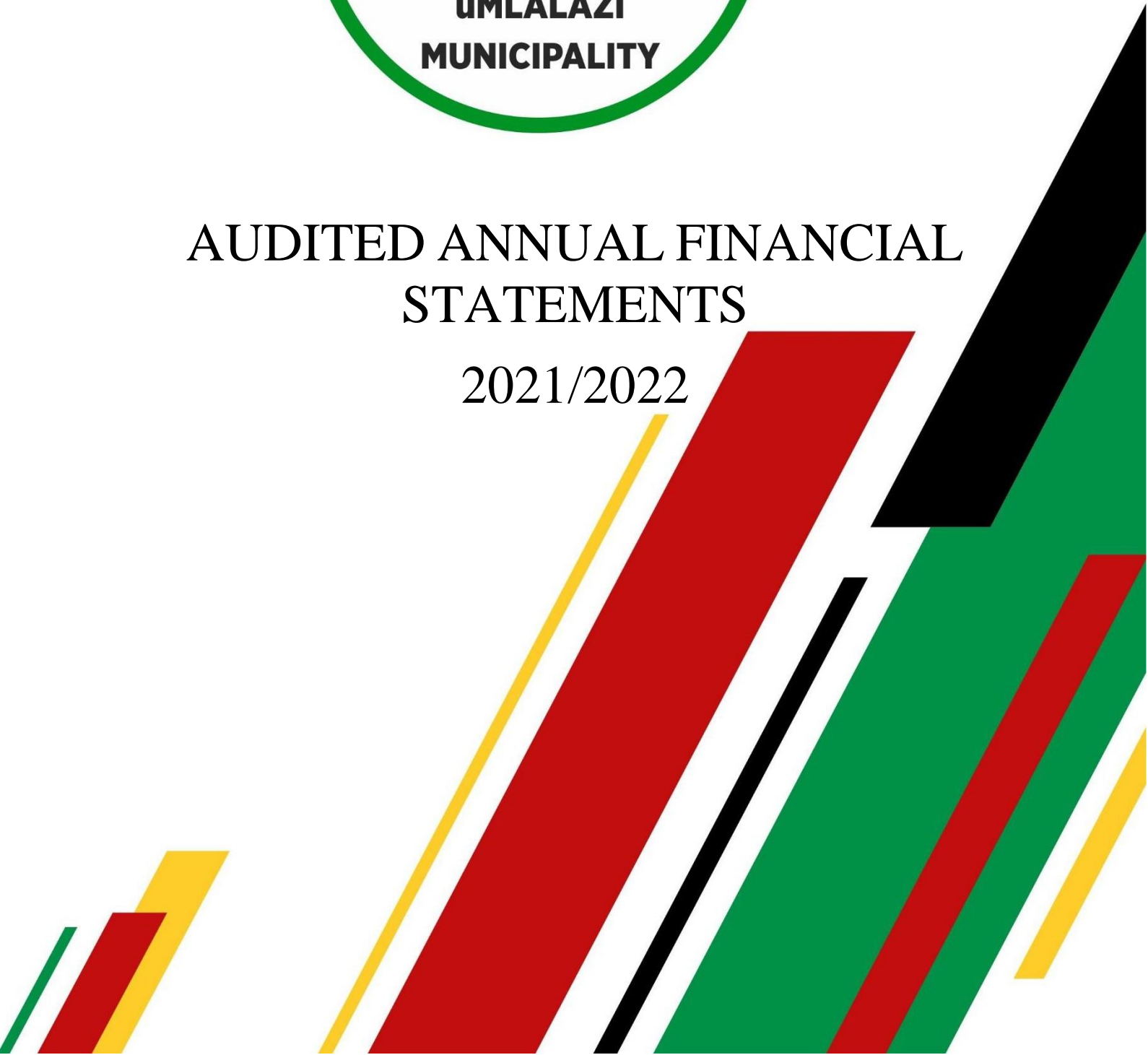




AUDITED ANNUAL FINANCIAL STATEMENTS

2021/2022



Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the uMlalazi Municipality set out on pages 6 to 127, which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the uMlalazi Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2021 (Act No. 9 of 2021) (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants [including International Independence Standards]* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairments – Receivables from non-exchange transactions

7. As disclosed in note 6 to the financial statements, the municipality increased the provision for impairment on receivables from non-exchange transactions to R209,92 million (2020-2021: R204,01 million) as the recoverability of these amounts was considered doubtful.

Material loss – Electricity

8. As disclosed in note 41 to the financial statements for bulk purchases, material electricity losses of R12,76 million {2020-2021:R9,16 million) was incurred,which represented 18% {2020-2021: 15%) of total electricity purchased. Technical and non-technical losses arose for various reasons as included in the note to the financial statements.

Restatement of corresponding figures

9. As disclosed in note 61 and 62 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements for the year ended, 30 June 2022.

Other matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

11. In terms of section 125(2) (e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
13. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

14. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
15. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected key performance area presented in the annual performance report. I performed procedures to identify material findings but not to

gather evidence to express assurance.

- 17 My procedures address the usefulness and reliability of the reported performance information which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the *basic service delivery key performance area* set out on pages 26 to 41 of the municipality's annual performance report for the year ended 30 June 2022.
19. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected key performance area.

Report on the audit of compliance with legislation

Introduction and scope

21. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance. The material finding on compliance with specific matters in key legislation is as follows:

Financial statements

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, provisions, payables, and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Other information

23. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected key performance area presented in the annual performance report that has been specifically reported in this auditor's report.
24. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
25. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

26. I did not receive the other information prior to the date of this report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

| Internal control deficiencies

27. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

28. Key financial accounts and critical disclosures were not regularly analysed, communicated and reviewed between operations, finance and reporting functions to ensure that they were completely accounted for, presented and reconciled in accordance with basic accounting disciplines. In addition, independent diligent checks were not performed to assess the credibility and accuracy of such reported information on a regular basis.

Auditor-General

Pietermaritzburg

29 November 2022



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure Auditor-general's responsibility for the audit

- 1 As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for the selected key performance area and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the uMlalazi Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

General Information

Legal form of entity

Local Authority (Municipality)

Members of the Council

QT Xulu (Mayor and Chairperson of the Executive Committee)
MM Ngema (Deputy Mayor and Member of the Executive Committee)
JK Powell (Speaker)
M Dludla (Whip of Council)
SB Larkan (Chairperson of the Municipal Public Account Committee)
MMM Ntuli (Member of the Executive Committee)
K Khumalo (Member of the Executive Committee)
SA Makhathini (Member of the Executive Committee)
K Ntanzu (Member of the Executive Committee)
WL Ngema (Member of the Executive Committee)
KS Mthabela (Member of the Executive Committee)
MM Cebekhulu (Member of the Executive Committee)
SD Khubisa (Member of the Executive Committee)

Councillors

AN Sibiya
TN Shozi
SA Khuzwayo
BC Makhathini
Z Biyela
ZM Mhlongo
BXS Ntombela
MD Dladla
SB Dlamini
SW Yimba
BP Hlabisa
K Mthembu
SI Zibani
JM Ngema
MB Biyela
M Ndlovu
T Mdlalose
SM Gasu
VM Xulu
MG Mzimela
BC Magwaza
BM Nzuzu
TH Biyela
N Vilakazi
IQ Ngema
MS Xulu
Z Mpungose
EF Shange
NG Qwabe
BL Zungu
MM Khanyile
ME Dlamini
GZ Ncanana
PTO Shange
B Ntombela

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

General Information

	TL Ntanzi B Khanyile M Mdluli ZN Mthembu B Xulu S Magwaza KR Khumalo
Grading of local authority	Grade 03
Accounting Officer	RP Mnguni
Chief Financial Officer (CFO)	NN Shandu
Business address	Hutchinson Street Eshowe 3815
Postal address	P O Box 37 Eshowe 3815
Bankers	First National Bank
Auditors	Auditor-General South Africa
Preparer	The financial statements were internally compiled by: SS Mbuyazi Deputy Chief Financial Officer
Email address	mm@umlalazi.org.za
Telephone number	035-4733474
Fax number	035-4744733

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Index

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

	Page
Certification by the Accounting Officer	9
Statement of Financial Position	10
Statement of Financial Performance	11
Statement of Changes in Net Assets	12
Cash Flow Statement	13
Appropriation Statement	14 - 17
Accounting Policies	18 - 59
Notes to the Financial Statements	60 - 120

Appendixes:

Appendix B: Analysis of Property, Plant and Equipment Appendix

C: Segmental Statement of Financial Performance Appendix

D(1): Actual versus Budget (Revenue and Expenditure)

Appendix D(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)

Appendix E: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Certification by the Accounting Officer

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 financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the 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 financial statements.

The 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 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 Municipality 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 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 current year up to 30 June 2023 and, in the light of this review and the current financial position, he is satisfied that the Municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. The financial statements are prepared on the basis that the Municipality is a going concern

Certification by the Accounting Officer

I, Raymond Phiwamandla Mnguni hereby certify that the salaries, allowances and benefits of Councillors as disclosed in note 36 of these financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of the Public Office Bearers Act, 1998 (Act No. 20 of 1998) and the Minister of Co-operative Governance and Traditional Affairs' determination in accordance with this Act.



RP MNGUNI (THE ACCOUNTING OFFICER)

Wednesday, 31 August 2022

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	99 560 271	146 529 871
Inventories	4	3 456 353	3 203 395
Receivables from Exchange Transactions	5	29 190 214	20 801 414
Receivables from non-exchange transactions	6	18 494 249	15 818 658
Housing installments	5&13	7 645	7 508
VAT receivable	7	-	889 970
		150 708 732	187 250 816
Non-Current Assets			
Investment property	10	38 140 000	33 930 000
Property, plant and equipment	8	850 674 715	833 794 342
Intangible assets	9	128 458	235 807
Heritage Assets	11	10 311 344	10 311 344
Investments	12	1 000	1 000
		899 255 517	878 272 493
Total Assets		1 049 964 249	1 065 523 309
Liabilities			
Current Liabilities			
Loans Payable	19	342 816	342 816
Trade and other payables	15	53 147 647	57 751 748
VAT payable	16	98 360	-
Consumer deposits	14	3 429 478	3 117 145
Unspent conditional grants and receipts	17	1 276 837	1 720 658
Provisions	18	867 917	921 490
Current portion of employee benefit obligation	20	1 875 000	1 407 758
		61 038 055	65 261 615
Non-Current Liabilities			
Loans Payable	19	2 131 212	2 484 645
Employee benefit obligation	20	27 081 000	25 456 242
		29 212 212	27 940 887
Total Liabilities		90 250 267	93 202 502
Net Assets		959 713 982	972 320 807
Reserves			
Housing operating account	21	5 212 302	5 097 646
Accumulated surplus	22	954 501 680	967 223 159
Total Net Assets		959 713 982	972 320 805

