days	2,566,233	2,466,174
120 days	2,439,518	7,114,885
>150 Days	148,331,508	128,859,806
	162,346,137	149,732,959
Reconciliation of provision for doubtful debts		
Balance at the beginning of the year	129,013,297	123,371,946
(Reversal of impairment)/ Contribution to provision	11,434,171	5,641,351
	140,447,468	129,013,297

Transaction(s) arising from statute

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. The receivables within the scope of GRAP 108, effective for all periods started on or after 1 April 2019

Consolidated Age Analysis Per Category -2023	Agriculture/Commercial	Government	Residential	Total
Current	3,820,333	9,629,703	19,343,898	32,793,934
30 days	752,113	1,215,034	959,184	2,926,331
60 Days	659,053	1,071,978	822,661	2,553,692
90 Days	264,691	1,334,664	1,105,271	2,704,626
120 Days	305,425	1,169,532	1,095,973	2,570,930
+150 Days	10,989,389	67,534,313	47,557,490	126,081,192
	16,791,004	81,955,224	70,884,477	169,630,705

Consolidated Age Analysis Per Category -2022	Agriculture/Commercial	Government	Residential	Total
Current	850,000	2,780,101	2,851,509	6,481,610
30 days	540,477	889,329	1,738,564	3,168,370
60 Days	480,855	899,673	1,530,920	2,911,448

UMSHWATHI LOCAL MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand			2023	2022
5. Statutory Receivables (continued)				
90 Days	467,395	886,419	1,390,553	2,744,367
120 Days	463,604	5,599,485	1,300,020	7,363,109
+150 Days	12,722,178	49,723,887	73,479,489	135,925,554
	15,524,509	60,778,894	82,291,055	158,594,458

Statutory Receivables pledged as security

No receivables from non-exchange transactions were pledged as security.

6. Other debtors: non-exchange

Unallocated			1,033,207	35,955
Overpayment			-	163,902
Other			1,309,244	1,309,243
Current portion of Acknowledge of Debt Debtors			4,126,721	3,762,777
			6,469,172	5,271,877

Non-current portion of Acknowledgement of Debt Debtors			3,441,284	3,074,251
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7. VAT receivable

VAT			8,534,988	7,590,620
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VAT is payable on the receipts/payment basis.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand			2,900	2,700
Bank balances			3,429,522	1,261,844
Short-term deposits			107,730,966	98,269,004
			111,163,388	99,533,548

UMSHWATHI LOCAL MUNICIPALITY

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

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8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2023	30 June 2022	30 June 2021	30 June 2023	30 June 2022	30 June 2021
FNB - Primary Bank Account: 62025459232	3,509,522	1,261,844	6,426,364	3,429,522	1,261,844	6,426,364
Standard Bank: Call Account 0536-1443-4-14	24,475	22,929	21,949	24,475	22,929	21,949
FNB Investment 1 62101572081	72,571,710	59,855,677	37,559,356	72,571,710	59,855,677	37,559,356
FNB Investment 2 62101572172	151,651	144,366	141,219	151,651	144,366	141,219
FNB Call Account 62101571710	28,112,861	31,774,582	23,130,369	28,112,861	31,774,582	23,130,369
FNB Call Account: Housing 62214429799	92,113	87,673	85,784	92,113	87,673	85,784
FNB Call Account 74491854045	988,330	925,339	891,511	988,330	925,339	891,511
ABSA Investment 1 20- 66260264	5,789,827	5,458,436	5,265,375	5,789,827	5,458,436	5,265,375
Cash on hand	2,900	2,700	2,700	2,900	2,700	2,700
Total	111,243,389	99,533,546	73,524,627	111,163,389	99,533,546	73,524,627

The difference between Bank statement balances and Cash book balances are attributed on an outstanding payment which will be cleared in the next financial year.

UMSHWATHI LOCAL MUNICIPALITY

(Registration number KZ221)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

9. Investment property

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	14,117,347	(4,805,650)	9,311,697	14,117,347	(4,371,136)	9,746,211

Reconciliation of investment property - 2023

	Opening balance	Depreciation	Total
Investment property	9,746,211	(434,514)	9,311,697

Reconciliation of investment property - 2022

	Opening balance	Depreciation	Total
Investment property	10,199,148	(452,937)	9,746,211

Pledged as security

No investment property was pledged as security.

