



**uMsinga Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2021**

# uMsinga Local Municipality

(Registration number KZN 244)

Annual Financial Statements for the year ended 30 June 2021

## General Information

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<b>Legal form of entity</b>	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996).
<b>Nature of business and principal activities</b>	The provision of services to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.
<b>Mayoral committee</b>	
Executive Mayor	BP Ngcobo
Deputy Mayor	SG Masimula
Speaker	TL Kunene
<b>Mayoral Committee Members</b>	
	B Dumakude
	AS Shezi
	MV Sokhela
	NC Sikhosana
	TM Ndlovu
<b>Councillors</b>	
	TB Mbatha
	FJ Sikhakhane
	S Magubane
	ME Ngobe
	MA Mntungwa
	M Buthelezi
	N Majozi
	MS Khoza
	JV Langa
	M Mthethwa
	T Mntungwa
	MN Mabaso
	TM Mabaso
	MMS Myeza
	M Sithole
	MD Ndlovu
	SZ Magwaza
	SR Sokhulu
	SC Mpungose
	BP Madondo
	S Ximba
	ZE Shange
	SK Radebe
	GB Sikhakhane
	LE Danisa
	P Dladla
	LB Ntuli
	NP Xulu

# **uMsinga Local Municipality**

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## **General Information**

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<b>Grading of local authority</b>	2
<b>Chief Finance Officer (CFO)</b>	TM Nene
<b>Accounting Officer</b>	SL Sokhela
<b>Business address</b>	R 33 Main Road Tugela Ferry 3010
<b>Postal address</b>	Private Bag X530 Tugela Ferry 3010
<b>Phone number</b>	033 493 8000
<b>Website</b>	<a href="http://www.umsinga.gov.za">www.umsinga.gov.za</a>
<b>Bankers</b>	ABSA
<b>Auditors</b>	Auditor - General South Africa Registered Auditors

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## Index

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

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

## **uMsinga Local Municipality**

(Registration number KZN 244)

Annual Financial Statements for the year ended 30 June 2021

### **Approval of Annual Financial Statements**

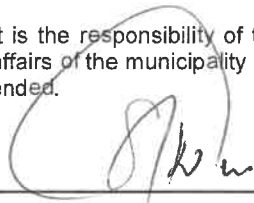
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I am responsible for the presentation of the annual financial statements, which are set out on pages 6 to 70, in terms of Section 126(1) of the Municipal Finance Management Act (Act No. 56 of 2003) and which I have signed on behalf of the municipality.

I certify that the salaries, allowances and benefits of Councillors; as disclosed in note 24 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act (Act No. 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.

The accounting officer is responsible for the presentation and fair presentation of these annual financial statements in accordance with Standards of Generally Recognised Accounting Practice (GRAP) in a manner required by the local government: Municipal Finance Management Act, (Act No. 56 of 2003), including any interpretations, guidelines and directives issued by the Accounting Standards Board.

It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the statement of affairs of the municipality as at the end of the financial period and the results of its operations and cash flows for the period then ended.



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**SL Sokhela**  
**Accounting Officer**

# **uMsinga Local Municipality**

(Registration number KZN 244)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Officer's Responsibilities and Approval**

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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 2022 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.

I also certify that salaries, allowances and benefits of Councilors, loans made to Councilors, if any, and payments made to Councilors for loss of office as disclosed in the Annual Financial Statements below are within the upper limits of the framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 70, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed on its behalf by:

  
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**SL Sokhela**  
**Accounting Officer**

# uMsinga Local Municipality

(Registration number KZN 244)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Position as at 30 June 2021

Figures in Rand		2021	2020 Restated*
	Notes		
<b>Assets</b>			
<b>Current Assets</b>			
Receivables from exchange transactions	7	2 691 109	697 943
VAT receivable	8	2 559 822	5 457 334
Consumer debtors	9	4 076 714	4 758 967
Cash and cash equivalents	10	85 438 325	59 422 945
		<b>94 765 970</b>	<b>70 337 189</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	3	239 925 446	228 054 380
Intangible assets	4	417 227	720 376
Heritage assets	5	260 000	260 000
		<b>240 602 673</b>	<b>229 034 756</b>
<b>Total Assets</b>		<b>335 368 643</b>	<b>299 371 945</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	13	25 041 967	32 987 424
Unspent conditional grants and receipts	11	790 039	1 309 273
Provisions	12	941 843	941 843
		<b>26 773 849</b>	<b>35 238 540</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	6	1 051 000	847 000
Provisions	12	5 472 803	4 577 750
		<b>6 523 803</b>	<b>5 424 750</b>
<b>Total Liabilities</b>		<b>33 297 652</b>	<b>40 663 290</b>
<b>Net Assets</b>		<b>302 070 991</b>	<b>258 708 655</b>
<b>Reserves</b>			
Revaluation reserve		260 000	260 000
Accumulated surplus		301 810 992	258 448 652
<b>Total Net Assets</b>		<b>302 070 992</b>	<b>258 708 654</b>

\* See Note 34

# uMsinga Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Performance

		2021	2020 Restated*
	Notes		
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	15	423 950	387 047
Rental of facilities and equipment	16	753 019	654 822
Other revenue	19	7 317 431	316 434
Interest received	20	4 779 180	5 833 019
<b>Total revenue from exchange transactions</b>		<b>13 273 580</b>	<b>7 191 322</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	21	18 020 722	16 814 335
Donation received	18	-	97 668
<b>Transfer revenue</b>			
Government grants & subsidies	22	253 993 234	221 089 000
<b>Total revenue from non-exchange transactions</b>		<b>272 013 956</b>	<b>238 001 003</b>
<b>Total revenue</b>	14	<b>285 287 536</b>	<b>245 192 325</b>
<b>Expenditure</b>			
Employee related costs	23	(79 563 565)	(71 432 688)
Remuneration of councillors	24	(13 072 957)	(13 120 629)
Depreciation and amortisation	25	(29 531 410)	(29 151 645)
Finance costs	26	(268 221)	(592 466)
Lease rentals on operating lease	17	(994 610)	(1 249 229)
Contributions to allowance (Impairment)	9	(10 930 098)	(6 597 225)
Free basic services	27	(477 929)	(467 441)
Contracted services	28	(58 357 759)	(43 061 110)
General expenses	29	(48 051 419)	(36 641 126)
<b>Total expenditure</b>		<b>(241 247 968)</b>	<b>(202 313 559)</b>
<b>Surplus before actuarial gains</b>		<b>44 039 568</b>	<b>42 878 766</b>
Actuarial (loss) /gain		(104 000)	24 000
<b>Surplus for the year from continuing operations</b>		<b>43 935 568</b>	<b>42 902 766</b>
Profit on disposal of asset		(573 228)	213 432
<b>Surplus for the year</b>		<b>43 362 340</b>	<b>43 116 198</b>

\* See Note 34



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## Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
<b>Balance at 01 July 2019 restated</b>	<b>260 000</b>	<b>215 332 454</b>	<b>215 592 454</b>
Changes in net assets			
Surplus for the year as previously reported	-	42 887 878	42 887 878
Prior year adjustments Note 34	-	228 320	228 320
Total changes	-	43 116 198	43 116 198
Opening balance as previously reported	260 000	258 448 652	258 708 652
Adjustments			
<b>Balance at 01 July 2020 as restated*</b>	<b>260 000</b>	<b>258 448 652</b>	<b>258 708 652</b>
Surplus for the year	-	43 362 340	43 362 340
Total changes	-	43 362 340	43 362 340
<b>Balance at 30 June 2021</b>	<b>260 000</b>	<b>301 810 992</b>	<b>302 070 992</b>
Notes	5		

\* See Note 34

# uMsinga Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Statement of Cash Flow

		2021	2020
	Notes		Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property rates and refuse removal		7 670 558	9 632 604
Government grants & subsidies		266 474 000	242 664 000
Interest income		4 779 180	5 830 585
Other Income		295 765	316 434
Rentals		639 541	469 658
VAT Received		22 744 374	13 874 409
<b>Cash generated from operations</b>		<b>302 603 418</b>	<b>272 787 690</b>
<b>Payments</b>			
Employee costs and Councillors		(92 614 328)	(79 331 726)
Cash paid to suppliers		(129 301 099)	(83 080 907)
INEP Payment		(13 000 000)	(21 575 000)
		<u>(234 915 427)</u>	<u>(183 987 633)</u>
		-	-
<b>Net cash flows from operating activities</b>	31	<b>67 687 988</b>	<b>88 800 057</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(42 337 493)	(59 047 095)
Proceeds from sale of property, plant and equipment	3	769 712	316 825
Purchase of other intangible assets	4	(104 827)	(805 000)
<b>Net cash flows from investing activities</b>		<b>(41 672 608)</b>	<b>(59 535 270)</b>
<b>Net increase in cash and cash equivalents</b>		<b>26 015 380</b>	<b>29 264 789</b>
Cash and cash equivalents at the beginning of the year		59 422 945	30 158 156
<b>Cash and cash equivalents at the end of the year</b>	10	<b>85 438 325</b>	<b>59 422 945</b>

\* See Note 34

# uMsinga Local Municipality

(Registration number KZN 244)