* See Note 61 & 62

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	24	93 532 573	87 958 693
Rental of facilities and equipment	25	1 558 996	1 294 507
Interest on receivable from exchange transactions	26	1 729 840	1 434 978
Agency services	28	1 732 100	2 080 977
Licences and permits	29	2 082 842	1 754 118
Operational revenue	30	6 768 379	11 494 075
Interest earned - external investments	27	6 436 938	5 990 284
Gain on disposal of assets and liabilities	31	-	629 166
Fair value adjustments	49	4 210 000	8 110 000
Total revenue from exchange transactions		118 051 668	120 746 798
Revenue from non-exchange transactions			
Property rates	32	66 472 081	64 870 948
Property rates - penalties imposed	32	2 534 701	2 363 462
Licences and permits (Non-exchange)	33	1 875	8 193
Transfer revenue			
Government grants & subsidies	35	270 708 070	293 451 600
Fines, penalties and forfeits	34	2 948 850	2 855 658
Total revenue from non-exchange transactions		342 665 577	363 549 861
Total revenue	23	460 717 245	484 296 659
Expenditure			
Employee related costs	36	170 635 224	160 160 554
Remuneration of councillors	37	20 684 422	22 191 931
Depreciation and amortisation	38	53 987 423	47 608 343
Impairment loss on cash and non-cash generating assets	39	271 206	1 238 872
Finance costs	40	319 443	362 027
Lease rentals on operating leases	44	2 061 522	2 304 172
Debt Impairment	47	3 782 775	12 167 557
Bad debts written off	48	561 109	2 543 382
Bulk purchases	41	70 135 684	61 141 944
Contracted services	42	85 581 883	72 253 513
Transfers and subsidies	43	7 507 568	8 972 942
Loss on disposal of assets and liabilities	31	29 505	-
Other materials	45	13 643 869	9 289 921
Operational costs	46	44 122 433	37 921 462
Total expenditure		473 324 066	438 156 620
(Deficit) surplus for the year		(12 606 821)	46 140 039

* See Note 61 & 62

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Statement of Changes in Net Assets

Figures in Rand	Housing Operating Fund	Accumulated surplus	Total net assets
Opening balance as previously reported	5 063 138	917 812 828	922 875 966
Adjustments			
Correction of prior period errors	-	3 370 462	3 370 462
Balance at 01 July 2020 as restated*	5 063 138	921 183 290	926 246 428
Changes in net assets			
Net surplus/ (deficit) on the housing development account	(65 662)	-	(65 662)
Interest on investment	100 170	(100 170)	-
Net income (losses) recognised directly in net assets	34 508	(100 170)	(65 662)
Surplus for the year	-	46 140 039	46 140 039
Total recognised income and expenses for the year	34 508	46 039 869	46 074 377
Total changes	34 508	46 039 869	46 074 377
Restated* Balance at 01 July 2021	5 097 646	967 223 157	972 320 803
Changes in net assets			
Surplus for the year	-	(12 606 821)	(12 606 821)
Interest on investment	114 656	(114 656)	-
Total changes	114 656	(12 721 477)	(12 606 821)
Balance at 30 June 2022	5 212 302	954 501 680	959 713 982
Note(s)	21		

* See Note 61 & 62

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Property Rates		62 836 293	57 726 311
Sale of goods and services		99 370 099	98 787 059
Government grants		270 264 249	293 403 886
Interest income		6 436 938	5 990 284
		438 907 579	455 907 540
Payments			
Employee cost		(189 281 219)	(177 830 078)
Suppliers		(217 373 013)	(175 136 166)
Finance Charges		(319 443)	(362 027)
Transfers and grants		(7 507 568)	(8 972 942)
		(414 481 243)	(362 301 213)
Net cash flows from operating activities	51	24 426 336	93 606 327
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(71 061 162)	(74 120 971)
Proceeds from sale of property, plant and equipment	8	18 796	1 032 290
Net Movement on loan receivable		(137)	15 349
		(71 042 503)	(73 073 332)
Cash flows from financing activities			
Repayment of loans payable		(353 433)	(353 433)
		(353 433)	(353 433)
Net increase/(decrease) in cash and cash equivalents		(46 969 600)	20 179 562
Cash and cash equivalents at the beginning of the year		146 529 871	126 350 309
Cash and cash equivalents at the end of the year	3	99 560 271	146 529 871

* See Note 61 & 62

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Statement of budget and actuals

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2022											
Financial Performance											
Property rates	67 376 550	(548 650)	66 827 900	-	-	66 827 900	66 472 081	-	(355 819)	99 %	99 %
Service charges	102 810 360	(7 851 360)	94 959 000	-	-	94 959 000	93 532 573	-	(1 426 427)	98 %	91 %
Investment revenue	7 463 720	(1 518 350)	5 945 370	-	-	5 945 370	6 436 938	-	491 568	108 %	86 %
Transfers recognised - operational	256 016 934	(38 388 414)	217 628 520	-	-	217 628 520	217 411 000	-	(217 520)	100 %	85 %
Other own revenue	54 675 180	(27 148 430)	27 526 750	-	-	27 526 750	23 567 583	-	(3 959 167)	86 %	43 %
Total revenue (excluding capital transfers and contributions)	488 342 744	(75 455 204)	412 887 540	-	-	412 887 540	407 420 175	-	(5 467 365)	99 %	83 %
Employee costs	(173 987 690)	9 347 800	(164 639 890)	-	-	(164 639 890)	(170 635 224)	-	(5 995 334)	104 %	98 %
Remuneration of councillors	(25 611 730)	3 450 110	(22 161 620)	-	-	(22 161 620)	(20 684 422)	-	1 477 198	93 %	81 %
Debt impairment	(39 531 030)	32 008 920	(7 522 110)	-	-	(7 522 110)	(4 343 884)	-	3 178 226	58 %	11 %
Depreciation and asset impairment	(51 522 550)	-	(51 522 550)	-	-	(51 522 550)	(54 258 629)	-	(2 736 079)	105 %	105 %
Finance charges	(340 060)	-	(340 060)	-	-	(340 060)	(319 443)	-	20 617	94 %	94 %
Materials and bulk purchases	(65 650 010)	450 000	(65 200 010)	-	-	(65 200 010)	(70 135 684)	-	(4 935 674)	108 %	107 %
Transfers and grants	(9 324 280)	1 556 020	(7 768 260)	-	-	(7 768 260)	(7 507 568)	-	260 692	97 %	81 %
Other expenditure	(164 487 204)	16 580 194	(147 907 010)	-	-	(147 907 010)	(145 439 217)	-	2 467 793	98 %	88 %
Total expenditure	(530 454 554)	63 393 044	(467 061 510)	-	-	(467 061 510)	(473 324 071)	-	(6 262 561)	101 %	89 %
Surplus/(Deficit)	(42 111 810)	(12 062 160)	(54 173 970)	-	-	(54 173 970)	(65 903 896)	-	(11 729 926)	122 %	156 %

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Statement of Budget and Actuals

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	42 551 000	12 064 600	54 615 600	-		54 615 600	53 297 070		(1 318 530)	98 %	125 %
Surplus (Deficit) after capital transfers and contributions	439 190	2 440	441 630	-		441 630	(12 606 826)		(13 048 456)	(2 855)%	(2 870)%
Surplus/(Deficit) for the year	439 190	2 440	441 630	-		441 630	(12 606 826)		(13 048 456)	(2 855)%	(2 870)%
Capital expenditure and funds sources											
Total capital expenditure	67 123 450	19 619 600	86 743 050	-		86 743 050	68 625 928			79 %	102 %
Sources of capital funds											
Transfers recognised - capital	45 748 450	6 731 670	52 480 120	-		52 480 120	50 454 336		(2 025 784)	96 %	110 %
Internally generated funds	21 375 000	12 887 930	34 262 930	-		34 262 930	18 171 592		(16 091 338)	53 %	85 %
Total sources of capital funds	67 123 450	19 619 600	86 743 050	-		86 743 050	68 625 928		(18 117 122)	79 %	102 %

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Statement of Budget and Actuals

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	63 581 000	(4 858 000)	58 723 000			58 723 000	24 426 336		(34 296 664)	42 %	38 %
Net cash from (used) investing	(67 123 000)	(19 604 000)	(86 727 000)			(86 727 000)	(71 042 503)		15 684 497	82 %	106 %
Net cash from (used) financing	-	320 000	320 000			320 000	(353 433)		(673 433)	(110)%	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	(3 542 000)	(24 142 000)	(27 684 000)			(27 684 000)	(46 969 600)		(19 285 600)	170 %	1 326 %
Cash and cash equivalents at the beginning of the year	120 841 000	14 689 000	135 530 000			135 530 000	146 529 871		10 999 871	108 %	121 %
Cash and cash equivalents at year end	117 299 000	(9 453 000)	107 846 000			107 846 000	99 560 271		8 285 729	92 %	85 %

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Statement of Budget and Actuals

Figures in Rand

Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
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Budget differences

Material differences between budget and actual amounts

001. Other own revenue: A variance of 24 % is mainly caused by the fact that the issuing of fines hindered as the new service provider was only appointed during the course of 2021 financial year and in 2022 financial year he was still setting up and finding his footing and therefore not operating optimally.

002. Debt impairment: A variance of 42% is due to the fact that the revenue from traffic fines was less than anticipated, this has resulted to the amount of debtors to be impaired being less than what was anticipated as less fines were issue.

003. Bulk purchases: A variance of R4 935 674 which translate to 8% above budget is attributable to the fact that electricity consumption by customers increased more than our anticipated increase as our projections were that the quantity demanded will be affected by the price increase.

004 Service charges: A negative variance of R3 520 377 which translate to 2% budgeted revenue is mainly a direct result of an unanticipated increase in non technical electricity losses from 9% in 2020/2021 financial year to 12% 2021/2022 financial year.

005 Councillors remuneration: A positive variance of R1 477 334 which translate to 7% of the final budget is due to that an approval by MEC of executive Committee members, whip of council and Chairperson of Municipal Public Account Committee as full time councillors was delayed and they were remunerated as ordinary Councillors until such approval was received.

006. Other operational expenditure: A positive variance of R2 467 793 is attributable to the halting of evaluation of procurement above R30 000 as per circular issued by National Treasury in response to confusion around the Court ruling regarding the PPPFA Regulations 2017.

007: Total capital expenditure A variance of 11% is attributable to the halting of evaluation of procurement above R30 000 as per circular issued by National Treasury in response to confusion around the Court ruling regarding the PPPFA Regulations 2017.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1. Presentation of Financial Statements

The 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 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.

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

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

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the 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 financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The Municipality assesses its trade receivables and loans and 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 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.

Financial assets and liabilities

The classification of financial assets and liabilities into categories is based on judgement by management.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

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. They are significantly affected by a number of factors including economic factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 20.

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 estimated future cash flows.

Revenue Recognition

Accounting Policy on Revenue describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-exchange Transactions. In particular, when services are rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

Classification of expenses

The analysis of expenses are presented based on the nature of expenses.

1.2 Presentation currency

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

1.3 Going concern assumption

These 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.

1.4 Offsetting

Assets, liabilities, revenues and expenses have not been offset, except when offsetting is required or permitted by a Standard of GRAP.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.5 Housing operating account

The Housing Operating Account was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government used to finance housing selling schemes both complete and in progress as at 1 April 1998, were also transferred to the Housing Operating Account.

In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Operating Account. Monies standing to the credit of the Housing Operating Account can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

Land is not depreciated as it is regarded as having an indefinite life.

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.6 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Community and Recreational Facilities	Straight line	05-30
Other Assets	Straight line	04-10
Vehicles	Straight line	07-15
Furniture and Fittings	Straight line	05-15
Roads	Straight line	03-50
Electricity	Straight line	05-45
Storm Water	Straight line	10-50

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.

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

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

The Municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 8)

The Municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 8).

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

Amortisation is provided on a straight line basis over their useful life.

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

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

Item	Depreciation method	Average useful life
Intangible assets	Straight line	3-5

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.8 Heritage assets

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

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

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

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

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

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

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

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

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

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

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

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

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

The Municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements.