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

Details of property

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

UMSHWATHI LOCAL MUNICIPALITY

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	9,671,213	-	9,671,213	9,671,213	-	9,671,213
Buildings	147,577,222	(57,354,881)	90,222,341	128,593,047	(53,567,009)	75,026,038
Plant and machinery	1,857,843	(1,206,264)	651,579	2,306,904	(1,412,208)	894,696
Furniture and fixtures	11,217,101	(8,122,915)	3,094,186	12,323,069	(8,621,530)	3,701,539
Motor vehicles	17,340,160	(7,012,944)	10,327,216	12,069,077	(4,871,670)	7,197,407
Infrastructure	411,183,468	(197,681,584)	213,501,884	390,689,822	(172,041,091)	218,648,731
Total	598,847,007	(271,378,588)	327,468,419	555,653,132	(240,513,508)	315,139,624

UMSHWATHI LOCAL MUNICIPALITY

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Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Work in Progress	Disposals	Depreciation	Impairment loss	Total
Land	9,671,213	-	-	-	-	-	9,671,213
Buildings	75,026,038	6,091,484	12,892,689	-	(3,787,870)	-	90,222,341
Plant and machinery	894,696	281,049	-	(343,065)	(181,101)	-	651,579
Furniture and fixtures	3,701,539	700,438	-	(432,860)	(874,931)	-	3,094,186
Motor vehicles	7,197,407	5,271,083	-	-	(2,141,274)	-	10,327,216
Infrastructure	218,648,731	14,418,054	6,075,595	-	(13,388,209)	(12,252,287)	213,501,884
	315,139,624	26,762,108	18,968,284	(775,925)	(20,373,385)	(12,252,287)	327,468,419

UMSHWATHI LOCAL MUNICIPALITY

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Work in Progress	Disposals	Depreciation	Impairment loss	Total
Land	9,671,213	-	-	-	-	-	9,671,213
Buildings	76,169,941	1,112,863	1,504,878	-	(3,744,036)	(17,608)	75,026,038
Plant and machinery	1,091,340	39,770	-	-	(236,414)	-	894,696
Furniture and fixtures	4,381,644	1,179,500	-	(209,299)	(1,650,306)	-	3,701,539
Motor vehicles	5,528,036	3,972,203	-	(97,102)	(2,205,730)	-	7,197,407
Infrastructure	199,834,885	19,544,318	12,235,197	-	(12,483,604)	(482,065)	218,648,731
	296,677,059	25,848,654	13,740,075	(306,401)	(20,320,090)	(499,673)	315,139,624

Pledged as security

No property, plant and equipment was pledged as security.

Reconciliation of Work-in-Progress 2023

	Included within Infrastructure	Included within buildings	Total
Opening balance	24,120,451	4,311,414	28,431,865
Additions/capital expenditure	20,308,211	18,984,174	39,292,385
Transferred to completed items	(14,232,616)	(6,091,485)	(20,324,101)
	30,196,046	17,204,103	47,400,149

UMSHWATHI LOCAL MUNICIPALITY

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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10. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within buildings	Total
Opening balance	11,885,254	2,806,537	14,691,791
Additions/capital expenditure	31,779,515	2,617,740	34,397,255
Transferred to completed items	(19,544,318)	(1,112,862)	(20,657,180)
	24,120,451	4,311,415	28,431,866

Expenditure incurred to repair and maintain property, plant and equipment

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

Contracted services	11,294,757	18,617,369
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

UMSHWATHI LOCAL MUNICIPALITY

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

11. Intangible assets

	2023			2022		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	4,595,573	(4,059,467)	536,106	4,595,573	(3,708,806)	886,767

Reconciliation of intangible assets - 2023

Computer software, other	Opening balance 886,767	Amortisation (350,661)	Total 536,106
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Reconciliation of intangible assets - 2022

Computer software, other	Opening balance 1,282,601	Additions 46,955	Disposals (85,036)	Amortisation (357,753)	Total 886,767
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12. Payables from exchange transactions

Trade payables	12,206,521	10,734,973
Retentions	8,480,302	2,542,208
Debtors with Credit Balances	7,212,948	1,982,029
Insurance refunds	626,599	626,599
	28,526,370	15,885,809

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
13. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Cogta: Thusong Centre and LED (2022/23)	-	12,500,000
Thokozani Housing - Title deeds	819,281	819,281
	819,281	13,319,281
Movement during the year		
Balance at the beginning of the year	13,319,281	819,281
Additions during the year	49,434,000	61,421,000
Income recognition during the year	(61,934,000)	(48,921,000)
	819,281	13,319,281
See note for reconciliation of grants from National/Provincial Government.		
These amounts are invested in a ring-fenced investment until utilised.		
14. Leave liabilities		
Accrued leave pay	4,205,749	5,786,288
.		
Leave payable		
Opening balance	5,786,288	5,165,580
Leave paid	(1,717,196)	(1,791,723)
Current contribution	136,657	2,412,431
	4,205,749	5,786,288

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 2023. This is the amount the employee will be entitled to should the employee cease employment on 30 June 2022. 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.