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## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	399 996	-	399 996	423 950	23 954	
Rental of facilities and equipment	600 012	-	600 012	753 019	153 007	
Other income	450 000	-	450 000	7 317 431	6 867 431	43.1
Interest received - investment	4 500 012	-	4 500 012	4 779 180	279 168	43.2
<b>Total revenue from exchange transactions</b>	<b>5 950 020</b>	<b>-</b>	<b>5 950 020</b>	<b>13 273 580</b>	<b>7 323 560</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	16 499 998	2 117 313	18 617 311	18 020 722	(596 589)	43.3
<b>Transfer revenue</b>						
Government grants & subsidies	237 833 992	30 389 820	268 223 812	253 993 234	(14 230 578)	
<b>Total revenue from non-exchange transactions</b>	<b>254 333 990</b>	<b>32 507 133</b>	<b>286 841 123</b>	<b>272 013 956</b>	<b>(14 827 167)</b>	
<b>Total revenue</b>	<b>260 284 010</b>	<b>32 507 133</b>	<b>292 791 143</b>	<b>285 287 536</b>	<b>(7 503 607)</b>	
<b>Expenditure</b>						
Employee related costs	(67 702 548)	(5 172 803)	(72 875 351)	(79 563 565)	(6 688 214)	
Remuneration of councillors	(15 775 692)	-	(15 775 692)	(13 072 957)	2 702 735	
Depreciation and amortisation	(23 016 000)	-	(23 016 000)	(29 531 410)	(6 515 410)	43.4
Finance costs	-	(1 000 000)	(1 000 000)	(268 221)	731 779	43.5
Lease rentals on operating lease	-	-	-	(994 610)	(994 610)	43.6
Bad debts written off	(999 996)	-	(999 996)	(10 930 098)	(9 930 102)	43.7
Free basic services	-	-	-	(477 929)	(477 929)	
Contracted Services	(61 722 728)	(15 980 386)	(77 703 114)	(58 357 759)	19 345 355	43.8
Transfers and Subsidies	(18 422 436)	1 104 637	(17 317 799)	-	17 317 799	
General Expenses	(47 092 623)	(1 500 000)	(48 592 623)	(48 051 419)	541 204	43.9
<b>Total expenditure</b>	<b>(234 732 023)</b>	<b>(22 548 552)</b>	<b>(257 280 575)</b>	<b>(241 247 968)</b>	<b>16 032 607</b>	
<b>Surplus for the year</b>	<b>25 551 987</b>	<b>9 958 581</b>	<b>35 510 568</b>	<b>44 039 568</b>	<b>8 529 000</b>	
Actuarial gains	-	-	-	(104 000)	(104 000)	
<b>Surplus for the year from continuing operations</b>	<b>25 551 987</b>	<b>9 958 581</b>	<b>35 510 568</b>	<b>43 935 568</b>	<b>8 425 000</b>	
Profit on disposal of assets	-	-	-	(573 228)	(573 228)	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>25 551 987</b>	<b>9 958 581</b>	<b>35 510 568</b>	<b>43 362 340</b>	<b>7 851 772</b>	

# uMsinga Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Property rates and refuse	6 373 678	12 446 529	18 820 207	7 670 558	(11 149 649)	44.1
Other income	1 050 012	-	1 050 012	295 765	(754 247)	44.2
Grants	237 833 992	30 971 004	268 804 996	266 474 000	(2 330 996)	44.3
Interest income	4 500 012	-	4 500 012	4 779 180	279 168	44.4
Vat received	-	-	-	22 744 374	22 744 374	44.5
Rentals	-	-	-	639 541	639 541	44.6
	<b>249 757 694</b>	<b>43 417 533</b>	<b>293 175 227</b>	<b>302 603 418</b>	<b>9 428 191</b>	
<b>Payments</b>						
Employee and suppliers costs	(174 524 800)	-	(174 524 800)	(210 093 929)	(35 569 129)	44.7
INEP Payment	-	-	-	(13 000 000)	(13 000 000)	44.8
Finance Charges	-	(1 000 000)	(1 000 000)	-	1 000 000	44.9
	<b>(174 524 800)</b>	<b>(1 000 000)</b>	<b>(175 524 800)</b>	<b>(223 093 929)</b>	<b>(47 569 129)</b>	
<b>Net cash flows from operating activities</b>	<b>75 232 894</b>	<b>42 417 533</b>	<b>117 650 427</b>	<b>79 509 489</b>	<b>(38 140 938)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(55 684 928)	-	(55 684 928)	(54 158 994)	1 525 934	44.10
Proceeds from sale of property, plant and equipment	-	-	-	769 712	769 712	44.11
Purchase of intangible assets	-	-	-	(104 827)	(104 827)	44.12
<b>Net cash flows from investing activities</b>	<b>(55 684 928)</b>	<b>-</b>	<b>(55 684 928)</b>	<b>(53 494 109)</b>	<b>2 190 819</b>	
Net increase in cash and cash equivalents	19 547 966	42 417 533	61 965 499	26 015 380	(35 950 119)	
Cash and cash equivalents at the beginning of the year	-	30 158 156	30 158 156	59 422 945	29 264 789	
<b>Cash and cash equivalents at the end of the year</b>	<b>19 547 966</b>	<b>72 575 689</b>	<b>92 123 655</b>	<b>85 438 325</b>	<b>(6 685 330)</b>	

# **uMsinga Local Municipality**

(Registration number KZN 244)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

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

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

The principal accounting policies adopted in the preparation of these annual financial statements are set out below:

GRAP 1 Presentation of Financial Statement

GRAP 2 Cash Flow Statements

GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors

GRAP 5 Borrowing Costs

GRAP 6 Consolidated and Separate Financial Statements

GRAP 9 Revenue from Exchange Transactions

GRAP 12 Inventories

GRAP 13 Leases

GRAP 14 Events after the Reporting Date

GRAP 16 Investment Property

GRAP 17 Property, Plant and Equipment

GRAP 19 Provisions, Contingent Liabilities and Contingent Assets

GRAP 21 Impairment of non-cash generating asset

GRAP 23 Revenue from Non-exchange transactions

GRAP 24 Presentation of budget information

GRAP 25 Employee Benefits

GRAP 26 Impairment of cash generating assets

GRAP 31 Intangible Assets

GRAP 100 Discontinued Operations

GRAP 104 Financial Instruments

GRAP 106 Transfer of Functions between Entities Not Under Common Control

GRAP 20 – Related Party Disclosure

GRAP 103 – Heritage Assets

GRAP 108 - Statutory Receivables

GRAP 109 – Accounting by Principals and Agents

# uMsinga Local Municipality

(Registration number KZN 244)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.1 Presentation currency

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

### 1.2 Going concern assumption

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

### 1.3 Significant judgements and sources of estimation uncertainty

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

#### Debtors receivables

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

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

#### Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

#### Useful lives of property, plant and equipment

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

#### Allowance for doubtful debts

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

# uMsinga Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Impact of Covid- 19

Municipal management considered uncertainty on service delivery which have been caused by the outbreak of covid 19 pandemic. Several sections of the financial statements such as revenue, provision for bad debts calculations, receivables collection rate, expenses and going concern have been affected by the effect of the pandemic. Management also understand that if the number of affected people increased drastically soon, then the nation will be taken back to lock down which will affect service delivery of the municipality.

### 1.4 Property, plant and equipment

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

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

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

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Item	Depreciation method	Average useful life
Buildings	Straight line	10-30 years
Roads and pavings	Straight line	10-30 years
Air conditioners	Straight line	5 - 7 years
Furniture and fixtures	Straight line	3 -10 years

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### 1.4 Property, plant and equipment (continued)

Vehicles and tractors	Straight line	3-10 years
Office equipment	Straight line	3-10 years
IT equipment	Straight line	3-5 years
Machinery and equipment	Straight line	3-10 years
Radio	Straight line	3-5 years
Electricity	Straight line	5-25 years
Pedestrian Malls	Straight line	10-30 years
Recreational facilities	Straight line	5-10 years
Sewerage	Straight line	20-30 years
Landfill site	Straight line	21 years
Tools and loose gear	Straight line	5 years
Water network	Straight line	20 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 3).

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

### 1.5 Intangible assets

An asset is identifiable if it either:

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



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### 1.5 Intangible assets (continued)

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

An intangible asset is recognised when:

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

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

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

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

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Item	Depreciation method	Average useful life
Licenses	Straight line	1-5 years

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### 1.6 Heritage assets

Heritage assets should initially be measured at cost or fair value. Where heritage assets are acquired for no cost or nominal cost, its cost should be measured at its fair value as at date of acquisition.

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### 1.6 Heritage assets (continued)

For subsequent measurement the entity has a choice between the cost model and the revaluation model. If the fair value of a class of heritage assets can be measured reliably all the assets in that class should be measured using the revaluation model. The only exception is if the fair value of a specific heritage asset in that class cannot be determined reliably, then GRAP 103 allows an entity to measure that asset under the cost model until such time as the fair value can again be reliably determined.

Heritage assets are not depreciated.

### 1.7 Financial instruments

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

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

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

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

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

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

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

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

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

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

A financial asset is:

- cash;
- a residual interest of another entity; or

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### 1.7 Financial instruments (continued)

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

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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

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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

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

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

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

- equity instruments or similar forms of unutilised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

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

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

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

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

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### 1.7 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Classification

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

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

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

Class	Category
Finance leases	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Trade payables	Financial liability measured at amortised cost

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

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

#### Subsequent measurement

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

The entity measures a financial asset and financial liability initially at its fair value.

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

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

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### 1.7 Financial instruments (continued)

#### Investments

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

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

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

#### Trade payable and borrowings

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

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

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

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

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

### 1.8 Statutory receivables

#### Identification

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

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

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

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

The transaction amount (for purposes of this Standard) 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.

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### 1.8 Statutory receivables (continued)

#### 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.

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

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

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

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

#### Derecognition

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### 1.8 Statutory receivables (continued)

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.

### 1.9 Leases

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

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

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### Finance leases - lessee

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

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

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

#### Operating leases - lessor

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

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

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

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

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

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### **1.10 Impairment of cash-generating assets**

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

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

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

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

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

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

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

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

Useful life is either:

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

### **1.11 Employee benefits**

#### **Defined contribution plans**

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

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.