Recognition

The Municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the Municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The Municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the Municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.8 Heritage assets (continued)

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The Municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.9 Inventories

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

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

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

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 :

- the period of time over which an asset is expected to be used by the Municipality.

Designation

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

The Municipality designates an asset or a cash-generating unit as cash-generating when:

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

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

Identification

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the Municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the Municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the Municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the Municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the Municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the Municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

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

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

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

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

Redesignation

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.11 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating 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.

No obligation arises as a consequence of the sale or transfer of an operation until the Municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.12 Borrowing costs

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

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.13 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.14 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the Municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.14 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

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

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

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

The Municipality separately discloses expenditure to repair and maintain investment property in the notes to the financial statements.

1.15 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 a Municipality 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 a Municipality'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.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.15 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Municipality 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 Municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

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

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.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.15 Financial instruments (continued)

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

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

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

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

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

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

Initial recognition

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

The Municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.15 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The Municipality measures all financial assets and financial liabilities after initial recognition using the:

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

Reclassification

The Municipality 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 Municipality 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 Municipality 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.

Gains and losses

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The Municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.15 Financial instruments (continued)

Derecognition

Financial assets

The Municipality derecognises financial assets using trade date accounting.

The Municipality derecognises a financial asset only when:

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

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the Municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the Municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the Municipality continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the Municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The Municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.15 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the Municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the Municipality does not offset the transferred asset and the associated liability.

1.16 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.

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.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.16 Statutory receivables (continued)

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

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

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

Derecognition

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.16 Statutory receivables (continued)

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.

1.17 Leases

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

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

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.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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.

Operating leases - lessee

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

1.18 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.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

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

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 the period of time over which an asset is expected to be used by the Municipality:

Designation

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

The Municipality designates an asset or a cash-generating unit as cash-generating when:

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

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

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

Identification

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

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

Redesignation

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

1.19 Employee benefits

Employee benefits are all forms of consideration given by the Municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the Municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the Municipality's own creditors (even in liquidation) and cannot be paid to the Municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the Municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- the Municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from the Municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the Municipality has indicated to other parties that it will accept certain responsibilities and as a result, the Municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.19 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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

Multi-employer plans and/or State plans and/or Composite social security programmes

The Municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the Municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the Municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the Municipality account for the plan as if it was a defined contribution plan.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.19 Employee benefits (continued)

Insured benefits

Where the Municipality pays insurance premiums to fund a post-employment benefit plan, the Municipality treats such a plan as a defined contribution plan unless the Municipality will have (either directly or indirectly through the plan) a legal or constructive obligation to either:

- pay the employee benefits directly when they fall due; or
- pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior reporting periods.

If the Municipality retains such a legal or constructive obligation, the entity treats the plan as a defined benefit plan.

Post-employment benefits: Defined contribution plans

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

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.19 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the Municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the Municipality) that are held by an entity (a fund) that is legally separate from the Municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the Municipality's own creditors (even in liquidation), and cannot be returned to the reporting Municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the Municipality; or
- the assets are returned to the Municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The Municipality account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the Municipality's informal practices. Informal practices give rise to a constructive obligation where the Municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the Municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The Municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.19 Employee benefits (continued)

The Municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

The Municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The Municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a Municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a Municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The Municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the Municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

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 Municipality offsets an asset relating to one plan against a liability relating to another plan when the Municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.19 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to all contributing retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

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

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.19 Employee benefits (continued)

Termination benefits

The Municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The Municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.20 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.

1.21 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.

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

Measurement

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.21 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

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

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

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

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

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

Interest, royalties and dividends

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.

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

1.22 Revenue from non-exchange transactions

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

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.22 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.22 Revenue from non-exchange transactions (continued)

Taxes

The Municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the Municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The Municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the Municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The Municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the Municipality.

Gifts and donations, including goods in-kind

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

1.23 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.24 Accounting by principals and agents

Identification

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.24 Accounting by principals and agents (continued)

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Assessing which entity benefits from the transactions with third parties

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

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

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

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

Recognition

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

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

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

1.25 Comparative figures

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

1.26 Unauthorised expenditure

Unauthorised expenditure means:

- any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes—
 - (a) overspending of the total amount appropriated in the municipality's approved budget;
 - (b) overspending of the total amount appropriated for a vote in the approved budget;

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.26 Unauthorised expenditure (continued)

- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with this Act.

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.

1.27 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.

1.28 Irregular expenditure

Irregular expenditure in relation to a municipality or municipal entity, means ---

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (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;
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Remuneration of the Public Office Bearers Act, 1998 (Act No. 20 of 1998); or

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.29 Housing development fund

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.30 Internal reserves

Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council funding and Reserves Policy. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.31 Segment information

A segment is an activity of an entity:

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

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

Measurement

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.32 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by Municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The Budget is prepared in terms of MBRR and is on an accrual basis of accounting. However, the budget is presented on a different basis, being MBRR, whilst the financial statements is presented in terms of GRAP. Taking into account that the presentation basis is different, the municipality presents the budget and actuals information in a Statement of Budget and Actuals, in accordance with the MBRR.

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

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

1.33 Related parties

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

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

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

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

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

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

Close members of the family of a person are 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 financial statements.

1.34 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The Municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.34 Events after reporting date (continued)

The Municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

1.35 Standards and Interpretations that are effective for 2021/2022 financial year

List of effective Standards for 2021/22 financial year

Name of standard	GRAP Ref.
Presentation of financial Statements	GRAP 1
Cash Flow Statements	GRAP 2
Accounting Policies, Change in Accounting Estimates and Errors	GRAP 3
The Effect of Changes in Foreign Exchange Rates	GRAP 4
Borrowing Costs	GRAP 5
Revenue from Exchange Transactions	GRAP 9
Financial Reporting in Hyperinflationary Economies	GRAP 10
Construction Contracts	GRAP 11
Inventories	GRAP 12
Leases	GRAP 13
Events After the Reporting Date	GRAP 14
Investment Property	GRAP 16
Property, Plant and Equipment	GRAP 17
Segment Reporting (First time Implementation)	GRAP 18
Provisions, Contingent Liabilities and Contingent Assets	GRAP 19
Related Party Disclosures	GRAP 20
Impairment of Non-cash-generating Assets	GRAP 21
Revenue from Non-exchange Transactions	GRAP 23
Presentation of Budget information in Financial Statements	GRAP 24
Employee Benefits	GRAP 25
Impairment of Cash-generating Assets	GRAP 26
Agriculture	GRAP 27
Intangible Assets	GRAP 31
Service Concession Arrangements: Grantor	GRAP 32
Separate Financial Statements (First time Implementation)	GRAP 34
Consolidated Financial Statements (First time Implementation)	GRAP 35
Investments in Associates and Joint Ventures (First time Implementation)	GRAP 36
Joint Arrangements (First time Implementation)	GRAP 37
Disclosure of Interests in Other Entities (First time Implementation)	GRAP 38
Discontinued Operations	GRAP 100
Heritage Assets	GRAP 103
Financial Instruments	GRAP 104
Transfer of Functions Between Entities Under Common Control	GRAP 105
Transfer of Functions Between Entities not under Common Control	GRAP 106
Mergers	GRAP 107
Statutory Receivables	GRAP 108
Accounting by Principals and Agents	GRAP 109
Living and Non-living Resources (First time Implementation)	GRAP 110

List of effective Interpretations for 2021/2022 financial year

Name of Standard	IGRAP Ref.
Applying the Probability Test on Initial Recognition of Revenue	IGRAP 1
Changes in Existing Decommissioning, Restoration and Similar Liabilities	IGRAP 2
Determining whether an Arrangement Contains a lease	IGRAP 3
Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	IGRAP 4
Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies	IGRAP 5
Loyalty Programmes	IGRAP 6
The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	IGRAP 7
Agreements for the Construction of Assets from Exchange Transactions	IGRAP 8
Distribution of Non-cash Assets to Owners	IGRAP 9
Assets Received from Customers	IGRAP 10
Operating Lease - Incentives	IGRAP 13
Evaluating the Substance of Transactions Involving the Legal Form of a Lease	IGRAP 14
Revenue - Barter Transactions Involving Advertising Services	IGRAP 15
Intangible Assets - Website Costs	IGRAP 16

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Accounting Policies

Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset	IGRAP 17
Recognition and Derecognition of Land	IGRAP 18
Liabilities to Pay Levies	IGRAP 19
Accounting for Adjustments to Revenue (first time implementation)	IGRAP 20

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand	2022	2021
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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 did not adopt any standards and interpretations since there were no new standards nor interpretations that are effective for the current financial year which are relevant to its operations.

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 2022 or later periods:

GRAP 25 (as revised): Employee Benefits

Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS@ 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14@) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

Key amendments to GRAP 25

The Board agreed to align GRAP 25 with IPSAS 39, but that local issues and the local environment need to be considered. As a result of this decision, there are areas where GRAP 25 departs from the requirements of IPSAS 39. The Board's decisions to depart are explained in the basis for conclusions.

The amendments to GRAP 25 are extensive and mostly affect the accounting for defined benefit plans. A new renumbered Standard of GRAP (e.g. GRAP 39) will not be issued, but rather a new version of the current GRAP 25.

The effective date of these revisions have not yet been set.

It is unlikely that the revisions will have a material impact on the municipality's financial statements.

iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction

Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS@ 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

2. New standards and interpretations (continued)

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14®) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

The effective date of these revisions have not yet been set.

It is unlikely that the revisions will have a material impact on the municipality's financial statements.

GRAP 104 (as revised): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the revisions is not yet set by the Minister of Finance.

The municipality expects to adopt the revisions for the first time when the Minister sets the effective date for the revisions.

The impact of this standard is currently being assessed.

iGRAP 21: The Effect of Past Decisions on Materiality

Background

The Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3) applies to the selection of accounting policies. Entities apply the accounting policies set out in the Standards of GRAP, except when the effect of applying them is immaterial. This means that entities could apply alternative accounting treatments to immaterial items, transactions or events (hereafter called "items").

The Board received questions from entities asking whether past decisions to not apply the Standards of GRAP to immaterial items effect future reporting periods. Entities observed that when they applied alternative accounting treatments to items in previous reporting periods, they kept historical records on an ongoing basis of the affected items. This was done so that they could assess whether applying these alternative treatments meant that the financial statements became materially "misstated" over time. If the effect was considered material, retrospective adjustments were often made.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

2. New standards and interpretations (continued)

This Interpretation explains the nature of past materiality decisions and their potential effect on current and subsequent reporting periods.

iGRAP 21 addresses the following two issues:

- Do past decisions about materiality affect subsequent reporting periods?
- Is applying an alternative accounting treatment a departure from the Standards of GRAP or an error?

The effective date of these interpretation is 01 April 2023.

The municipality expects to adopt the interpretation for the first time in the 2023/2024 financial year.

It is unlikely that the interpretation will have a material impact on the municipality's financial statements.

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

A municipality applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after 01 April 2025.

The municipality expects to adopt the amendment for the first time in the 2025/2026 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Petty cash and floats	15 940	15 940
Bank balances	9 923 453	7 343 922
Short-term investment deposits	89 620 878	139 170 009
	<hr/>	<hr/>
	99 560 271	146 529 871

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand 2022 2021

3. Cash and cash equivalents (continued)

A difference of R15 940 between total cash and cash equivalent note and the cash book accounts balances is as a result of petty cash and float which are cash on hand kept within the municipality.