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Notes to the Annual Financial Statements

Figures in Rand 2023 2022

15. Provisions

Reconciliation of provisions - 2023

	Opening Balance	Actuarial loss	Current-service cost	Benefits vesting	Interest cost	Policy changes	Total
Long service awards	3,482,152	1,109,380	353,952	(450,358)	288,874	1,025,000	5,809,000

Reconciliation of provisions - 2022

	Opening Balance	Additions	Total
Long service awards	2,850,626	631,526	3,482,152
Non-current liabilities		5,061,000	3,031,794
Current liabilities		748,000	450,358
		5,809,000	3,482,152

An actuarial valuation was done for the provision for Long Service Awards to Current employees as at 30 June 2022 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	3,482,152	3,427,027
Expense recognised in Statement of Financial Performance	2,326,848	55,125
	5,809,000	3,482,152

Expense recognised in Statement of Financial Performance

Current Service Cost	353,952	352,241
Interest Cost	288,874	279,285
Actuarial Loss	1,109,380	(576,401)
Policy changes	1,025,000	-
Vesting benefits	(450,358)	-
	2,326,848	55,125

Key Assumptions Used

Discount Rate	11.38%	8%
Inflation Rate	6.57%	3%
Salary Increase Rate	6.57%	4%

Mortality Rate

Average Retirement Age	62 years
Pre-retirement Mortality	SA 85/90 with 1 year downward age rating for females

UMSHWATHI LOCAL MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
16. Service charges		
Refuse removal	2,725,075	2,662,865
17. Construction contracts and receivables		
Construction agreement with Eskom		
The amount of revenue arising from such agreements in the period	9,934,783	7,478,261
The methods used to determine the stage of completion of agreements in progress is as follows:		
The municipality entered into arrangement with Eskom to construct electrical infrastructure for Eskom in the Umshwathi area of jurisdiction. The municipality recognises revenue only to the extent of expenditure incurred on the construction of such infrastructure.		
18. Rental of facilities and equipment		
Rentals	658,574	533,924
19. Interest received (trading)		
Interest received	796,781	1,343,695
20. Other Income		
Maintenance: Tender Fees and Building Plans	226,097	156,007
Fees: Photocopies	13,716	9,299
Community Hall	13,859	10,387
Interest: Current Account	394,764	23,879
Cemetery	5,217	11,053
Fees: Rates Clearance	60,775	36,283
Taxi Rank Permits	9,521	5,869
	723,949	252,777
21. Investment revenue		
Interest revenue		
Bank	6,545,816	2,685,487

UMSHWATHI LOCAL MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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22. Property rates

Rates received

Residential	20,261,488	16,061,933
Commercial	10,011,753	8,884,006
State	3,508,066	12,668,795
Agricultural	13,452,061	11,975,025
	47,233,368	49,589,759

Valuations

Residential	1,507,038,800	1,300,983,000
Commercial/industrial	489,062,000	446,894,000
State	1,356,973,700	1,301,593,000
Public Benefit Organisations	117,462,200	107,528,000
Small holdings and farms	5,382,635,800	4,870,298,000
Places of worship	48,497,000	44,871,000
Other	143,337,800	239,355,000
	9,045,007,300	8,311,522,000

The new general valuation was implemented on 01 July 2022. The next valuation roll will be implemented in 2027.

23. Agency fees

Road and Transport	3,239,924	2,964,642
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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.

24. Interest earned - outstanding debtors

Interest - Receivables	7,833,011	9,425,966
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UMSHWATHI LOCAL MUNICIPALITY

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
25. Government grants and subsidies		
Operating grants		
Equitable share	123,847,000	113,010,000
Extended Public Works Programme (EPWP)	1,820,000	1,376,000
Finance Management Grant (FMG)	1,920,000	1,920,000
Library grant	3,200,000	3,048,000
Thusong centre	12,500,000	-
	143,287,000	119,354,000
Capital grants		
Municipal Infrastructure Grant (MIG)	31,069,000	33,977,000
	174,356,000	153,331,000
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	61,676,699	40,321,000
Unconditional grants received	123,847,000	113,010,000
	185,523,699	153,331,000
Extended Public Works Programme (EPWP)		
Current-year receipts	1,820,000	1,376,000
Conditions met - transferred to revenue	(1,820,000)	(1,376,000)
	-	-
Finance Management Grant (FMG)		
Current-year receipts	1,920,000	1,920,000
Conditions met - transferred to revenue	(1,920,000)	(1,920,000)
	-	-
Library grant		
Current-year receipts	3,200,000	3,048,000
Conditions met - transferred to revenue	(3,200,000)	(3,048,000)
	-	-
Thusong centre		
Balance unspent at beginning of year	12,500,000	-
Current-year receipts	-	12,500,000
Conditions met - transferred to revenue	(12,500,000)	-
	-	12,500,000
Conditions still to be met - remain liabilities (see note 13).		
Municipal Infrastructure Grant (MIG)		
Current-year receipts	31,069,000	33,977,000
Conditions met - transferred to revenue	(31,069,000)	(33,977,000)