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### 1.11 Employee benefits (continued)

#### Defined benefit plans

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

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

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

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

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

### 1.12 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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### 1.12 Provisions and contingencies (continued)

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

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

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, the municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.13 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.14 Revenue from exchange transactions

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

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

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### 1.14 Revenue from exchange transactions (continued)

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

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

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

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

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.15 Revenue from non-exchange transactions

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

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

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

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

### Grants, transfers and donations

Government grants are recognised as revenue when:

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

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

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

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

### 1.16 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

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### 1.17 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.18 Fruitless and wasteful expenditure

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

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

### 1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA as:

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170; of this Act; or
- (b) in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act; State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or any provincial legislation providing for procurement procedures in that provincial government.
- (c) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.20 Segment information

A segment is an activity of an entity:

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

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

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### 1.20 Segment information (continued)

#### Measurement

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

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

#### 1.21 Related parties

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

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

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

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

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

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

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

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

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

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### 1.22 Transitional provisions

#### Transitional provision for - GRAP 108

GRAP 108: Statutory receivables became effective in the year ended 30 June 2020. The Standard defines statutory receivables as receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

The municipality has two classes of receivables that meet the criteria of statutory receivables, being property rates which are levied in terms of the Municipal Property Rates Act and traffic fines imposed in terms of the Criminal Procedure Act.

The accounting policy on debtors has not been changed in respect of the classification and measurement of statutory receivables since the municipality has opted to apply the transitional provisions of Directive 4 in terms of not changing the classification and measurement of the debtors while the full implications of compliance with GRAP 108 is still under review.

There are currently no statutory receivables classified and measured in accordance with GRAP 108. The impact of complying with GRAP 108 will be on the classification of debtors since statutory receivables will be disclosed separately on the financial statements.

The municipality has developed an accounting policy for statutory receivables, which is subject to approval by Council and will be implemented during the 2021/22 financial year after having reviewed the impact of the classification, measurement and disclosure in terms of the information currently provided to the various stakeholders.

### 1.23 Retirement benefits

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provisional basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

### 1.24 Assets under construction

The cost of property, plant and equipment that is under construction as of the reporting date is recognised as an asset if (a) it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and

(b) the cost or fair value of the item(s) can be measured reliably.

Assets under construction consists of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. Expenditure comprises of direct labour, material and overhead, if appropriate.

# **uMsinga Local Municipality**

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## **Accounting Policies**

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### **1.24 Assets under construction (continued)**

### **1.23 Impairment of non-cash-generating assets**

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

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

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

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

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

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

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

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

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

Useful life is either

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

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact

#### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2021	Unlikely there will be a material impact
• GRAP 104 Financial Instruments		
• Other 3		
• GRAP 35: Consolidated Financial Statements		
• GRAP 36: Investment in Associates and Joint Ventures		
• GRAP 37: Joint Arrangements		
• GRAP 38: Disclosure of Interests in the Other Entities		
• GRAP 110 (as amended 2016): Living and Non-living Resources		



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## Notes to the Annual Financial Statements

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### 3. Property, plant and equipment

	2021		2020	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Cost / Valuation	Accumulated depreciation and accumulated impairment
Buildings	22 792 815	(9 710 230)	13 082 585	(9 290 350)
Plant and machinery	13 240 884	(10 522 905)	2 717 979	(9 736 406)
Furniture and fixtures	4 023 542	(2 420 100)	1 603 442	(2 400 446)
Motor vehicles	16 095 490	(10 572 936)	5 522 554	(13 178 709)
Office equipment	5 008 811	(3 385 819)	1 622 992	(3 268 465)
Infrastructure	300 048 932	(139 014 403)	161 034 529	(118 877 502)
Community Assets	69 982 260	(16 509 450)	53 472 810	(13 598 454)
Refuse dump	4 795 117	(3 926 562)	868 555	(3 492 285)
<b>Total</b>	<b>435 987 851</b>	<b>(196 062 405)</b>	<b>239 925 446</b>	<b>(173 842 617)</b>

### Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Work in Progress	Disposals	Landfill site movement	Depreciation	Impairment loss	Total
Buildings	14 429 227	102 312	-	(480 784)	-	(968 170)	-	13 082 585
Plant and machinery	2 132 635	1 439 216	-	(42 971)	-	(810 901)	-	2 717 979
Furniture and fixtures	1 462 713	642 932	-	(47 902)	-	(454 301)	-	1 603 442
Motor vehicles	6 039 604	2 694 999	-	(789 499)	-	(2 422 550)	-	5 522 554
Office equipment	1 614 400	1 023 408	-	(17 865)	-	(996 951)	-	1 622 992
Infrastructure	160 270 493	2 875 727	18 180 959	(36 687)	-	(20 126 747)	(129 216)	161 034 529
Community Assets	41 537 307	5 993 502	8 852 997	(1 459)	-	(2 909 537)	-	53 472 810
Refuse dump	568 001	-	-	-	734 832	(434 278)	-	868 555
<b>Total</b>	<b>228 054 380</b>	<b>14 772 096</b>	<b>27 033 956</b>	<b>(1 417 167)</b>	<b>734 832</b>	<b>(29 123 435)</b>	<b>(129 216)</b>	<b>239 925 446</b>

## uMzinga Local Municipality

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### Notes to the Annual Financial Statements

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

##### Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Work in progress	Disposals	Landfill site Movement	Donation	Depreciation	Total
Buildings	12 361 195	2 809 998	-	-	-	-	(741 966)	14 429 227
Plant and machinery	1 812 843	498 168	-	-	-	-	(178 376)	2 132 635
Furniture and fixtures	1 133 782	737 792	-	-	-	-	(408 861)	1 462 713
Motor vehicles	9 363 707	-	-	(101 386)	-	-	(3 222 717)	6 039 604
Office equipment	869 884	1 365 316	-	(2 008)	-	97 668	(716 460)	1 614 400
Infrastructure	158 909 465	12 806 990	10 265 631	-	-	-	(21 711 593)	160 270 493
Community Assets	19 392 358	5 472 707	18 007 583	-	-	-	(1 335 341)	41 537 307
Refuse dump	1 215 431	-	-	-	(79 426)	-	(568 004)	568 001
	<b>205 058 665</b>	<b>23 690 971</b>	<b>28 273 214</b>	<b>(103 394)</b>	<b>(79 426)</b>	<b>97 668</b>	<b>(28 883 318)</b>	<b>228 054 380</b>

#### Pledged as security

During the financial year ended 30 June 2021 it was noted that the municipality did not have any assets pledged as security.

#### Reconciliation of Work-in-Progress 2021

	Included within	Included within	Total
Opening balance	Infrastructure	Community	
Additions/capital expenditure	10 265 631	18 007 583	28 273 214
Transferred to completed items	20 574 239	13 901 037	34 475 276
	(12 658 911)	(23 057 082)	(35 715 993)
	<b>18 180 959</b>	<b>8 851 538</b>	<b>27 032 497</b>

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

#### Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Total
Opening balance	9 875 702	2 588 233	12 463 935
Additions/capital expenditure	23 072 452	23 320 342	46 392 794
Transferred to completed items	(22 682 523)	(7 900 992)	(30 583 515)
	<b>10 265 631</b>	<b>18 007 583</b>	<b>28 273 214</b>

#### 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

Motor Vehicles	152 180	277 998
Buildings	2 969 242	800 055
Infrastructure	20 713 454	15 667 414
Plant and Machinery	6 877 645	1 091 380
Community	-	1 310 400
Furniture and Fittings	478 858	177 761
	<b>31 191 379</b>	<b>19 325 008</b>

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### 4. Intangible assets

	2021		2020		
Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
2 180 793	(1 763 566)	417 227	2 075 966	(1 355 590)	720 376

Intangible assets

### Reconciliation of intangible assets - 2021

Opening balance	Additions	Amortisation	Total
720 376	104 827	(407 976)	417 227

Intangible assets

### Reconciliation of intangible assets - 2020

Opening balance	Additions	Amortisation	Total
187 041	805 000	(271 665)	720 376

Intangible assets

### 5. Heritage assets

	2021		2020		
Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
260 000	-	260 000	260 000	-	260 000

Mayors' Chair

### Reconciliation of heritage assets 2021

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### 5. Heritage assets (continued)

Mayors' Chain

Opening balance	Total
260 000	260 000

### Reconciliation of heritage assets 2020

Mayors' Chain

Opening balance	Total
260 000	260 000

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### 6. Employee benefit obligations

#### Defined benefit plan

##### Carrying value

Opening Balance	847 000	740 000
Current Service Cost	117 000	108 000
Interest Cost	108 000	75 000
Benefit Payment	(125 000)	(52 000)
Actuarial (loss)/gain	104 000	(24 000)
	<u>1 051 000</u>	<u>847 000</u>

#### Net Expenses Recognised in the statement of financial performance

Current Service Cost	117 000	108 000
Interest Cost	108 000	75 000
Benefit Payment	(125 000)	(52 000)
Actuarial (loss)/gain	105 000	(24 000)
	<u>205 000</u>	<u>107 000</u>

#### Nature of Liability

The employer's long service bonus awards consist of an obligation to pay out a bonus in the year of the employee attaining the required service. This obligation represents a liability to the employer and the value is represented by the present value of the total long service bonus awards expected to become payable under the employer's current policy. uMsinga Local Municipality offers Bonuses for 10 years of completed service to 30 years.

Long service accumulated leave must be taken within one year of earning such leave or may be wholly or partially cashed. uMsinga Local Municipality advised that in most cases, employees choose to exercise the option to wholly convert their accumulative leave bonus day into cash.

#### Valuation Method

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

#### Long Service Award Liability

Long service benefits are awarded in the form of several leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing future salary growth.

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. We also allowed for mortality, retirements, and withdrawals from service.

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

#### Valuation of Assets

As at the valuation date, the long service leave award liability of the municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not value any assets as part of our valuation.

# uMsinga Local Municipality

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### 6. Employee benefit obligations (continued)

#### Valuation Assumption

In estimating the liability for long service leave benefits several assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

The most relevant actuarial assumptions used in this valuation are discussed below.

#### Financial Variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

Financial Variance	Assumed Value 30-06-2021	Assumed Value 30-06-2020
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	Difference between nominal and real yield curve
Normal Salary Increase Rate	Equal to CPI+1%	Equal to CPI+1%
Net Effective Discount Rate	Yield Curve Based**	Yield Curve Based**

#### Discount Rate

We use the nominal and zero curve as at **30 June 2021** supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant period. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 year.