A difference of R329 722 between total cash book balances and total bank statements balances is attributable to a deposit of R1 826 458.37 made to the Retention monies account which was rejected on bank and reprocessed in July. and reconciling differences of R1 496 736.37 which are explained in the bank reconciliation of the primary account.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2022	30 June 2021	30 June 2020	30 June 2022	30 June 2021	30 June 2020
Standard Bank -Call Deposit - 068872208-001	765 127	762 181	760 081	765 127	762 181	760 085
Standard Bank - Fixed Deposit - 068872208-002	1 801 633	1 743 732	1 675 536	1 801 633	1 743 732	1 675 536
Standard Bank - Call Deposit - 068872208-004	67 220 244	63 903 129	61 821 415	67 220 243	66 961 421	61 821 415
Standard Bank - Call Deposit - 068872208-005	49 544	95 048	14 779 338	49 544	95 049	14 779 338
Standard Bank - Call Account - 068872208-008	1 167 429	5 263 561	3 757 888	1 167 429	5 263 561	3 757 888
Standard Bank - Call Deposit - 068872208-009	1 112	9 017	1 144 349	1 112	9 017	1 144 349
First National Bank - Cheque Account - 52191090523	6 216 138	8 159 892	5 862 386	4 719 403	7 341 082	6 449 319
First National Bank - 32 Day Fixed Deposit - 74238125451	311 995	311 995	311 995	311 995	311 995	311 995
First National Bank - Call Deposit - 62120320081	11 009 311	10 973 314	10 682 305	11 009 311	10 973 314	10 682 305
First National Bank - Call Deposit - 62151319186	127 390	7 068 131	57 831	127 390	7 068 131	57 831
First National Bank - Call Deposit - 62124937246	468 765	423 049	265 482	468 765	423 049	265 482
First National Bank - Call Deposit - 62378736593	3 843 736	3 729 081	3 628 911	3 843 736	3 729 081	3 628 911
First National Bank - Call Deposit - 62024283038	296 909	295 943	295 271	296 909	295 943	295 271
First National Bank - Call Deposit - 62239675260	254 560	18 559 429	12 005 956	254 560	18 559 429	12 005 956
First National Bank - Call Account - 62094589036	1 000	1 007	1 642	1 000	1 007	1 642
First National Bank - Call Account - 62071691309	3 050	1 832	3 509	3 050	1 832	3 509
Investec - Call Deposit - 1100511779500	44 918	14 214 042	1 064 981	44 918	14 214 042	1 064 981
Investec - Call Deposit - 1100511779503	-	497 879	496 489	-	497 879	496 489
Investec - Call deposit - 1100511779502	-	313 989	313 113	-	313 989	313 113
Investec - Call Deposit - 1100511779504	1 151 675	1 109 534	-	1 151 675	1 109 534	-
Nedbank - Call Deposit - 037165024212	-	396 441	395 298	-	396 441	395 298
Nedbank - Call Deposit - 037165024182	3 879 295	3 864 909	3 853 773	3 879 295	3 864 909	3 853 773
Nedbank - Call Deposit - 037165024204	600 777	2 577 311	2 569 884	2 427 235	2 577 311	2 569 884
Total	99 214 608	144 274 446	125 747 433	99 544 330	146 513 929	126 334 370

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand	2022	2021
4. Inventories		
Electricity materials and supplies	1 811 470	1 840 395
Consumables stores	1 644 883	1 363 000
	3 456 353	3 203 395
5. Receivables from Exchange Transactions		
Gross balances		
Sundry Debtors	10 131 998	9 305 263
Electricity	20 091 628	16 227 150
Refuse	13 252 399	10 979 124
Deposits with creditors	330 795	276 795
Payments made in advance	2 005 318	2 499 378
Housing installments	8 648	10 855
Consumer deposits raised	131 924	124 371
	45 952 710	39 422 936
Less: Allowance for impairment		
Sundry debtors	(5 026 122)	(5 971 789)
Electricity	(4 297 161)	(5 506 256)
Refuse	(7 366 689)	(7 068 569)
Housing installments	(1 003)	(10 855)
Consumer deposits raised	(63 874)	(64 053)
	(16 754 849)	(18 621 522)
Net balance		
Sundry debtors	5 105 876	3 333 474
Electricity	15 794 467	10 720 894
Refuse	5 885 710	3 910 555
Deposits with creditors	330 795	276 795
Payments made in advance	2 005 318	2 499 378
Housing rental	7 645	-
Consumer deposits raised	68 050	60 318
	29 197 861	20 801 414
Sundry Debtors		
Current (0 -30 days)	3 714 738	4 367 505
31 - 60 days	47 840	9 796
61 - 90 days	97 730	2 646
91 - 120 days	30 502	2 684
121 - 365 days	6 241 187	4 922 632
	10 131 997	9 305 263
Electricity		
Current (0 -30 days)	9 218 935	11 110 169
31 - 60 days	994 946	468 871
61 - 90 days	282 821	366 521
91 - 120 days	227 241	289 257
121 - 365 days	6 959 643	3 992 332
	17 683 586	16 227 150

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand	2022	2021
5. Receivables from Exchange Transactions (continued)		
Refuse		
Current (0 -30 days)	2 508 897	4 134 769
31 - 60 days	517 522	499 935
61 - 90 days	442 474	421 995
91 - 120 days	395 850	384 656
121 - 365 days	9 387 656	5 537 769
	13 252 399	10 979 124
Housing Installments		
Current (0 -30 days)	7 545	5 342
31 - 60 days	-	220
61 - 90 days	-	221
91 - 120 days	-	220
121 - 365 days	1 103	4 852
	8 648	10 855
Consumer Deposits Raised		
Current (0 -30 days)	51 000	46 443
31 - 60 days	9 000	7 875
61 - 90 days	8 050	6 000
91 - 120 days	3 583	6 000
121 - 365 days	60 291	58 053
	131 924	124 371
Summary of debtors by customer classification		
Residential	24 484 144	28 447 090
Commercial and industrial	7 234 475	5 612 657
National and Provincial Government	8 955 709	2 008 141
Payments Received in advance	534 227	578 876
	41 208 555	36 646 764
Reconciliation of allowance for impairment		
Balance at beginning of the year	(18 621 523)	(16 652 242)
Adjustments to allowance	1 866 674	(1 969 281)
	(16 754 849)	(18 621 523)
6. Receivables from non-exchange transactions		
Property rates	9 464 257	8 701 755
Traffic fines	9 029 992	7 116 903
	18 494 249	15 818 658
Gross		
Property Rates	47 818 177	41 901 821
Traffic fines	180 599 841	177 922 572
	228 418 018	219 824 393
Impairment		
Property Rates	(38 353 920)	(33 200 066)
Traffic Fines	(171 569 849)	(170 805 669)
	(209 923 769)	(204 005 735)

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand

	2022	2021
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6. Receivables from non-exchange transactions (continued)

Total receivables from non-exchange transactions	18 494 249	15 818 658
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Statutory receivables included in receivables from non-exchange transactions are as follows, on a gross basis:

Traffic Fines	180 599 841	177 922 572
Property Rates	47 818 177	41 901 821
	228 418 018	219 824 393

Statutory receivable that are past due and impaired included in receivables from non-exchange transactions are as follows:

Traffic Fines	(171 569 849)	(170 805 669)
Property Rates	(38 353 920)	(33 200 066)
	(209 923 769)	(204 005 735)

Statutory receivables included in receivables from non-exchange transactions above are as follows, net of impairment:

Traffic Fines	9 029 992	7 116 903
Property Rates	9 464 257	8 701 755
	18 494 249	15 818 658

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand	2022	2021
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6. Receivables from non-exchange transactions (continued)

Statutory receivables general information

Transaction(s) arising from statute

Property rates is levied in terms of the Local Government: Municipal Property Rates Act No. 6 of 2004 as amended by Local Government: Municipal Property Rates Amendment Act, No. 29 of 2014, hence this therefore is recognised as a statutory receivable. The receivable is calculated by applying the Council Approved rates randage against the valuation of individual properties within the municipality jurisdiction. Council approved rebates and exemptions are further applied to reduce the receivable.

Traffic fines are issued to offenders in terms of Criminal Procedures Act, hence this is therefore recognised as a statutory receivable. The receivable is calculated by determining the value of the fine to be paid on initial recognition, and accounting for subsequent measurement by taking into account reductions and discounts made to the value of the fine payable in terms of the court of law.

Interest or other charges levied/charged

The Municipality charges interest on all outstanding rates debtors' balances older than 30 days in respect of rate accounts at a simple interest rate of prime plus 1% determined as at 28 February of each year for the financial year starting 1 July.

No interest is charged on outstanding fines, and any additional penalties applied by the court is paid by the offender to the court directly, and is therefore not considered to be revenue for the Municipality.

Basis used to assess and test whether a statutory receivable is impaired

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

If there is an indication that a statutory receivable, or 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 receivable is reduced. The amount of the loss is recognised in the surplus or deficit.

Statutory receivables past due but not impaired

Certain statutory receivables which are less than 3 months past due are not considered to be impaired. Other statutory receivable that are older than 3 months are not considered for impairment if there is indication they would be collected. At 30 June 2022, R9 464 257 (2021: R7 938 359) were past due but not impaired.

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

1 month past due	896 643	862 868
2 months past due	701 005	688 873
3 months and above past due	7 866 609	6 386 618

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand	2022	2021
6. Receivables from non-exchange transactions (continued)		
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	204 005 735	193 742 884
Provision for impairment	5 918 034	10 262 851
	209 923 769	204 005 735
Reconciliation of the allowance of debt impairment: Rates		
Balance at the beginning	33 200 066	28 664 838
Contribution to allowance	5 153 854	4 535 228
	38 353 920	33 200 066
Reconciliation of the allowance of debt impairment: Traffic fines		
Balance at the beginning	170 805 669	165 078 046
Contribution to allowance	764 180	5 727 623
	171 569 849	170 805 669
Age analysis (Property rates)		
Current (0 -30 days)	(18 749)	(4 328 031)
31 -60 days	1 111 066	1 187 934
61 -90 days	902 223	988 771
91 -120 days	843 997	937 735
121 days and above	44 979 640	43 115 412
	47 818 177	41 901 821
Summary of rates by consumer classification		
Residential	26 890 021	21 376 286
Commercial	3 151 557	3 592 014
National and Provincial Government	16 613 878	15 346 708
Payments received in advance	1 162 721	1 586 813
	47 818 177	41 901 821
7. VAT receivable		
VAT	-	889 70

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	198 782 880	-	198 782 880	198 782 880	-	198 782 880
Buildings	20 827 165	(12 847 033)	7 980 132	20 827 165	(12 081 317)	8 745 848
Plant and machinery	14 320 317	(8 087 778)	6 232 539	13 136 489	(6 453 393)	6 683 096
Furniture and fixtures	8 670 227	(7 281 524)	1 388 703	8 514 775	(6 653 800)	1 860 975
Motor vehicles	46 355 868	(26 987 086)	19 368 782	45 293 355	(22 094 577)	23 198 778
IT equipment	18 242 401	(10 859 534)	7 382 867	16 063 583	(8 869 173)	7 194 410
Infrastructure	759 883 611	(363 696 365)	396 187 246	702 321 735	(336 113 312)	366 208 423
Community	384 151 093	(170 799 527)	213 351 566	375 337 478	(154 217 546)	221 119 932
Total	1 451 233 562	(600 558 847)	850 674 715	1 380 277 460	(546 483 118)	833 794 342