UMSHWATHI LOCAL MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
25. Government grants and subsidies (continued)	-	-
26. Fines		
Traffic Fines	411,043	13,652

UMSHWATHI LOCAL MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
27. Employee related costs		
Basic	58,961,163	54,614,105
Bonus	4,094,727	4,088,715
Medical aid - company contributions	4,633,215	4,239,353
UIF	464,675	442,405
Leave pay provision charge	177,803	2,412,432
Defined contribution plans	10,273,232	9,774,840
Travel, motor car, accommodation, subsistence and other allowances	4,892,023	2,083,985
Overtime payments	859,436	-
Long-service awards	2,856,580	684,619
Acting allowances	910,935	431,011
Car allowance	1,655,514	1,617,000
Housing benefits and allowances	585,445	647,736
Bargaining Council	28,762	26,041
Cellphone and telephone	82,000	(38,845)
Standby Allowance	1,952,794	1,683,487
	92,428,304	82,706,884
Remuneration of Municipal Manager		
Annual Remuneration	938,819	760,239
Travel Allowance	386,389	613,520
Performance Bonuses	114,036	-
Cellphone	6,000	-
Other	39,951	-
	1,485,195	1,373,759
Remuneration of Chief Finance Officer		
Annual Remuneration	565,450	916,967
Travel Allowance	104,270	175,376
Cellphone	4,000	-
Housing	37,830	-
Other	56,573	-
	768,123	1,092,343
General Manager: Technical Services		
Annual Remuneration	628,617	640,581
Travel Allowance	273,021	484,546
Performance Bonuses	52,016	-
Housing	37,830	-
Other	154,266	-
	1,145,750	1,125,127
General Manager: Corporate Services		
Annual Remuneration	683,194	855,287
Car Allowance	283,271	312,382
Performance Bonuses	93,626	-
Other	137,542	-
	1,197,633	1,167,669
General Manager : Community Services		

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27. Employee related costs (continued)

Annual Remuneration	811,478	875,847
Travel Allowance	268,543	230,447
Housing	18,400	-
Other	39,726	-
	1,138,147	1,106,294

28. Remuneration of councillors

Executive Major	934,922	865,319
Deputy Executive Mayor	774,621	825,869
Mayoral Committee Members	1,320,366	1,286,684
Speaker	578,127	733,639
Councillors	6,715,819	7,393,811
	10,323,855	11,105,322

In-kind benefits

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

The Mayor, Deputy Mayor and Speaker has use of a Council owned vehicle for official duties.

The Mayor has three full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards.

Additional information

The salaries, allowance and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.

29. Impairment loss

Impairment Loss	12,252,285	420,611
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In terms of GRAP21, impairment of non-cash generating assets, Municipalities are required to assess impairment of its assets to comply with GRAP standards and assets management policy.

Umshwathi Local Municipality has assessed the impairment of its assets for the financial year ended 30 June 2023. The assessment of impairment of assets has resulted in an impairment loss of R12 252 283 as a result significant loss in carrying amount of road infrastructure assets. The assets that were affected by impairment was due to physical deterioration that was caused by heavy rains and floods during the December 2022 and April 2023. The deterioration in condition affected the roads infrastructure, Community Centres and Buildings in wards: 1,3,5,7,8,10,11 and 13 which were tested for impairment.