The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

#### Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 1 July 2020 of **6.25%**. The next salary increase was assumed to take place on 01 July 2022.

#### Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

#### Normal Retirement Age

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

#### Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables These are the most commonly used tables in the industry.

## uMsinga Local Municipality

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#### 6. Employee benefit obligations (continued)

##### Sensitivity Analysis

The valuation is only an estimate of the cost of providing Long service leave award benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables and the demographic profile of the membership. To illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following options:

- 20% increase/decrease in the assumed level of withdrawal rates.
- 1% increase/decrease in the normal salary cost inflation.

#### 7. Receivables from exchange transactions

Accrued interest income	390 989	2 434
Building Deposit	300 000	300 000
Unallocated debit orders	96 454	-
Truck Deposit	1 405 000	-
Sundry Debtors (Rentals)	498 666	395 509
	<b>2 691 109</b>	<b>697 943</b>

#### 8. VAT receivable

VAT	2 559 822	5 457 334
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The municipality is registered with the South African Revenue Services (SARS) for VAT on the payment basis, in accordance with Section 15(2) of the VAT No.89 of 1991.



# uMsinga Local Municipality

(Registration number KZN 244)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

	2021	2020
<b>9. Receivables/Consumer debtors</b>		
<b>Gross balances</b>		
Rates	52 426 828	42 396 783
Refuse	631 344	438 447
Other	106 670	81 765
	<u>53 164 842</u>	<u>42 916 995</u>
<b>Less: Allowance for impairment</b>		
Rates	(48 817 790)	(37 808 712)
Refuse	(164 507)	(276 351)
Other	(105 830)	(72 965)
	<u>(49 088 127)</u>	<u>(38 158 028)</u>
<b>Net balance</b>		
Rates	3 609 038	4 588 071
Refuse	466 837	162 096
Other	839	8 800
	<u>4 076 714</u>	<u>4 758 967</u>
<b>Included in above is receivables from exchange transactions</b>		
Refuse	466 837	162 096
Other	839	8 800
	<u>467 676</u>	<u>170 896</u>
<b>Receivables from exchange transactions disclosed in note 7</b>		
Accrued interest	390 989	2 434
Building deposit	300 000	300 000
Sundry debtors (Rental)	498 666	395 509
Unallocated debit orders	96 454	-
Truck deposit	1 405 000	-
	<u>2 691 109</u>	<u>697 943</u>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	3 609 038	4 588 071
	<u>4 076 713</u>	<u>4 758 967</u>
<b>Rates</b>		
Current (0 -30 days)	1 282 789	947 826
31 - 60 days	1 274 235	929 459
61 - 90 days	1 256 149	913 684
91 - 120 days	1 243 962	901 864
121 - 365 days	47 369 693	38 703 950
	<u>52 426 828</u>	<u>42 396 783</u>

# uMsinga Local Municipality

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## Notes to the Annual Financial Statements

	2021	2020
<b>9. Receivables/Consumer debtors (continued)</b>		
<b>Refuse</b>		
Current (0 -30 days)	52 508	33 340
31 - 60 days	38 338	33 340
61 - 90 days	64 337	31 806
91 - 120 days	32 294	31 806
121 - 365 days	443 867	308 155
	<b>631 344</b>	<b>438 447</b>
<b>Other</b>		
Current (0 -30 days)	13 810	1 760
31 - 60 days	-	1 760
61 - 90 days	-	1 760
91 - 120 days	-	1 760
121 - 365 days	92 860	74 725
	<b>106 670</b>	<b>81 765</b>

# uMsinga Local Municipality

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## Notes to the Annual Financial Statements

	2021	2020
<b>9. Receivables/Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	48 611	45 251
31 - 60 days	44 588	45 251
61 - 90 days	44 588	45 251
91 - 120 days	44 588	45 251
121 - 365 days	10 116 877	9 578 377
	<u>10 299 252</u>	<u>9 759 381</u>
Less: Allowance for impairment	(10 298 774)	(9 533 218)
	<u>478</u>	<u>226 163</u>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	632 098	506 551
31 - 60 days	604 004	506 551
61 - 90 days	621 866	496 517
91 - 120 days	589 209	493 963
121 - 365 days	17 863 272	13 507 507
	<u>20 310 449</u>	<u>15 511 089</u>
Less: Allowance for impairment	(18 649 017)	(13 014 524)
	<u>1 661 432</u>	<u>2 496 565</u>
<b>National and provincial government</b>		
Current (0 -30 days)	668 397	431 124
31 - 60 days	663 981	412 757
61 - 90 days	654 033	405 482
91 - 120 days	642 460	396 216
121 - 365 days	19 926 270	16 000 947
	<u>22 555 141</u>	<u>17 646 526</u>
Less: Allowance for impairment	(20 140 336)	(15 610 287)
	<u>2 414 805</u>	<u>2 036 239</u>
<b>Total</b>		
Current (0 -30 days)	1 349 107	982 925
31 - 60 days	1 312 573	964 559
61 - 90 days	1 320 487	947 250
91 - 120 days	1 276 257	935 430
121 - 365 days	47 906 419	39 086 831
	<u>53 164 843</u>	<u>42 916 995</u>
Less: Allowance for impairment	(49 088 127)	(38 158 028)
	<u>4 076 716</u>	<u>4 758 967</u>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(38 158 028)	(31 560 803)
Contributions to allowance	(10 930 098)	(6 597 225)
	<u>(49 088 128)</u>	<u>(38 158 028)</u>

# uMsinga Local Municipality

(Registration number KZN 244)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

2021

2020

### 9. Receivables/Consumer debtors (continued)

The creation and release of allowance for impaired receivables have been included in the operating expenses in the statement of financial performance. Amounts charged to the allowance account are generally written off when there is no expectation of the recovering additional cash. Consumer debtors are impaired as a result of non collectability of the debtors due to the fact that people do not have title deeds and no basic services are offered including sewer system and refuse remove.

### 10. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	<u>85 438 325</u>	<u>59 422 945</u>
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The following bank accounts listed below were opened and closed during the year under audit:

Standard Bank - Investment Account - Account Number 348466013-030  
Standard Bank - Investment Account - Account Number 348466013-031  
Standard Bank - Investment Account - Account Number 348466013-032  
Standard Bank - Investment Account - Account Number 348466013-036  
Standard Bank - Investment Account - Account Number 348466013-040  
Standard Bank - Investment Account - Account Number 348466013-041  
Standard Bank - Investment Account - Account Number 348466013-043  
Nedbank - Investment Account - Account Number 037881164492/02  
Absa Bank - Investment Account - Account Number 2079376135

# uMsinga Local Municipality

(Registration number KZN 244)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

2021

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### 10. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
Absa Bank Primary Account - Greytown Branch Account Number 4053635886	1 449 788	7 614 781	(142 441)	1 449 788	7 614 781	(142 441)
FNB Bank - Investment Account - Account Number 62499591777	1 365 433	1 339 458	1 055 586	1 365 433	1 339 458	1 055 586
Absa Bank - Investment Account - Account Number 2064443721	-	-	899 936	-	-	899 936
Absa Bank - Investment Account - Account number 2076957671	-	-	673 370	-	-	673 370
FNB Bank - Investment Account - Account Number 62778819303	216	6 273 275	5 111 213	216	6 273 275	5 111 213
Standard Bank - Investment Account - Account Number 3484660130-12	-	-	152 448	-	-	152 448
Standard Bank - Investment Account - Account Number 3484660130-14	-	-	1 381 781	-	-	1 381 781
Standard Bank - Investment Account - Account Number 3484660130-15	-	-	10 550 826	-	-	10 550 826
Standard Bank - Investment Account - Account Number 3484660130-16	-	-	10 475 437	-	-	10 475 437
Standard Bank - Investment Account - Account Number 3484660130-29	-	1 481 802	-	-	1 481 802	-
Standard Bank - Investment Account - Account Number 3484660130-30	-	10 346 226	-	-	10 346 226	-
Standard Bank - Investment Account - Account Number 3484660130-31	-	11 211 256	-	-	11 211 256	-
FNB Bank - Investment Account - Account Number 74836198420	5 342 073	5 187 405	-	5 342 073	5 187 405	-
FNB Bank - Investment Account - Account Number 74820036652	16 444 866	15 968 742	-	16 444 866	15 968 742	-
FNB Bank - Investment Account - Account Number 74860884467	5 277 303	-	-	5 277 303	-	-
FNB Bank - Investment Account - Account Number 74879243662	10 133 298	-	-	10 133 298	-	-
Standard Bank - Investment Account - Account Number 3484660130-33	1 496 275	-	-	1 496 275	-	-
Standard Bank - Investment Account - Account Number 3484660130-42	10 663 672	-	-	10 663 672	-	-
Standard Bank - Investment Account - Account Number 3484660130-37	4 464 421	-	-	4 464 421	-	-

## uMzinga Local Municipality

(Registration number KZN 244)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

	2021		2020	
<b>10. Cash and cash equivalents (continued)</b>				
Absa Bank - Investment Account - Account number 9098065063	8 488 260	-	8 488 260	-
Absa Bank - Investment Account - Account number 2079542869	10 208 008	-	10 208 008	-
Nedbank - Fixed Deposit- Account number 37881164492/06	10 104 712	-	10 104 712	-
<b>Total</b>	<b>85 438 325</b>	<b>59 422 945</b>	<b>85 438 325</b>	<b>59 422 945</b>
		<b>30 158 156</b>		<b>30 158 156</b>

#### 11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

##### Unspent conditional grants and receipts

Construction of shelters grant	559 273	559 273
Spluma Grant	230 766	750 000
	<b>790 039</b>	<b>1 309 273</b>

# uMsinga Local Municipality

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## Notes to the Annual Financial Statements

2021

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### 12. Provisions

#### Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Total
Landfill site rehabilitation	4 577 750	895 053	-	5 472 803
Performance bonus provision	941 843	941 843	(941 843)	941 843
	<b>5 519 593</b>	<b>1 836 896</b>	<b>(941 843)</b>	<b>6 414 646</b>

#### Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Total
Landfill site rehabilitation	4 139 711	517 466	(79 427)	4 577 750
Performance bonus provision	497 931	941 843	(497 931)	941 843
	<b>4 637 642</b>	<b>1 459 309</b>	<b>(577 358)</b>	<b>5 519 593</b>

Non-current liabilities

Current liabilities

5 472 803

941 843

**6 414 646**

4 577 750

941 843

**5 519 593**

The Provision for rehabilitation of land fill site relate to the legal obligation to rehabilitate the land used for waste disposal in accordance with the National Environment Management Act No 107 of 1998 and Environment Conversation Act No 73 of 1989. It is calculated as present value of the expenditure expected to be incurred to settle the future obligation during rehabilitation of the land.