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	198 782 880	-	-	-	-	198 782 880
Buildings	8 745 848	-	-	(765 716)	-	7 980 132
Plant and machinery	6 683 096	1 262 578	(45 429)	(1 667 706)	-	6 232 539
Furniture and fixtures	1 860 975	155 452	-	(627 724)	-	1 388 703
Motor vehicles	23 198 778	1 062 513	-	(4 892 509)	-	19 368 782
IT equipment	7 194 410	2 205 128	(2 872)	(2 013 799)	-	7 382 867
Infrastructure	366 208 423	57 347 303	-	(27 583 052)	-	395 972 674
Community	221 119 932	9 028 188	-	(16 310 775)	(271 206)	213 566 139
	833 794 342	71 061 162	(48 301)	(53 861 281)	(271 206)	850 674 716

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	198 782 880	-	-	-	-	198 782 880
Buildings	9 511 368	-	-	(765 520)	-	8 745 848
Plant and machinery	3 457 964	4 154 709	(32 913)	(896 664)	-	6 683 096
Furniture and fixtures	2 274 752	224 508	(1 119)	(637 166)	-	1 860 975
Motor vehicles	20 663 387	6 404 219	(217 767)	(3 651 061)	-	23 198 778
IT equipment	6 420 785	2 829 301	(44 670)	(2 011 006)	-	7 194 410
Infrastructure	347 910 500	42 739 383	-	(24 209 090)	(232 370)	366 208 423
Community	219 790 942	17 768 851	(106 655)	(15 326 704)	(1 006 502)	221 119 932
	808 812 578	74 120 971	(403 124)	(47 497 211)	(1 238 872)	833 794 342

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand

	2022	2021
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8. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Community	Total
Opening balance	31 178 458	29 689 443	60 867 901
Additions/capital expenditure	57 156 234	9 028 187	66 184 421
Transferred to completed items	(48 266 202)	(15 992 360)	(64 258 562)
	40 068 490	22 725 270	62 793 760

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Total
Opening balance	24 136 160	25 390 053	49 526 213
Additions/capital expenditure	42 785 981	16 892 680	59 678 661
Transferred to completed items	(35 743 683)	(12 593 290)	(48 336 973)
	31 178 458	29 689 443	60 867 901

Construction on capital project delayed

Included as part of work-in-progress is construction of 2.1km Ndlongolwane Road and causeway with the value of R5 555 316.79. The project was planned to be completed by 31 December 2021 however there has been delays in the completion of the project. The delays are attributable to the poor performance by the contractor. The Municipality is dealing with the contractor in accordance with the GCC's provisions.

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

Employee related costs	25 857 058	23 679 058
Contracted services	3 842 668	4 581 531
Sale of goods/Inventory	4 778 361	3 562 883
	34 478 087	31 823 472

Contractual commitments for the acquisition of property plant and equipment

As at the reporting date, the Municipality have contractual commitments in relation to the acquisition of property plant and equipment that are recognised in the annual financial statements. The commitments as follows:

Contractual commitments

Infrastructure assets	13 081 715	16 044 678
Community assets	6 028 615	12 749 783
Other assets	-	3 875 405
	19 110 330	32 669 866

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

The Municipality do not have land that was derecognised based on control nor the land that was included in the Fixed Asset Register based on control as per the requirement of iGRAP 18 - Recognition and derecognition of land.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand

9. Intangible assets

	2022			2021		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 488 570	(1 360 112)	128 458	2 689 388	(2 453 581)	235 807

Reconciliation of intangible assets - 2022

	Opening balance	Amortisation	Total
Computer software	235 807	(107 349)	128 458

Reconciliation of intangible assets - 2021

	Opening balance	Amortisation	Total
Computer software	346 938	(111 131)	235 807

10. Investment property

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	38 140 000	-	38 140 000	33 930 000	-	33 930 000

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand 2022 2021

10. Investment property (continued)

Reconciliation of investment property - 2022

	Opening balance	Fair value adjustments	Total
Investment property	33 930 000	4 210 000	38 140 000

Reconciliation of investment property - 2021

	Opening balance	Fair value adjustments	Total
Investment property	25 820 000	8 110 000	33 930 000

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

Maintenance of investment property

No repairs and maintenance were undertaken on investment property during the current financial year.as well as 2020/21 financial year.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand

11. Heritage Assets

	2022			2021		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Zululand historical museum	9 232 212	-	9 232 212	9 232 212	-	9 232 212
Office bearer's ceremonial chains	1 079 132	-	1 079 132	1 079 132	-	1 079 132
Total	10 311 344	-	10 311 344	10 311 344	-	10 311 344

Reconciliation of heritage assets 2022

	Opening balance	Total
Zululand historical museum	9 232 212	9 232 212
Office bearer's ceremonial chain	1 079 132	1 079 132
	10 311 344	10 311 344

Reconciliation of heritage assets 2021

	Opening balance	Total
Zululand historical museum	9 232 212	9 232 212
Office bearer's ceremonial chain	1 079 132	1 079 132
	10 311 344	10 311 344

Expenditure incurred to repair and maintain heritage assets

No repairs and maintenance were undertaken on heritage assets during the year under review as well as 2020/21 financial year.

12. Investments

12. Investments (continued)**At amortised cost**

Shares in co-operative - Coastal Farmers	1 000	1 000
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Non-current assets

Unlisted	1 000	1 000
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13. Long Term Receivable**Current portion transferred to current receivables**

Old age home	7 645	7 508
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Summary

Loans receivable (non-current assets)	7 645	7 508
Current portion transferred to current Assets	(7 645)	(7 508)

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14. Consumer deposits

Electricity and refuse	3 356 247	3 050 856
Deposits other	73 231	66 289

	3 429 478	3 117 145
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Guarantees held:

In lieu of electricity deposits	319 750	319 750
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15. Trade and other payable

Creditors control	18 960 457	24 363 584
Income received in advance	8 334 719	6 840 022
Retention monies	4 747 940	5 342 785
Staff Bonus Accrued	4 509 737	4 540 363
Unidentified direct deposits	4 847 630	5 341 596
Employee overtime/ standby	2 867 223	2 025 651
Operating lease liability	29 962	4 784
Leave days accrued	8 820 286	9 281 996
Salaries Control	29 693	10 967

	53 147 647	57 751 748
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The fair value of trade and other payables approximate their carrying amounts. Trade and other payables are normally settled on 30 day terms in accordance with the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice/ statement. Thereafter interest is charged in accordance with the credit policies of the various individual creditors.

16. VAT payable

Tax payables	98 360	-
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17. Unspent conditional grants and receipts**Unspent conditional grants from spheres of government**

National Government	78 930	-
Provincial Government	1 197 907	1 720 658

	1 276 837	1 720 658
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17. Unspent conditional grants and receipts (continued)**Unspent conditional grants and receipts comprises of:****Unspent conditional grants and receipts**

GIS Software and Spatial Development Framework Grant	-	244 987
Rural Housing Grant	116 208	-
Sunnydale Low Coast Housing Grant	-	393 972
INEP Grant	78 930	-
Title Deeds Registration Grant	1 081 699	1 081 699
	1 276 837	1 720 658

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

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

See note 35 for reconciliation of grants from National/Provincial Government.

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

18. Provisions**Reconciliation of provisions - 2022**

	Opening Balance	Additions	Utilised during the year	Total
Performance bonuses	921 490	899 977	(953 550)	867 917

Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Total
Performance bonuses	673 130	1 038 161	(789 801)	921 490

19. Loans payable**Annuity Loans**

Current portion transferred to current liabilities	342 816	342 816
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Annuity loans	2 131 212	2 484 645
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(Refer to Appendix A for more details)

Bear Interest of 12.422% per annum, and is redeemed in bi annual installments, including interest, over a period of 20 years

Fair value impairment

Long term loans are recorded at the actual liability to loan creditors. No impairment has been recorded.

Non-current liabilities

Loans payable	2 131 212	2 484 645
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Current liabilities

Current portion of loans payable	342 816	342 816
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20. Employee benefit obligations

Defined benefit plan

Post-retirement medical aid plan

The Council operates a defined medical aid benefit scheme for the benefit of its employees. Post-retirement medical aid benefits are offered to all employees by subsidising a portion of the medical aid provision after retirement

An actuarial valuation was carried out at 30 June 2022 and a full liability has been raised which relates to retired employees and existing employees.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	18 151 000	26 234 392
Benefits paid	(717 000)	(809 778)
Net expense recognised in the statement of financial performance	2 316 000	(7 273 614)
	19 750 000	18 151 000

Net expense recognised in the statement of financial performance

Current service cost	909 000	676 000
Interest cost	1 950 000	1 441 000
Actuarial (gains) losses	(543 000)	(9 390 614)
	2 316 000	(7 273 614)

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	(543 000)	(9 390 614)
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20. Employee benefit obligations (continued)

Key assumptions used

APN 301 states that the assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below:

Discount rates used	9.21 %	12.34 %
Consumer Price Inflation	6.76 %	7.90 %
Medical Aid Contribution Inflation	7.76 %	8.90 %
Net Effective Discount Rate	1.34 %	3.15 %

Financial Variables

The most important financial variables used in the valuation are discount rate and Medical aid inflation.

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity assess current market rates of the appropriate term to discount shorter term payments and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve".

The actuaries used the nominal and real zero curves as at 30 June 2022 supplied by the JSE to determine the discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, the actuaries use the prevailing yield at the time of performing their calculations.

Medical Aid Inflation

The medical aid contribution inflation rate was set with reference to the past relationship between the (yield curve based) discount rate for each relevant time period and the (yield curve based) medical aid contribution inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. The actuaries do not consider these increases to be sustainable and have assumed that medical aid contribution increases would outstrip general inflation by 1% per annum over the foreseeable future.

20. Employee benefit obligations (continued)

Other assumptions

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 common used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependents.

The actuaries assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

Sensitivity Analysis

The valuation is only an estimate of the cost of providing post-employment medical aid benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables.

In order to illustrate the sensitivity of the results to changes in certain key variables, the actuaries have recalculated the liabilities using the following assumptions:

- 20% increase/decrease in the assumed level of mortality;
- 1% increase/decrease in the medical aid inflation

Mortality rate

Deviations from the assumed level of mortality experience of the current employees and the continuation members (pensioners) will have a large impact on the actual cost to the Municipality. If the actual rate of mortality turns out higher than the rates assumed in the valuation basis, the cost to the Municipality in the form of subsidies will reduce and vice versa.

We have illustrated the effect of higher and lower mortality rates by increasing and decreasing the mortality rates by 20%. The effect is as follows:

	-20% Mortality rate	Valuation assumptions	+20% Mortality rate
Total accrued liability	21 259 000	19 750 000	18 457 000
Service cost	1 043 000	966 000	899 000
Interest cost	2 528 000	2 345 000	2 189 000

Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

The actuaries have tested the effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows:

20. Employee benefit obligations (continued)

	-1% Medical aid inflation	Valuation assumption	+1% Medical aid inflation
Total accrued liability	18 757 000	19 750 000	20 543 000
Service cost	904 000	966 000	1 013 000
Interest cost	2 224 000	2 345 000	2 442 000

Amounts for the current and previous four years are as follows:

	2022 R	2021 R	2020 R	2019 R	2018 R
Defined benefit obligation	19 750 000	18 151 000	26 151 000	15 938 000	14 138 000
Long Term Obligation					
Total Liability			19 750 000	18 151 000	
Current portion of long term liability			(909 000)	(676 000)	
			18 841 000	17 475 000	

Defined contribution plan

Other Long-term Employee Benefits

Provision for Long-service Bonus Awards

The Council offers employees leave awards that may be exchanged for cash on a certain anniversaries of commencing service and a retirement gift determined by reference to length of service.