30. Depreciation and amortisation

Property, plant and equipment	20,373,385	20,320,090
Investment property	434,514	452,937
Intangible assets	350,662	357,753
	21,158,561	21,130,780

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31. Lease rentals on operating lease		
Equipment		
Operating Lease Expenditure	208,550	228,048
<p>The municipality has recognised the lease on photocopiers as operating leases and recognised the payments of R208 550. The lease is effective from 01 September 2019.</p>		
32. Debt impairment		
Contributions to debt impairment provision	11,822,320	5,626,449
33. Contract expenditure		
INEP expenditure	9,934,783	7,478,261
<p>The municipality entered an arrangement with Eskom to construct electrical infrastructure for Eskom in the Umshwathi area of jurisdiction. The municipality recognises revenue only to the extent of expenditure incurred on the construction of such infrastructure</p>		
34. Contracted services		
Outsourced Services		
Administrative and Support Staff	-	25,093
Burial Services	28,050	49,087
Cleaning Services	59,110	166,456
Hygiene Services	217,933	588,667
Professional Staff	7,879,144	4,253,747
Refuse Removal	1,071,474	853,099
Security Services	3,000,652	3,192,456
Transport Services	31,500	33,700
Consultants and Professional Services		
Business and Advisory	1,916,790	2,021,513
Infrastructure and Planning	485,951	635,147
Legal Cost	856,700	984,638
Contractors		
Artists and Performers	50,000	-
Catering Services	2,741,159	1,866,539
Electrical	2,419,070	724,750
Gardening Services	1,002,295	1,137,258
Grading of Sport Fields	658,608	954,021
Maintenance of Buildings and Facilities	5,399,423	5,418,266
Maintenance of Equipment	235,838	445,361
Maintenance of Unspecified Assets	5,376,820	12,753,741
Medical Services	90,476	297,788
Pest Control and Fumigation	87,900	228,850
Plants, Flowers and Other Decorations	-	76,920
Transportation	1,519,915	2,150,015
Safeguard and Security	240,982	234,044
Sports and Recreation	807,729	607,437
Stage and Sound Crew	202,279	192,607
	36,379,798	39,891,200

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35. General expenses		
Advertising	1,678,577	1,120,677
Auditors Fees	1,944,805	1,682,598
Bank charges	114,189	90,726
Cleaning	50,387	46,105
Computer expenses	3,703,913	3,818,559
Consulting and professional fees	60,000	80,000
Gifts	22,848	78,575
Hire charges	705,352	677,741
Insurance	1,203,506	900,207
Conferences and seminars	174,880	154,676
IT expenses	189,225	539,053
Fleet	41,834	16,995
Levies	815,856	761,168
Magazines, books and periodicals	13,341	246,071
Packaging	128,421	173,936
Fuel and oil	5,137,426	3,884,998
Postage and courier	-	10,094
Printing and stationery	45,549	34,189
Subscriptions and membership fees	1,024,965	915,630
Telephone and fax	2,092,449	2,432,331
Travel - local	2,045,564	1,349,950
Refuse	1,329,933	14,970
Electricity	4,401,274	5,120,279
Uniforms	833,736	766,389
Workmen's Compensation Fund	420,111	367,743
Bursaries (Employees)	202,574	349,081
Indigent Relief	1,108,994	-
Achievements and Awards	91,250	224,975
Ward Committees	1,678,253	1,061,200
Inventory consumed	2,893,827	1,095,700
Professional Bodies, Membership and Subscription	229,466	136,486
Transfers and Subsidies	10,782	1,139,384
	34,393,287	29,290,486
36. Gains and losses		
Inventory - Consumables	35,225	-
Inventory - Land	4,864,468	1,018,191
Property Plant and Equipment	775,925	-
Intangible assets	-	85,036
	5,675,618	1,103,227

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37. Cash generated from operations		
Surplus	19,880,963	31,300,760
Adjustments for:		
Depreciation and amortisation	21,158,561	21,130,780
Gain on sale of assets and liabilities	5,675,618	-
Debt impairment	11,822,320	5,626,449
Movements in provisions	2,326,848	-
Other	(109,810)	-
Inventory losses - land distributed	4,864,468	-
Increase in Acknowledgement of Debt Debtors	(367,033)	-
Increase in Other debtors: exchange	(423,852)	-
Impairment loss	12,252,287	-
Decrease in Leave liabilities	(3,161,078)	-
Changes in working capital:		
Inventories	4,630,527	-
Receivables from exchange transactions	45,307	-
Other receivables from non-exchange transactions	295,307	-
Statutory receivables	(1,197,295)	-
Payables from exchange transactions	12,640,561	-
VAT	(944,368)	-
Unspent conditional grants and receipts	(12,500,000)	-
Change in working capital	(19,881,172)	17,786,103
	57,008,159	75,844,092
38. Commitments		
Authorised capital expenditure		
Commitments in respect of capital expenditure:		
• Property, plant and equipment	10,915,960	15,175,388
Total capital commitments		
Already contracted for	10,915,960	15,175,388
Authorised operational expenditure		
Commitments in respect of operational expenditure:		
• Operational	6,207,026	6,701,817
Total operational commitments		
Already contracted for	6,207,026	6,701,817
Total commitments		
Total commitments		
Authorised capital expenditure	10,915,960	15,175,388
Authorised operational expenditure	6,207,026	6,701,817
	17,122,986	21,877,205

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39. Contingencies

The municipality is in dispute with various people at Bargaining Council. The matters are shown below.