The landfill site disclosure provision is calculated as the net present value of future cashflows based on the expected remaining useful life of the landfill site and on the size of the area that has been used for the waste disposal as of 30 June 2021. The size of the Umsinga Landfill site used up until now is approximately 5600M2. The remaining life of the landfill site is estimated at 3 years.

#### Performance bonus

The provision is to provide for performance bonuses of the section 57 employees.

The provision is calculated at 14% of the total remuneration in terms of the performance agreements at reporting date which is usually paid out within a year.

### 13. Payables from exchange transactions

Accrual Expenditure	-	2 829 042
Accrued leave pay	9 580 020	7 197 176
Employee Cost	5 767	9 768
KZN Department of Housing	5 934 932	5 934 932
Unallocated debit orders	-	27 817
Payments received in advanced	2 792 404	3 403 648
Retention & Surety	6 588 931	7 710 887
Trade payables	139 913	5 874 049
	<b>25 041 967</b>	<b>32 987 424</b>

# uMsinga Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

	2021	2020
<b>14. Revenue</b>		
Service charges	423 950	387 047
Rental of facilities and equipment	753 019	654 822
Other income	7 317 431	316 434
Interest received - investment	4 779 180	5 833 019
Property rates	18 020 722	16 814 335
Donation received	-	97 668
Government grants & subsidies	253 993 234	221 089 000
	<b>285 287 536</b>	<b>245 192 325</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	423 950	387 047
Rental of facilities and equipment	753 019	654 822
Other income	7 317 431	316 434
Interest received - investment	4 779 180	5 833 019
	<b>13 273 580</b>	<b>7 191 322</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	18 020 722	16 814 335
Donation received	-	97 668
<b>Transfer revenue</b>		
Government grants & subsidies	253 993 234	221 089 000
	<b>272 013 956</b>	<b>238 001 003</b>
<b>15. Service charges</b>		
Refuse Removal	423 950	387 047
<b>16. Rental of facilities and equipment</b>		
<b>Premises</b>		
Facilities and equipment	753 019	654 882
Rental income includes: Municipal property, community assets (halls), market stalls and ploughing assets. The lease terms range between 1 – 5 years.		
<b>17. Lease rentals on operating lease</b>		
<b>Lease rentals on operating lease</b>		
Contractual amounts	994 610	1 249 229
The Municipality entered into an operating lease agreement as from 20 October 2017 for a period of 3 years with Konica Minolta, leasing photocopier machines and a monthly rental expense is accounted for in the Statement of Financial Performance. The average lease term is 3 years with 0% escalation. The rental is fixed for the duration of the contract.		
<b>18. Donations Received</b>		
Office equipment	-	97 668



# uMsinga Local Municipality

(Registration number KZN 244)

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## Notes to the Annual Financial Statements

2021

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### 18. Donations Received (continued)

Donation income relates to seventeen (17) CPU's and twenty (20) monitors sponsored personal computers which were received in the prior year and no donations were received in the current year.

### 19. Other revenue

Other income	7 317 431	316 434
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Other income includes: Rates clearance income, library printing income and sales of tender documents.

### 20. Investment revenue

#### Interest revenue

Interest Received	4 779 180	5 833 019
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### 21. Property rates

#### Rates

Residential	505 154	505 154
Commercial	6 450 758	6 432 831
State	10 914 003	10 336 757
Municipal	150 807	158 294
Less: Rebates	-	(618 701)
	<u>18 020 722</u>	<u>16 814 335</u>

Rates are levied on an annual basis over 12 monthly installments with the final date for payment being 30 June 2021, in terms of provision of the rates policy.

#### Valuations

Residential	18 027 000	18 027 000
Commercial	232 882 000	232 882 000
State	511 181 000	511 181 000
Municipal	56 916 000	56 916 000
Other	1 268 204 000	1 268 204 000
	<u>2 087 210 000</u>	<u>2 087 210 000</u>

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

# uMsinga Local Municipality

(Registration number KZN 244)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

	2021	2020
<b>22. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	209 221 000	163 783 000
Finance Management Grant (FMG)	1 900 000	1 900 000
Extended Public Works Programme	4 441 000	3 905 000
Disaster Relief Covid-19	-	960 000
Spluma Grant	519 234	-
Library Grant	1 179 000	1 119 000
	<u>217 260 234</u>	<u>171 667 000</u>
<b>Capital grants</b>		
Municipal infrastructure grant	36 733 000	49 422 000
	<u>253 993 234</u>	<u>221 089 000</u>
<b>Equitable Share</b>		
In terms of the Constitution of South Africa, this grant is used to subsidise provision for basic services and for the municipality's operations.		
<b>Municipal Infrastructure Grant (MIG)</b>		
Current-year receipts	36 733 000	49 422 000
Conditions met - transferred to revenue	(36 733 000)	(49 422 000)
	<u>-</u>	<u>-</u>
The grant is for the implementation of projects approved by MIG. No funds were withheld.		
<b>Finance Management Grant (FMG)</b>		
Current-year receipts	1 900 000	1 900 000
Conditions met - transferred to revenue	(1 900 000)	(1 900 000)
	<u>-</u>	<u>-</u>
This grant was used for implementation of MSCOA, physical verification of assets, Municipal Finance Management Programme, and payments of finance interns. No funds were withheld.		
<b>Construction of Shelters Grant</b>		
Balance unspent at beginning of year	<u>559 273</u>	<u>559 273</u>

There are ongoing engagements between the municipality and the Department of Human Settlement in relation to the existence of this liability.

# uMsinga Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

2021

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### 22. Government grants and subsidies (continued)

#### Spluma Grant

Balance unspent at beginning of year	750 000	750 000
Conditions met - transferred to revenue	(519 234)	-
	<u>230 766</u>	<u>750 000</u>

The purpose of a Scheme is to regulate land use and to promote orderly development in accordance with the Municipality's integrated development plan.

#### Extended Public Works Programme

Current-year receipts	4 441 000	3 905 000
Conditions met - transferred to revenue	(4 441 000)	(3 905 000)
	<u>-</u>	<u>-</u>

This grant is for the salaries and operational costs of the contract employees for Extended Public Works Programme. No funds were withheld.

#### Library Grant

Current-year receipts	1 179 000	1 119 000
Conditions met - transferred to revenue	(1 179 000)	(1 119 000)
	<u>-</u>	<u>-</u>

The Library grant is to ensure all library staff are being paid, promote information literacy and maintaining and upgrading the library standard and all necessary requirements aligned with the daily operations. No funds were withheld.

#### Disaster Relief Covid-19

Current-year receipts	-	960 000
Conditions met - transferred to revenue	-	(960 000)
	<u>-</u>	<u>-</u>

This grant was used for the COVID19, for cleaning material and persona, protective clothing. During the current financial year ended 30 June 2021 the municipality was supposed to receive a Covid-19 grant with the value of R 960 000.00 as per the gazette, however the treasury did not transfer the funds into the municipalities bank account. The municipality has since written formal request to the treasury requesting for the reason of the delay transfer of funds and an immediate transfer of funds.

#### Integrated National Electrification Programme (COGTA)

Current-year receipts	-	1 575 000
Conditions met - transferred to revenue	-	(1 575 000)
	<u>-</u>	<u>-</u>

The municipality has entered an arrangement with ESKOM for construction of powerlines for the areas within area of the municipality. The municipality is an agent to the transaction as all the powerlines are handed over back to ESKOM upon completion. Eskom would determine the specifications and approve the designs before construction. The project would be inspected by Eskom upon completion before it can be handed over. The Municipality has responsibility to appoint the contractor and/or service provider that is registered with ESKOM. The arrangement would improve the lives of the local communities. Thus, the grant is not recognised as revenue.

## uMsinga Local Municipality

(Registration number KZN 244)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

2021

2020

#### 22. Government grants and subsidies (continued)

##### Integrated National Electrification Programme (INEP)

Current-year receipts	13 000 000	20 000 000
Conditions met - transferred to revenue	(13 000 000)	(20 000 000)
	<u>-</u>	<u>-</u>

The municipality has entered an arrangement with Eskom for construction of powerlines for the areas within area of the municipality. The municipality is an agent to the transaction as all the powerlines are handed over back to Eskom upon completion. Eskom would determine the specifications and approve the designs before construction. The project would be inspected by Eskom upon completion before it can be handed over. The Municipality has responsibility to appoint the contractor and/or service provider that is registered with Eskom. The arrangement would improve the lives of the local communities. Thus, the grant is not recognised as revenue.