An actuarial valuation was carried out at 30 June 2022 and the full liability has been raised. The main assumptions used by the actuary are:

20. Employee benefit obligations (continued)

Discount rate	11.21 %	9.01 %
CPI (Consumer Price Inflation)	7.56 %	5.89 %
Normal Salary Increase Rate	8.56 %	6.89 %
Net Effective Discount Rate	3.40 %	2.95 %

Sensitivity Analysis

The cost of the Long Service Awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of the future employees.

We have tested the effect of a 1% per annum change in the normal salary inflation assumption.

The effect is as follows:

	1% decrease	Valuation basis	1% increase
	R's	R's	R's
Employer's accrued liability	8 635 000	9 206 000	9 837 000
Current service cost	899 000	969 000	1 047 000
Interest cost	1 027 000	1 099 000	1 178 000

Changes in the present value of the Long-service Bonus Awards are as follows:

Opening balance	8 713 000	6 349 487
Current service cost	966 000	731 758
Interest cost	950 000	561 511
Benefits paid	(792 000)	(679 855)
Actuarial (gain)/loss	(631 000)	1 750 099
	9 206 000	8 713 000

Long term obligation

Total Liability	9 206 000	8 713 000
Current portion of long term liability	(966 000)	(731 758)
	8 240 000	7 981 242

Total Non-current employee benefit obligation

Post-retirement medical benefits	18 841 000	17 475 000
Long service awards	8 240 000	7 981 242
	27 081 000	25 456 242

21. Housing Development Fund

The housing Development Fund was established in terms of the Housing Act, (Act No 107 of 1997). The municipality maintain a separate Housing Operating Account as required by section 15(5) and 16 of the Housing Act. The Housing Development Fund is 100% cash backed.

Government loans extinguished in 1998	828 828	828 828
Installments received from borrowers	6 196 608	6 196 608
Accumulated deficit	(1 813 134)	(1 927 790)
	<hr/>	<hr/>
	5 212 302	5 097 646

Reconciliation of the Housing Development Fund

Opening Balance	5 097 649	5 063 138
Provision for doubtful debt	-	(64 573)
Public contributions	-	(1 086)
Transfer from Accumulated Surplus (Interest)	114 653	100 170
	<hr/>	<hr/>
	5 212 302	5 097 649

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand

2022

2021

22. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2022

	Capital replacement reserve	Electrical Network Upgrade	SMME Establishment	Electricity	Indigent Support	Accumulated Surplus	Total
Opening balance	82 462 558	11 285 309	2 505 913	34 399 130	295 943	836 274 304	967 223 157
Net Surplus/ (Deficit) for the year	-	-	-	-	-	(22 315 171)	(22 315 171)
Transfer from Accumulated Surplus	-	-	-	-	-	(114 655)	(114 655)
	82 462 558	11 285 309	2 505 913	34 399 130	295 943	813 844 478	944 793 331

Ring-fenced internal funds and reserves within accumulated surplus - 2021

	Capital replacement reserve	Electrical Network Upgrade	SMME Establishment	Electricity	Indigent Support	Accumulated Surplus	Total
Opening balance	68 397 737	10 682 305	2 435 617	34 399 130	295 271	801 602 767	917 812 827
Net Surplus/ (Deficit) for the year	-	-	-	-	-	46 140 039	46 140 039
Transfer from Accumulated Surplus	14 064 821	603 004	70 296	-	672	(14 838 964)	(100 171)
	82 462 558	11 285 309	2 505 913	34 399 130	295 943	832 903 842	963 852 695

23. Revenue

Service charges	93 532 573	87 958 693
Rental of facilities and equipment	1 558 996	1 294 507
Interest received (trading)	1 729 840	1 434 978
Agency services	1 732 100	2 080 977
Licences and permits	2 082 842	1 754 118
Other income	6 768 379	11 494 075
Interest received - investment	6 436 938	5 990 284
Property rates	66 472 081	64 870 948
Property rates - penalties imposed	2 534 701	2 363 462
Government grants & subsidies	270 708 070	293 451 600
Fines, Penalties and Forfeits	2 948 850	2 855 658
	456 505 370	475 549 300

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

Service charges	93 532 573	87 958 693
Rental of facilities and equipment	1 558 996	1 294 507
Electricity and refuse - penalties imposed	1 729 840	1 434 978
Agency services	1 732 100	2 080 977
Licences and permits	2 082 842	1 754 118
Other income	6 768 379	11 494 075
Interest received - investment	6 436 938	5 990 284
	113 841 668	112 007 632

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

Taxation revenue

Property rates	66 472 081	64 870 948
Property rates - penalties imposed	2 534 701	2 363 462
Licences or permits	1 875	8 193

Transfer revenue

Government grants & subsidies	270 708 070	293 451 600
Fines, Penalties and Forfeits	2 948 850	2 855 658

342 665 577 363 549 861

24. Service charges

Sale of electricity	79 393 765	73 657 658
Refuse removal	14 138 808	14 301 035
	93 532 573	87 958 693

The service charges revenue are in respect of services rendered to consumers and billed in terms of the Council's approved tariffs.

25. Rental of facilities and equipment

Premises

Community halls	54 405	17 888
Land leases and other rentals	1 351 342	1 148 646
Rental of municipal houses	153 249	127 973
	1 558 996	1 294 507

26. Electricity and refuse - Interest charged

Electricity - Interest charged	757 608	673 447
Refuse - Interest charged	618 078	432 234
Sundry Debtors - Interest charged	354 154	329 297
	1 729 840	1 434 978

27. Interest earned

Interest revenue

Current account	437 942	105 917
Short - term investment deposits	5 998 996	5 884 367
	6 436 938	5 990 284

28. Agency services

Vehicle Registration	1 732 100	2 080 977
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Analysis and assessment of principal-agent arrangement.

The KwaZulu Natal Provincial Government, through the KwaZulu Natal Department of Transport, is mandated to collect motor vehicle licences on an annual basis. The KZN department of Transport determine the fee that is payable annually by motor vehicle owners.

To make the payment of motor vehicles easier, the KZN Department of Transport entered into a contractual arrangement with the Municipality to undertake this activity on its behalf. In terms of the arrangement:

- a) The Department issue the motor vehicle licence renewal form to the respective owners of the vehicles, indicating the amount due for the year.
- b) The Municipality provide facilities for owners of motor vehicles to pay their licences.
- c) The Department provide the municipality with access to its IT system so that the Municipality can capture amounts received and issue the motor vehicle licences on their behalf. The system automatically generates the motor licence upon capturing the payment of the fees due.
- d) The Municipality collect the fees due from motor vehicle owners and simultaneously issue the new licences on behalf of the Department.
- e) The Municipality is required to pay over any revenue (cash) collected to the Department in respect of the vehicle licences.
- f) The Municipality is entitled to retain 8.55% of the cash collected for undertaking this activity on behalf of the Department.

The Assessment

The Department issue the renewal notices and as a result determine who is illegible to pay motor vehicle licences during the period, as well as the amount due.

- The Municipality does not have power to determine the significant terms and conditions of the transactions with the third parties.

The Municipality is only entitled to 8.55% of the total cash collected and cannot use all or substantially all of the cash collected for its own benefits, 91.45% of the cash collected must be paid over to the department.

- The Municipality does not have the ability to use all or substantially all the resources that result from the transactions with third parties.

28. Agency services (continued)

The system operated by the department automatically generates the licences and therefore any errors or other defects in the licence are the responsibility of the Department, further the Municipality is only liable to pay over actual cash collected and therefore not exposed to any financial variability in the transaction.

- The Municipality is not exposed to variability in the results of the transaction with third parties.

Conclusion

After this analysis and assessment it is concluded that:

The principal-agent arrangement exist between the KwaZulu Natal Department of Transport and uMlalazi Municipality.

The Municipality is an agent in this principal-agent arrangement.

29. Licences and permits

Trading licences	21 763	18 406
Road and Transport	2 061 079	1 735 712
	2 082 842	1 754 118

30. Operational Revenue

Administrative handling fees	444 654	107 208
Town planning and servitudes	132 369	51 603
Breakages and losses recovered	1 120	2 091
Building plan approval	1 225 199	826 493
Cemetery and burial fees	190 401	190 548
Cleaning and removal	21 323	19 630
Clearance certificate	84 595	109 227
Donations Received	2 800 148	-
Entrance fees	2 911	9 583
Skills development levy refund	237 314	213 187
Photocopies and faxes	454 258	573 891
Sales of E-cards	87	-
Actuarial Gain	1 174 000	9 390 614
	6 768 379	11 494 075

31. Gain/ (loss) on sale of assets

Gain/(Loss) on disposal of PPE	(27 963)	629 166
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32. Property rates

Rates earned

Residential	22 463 699	21 963 662
Commercial	14 431 994	14 498 383
Education and state	16 303 517	15 650 713
Agriculture	5 202 813	5 114 331
Vacant land	4 744 948	4 901 725
Mining	1 162 457	1 116 676
Public service infrastructure	2 162 653	1 625 459
	<hr/>	<hr/>
Property rates - penalties imposed	66 472 081	64 870 949
	2 534 701	2 363 462
	<hr/>	<hr/>
	69 006 782	67 234 411

Valuations

Residential	3 214 605 500	3 186 348 500
Commercial	926 136 750	979 240 750
Education and state	1 181 209 950	1 181 209 950
Agriculture	3 412 898 000	3 411 787 000
Municipal	188 620 500	188 620 500
Public benefit	109 912 250	109 912 250
Vacant land	307 840 500	311 150 500
Mining	75 985 000	75 985 000
Public Service Infrastructure	3 786 241 250	3 786 241 250
	<hr/>	<hr/>
	13 203 449 700	13 230 495 700

Valuations on land and buildings are performed every four years in terms of the Municipal Property Rates Act, (Act No. 6 of 2004). The basic rate for land and buildings range between R0.2889 and R2.2568 (2021 - R0.2792 and 2.2335) respectively.

Messrs. Umhlaba Geomatics Incorporated compiled the valuation roll which was implemented on 1 July 2020.

33. Licences and permits (non-exchange)

Rank permits	1 875	8 193
	<hr/>	<hr/>

34. Fines, penalties and forfeits

Law enforcement fines	6 652	3 261
Overdue books fines	12 216	1 513
Traffic fines	2 733 790	613 425
Disconnection fees penalties	196 192	205 809
Retentions forfeits	-	2 031 650
	<hr/>	<hr/>
	2 948 850	2 855 658

35. Government grants and subsidies

Operating grants

Equitable share	206 125 000	234 792 000
Finance Management Grant	1 720 000	1 700 000
Community Library Grant	5 211 000	5 023 000
EPWP Grant	3 416 000	3 388 000
INEP	10 746 070	-
Museums Grant	939 000	894 000
Costal Management Programme & Informal Traders Training Grants	-	21 600

228 157 070 **245 818 600**

Capital grants

Municipal Infrastructure Grant	42 551 000	47 633 000
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270 708 070 **293 451 600**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	57 985 709	58 659 600
Unconditional grants received	206 125 000	234 792 000

264 110 709 **293 451 600**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy which is funded from the grant.