Matter	Status	Contingent liability
K Mthethwa, MC Majozi and S Mpanza vs Umshwathi Local Municipality	The matter is before the South African Local Government Bargaining Council	500,000
Sibusiso N Lunga and LB Msomi vs Umshwathi Local Municipality	The matter is before the South African Local Government Bargaining Council	500,000
IMATU obo S Mkhize and SD Shelembe vs Umshwathi Local Municipality	The matter is before the South African Local Government Bargaining Council	500,000
		- 1,500,000

Contingent assets

The municipality is in a dispute with Ndsindiso Group (Pty) Ltd for failure to deliver Ppe paid for by the municipality. It is believed that the municipality can potentially win the claim for R50 000.00.

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40. Related parties

Relationships

Accounting Officer

Refer to accounting officers' report note

Members of key management

Refer to Employee related costs note

Related party transactions

Awards made to suppliers whom the owner is a spouse or/and an employee

Supplier Name: Dalton Builders t/a Coco Haven

126,526

459,516

Employee: Ms. N. Sahibdeen

During the year, no transactions were conducted with councillors' or entities in which they held interests.

The Remuneration for Councillors is disclosed in Note 25.

Key management information

Class	Description	Number
Mayor	Mayor	1
Executive Committee	Councillors	5
Councillors	Councillors	23
Municipal Managers	Senior Managers	1
Executive Management	Senior Managers	4

Remuneration of management

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40. Related parties (continued)

Management class: Executive management

2023

Name	Basic salary	Car Allowance	Cellphone Allowance	Other Allowances(Housing)	Total
MUNICIPAL MANAGER	786,283	386,389	6,000	-	1,178,672
CHIEF FINANCIAL OFFICER	523,719	63,150	4,000	37,830	628,699
GENERAL MANAGER : TECHNICAL	586,871	273,020	-	37,830	897,721
GENERAL MANAGER : CORPORATE	683,194	283,271	-	-	966,465
FORMER CHIEF FINANCEIAL OFFICER	364,726	41,120	46,876	-	452,722
GENERAL MANAGER : TECHNICAL	427,893	209,871	52,016	150,623	840,403
GENERAL MANAGER : COMMUNITY	549,122	96,743	-	7,570	653,435
GENERAL MANAGER : COMMUNITY	679,522	268,543	-	18,400	966,465
	4,601,330	1,622,107	108,892	252,253	6,584,582

2022

Name	Basic salary	Car Allowance	Total
MUNICIPAL MANAGER	760,239	613,520	1,373,759
CHIEF FINANCIAL OFFICER	916,967	175,376	1,092,343
GENERAL MANAGER : TECHNICAL	640,581	484,546	1,125,127
GENERAL MANAGER : CORPORATE	855,287	312,382	1,167,669
GENERAL MANAGER : COMMUNITY	875,847	230,447	1,106,294
	4,048,921	1,816,271	5,865,192

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 above remuneration was paid to the managers.

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41. Prior-year adjustments

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

Statement of financial position

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41. Prior-year adjustments (continued)

2022

	As previously reported	Correction of error	Re-classification	Restated
Receivables from non exchange transactions	16,087,387	-	(16,087,387)	-
Receivables from exchange transactions	13,493,772	-	(11,840,918)	1,652,854
Statutory receivables	-	-	27,967,244	27,967,244
Other debtors: non-exchange	1,381,328	780,343	35,955	2,197,626
Property plant and equipment	314,745,278	394,346	-	315,139,624
Intangible assets	164,850	721,917	-	886,767
Payables from exchange transactions	(17,562,826)	1,712,972	(35,955)	(15,885,809)
Unspent Conditional Grants	(12,500,000)	(819,281)	-	(13,319,281)
Accumulated surplus	(441,418,262)	(2,829,235)	-	(444,247,497)
	(125,608,473)	(38,938)	38,939	(125,608,472)

The Municipality restated the Prior year as follows:

Receivables from exchange non-exchange transaction

Decrease due to the reclassification from receivables from non-exchange transactions to statutory receivables from the adoption of GRAP108 and items that fall within the scope GRAP108 R 16 087 387 (Property rates R 10 824 307 , collecton fee R 2 145 521 and Other R 3 117 559)

Receivables from exchange transactions

Decrease due to the reclassification from receivables from exchange transactions to statutory receivables as such fall within the scope of GRAP108 R 11 840 918.(interest eminating from statutory receivables)

Statutory Receivables

Increase due to the result of GRAP108 which led to reclassifications of Receivable from exchange and non exchange transactions. R 11 840 918 and 16 087 387 respectively

Intangible Assets

Increase in cost due to computer software and lisencc previously not capitalised R1 531 190.31

Decrease carrying amount due to computer software and lisencc previously not capitalised (R 809 273).