# uMsinga Local Municipality

(Registration number KZN 244)

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## Notes to the Annual Financial Statements

	2021	2020
<b>23. Employee related costs</b>		
Basic	62 504 505	53 771 470
Bonus	2 787 454	2 305 966
Long-service awards	71 511	64 265
Medical aid - company contributions	1 445 255	1 233 949
Overtime payments	1 362 558	1 207 816
Leave payout	166 481	171 760
Travel, motor car, accommodation and subsistence	2 729 715	4 429 262
UIF	362 530	347 808
	<b>71 430 009</b>	<b>63 532 296</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	760 240	588 878
Car Allowance	506 826	506 826
Area Allowance	50 683	50 682
Performance Bonus	171 307	138 579
Contributions to UIF, Medical and Pension Funds	14 704	12 989
Other	120 329	382 158
	<b>1 624 089</b>	<b>1 680 112</b>
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	624 196	483 500
Car Allowance	416 131	416 131
Area Allowance	41 613	41 613
Contributions to UIF, Medical and Pension Funds	12 454	11 033
Other	103 155	260 732
Performance Bonus	140 652	113 781
	<b>1 338 201</b>	<b>1 326 790</b>
<b>Remuneration of Director: Planning</b>		
Annual Remuneration	624 196	483 500
Car Allowance	416 131	416 131
Area Allowance	41 613	41 613
Performance Bonus	140 652	18 963
Contributions to UIF, Medical and Pension Funds	12 054	9 644
Other	54 000	207 496
	<b>1 288 646</b>	<b>1 177 347</b>
<b>Remuneration of Director: Community</b>		
Annual Remuneration	624 196	483 500
Car Allowance	416 131	416 131
Area Allowance	41 613	41 613
Contributions to UIF, Medical and Pension Funds	12 054	10 498
Other	61 138	198 020
Performance Bonus	140 652	104 299
	<b>1 295 784</b>	<b>1 254 061</b>

# uMsinga Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

2021

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### 23. Employee related costs (continued)

#### Remuneration of Director: Corporate and Human Resources

Annual Remuneration	624 196	483 500
Car Allowance	416 131	416 131
Area Allowance	41 613	41 613
Contributions to UIF, Medical and Pension Funds	12 054	10 593
Other	60 739	230 626
Performance Bonuses	140 652	113 781
	<b>1 295 385</b>	<b>1 296 244</b>

#### Remuneration of Director: Technical Services

Annual Remuneration	624 196	483 500
Car Allowance	416 131	416 131
Area Allowance	41 613	41 613
Contributions to UIF, Medical and Pension Funds	12 054	9 644
Performance Bonuses	140 652	195 987
Other	56 805	18 963
	<b>1 291 451</b>	<b>1 165 838</b>

# uMsinga Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

	2021	2020
<b>24. Remuneration of Councillors</b>		
Executive Mayor	911 637	953 797
Deputy Executive Mayor	431 649	433 170
Speaker	738 629	740 876
Mayoral Committee Members	1 769 574	2 032 473
Councillors	9 221 468	8 960 313
	<b>13 072 957</b>	<b>13 120 629</b>
<b>Executive Mayor</b>		
Annual Remuneration	645 644	645 853
Travel Allowance	215 215	215 006
Cellphone Allowance	40 800	40 800
Other Allowance	3 600	45 201
Employee Contribution	6 378	6 937
	<b>911 637</b>	<b>953 797</b>
<b>Deputy Executive Mayor</b>		
Annual Remuneration	288 149	288 148
Travel Allowance	96 050	96 050
Cellphone Allowance	40 800	40 800
Other Allowance	3 600	4 932
Employee Contribution	3 050	3 240
	<b>431 649</b>	<b>433 170</b>
<b>Speaker</b>		
Annual Remuneration	516 516	516 516
Travel Allowance	172 172	172 172
Cellphone Allowance	40 800	40 800
Other Allowance	3 965	5 786
Employee Contribution	5 176	5 602
	<b>738 629</b>	<b>740 876</b>
<b>Mayoral Committee Members</b>		
Annual Remuneration	1 170 627	1 325 671
Travel Allowance	390 209	441 892
Cellphone Allowance	176 800	204 000
Other Allowance	19 827	45 922
Employee Contribution	12 111	14 988
	<b>1 769 574</b>	<b>2 032 473</b>
<b>Councillors</b>		
Annual Remuneration	5 890 003	5 687 572
Travel Allowance	1 963 335	1 902 410
Cellphone Allowance	1 162 800	1 122 000
Other Allowance	138 552	181 459
Employee Contribution	66 778	66 872
	<b>9 221 468</b>	<b>8 960 313</b>

# uMsinga Local Municipality

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## Notes to the Annual Financial Statements

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### 24. Remuneration of Councillors (continued)

#### In-kind benefits

During the year under review the Executive Mayor and Speaker were on full-time, whilst the deputy mayor remained part-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor, makes use of the council owned vehicle. The Mayor has 3 contracted bodyguards and one driver, the Deputy Mayor has 3 contracted bodyguards whilst the Speaker has 3 bodyguards.

### 25. Depreciation and amortisation

Property, plant and equipment	29 123 434	28 883 318
Intangible assets	407 976	268 327
	<u>29 531 410</u>	<u>29 151 645</u>

### 26. Finance Cost

Other interest paid	<u>268 221</u>	<u>592 466</u>
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Other interest paid relates to finance costs charged on provision for landfill site as follows 2021 R 160 221.00 (2020 R 517 464.00) and provision for long service award as follows 2021 R 108 000,00 (2020 R 75 000,00).

### 27. Free basic services

Electricity	<u>477 929</u>	<u>467 441</u>
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### 28. Contracted services

Consultant and Professional Services	15 214 538	12 536 534
Contractors	2 446 525	3 492 694
Information Technology Services	1 026 973	1 200 398
Outsourced Services	8 478 334	6 506 476
Repairs and Maintenance	31 191 389	19 325 008
	<u>58 357 759</u>	<u>43 061 110</u>



# uMzinga Local Municipality

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## Notes to the Annual Financial Statements

	2021	2020
<b>29. General expenses</b>		
Auditors remuneration	1 399 348	1 327 642
Bank charges	254 948	282 363
Community assistance expenses	18 562 703	12 702 390
Computer expenses	1 033 626	1 266 222
Conference and seminars	25 372	-
Entertainment	36 468	18 559
FMG expenses	537 150	573 241
Inhouse electrification project	-	1 533
Learnership and internship expenses	1 231 686	50 000
Licences	692 294	1 123 165
Management services	3 385 951	2 449 427
Operational running costs	1 205 390	798 876
Promotions and publication	9 693 630	4 880 376
Protective clothing	1 777 319	2 534 682
Seating allowance traditional leaders	10 000	-
Special projects	908 927	1 016 656
Subscriptions and membership fees	760 873	249 142
Subsistence and travel	1 851 957	1 356 144
Telephone and fax	1 242 390	1 125 096
Training and Education	92 387	1 601 112
Ward committees	3 349 000	3 284 500
	<b>48 051 419</b>	<b>36 641 126</b>
<b>30. Auditors' remuneration</b>		
Fees	1 399 348	1 327 642
<b>31. Cash generated from operations</b>		
Surplus	43 362 340	43 116 198
<b>Adjustments for:</b>		
Depreciation and amortisation	29 531 410	29 151 645
Profit on sale of assets	573 228	(213 432)
Donations received	-	(97 688)
Finance charges	-	592 466
Actuarial (loss) /gains	-	(24 000)
Bad debts written off	10 930 098	6 597 225
Movements in retirement benefit assets and liabilities	204 000	107 000
Movements in provisions	895 053	881 951
<b>Changes in working capital:</b>		
Receivables from exchange transactions	(1 993 166)	(157 310)
Consumer debtors	(10 247 847)	(413 288)
Payables from exchange transactions	(7 945 460)	8 553 667
VAT	2 897 512	(44 377)
Unspent conditional grants and receipts	(519 180)	750 000
	<b>67 687 988</b>	<b>88 800 057</b>

## uMsinga Local Municipality

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### Notes to the Annual Financial Statements

	2021	2020
<b>32. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	41 793 674	19 988 694
<b>Total capital commitments</b>		
Already contracted for but not provided for	41 793 674	19 988 694
<b>Authorised operational expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Expenditure	42 700 625	21 472 004
<b>Total operational commitments</b>		
Already contracted for but not provided for	42 700 625	21 472 004
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	41 793 674	19 988 694
Authorised operational expenditure	42 700 625	21 472 004
	<b>84 494 299</b>	<b>41 460 698</b>
This committed expenditure relates to capital and operational expenses, which will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated.		
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	-	1 685 134

# uMsinga Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

2021

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### 33. Related party

#### Relationships

Accounting Officer

SL SOKHELA

Directors

TM Nene  
MS Xulu  
MV Ntanzu  
SZN Mguni  
BP Hlubi

Executive Mayor

Deputy Mayor

Speaker

BP Ngcobo  
SG Masimula  
TL Kunene

Mayoral Committee Members

B Dumakude  
AS Shezi  
MV Sokhela  
NC Sikhosana  
TM Ndlovu

Councillors

TB Mbatha  
FJ Sikhakhane  
S Magubane  
ME Ngobe  
MA Mntungwa  
M Buthelezi  
N Majazi  
MS Khoza  
JV Langa  
M Mthethwa  
T Mntungwa  
MN Mabaso  
TM Mabaso  
MMS Myeza  
M Sithole  
MD Ndlovu  
SZ Magwaza  
SR Sokhulu  
SC Mpungose  
BP Madondo  
S Ximba  
ZE Shange  
SK Radebe  
GB Sikhakhane  
LE Danisa  
P Dladla  
LB Ntuli  
NP Xulu

Please note that all directors and councillor's remuneration have been disclosed above on note number 23 and 24.