Municipal Infrastructure Grant

Current-year receipts	42 551 000	47 633 000
Conditions met - transferred to revenue	(42 551 000)	(47 633 000)

- -

Coastal Management Programme Grant

Current-year receipts	-	17 214
Conditions met - transferred to revenue	-	(17 214)

- -

Conditions still to be met - remain liabilities (see note 17).

Provincialisation of Libraries and Community Library Services

Current-year receipts	4 727 000	4 571 000
Conditions met - transferred to revenue	(4 727 000)	(4 571 000)

- -

Informal Traders Training Grant

Balance unspent at beginning of year	-	8 900
Conditions met - transferred to revenue	-	(8 900)

- -

35. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 17).

GIS Software and SDF Grant

Balance unspent at beginning of year	244 987	244 987
Money paid back to COGTA	(244 987)	-
	<hr/>	<hr/>
	-	244 987

Conditions still to be met - remain liabilities (see note 17).

Rural Housing Project Grant

Current-year receipts	10 740 444	32 120 591
Conditions met - transferred to revenue	(10 624 236)	(32 120 591)
	<hr/>	<hr/>
	116 208	-

Analysis and assessment of a Principal-Agent arrangement

The KwaZulu Natal Department of Human Settlements is mandated and directly responsible in legislation for providing access to adequate housing in the province of the KwaZulu Natal. The Housing Act provides for the facilitation of a sustainable housing development process. It requires the Minister of Human Settlements to publish the National Housing Code which contains the national housing policy. The KZN Department of Human Settlements entered into contractual agreements uMlalazi Municipality to assist in constructing the houses and to hand over the houses once completed to the beneficiaries of each project. The KZN Department of Human Settlement draft technical specifications for the houses. The Department captures, process and approves the beneficiary applications on the Housing Subsidy System (HSS). The Municipality appoints the implementing agent but do not enter into a direct contract with the implementing agent. The Municipality make payments to the implementing agent in accordance with milestones as provided for in the agreement between the Municipality and the Department. uMlalazi Municipality is a non-accredited Municipality. The roles and responsibilities of the Municipality as outlined in each contractual agreement for each project are similar to those of a level one accredited municipality.

The binding agreements under consideration are agreements between uMlalazi Municipality and the KZN Department of Human Settlements signed by both parties. There are two transactions with the third party that the Municipality undertakes on behalf of the Department as per each agreement:

1. The Municipality appoints implementing agents on behalf of KZN Department of Human Settlements.
2. The Municipality administers the process of handing over the completed houses to the beneficiaries identified by the Department on behalf of KZN Department of Human Settlements.

A principal-agent relationship exist between uMlalazi Municipality and KZN Department of Human Settlements.

Analysis:**Power to determine significant terms conditions of the transaction with third party.**

- a) The municipality does not determine the type or quality of houses transferred to the beneficiaries of the programme nor draft the technical specification of houses to be constructed.
- b) The Municipality do not identify which beneficiaries should receive houses. The department captures, process and approve the beneficiaries' applications on the Housing Subsidy System (HSS).

Ability to use all or substantially all of the resources that result from the transaction with third party.

- a) The Municipality does not have the ability to direct who benefits from the transaction and is therefore not able to use the resources to fulfil its objectives.

35. Government grants and subsidies (continued)

b) The Municipality does not have the ability to use the Grant funding for any purposes other than in terms of conditions of the grant.

Exposure to variability in the results of the transaction with third party.

The municipality is not exposed to any variability in the result of the hand over process to the beneficiaries. As the Department specifies the type and quality of houses provided, if beneficiaries are not satisfied with the houses, the department is responsible for remedying the situation. The department concluded the contracts with contractors, it agreed the nature, type, quality and price of the goods to be provided.

Conclusion:

uMlalazi Municipality is an agent of KZN Department of Human Settlements in this Principal-agent relationship.

Sunnydale Low-cost Housing Grant

Balance unspent at beginning of year	393 972	393 972
Conditions met - transferred to revenue	(393 972)	-
	-	393 972

Conditions still to be met - remain liabilities (see note 17).

EPWP Grant

Current-year receipts	3 416 000	3 388 000
Conditions met - transferred to revenue	(3 416 000)	(3 388 000)
	-	-

Finance Management Grant

Current-year receipts	1 720 000	1 700 000
Conditions met - transferred to revenue	(1 720 000)	(1 700 000)
	-	-

Conditions still to be met - remain liabilities (see note 17).

Integrated National Electrification Programme Grant

Current-year receipts	10 825 000	5 000 000
Conditions met - transferred to revenue	(10 746 070)	(5 000 000)
	78 930	-

Museums subsidies and Community Library Services Grant

Current-year receipts	1 423 000	894 000
Conditions met - transferred to revenue	(1 423 000)	(894 000)
	-	-

Title Deeds Registration Grant

Balance unspent at beginning of year	1 081 699	1 103 299
Conditions met - transferred to revenue	-	(21 600)
	1 081 699	1 081 699

35. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 17).

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

36. Employee related costs

Basic salary and wages	103 039 039	97 076 683
Bonuses	8 933 442	7 320 457
Medical Aid Contributions	7 805 460	7 483 311
Annual leave	4 157 980	4 429 302
Post-retirement benefit obligations	3 013 477	2 117 000
Overtime	11 002 991	9 124 394
Long service awards	2 093 148	1 293 269
Motor vehicle allowance	5 228 624	5 195 200
Housing allowances	1 685 654	1 477 934
Rental subsidy	67 105	75 284
Group life insurance	1 753 399	1 691 442
Performance Bonuses	867 916	921 490
Cellphone Allowances	1 538 000	1 476 848
Pension and UIF contributions	19 448 989	18 727 841
Actuarial loss	-	1 750 099
	<hr/>	<hr/>
	170 635 224	160 160 554

Remuneration of Municipal Manager (Mr RP Mnguni)

Annual Remuneration	1 003 949	1 004 044
Car Allowance	180 000	180 000
Performance Bonuses	194 129	166 396
Contributions to UIF, Medical and Pension Funds	182 836	182 541
Group Life	20 079	20 080
	<hr/>	<hr/>
	1 580 993	1 553 061

Remuneration of the CFO (Mr ZN Mhlongo)

Annual Remuneration	342 873	822 895
Car Allowance	75 000	180 000
Performance Bonuses	158 685	158 685
Contributions to UIF, Medical and Pension Funds	25 064	114 138
Group Life	6 857	16 458
	<hr/>	<hr/>
	608 479	1 292 176

The Chief Financial Officer resigned on 30 November 2021 and the post have been vacant up until the end of 2022 financial yea.

Remuneration of the Director: Corporate Services (Mr KC Zulu)

Annual Remuneration	1 011 565	1 011 678
Car Allowance	120 000	120 000
Performance Bonuses	158 685	158 685
Contributions to UIF, Medical and Pension Funds	2 125	1 813
	<hr/>	<hr/>
	1 292 375	1 292 176

Remuneration of the Director: Engineering Services (Mr S Cele)

Annual Remuneration	957 815	558 792
Car Allowance	100 000	58 333
Performance Bonuses	136 016	-
Contributions to UIF, Medical and Pension Funds	2 125	1 069
Group Life	73 750	43 021
	<hr/>	<hr/>
	1 269 706	661 215

36. Employee related costs (continued)

The Director Engineering Services was appointed on 01 December 2020, he was then in service for the full 2021/2022 financial year.

Remuneration of the Director: Community Services (Mrs BM Sithole)

Annual Remuneration	775 221	776 337
Car Allowance	180 000	180 000
Performance Bonuses	147 350	147 350
Contributions to UIF, Medical and Pension Funds	178 680	177 154
	1 281 251	1 280 841

Remuneration of the Director Planning, Housing and Tourism (Mr HD Zulu)

Annual Remuneration	737 135	553 018
Car Allowance	400 000	300 000
Performance Bonuses	158 685	158 685
Contributions to UIF, Medical and Pension Funds	1 948	1 813
Group Life	9 216	11 060
Housing Allowance	356 800	267 600
	1 663 784	1 292 176

37. Remuneration of Councillors

Mayor's allowance	912 437	757 148
Deputy Mayor's allowance	726 091	733 088
Executive committee members	4 009 796	5 520 367
Speaker's allowance	723 633	733 780
Councillors	13 777 744	13 752 602
Whip of Council	534 721	694 946
	20 684 422	22 191 931

Remuneration of Councillors

Basic allowance	16 161 823	15 940 598
Cellphone allowance	2 232 238	2 196 400
Travel allowance	1 734 376	3 092 042
Data allowance	196 186	193 800
Pension fund contribution	359 453	769 091
	20 684 076	22 191 931

Remuneration of the Mayor (Cllr. QT Xulu)

Basic allowance	590 579	469 662
Cellphone allowance	42 048	34 000
Travel allowance	216 697	180 037
Data allowance	3 600	3 000
Pension fund contribution	59 513	70 449
	912 437	757 148

Remuneration of the Deputy Mayor (Cllr. MM Ngema)

Basic allowance	550 139	640 640
Cellphone allowance	47 106	40 800
Travel allowance	107 880	-
Data allowance	3 600	3 600
Pension fund contribution	17 367	48 048
	726 092	733 088

Remuneration of the Speaker (Cllr. JK Powell)

Basic allowance	486 968	449 595
Cellphone allowance	40 800	40 800
Travel allowance	169 808	172 345
Data allowance	3 600	3 600
Pension fund contribution	22 457	67 439
	723 633	733 779

Remuneration of Whip of Council (Cllr. M Dlodla)

Basic allowance	318 961	424 269
Cellphone allowance	42 048	40 800
Travel allowance	122 268	162 637
Data allowance	3 600	3 600
Pension fund contribution	47 844	63 640
	534 721	694 946

Remuneration of the Executive Committee Members

Basic allowance	3 145 000	3 812 021
Cellphone allowance	313 906	326 400
Travel allowance	427 250	1 129 879
Data allowance	27 698	28 800

37. Remuneration of Councillors (continued)

Pension fund contribution	95 942	223 267
	4 009 796	5 520 367

Remuneration of Ordinary Councillors

Basic allowance	11 070 176	10 144 411
Cellphone allowance	1 746 330	1 713 600
Travel allowance	690 472	1 447 144
Data allowance	154 088	151 200
Pension fund contribution	116 331	296 247
	13 777 397	13 752 602

In-kind benefits

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

The Mayor, Deputy Mayor and Speaker and Whip of Council each have the use of Municipal owned vehicles for official duties.

The Mayor has full-time bodyguards, The Deputy Mayor, Speaker and Whip of the Council have each got two full-time bodyguards.

38. Depreciation and amortisation

Property, plant and equipment	53 861 279	47 445 418
Intangible assets	126 144	162 925
	53 987 423	47 608 343

39. Impairment of assets**Impairments**

Property, plant and equipment	271 206	1 238 872
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40. Finance Charges

Loans payable	319 443	362 027
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41. Bulk purchases

Electricity - Eskom	70 135 684	61 141 944
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41. Bulk purchases (continued)

Electricity losses

	Units 2022	Units 2021	Rand values 2022	Rand values 2021
Units purchased	48 851 728	50 468 760	70 135 684	62 474 303
Units sold	(39 963 480)	(43 070 963)	(57 374 961)	(53 316 715)
Total loss	8 888 248	7 397 797	12 760 723	9 157 588
Comprising of:				
Technical losses	2 687 486	2 775 435	3 858 382	3 435 657
Non-technical losses	6 200 762	4 622 362	8 902 341	5 721 931
Total	8 888 248	7 397 797	12 760 723	9 157 588
Percentage Loss:				
Technical losses	6 %	6 %	6 %	6 %
Non-technical losses	12 %	9 %	12 %	9 %
Total	18 %	15 %	18 %	15 %

Electricity losses are caused by the following:

- 1) Street lights consumptions that are not metered.
- 2) Tempering with electricity installations.
- 3) Other technical losses contributes up to 5.5% of the total of electricity losses, such as substation equipment losses, transmission lines losses, MV and LV cable network losses, electricity meters, MV and LV ring main units losses, minisubs losses and transformers losses.