Property Plant and Equipment

Increase in cost due to reversal of a disposed asset R 294 136

Reduction in carrying amount due to reversal of disposed asset -R 106 696.43

Increase in carrying amount of infrastructure and buildings assets which were prevoiously not capitalised R 1 006 634

Decrease in work in progress due to retention payouts previously capitalised on projects -R1 530 898

Decrease in carrying amount due to infra assets which were ommited in the previous year R 63 562

Increase in carrying amount of movable assests which where ommited (Machinery, Furniture & Equipment) R 1 221 005

Decrease in carrying amount of movable assests which where ommited (Machinery, Furniture & Equipment) -R 244 201

Reduction of PPE due to dupliavted VAT entry on mayoral vehicle posted against payables -R 182 093

Accumulated Surplus

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41. Prior-year adjustments (continued)

Decrease in accumulated surplus due to computer software and license previously not capitalised -R 1 531 190

Increase in accumulated surplus due to accumulated amortisation for computer software and license previously not capitalised R 538 178

Decrease in accumulated surplus due to carrying amount of infrastructure and building assets which were previously not capitalised -R 1 006 634

Decrease in accumulated surplus due to carrying amount of movable assets which were omitted (Machinery, Furniture & Equipment) -R 1 221 005

Net Profit Adjustment R 391 416

Trade and other payables

Decrease in liability due to retention payouts previously capitalised on projects R 1 530 898

Reduction of payables due to duplicated VAT entry for mayoral vehicles posted against PPE R 182 093

Unspent Conditional grant

Recognition of unspent housing grant R 819 281

Other debtors non exchange

Recognition of unspent housing grant R 819 281

Statement of financial performance

2022

	As previously reported	Correction of error	Restated
Depreciation and amortisation	(20,587,706)	(543,074)	(21,130,780)
Impairment Losses	(608,051)	187,439	(420,612)
Contract expenditure	-	(7,478,261)	(7,478,261)
Contract revenue	-	7,478,261	7,478,261
Surplus for the year	(21,195,757)	(355,635)	(21,551,392)

The Municipality restated the statement of financial performance as follows:

Depreciation and Amortisation

Increase in depreciation due to computer software and license previously not capitalised R 271 094

Increase in depreciation due to infrastructure and building assets which were previously not capitalised R 63 563

Increase in depreciation due to (Machinery, Furniture and Equipment) found on the floor previously not capitalised R 244 201

Impairment Losses

Reversal of an asset disposal incorrectly accounted for under transport asset R 187 439.

Contract revenue and expenditure

The municipality recognised contract revenue and contract expenditure from the application of GRAP 11 on INEP expenditure as recommended by National Treasury. The effect of the new treatment was to increase revenue from exchange transactions and contract expenditure by the same amount of R7 478 261.

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42. 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.

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 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.

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.

43. Going concern

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

44. Events after the reporting date

No reportable events occurred after the reporting date.

45. Unauthorised expenditure

Opening balance as previously reported	9,161,477	77,090,800
Add: Unauthorised expenditure - current	-	9,161,477
Less: Amount authorised - prior period	(9,161,477)	(77,090,800)
Closing balance	-	9,161,477

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

Non-cash	-	8,614,155
Cash	-	547,322
	-	9,161,477

Analysed as follows: non-cash

Contribution to Provisions	-	4,626,449
Depreciation and amortisation	-	3,987,706
	-	8,614,155

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45. Unauthorised expenditure (continued)		
Analysed as follows: cash		
Remuneration of Councillors	-	547,322
Unauthorised expenditure: Budget overspending – per municipal department:		
Finance	-	9,161,477
46. Irregular expenditure		
Opening balance	241,427	393,027
Less: Amount written off - current	(241,427)	-
Less: Amount written off during the year	-	(151,600)
Closing balance	-	241,427
<p>The irregular expenditure emanates from the irregular expenditure incurred in the 2020/2021 financial period of which a portion was written off and the remaining balance of R 241 427 being still under investigation.</p>		
47. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	958,955	895,399
Amount paid - current year	(958,955)	(895,399)
	-	-
Audit fees		
Current year subscription / fee	1,944,805	1,682,598
Amount paid - current year	(1,944,805)	(1,682,598)
	-	-
PAYE and UIF		
Current year subscription / fee	13,007,392	12,447,265
Amount paid - current year	(13,007,392)	(12,447,265)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	22,798,999	21,817,224
Amount paid - current year	(22,798,999)	(21,817,224)
	-	-
VAT		
VAT receivable	8,534,988	7,590,620