# uMsinga Local Municipality

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## Notes to the Annual Financial Statements

2021

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### 33. Related party (continued)

#### Related party transactions

##### Expenses recognised

Ispsheshethwa Holdings	-	5 000
Amazwe Cleaners and Trading	14 000	98 100
Amazwe Security and Training	138 555	-
HBZ Transport and Projects	231 567	429 019
DMN Co-Operative Limited	-	100 645
Mlaba's Trading and Projects	20 000	19 500
Dlulas Easy Building Hardware	-	30 000
Maboniza Services	8 000	117 320
Maodeni	-	19 140
Msinga Transport Services	-	147 400
Siya Zenzela Trading	-	72 830
Nqoboluvuno Trading	-	55 320
Mosinda Trading Enterprise	-	163 043
Micho Khathide Tradings	287 775	266 824
Siyejabula Trading	3 815 258	114 153
Maodeni	-	145 385
Msinga Transport Services	-	147 400
Mthopho (Pty) Ltd	41 500	-
Ekanobhabha Trading Enterprise	384 713	-
Dezign Maestro (Pty) Ltd	366 350	-
Maboniza Services	26 020	-
Nxamalala Trading	89 722	-

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## Notes to the Annual Financial Statements

2021

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### 33. Related party (continued)

The above mentioned transactions were made to companies that are close related to municipality officials

<b>Name of person employed by the municipality</b>	<b>Position/ job title at the municipality</b>	<b>Related Supplier name</b>
Lungisani Blessing Ntuli	Ordinary councillor	Ispsheshethwa Holdings
Daugras Mletheni Ndlovu	MPAC chairperson	Amazwe Cleaners
Thokozani Moses Mabaso Projects	Ordinary councillor	HBZ Transport and
Thokozani Moses Mabaso Limited	Ordinary councillor	DMN Co-Operative
Simosenkosi Innocent Sikhakhane Projects	Security guard	Mlaba's Trading and
Mavis Nobuhle Mabaso Hardware	Ordinary councillor	Dlulas Easy Build
Christine Khethiwe Ziqubu	Communications manager	1Maboniza Services
Zamo Lorraine Zondi	Security Guard	Siya Zenzela Trading
Sizwe Malembe	Security Guard	Nqoboluvuno Trading
TT Dlamini enterprise	KZN: HEALTH	Mosinda trading
Mzowandayo Michael Sokhela	Ordinary Councillor	Micho Khathide Tradings
Welcome Mkhokiseni Mpanza	Ordinary Councillor	Siyejabula Trading
Gertrude Buhle Sikhakhane	Ordinary Councillor	Amadlakhe Trading
Mandlakhe Emmauel Ngobe	Ordinary Councillor	Amadlakhe Trading
Precious Zamakhoza Khoza	PA to Director Corporate	Maodeni
Mhawukeleni Wellington Sokhela services	Ordinary Councillor	Msinga transport
Thandile Hlela	Payroll Officer	Mthopho (Pty) Ltd
Thubelihle Mchunu Enterprise	Revenue Accountant	Ekanobhabha Trading
Edmund Sthembiso Mchunu	Diver	Dezign Maestro (Pty) Ltd
Christine Khethiwe Ziqubu	Communications Manager	Maboniza Services
Samukelisiwe Princess Ximba	Security Guard	Nxamalala Trading

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## Notes to the Annual Financial Statements

2021

2020

### 34. Prior Period Error

The comparatives for 2019/2020 have been restated due to the following errors:

In the previous financial year ended 30 June 2020, the municipality had erroneously accrued for Salga subscription fee of R 228 320.00, which were already paid for within the financial year ended 30 June 2020. The municipality has since corrected the error by reversing the accrued expenditure.

In the previous financial year ended 30 June 2020, the municipality had erroneously disclosed Salga subscription fee at the value of R 228 320.00 instead of the R 209 142.00. The municipality has since amended the disclosed information. The correction had no impact on the profit/loss previously recorded and is merely to correct the disclosure.

In the previous financial year ended 30 June 2020, the municipality had incorrectly classified an infrastructure working progress project named Magobela access road with an amount of R 6 039 485.59 as a community work in progress project. The municipality has since adjusted the financial information to correct the misclassification. The correction had no impact on the profit/loss previously recorded and is merely to correct the disclosure.

In the previous financial years, the municipality had incorrectly classified plant and machinery assets as motor vehicle assets with a combined cost value of R 10 334 281,70 and combined accumulated depreciation of R 9 267 009,04. The municipality has since adjusted the financial information to correct the misclassification. The correction had no impact on the profit/loss previously recorded and is merely to correct the disclosure.

In the previous financial year ended 30 June 2020, the municipality had erroneously overstated the refuse dump cost and accumulated depreciation by the value of R 784 983,44. The municipality has since adjusted the financial information to correct the misclassification. The correction had no impact on the profit/loss previously recorded and is merely to correct the disclosure.

In the previous financial year ended 30 June 2020, the municipality had erroneously misclassified leave pay-out expenditure with an amount of R 171 760.00 as performance bonus expenditure. The municipality has since adjusted the financial information to correct the misclassification. The correction had no impact on the profit/loss previously recorded and is merely to correct the disclosure.

### Statement of financial position

2020

	Note	As previously reported	Correction of error	Re-classification	Restated
Salga Subscription	13	(228 320)	228 320	-	-
Community asset	3	47 576 792	-	(6 039 485)	41 537 307
Infrastructure asset	3	154 231 007	-	6 039 485	160 270 492
Motor vehicles at Cost	3	29 552 594	-	(10 334 282)	19 218 312
Motor vehicles Accumulated depreciation	3	(22 445 718)	-	9 267 009	13 178 709
Plant and machinery - Cost	3	1 534 759	-	10 334 282	11 869 041
Plant and machinery - Accumulated depreciation	3	(469 397)	-	(9 267 009)	9 736 406
Refuse Dump cost	3	4 845 269	-	(784 983)	4 060 286
Refuse dump accumulated depreciation	3	(4 277 268)	-	784 983	3 492 285
		<b>210 319 718</b>	<b>228 320</b>	<b>-</b>	<b>258 863 125</b>

### Statement of financial performance

# uMsinga Local Municipality

(Registration number KZN 244)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

2021

2020

### 34. Prior Period Error (continued)

2020

	Note	As previously reported	Correction of error	Re-classification	Restated
Subscriptions and membership fees (Salga)	29	(477 462)	228 320	-	(249 142)
Performance Bonus	23	(171 760)	-	171 760	-
Leave pay-out	23	-	-	(171 760)	(171 760)
<b>Surplus for the year</b>		<b>(649 222)</b>	<b>228 320</b>	<b>-</b>	<b>(545 202)</b>

### 35. Risk management

#### Financial risk management

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

#### Liquidity risk

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

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

#### At 30 June 2021

	2021	2020
Payables from exchange transactions	25 041 967	32 987 424
Unspent conditional grants	790 039	1 309 273

#### Credit risk

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

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

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

	2021	2020
Cash and cash equivalents	85 438 325	59 422 945
Consumer debtors	4 076 714	4 758 967
Receivables from exchange transactions	2 691 109	697 943

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Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

2021

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### 36. Going concern

The municipality is wholly dependent on the municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality despite Covid-19 Lockdown Regulations which came into effect on 11 March 2020. Since that date, the World Health Organisation declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. This led the President of South Africa to impose a nation-wide lockdown which has caused the municipality to partly close their operations. However, the municipality is still operating during the lockdown levels as a result of the municipality being deemed an essential service provider by the South African Government.

Most of the staff are working remotely from home for a during this critical period and in line with the applicable lockdown levels. While the disruption is currently expected to be temporary, there is uncertainty around the duration as well as the recovery timeline. Therefore, while the municipality expects this matter may negatively impact its business, cash flow, results of operations and financial position, the related financial impact cannot be reasonably estimated at this time. Notwithstanding the operational and financial effects of the nation-wide lockdown, the accounting officer and the municipal councillors believe that the municipality has adequate financial resources to continue in operation for the foreseeable future and accordingly the financial statements have been prepared on a going concern basis.

Management considers key financial metrics and approved medium-term budget, together with the municipality's dependency on grants from national and provincial government, to conclude that the going concern assumption used in the compiling of its annual financial statement, is appropriate. The accounting officer and the municipal councillors are not aware of any new material changes that may adversely impact the municipality. The accounting officer and the municipal councillors are also not aware of any material non-compliance with statutory or regulatory requirements or any pending changes to legislation which may affect the municipality.

### 37. Unauthorised expenditure

Opening balance as previously reported	(22 640 569)	(11 681 260)
<b>Opening balance as restated</b>	<b>(22 640 569)</b>	<b>(11 681 260)</b>
Add: Expenditure identified - current	(24 711 092)	(10 959 309)
Less: write off of unauthorized expenditure by council	45 200 355	-
<b>Closing balance</b>	<b>(2 151 306)</b>	<b>(22 640 569)</b>

Unauthorized expenditure arises from the over expenditure that was identified during the comparison of the budget and the actual expenditure incurred as listed below.

#### Unauthorised expenditure: Budget overspending

Remuneration for Councillors	-	(328 970)
Depreciation	(6 515 410)	(6 135 648)
Bad Debt	(9 930 102)	(3 597 225)
Intangible Asset	(104 827)	(805 000)
Finance Cost	-	(92 466)
Employee related cost	(6 688 214)	-
Lease rental	(994 610)	-
Free basic services	(477 929)	-
	<b>(24 711 092)</b>	<b>(10 959 309)</b>



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## Notes to the Annual Financial Statements

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### 38. Contingent Liabilities

For the year ended 2018/19 Steyns chartered accountants incorporated (Steyns chartered accountants incorporated is a former Internal Auditor suing the Municipality for breach of contract. He claims that the municipality breached an agreement by deciding to terminate his contract and he is suing for the outstanding amount which was left in the contract (The cancellation is a result of an audit query raised by the Auditor-General.) has filed a claim of R 211,140 which attracts interest at 10,25 % per annum, calculated from 31 March 2018 till the date of final payment, for unfair dismissal. Further, he seeks recoupment of the cost of the lawsuit and attorney fees, the amount of which is unknown as it is dependent on the length of the lawsuit. The municipality is represented by Shepstone & Wylie Incorporated. Current Status: Pre-Trial stages, which includes drafting of the discovery affidavit and the exchange thereof thereafter we will apply for trial dates. The expenditure so far equals to R136 713.94

The plaintiff Mr Hlela, was traveling from Greytown via R33 when a pothole caused a damage to his vehicle. He alleges that the damage he suffered is a result of the municipality's failure to repair the road. Therefore, he is suing municipality for all the costs he incurred repairing his vehicle. He has filed a claim of R 8 860.90 which attracts interest at 15,5 % per annum, calculated from the date of judgement to the date of payment. The municipality defended the matter by drafting a plea informing him of 'Mis joinder' advising him that he should be suing the department of transport instead. The municipality is represented by Shepstone & Wylie Incorporated. Current Status: The matter has been filed in uMsinga Magistrate Court. The expenditure so far equals to R19 753.09.