VAT output payables and VAT input receivables are shown in note 7

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2023:

30 June 2023	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Zondi GM	4,918	13,646	18,564
Ntuli JB	1,946	151,217	153,163
	6,864	164,863	171,727

30 June 2022	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Zondi GM	-	7,310	7,310
Ntuli JB	-	136,746	136,746
	-	144,056	144,056

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

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48. Deviation from supply chain management regulations

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

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

Various services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the council.

Description	Supplier	Amount
Appointed Service provider fail to deliver coffins on time, therefore appointed another service provider in a matter of urgent to supply us coffins.	K and T Events	13,500
Dalton Construction was appointed on an exceptional circumstances to provide TLB and to provide warning sign boards to clear illegal dumping site at Cool Air during covid 19 pandemic	Dalton Construction and Civils	8,395
SHM4 Project was appointed on an exceptional circumstance to do repairs caused by a severe thunderstorm damage Electricity at Thusong Centre	SHM4 Projects	192,625
Service provider appointed on an exceptional circumstance to Repair Municipal Properties that damaged by floods.	Amabhambath a Construction	187,000
PMF Trading was appointed on an exceptional circumstances bases to supply tent and the Council resolution was taken 2 days prior the funeral service.	PMF Trading	60,000
Wamahle Investment appointed on an exceptional circumstance to supply and deliver sponges due to natural disaster that was happening around uMshwathi Municipality.	Wamahle Investments	29,500
Wamahle investment appointed on an exceptional circumstance to supply and deliver Blanket due to natural disaster that was happening around uMshwathi Municipality.	Wamahle Investments	29,400
Magubane plant and contractors appointed to do storm water damages to access road damaged by natural disaster (flooding of road and bridges in various wards).	Magubane Plant hire	189,462
Nkomfe Trading plant was appointed to do storm damages access road that was damaged by natural disaster (flooding of road and bridges in various wards)	Inkomfe Trading	335,050
Bidiyari Empire was appointed on the 09 April 2023 on an exceptional circumstances due to a huge tree fallen on the roof at Dalton Municipal building (traffic offices) urgently needed to be cut and removed.	Bidiyari Empire	24,000
Nosino Projects was appointed on an exceptional circumstances to do storm damage access road, cluster 1,2 & 3 due to natural disaster, flooding at roads & bridges	Nosino Projects	338,900
Yesomi IT solution was appointed on an exceptional circumstance to Supply UPS System that was damaged by lightning	Yesomi IT Solution	146,658
Bell Equipment sales South Africa was appointed on an exceptional circumstance to supply goods	Bell Equipment sales South Africa	278,883
	-	1,833,373

49. Segment information

General information

Identification of segments

The municipality reports to council on the basis of functions as defined in mSCOA regulations. The segments were organised around the type of service delivered and the target beneficiary.

Aggregated segments

The municipality operates throughout the Umshwathi. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout Umshwathi were sufficiently similar to warrant aggregation.

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49. Segment information (continued)

Types of goods and/or services by segment

These reportable segments as well as the goods and/or services for each segment are set out below:

Reportable segment

Community and public safety
Environmental/ Road services
Waste Management
Other

Goods and/or services

Provides municipal services and protection services
Provides planning and environmental management services
Refuse collection
Support to other segments and other adhoc services to the members of the public

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49. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2023

	Community and public safety	Environmental / Road services	Waste Management	Governance and Administratio n	Total
Revenue					
Revenue	14,162,110	38,106,299	-	196,052,094	248,320,503
Entity's revenue					248,320,503
Expenditure					
Operating expenditure	42,544,375	39,636,442	15,409,155	130,849,567	228,439,539
Total segmental surplus/(deficit)					19,880,964

2022

	Community and public safety	Environmental / Road services	Waste Management	Governance and Administratio n	Total
Revenue					
Revenue	5,894,426	42,607,506	-	182,901,833	231,403,765
Entity's revenue					231,403,765
Expenditure					
Operating expenditure	40,321,233	44,621,773	9,289,025	113,173,608	207,405,639
Total segmental surplus/(deficit)					23,998,126

Measurement of segment surplus or deficit, assets and liabilities

UMSHWATHI LOCAL MUNICIPALITY

(Registration number KZ221)

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49. Segment information (continued)

Basis of accounting for transactions between reportable segments

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.