The former Chief Financial Officer of the municipality, is suing for breach of contract to the value of R 600 000. He disputes that the Municipality did not act according to the law when they cancelled his contract. There has since been a pre-arbitration meeting with the representatives of Prestprops, where the following was confirmed: The appointment of Adv WAJ Nicholson as the arbitrator and Dates for the filing of pleadings (2 December 2019). Prestprops filed their statement of claim and the municipality also instructed Advocate Broster S.C. to draft answering statements on their behalf. The municipality is represented by Garlicke and Bousfield Incorporated. Current Status: waiting for Prestprops representatives to take next step.

On the 19<sup>th</sup> of October 2020, the municipality received a court summons from VOX Communications. Vox claims that there are unpaid monies by the municipality to the value of R 10 663.65 bearing an interest of 7% p.a a tempora morae from date of demand to date of final payment, for the information and communication technology services rendered.

### 39. Fruitless and wasteful expenditure

Opening balance as previously reported	138 780	5 881
<b>Opening balance as restated</b>	<b>138 780</b>	<b>5 881</b>
Add: Expenditure identified - current	28	132 899
Less: Amount written off - current	(138 780)	-
<b>Closing balance</b>	<b>28</b>	<b>138 780</b>

Fruitless and wasteful expenses arises from late payment of third parties accounts.

# uMzinga Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

	2021	2020
<b>40. Irregular expenditure</b>		
Add: Irregular Expenditure - current	808 266	-
<b>Incidents/cases identified in the current year include those listed below:</b>		
<b>Disciplinary steps taken/criminal proceedings</b>		
Awards to close family member of [state details]	315 681	-
Over expenditure	492 585	-
	<u>808 266</u>	<u>-</u>

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

### Contributions to organised local government(SALGA)

Current year subscription / fee

698 600

209 142

### Audit fees

Current year subscription / fee

1 399 348

1 327 642

### PAYE and UIF

Opening balance

12 344 229

11 276 384

Amount paid - current year

(12 344 229)

(11 276 384)

-

-

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Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

2021

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

#### Pension and Medical Aid Deductions

Current year subscription / fee	14 762 427	12 993 004
Amount paid - current year	(14 756 660)	(12 983 236)
	<u>5 767</u>	<u>9 768</u>

The balance of R 5767.00 for 2021 and (R 9768.00 2020) relates to an outstanding balance for the Discovery Health which is a debit order and it only debits on the 2nd or 3rd of the following month.

#### VAT

VAT receivable	<u>2 559 822</u>	<u>5 457 334</u>
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VAT output payables and VAT input receivables are shown in note 8.

All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

For the financial period ended 30 June 2020, there were no rates or services arrears owed by any councillor. Further, during the financial year there are no councillors which were outstanding for more than 90 days.

### 42. Deviations from the supply chain management regulations

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 accounting officer and includes a note to the annual financial statements.

Diviation - Current Period	1 228 190	983 850
Amount Approved By Council	(492 190)	(983 850)

#### Nature of deviation

Sole Supplier	492 190	855 143
Emergency	-	96 708
Other	736 000	-
	<u>1 228 190</u>	<u>951 851</u>

# uMisinga Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

2021

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### 43. Segment information

#### General information

#### Identification of segments

The municipality is organised and reports to management on the basis of three major functional areas: primary, secondary and tertiary educational services. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

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

#### Aggregated segments

The municipality is organised and operates in eighteen key reportable functions throughout the nine wards under uMisinga demarcations. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout uMisinga were sufficiently similar to warrant aggregation.

#### 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  
Economic planning and development  
Trading services  
Other

#### Goods and/or services

Social services delivery and protection  
Economic development services delivery  
Provides trading and support services  
Supports to other segments and other adhoc service to the members of the public

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

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## Notes to the Annual Financial Statements

Figures in Rand

### 43. Segment information (continued)

2021

	Community and public safety	Economic planning and development	Trading services	Other	Total
<b>Revenue</b>					
Revenue from non-exchange transactions	1 179 550	39 481 673	231 564 063	-	272 225 286
Revenue from exchange transactions	(52 460)	13 385	13 312 105	(210 780)	13 062 250
<b>Total segment revenue</b>	<b>1 127 090</b>	<b>39 495 058</b>	<b>244 876 168</b>	<b>(210 780)</b>	<b>285 287 536</b>
<b>Entity's revenue</b>					<b>285 287 536</b>
<b>Expenditure</b>					
Bad Debts Written Off	-	-	10 930 098	-	10 930 098
Contracted Services	6 731 712	29 116 914	16 970 511	-	52 819 137
Depreciation and Amortisation	-	29 531 410	-	-	29 531 410
Disposal of Fixed and Intangible Assets	-	-	573 228	-	573 228
Employee Related Cost	11 725 178	24 366 814	40 736 004	-	76 827 996
Actuarial (loss)	-	-	104 000	-	104 000
Inventory Consumed	686 770	10 978 420	7 434 663	-	19 099 853
Operating Leases	-	127 777	866 833	-	994 610
Operational Cost	2 500 191	2 802 770	30 679 435	-	35 982 396
Remuneration of Councillors	-	15 062 467	-	-	15 062 467
<b>Total segment expenditure</b>	<b>21 643 851</b>	<b>111 986 572</b>	<b>108 294 772</b>	<b>-</b>	<b>241 925 195</b>
<b>Total segmental surplus</b>					<b>43 362 341</b>
<b>Assets</b>					
Current Assets	498 666	1 405 000	787 443	92 074 861	94 765 970
Non-current Assets	152 975 397	49 913 516	36 171 269	1 542 491	240 602 673
<b>Total segment assets</b>	<b>153 474 063</b>	<b>51 318 516</b>	<b>36 958 712</b>	<b>93 617 352</b>	<b>335 368 643</b>
<b>Total assets as per Statement of financial Position</b>					<b>335 368 643</b>

## uMsinga Local Municipality

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### Notes to the Annual Financial Statements

Figures in Rand

	Community and public safety	Economic planning and development	Trading services	Other	Total
43. Segment information (continued)					
<b>Liabilities</b>					
Current Liabilities	(14 041 955)	143 120 393	(95 299 116)	(7 005 474)	26 773 848
Non-current Liabilities	-	-	6 523 803	-	6 523 803
<b>Total segment liabilities</b>	<b>(14 041 955)</b>	<b>143 120 393</b>	<b>(88 775 313)</b>	<b>(7 005 474)</b>	<b>33 297 651</b>
Reverses					302 070 992
<b>Total liabilities as per Statement of financial Position</b>					<b>335 368 643</b>

#### 44. Contingent asset

During the year of 2017/2018 an amount of R 1 250 000 was paid to Khansela CC and an amount of R 300 000 was paid to Aphile CC. These payments were made to the suppliers without any order, invoice or goods delivery note. To determine their authenticity they were referred to the Internal Audit unit for investigation. Subsequently during the year of 2018/2019 the Municipality has since appointed an investigating company by the name of Nexia SAB&T to investigate the matter. The municipality believes that there is a high likelihood that these amounts (totaling R 1 550 000) will be reimbursed to the municipality.

During the year of 2018/19, the Municipality made an erroneous payment to Mpandla Trading of R1,295,723.23 and has failed to recover the money over the past period. The Municipality as such, has since taken legal action in an attempt to recover the money. If successful, the amount shall be paid back to the Municipality in the possible near future.

#### 45. Reasons for material differences: Financial performance

##### 43.1 Other income

The variance is mainly due prior years VAT refund that was received/recovered in the current year.

##### 43.2 Interest received - investment

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Interest on investments is based on the fluctuation of the interest rates / economic stability.

### 43.3 Property rates

This is fair.

### 43.4 Depreciation

Difference is due to the additions and/or acquisitions that were made during the financial year and was not anticipated by the municipality during the budget preparation.

### 43.5 Finance Cost

The municipality had over budgeted, this was an oversight.

### 43.6 Lease rentals on operating lease

The municipality did not budget for Lease rental in the 2021 financial year and which was an oversight.

### 43.7 Bad debts written off

The actual debt impairment is more than the budget due to the unpaid accounts that were identified during the impairment exercise that can only be done at the end of the financial year.

### 43.8 Contracted services

The municipality had under budgeted for contracted services, due to the majority of the contracted service cost being ad hoc services.

### 43.9 General expenses

The municipality spent more than 65 percent of the approved budget. However, the municipality need to fast track the budget implementation to avoid under-expenditure

## 44. Reasons for material differences: Cashflow movements

### 44.1 Rates

Considering the prior years collections rate and the location the municipality had made an unrealistic budget target and was too optimistic.

### 44.2 Other Income

The variance is fair.

### 44.3 Grants

The municipality didn't receive the Covid-19 grant and there was also a decrease in the MIG grant.

### 44.4 Interest

Due to the unpredictability of the interest rates the municipality had underestimated interest it had received during the year.

### 44.5 Vat

The municipality did not budget for Vat recovery in the 2021 financial year and which was an oversight. The Vat recovery process on the other side has yielding some positive returns..

### 44.6 Rentals

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The municipality did not budget for rental income in the 2021 financial year and which was an oversight.

### **44.7 Employee related**

Employee related costs is always estimated and based on the labour unions and government negotiations.

### **44.8 INEP Payments**

This amount was budget for under capital acquisitions. However, this form of reporting separated the items.

### **44.9 Finance charges**

The municipality had over budgeted, this was an oversight.

### **44.10 Purchase of equipment**

The municipality was unable to meet all the targeted projects.

### **44.11 Proceeds from sale of property**

The municipality did not anticipate the sale of assets.

### **44.12 Purchase of intangible assets**

The municipality did not anticipate the purchase of assets