The national norm for the electricity losses is 5% to 10% (National Treasury Circular No. 71)

42. Contracted services

Outsourced Services

Alien vegetation control	188 000	244 042
Animal care	631 800	622 136
Burial services	1 536 800	1 297 100
Business and advisory	3 467 170	2 520 861
Clearing and grass cutting services	3 113 096	2 755 363
Hygiene Services	182 080	944 028
Litter picking and street cleaning (CBD)	-	891 977
Medical examinations	54 250	252 427
Personnel and labour (work creation projects and EPWP)	10 843 215	8 989 975
Connection/Dis-connection	1 000	8 929
Refuse removal	6 477 464	6 902 205
Security services	19 976 815	13 865 134
Traffic fines management	381 705	793 263

Consultants and Professional Services

Business and advisory	909 776	2 260 389
Infrastructure and planning	892 042	1 795 450
Legal cost	520 979	989 450

42. Contracted services (continued)

Contractors

Artists and performers	432 128	-
Catering services	1 937 735	1 041 895
Graphic designers	34 227	-
Maintenance of buildings and facilities	717 859	901 705
Maintenance of equipment	711 257	1 147 879
Grader programme and maintenance of vehicles	29 417 441	21 793 976
Pest control and fumigation	11 900	-
Prepaid electricity vendors	2 076 725	1 396 075
Stage and sound crew	484 779	287 435
Rural housing project and Rural electrification	581 640	551 819
	85 581 883	72 253 513

43. Transfers and subsidies

Other subsidies

Fencing of communal gardens SMME equipment and irrigation system	2 008 636	3 103 974
SPCA Grant-in-aid	155 000	150 000
Tourism grant-in-aid	230 000	225 000
Households (Groceries, temporally shelters and food parcels)	4 353 781	4 598 743
Bursaries (non-employees)	203 581	183 255
Social welfare grant-in-aid	160 000	155 000
Zululand Historical Museum Grant -in-aid	396 570	556 970
	7 507 568	8 972 942

44. Lease rentals on operating leases

Motor vehicles

Vehicles for political office bearers	180 844	755 518
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Plant and equipment

Office equipment	1 031 625	1 020 072
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Lease rentals on operating lease - 2

Weigh bridges	604 745	330 804
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Lease rentals on operating lease - Other

Property rentals	244 308	197 778
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2 061 522 **2 304 172**

45. Other materials

Sale of goods

Inventory Consumed Consumables Standard Rated (Stationery and Cleaning	8 381 188	5 591 027
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Materials)

Inventory Consumed Materials and Supplies (asphalt hot mix, stone)	5 262 681	3 698 894
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13 643 869 **9 289 921**

46. General expenses

Advertising	2 867 665	2 644 787
Audit fees - external	2 153 631	1 957 196
Bank charges	237 905	248 798
Cleaning materials	4 523	2 464
Commission paid, third party vendors	58 708	59 325
Council's Communications	3 011 373	1 911 155
Entertainment allowances	181 743	109 716
Hire charges	974 830	615 803
Insurance	2 325 190	2 062 224
External computer services	8 744 174	6 324 622
Skills development fund levies	1 493 107	1 182 573
Printing, publications and books	1 700	6 626
Uniform and protective clothing	1 721 150	1 806 195
Performing Arts	3 101	749
Professional bodies, membership and subscriptions and membership fees	41 377	10 524
Vehicle Tracking	182 585	175 026
Transport provided - activities and events	808 224	263 662
Training	1 220 744	1 093 410
Travel and subsistence	2 304 231	571 440
Loose Tools	113 373	127 585
Municipal services - District Municipality	2 893 325	3 230 313
Archiving	87 996	134 897
Bargaining Council	1 926 601	1 833 361
Employee bursaries	731 491	582 204
Honoraria (voluntary workers)	500 450	49 400
Indigent relief	5 402 193	6 533 033
Remuneration to ward committees	2 547 993	3 234 300
Road worthy test	4 497	7 071
Sitting Allowance for traditional Leaders	4 000	18 000
Crematorium Atmospheric License	200 080	-
Signage	83 900	121 847
Workmen's Compensation Fund	1 290 573	1 003 156
	44 122 433	37 921 462

47. Allowance of debt impairment

Debt impairment	3 782 775	12 167 557
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48. Bad Debts Written Off

From Exchange Transactions	306 976	1 128 094
From Non-exchange Transactions	254 133	1 415 288
	561 109	2 543 382

49. Fair value adjustment

Fair value adjustment for investment properties	4 210 000	8 110 000
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50. Auditors' remuneration

Fees	2 153 631	1 957 196
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51. Cash generated from operations

(Deficit) surplus	(12 606 821)	46 140 039
Adjustments for:		
Depreciation and amortisation	53 987 423	47 608 343
Gain/Loss on sale of assets and liabilities	29 505	(629 166)
Fair value adjustments	(4 210 000)	(8 110 000)
Actuarial gains (non-cash)	(1 174 000)	(9 390 614)
Actuarial loss (non-cash)	-	1 750 099
Impairment deficit	271 206	1 238 872
Post-employment medical aid	1 599 000	1 306 126
Movements in Bonus provision	(53 573)	851 672
Long services awards	493 000	548 842
Changes in working capital:		
Inventories	(252 958)	30 017
Receivables from exchange transactions	(8 695 776)	175 511
Receivables from non-exchange transactions	(2 929 724)	4 388 374
Trade and other payables	(4 478 311)	7 119 429
VAT	2 578 853	306 799
Unspent conditional grants and receipts	(443 821)	(47 714)
Consumer deposits	312 333	319 698
	24 426 336	93 606 327

52. Retirement benefits

The municipality's personnel are members of the three Natal Joint Municipal Pension Funds i.e. (Superannuation Fund, Provident Fund and Retirement Fund). The valuator carries out a statutory valuation once after every three years and an interim valuation on an annual basis.

The following valuations have been carried out:

Superannuation fund - interim on annual basis

Provident fund - interim on annual basis

Retirement fund - interim on annual basis

47.1 Superannuation

An Interim Actuarial Valuation of the fund was carried out for the period ending 31 March 2021.

52. Retirement benefits (continued)

For service to 31 March 2021	Pensioners	Members	Total
Assets	6 609 549 000	7 368 515 000	13 978 064 000
Liabilities	(5 492 723 000)	(6 356 065 000)	(11 848 788 000)
	1 116 826 000	1 012 450 000	2 129 276 000

Pensioners: Funding level is 117.50%

Members: Funding level is 100.20%

For service to 31 March 2020	Pensioners	Members	Total
Assets	4 829 396 000	5 439 100 000	10 268 496 000
Liabilities	(5 119 149 000)	(6 064 004 000)	(11 183 153 000)
	(289 753 000)	(624 904 000)	(914 657 000)

Pensioners: Funding level - 92.20%

Members: Funding level - 86.50%

Investment reserve	31 March 2021
Contribution reserve	80 018 000

Investment reserve	31 March 2020
Contribution reserve	49 559 000

Conclusion

1. The valuation reveals that the fund is 100.1% funded on the "best estimate" Funding basis as at the valuation date, and is also fully funded on the alternative basis as set out in PF Notice No. 2 of 2016.

2. Due to the volatility and uncertainty in the market, the actuaries recommend that the surcharge continue to be paid to build a Solvency Reserve as protection against adverse experience.

3. The fund self-insures its risk benefits. The lump sum element of these benefits is relatively small, with the major element comprising of annuity payments. Given the recommended Risk Reserve, the fund's reinsurance arrangements are appropriate.

4. The actuaries are satisfied that the assets composition at the valuation date is appropriate to the nature of the liability and that the investment strategy of the Fund is suitable for the Fund.

47.2 Provident Fund

The salient features of the Statutory Actuarial Valuation Report on the fund as at 31 March 2021 and 31 March 2020 were that the net market value of the fund's assets were sufficient to fully cover the members' share account and to provide total reserves of R491 033 000 and R26 571 000 respectively

The assets of the fund exceed the liabilities as at the reporting date (31 March) for both 2020 and 2019 financial years, resulting in a small surplus of R43 789 000 and R50 716 000 respectively, which represents 0.6% and 1.1% of liabilities and reserves in respective years as at the valuation date.

Due to the smoothing mechanism, a portion of the investment return to 31 March 2021 has been applied to fund the interim bonus for April 2021. The value of the liability liabilities therefore includes all interim bonuses to 30 April 2021.

Conclusion

1. Assets exceeded the liabilities and reserves at the valuation date.

52. Retirement benefits (continued)

2. The Unallocated assets amounted to 0.6% of the assets after the release from the Risk and Expense Reserve and the Investment Reserve was 7.0% of Members Shares at the valuation date. .
3. The actuaries are satisfied that the asset composition on the valuation date is appropriate to the nature of the liabilities and that the investment strategy of the Fund is suitable for the Fund.
4. The Fund self-insures its death benefits and disability benefits. The actuaries are satisfied that, given the recommended Risk and Expense Reserve Account, the arrangement is appropriate for the Fund.
5. The actuaries are of the view that the Fund was in a sound financial position as at the valuation date.

47.3 Retirement Fund

The actuarial value of total assets of the fund was more than the actuarial value of the liabilities for the service of pensioners and members to that date by R 49 923 000 (2020 - R 247 129 000 deficit).

Made up as follows:

For service to 31 March 2021:

for pensioners - funding level 124.50% (2020 : funding level 96.20%).

for members - funding level 102.70% (2020 : funding level 84.70%) - surplus of R49 923 000 (2020 - R247 129 000 deficit)

The fund did not hold an investment reserve.

Conclusion

1. The valuation reveals that the Fund is 101.00% funded (2020 - 93.50%) on the "best estimate" basis as at the valuation date, and is also fully funded on the alternative basis as set out in PF Notice No. 2 of 2016.
2. The actuaries are satisfied that the asset composition on the valuation date is appropriate to the nature of the liabilities and that the investment strategy of the fund is suitable for the fund.
3. The Fund self-insures its risks benefits. The lump sum element of these benefits is relatively small, with the major element comprising of annuity payments. The actuaries are satisfied that, given the recommended Risk Reserve, the Fund's reinsurance arrangements are appropriate.
4. The actuaries recommended that the fund establish a Contribution Reserve of R5 940 000 as set out in paragraph 93 of the main report.

53. Related parties

Key management information

Class	Description	Number
Non-executive board members	Speaker and Whip of Council	02
Executive board members	Members of Executive Committee	08
Executive management	Heads of Departments (Directors)	05
Mayor	Chairperson of the Executive Committee	01
Deputy Mayor	Member of Executive Committee	01
Councillors	Councillors	43
Municipal Managers	Accounting Officer	01

Remuneration of management

Management class: Councillors

Refer to note 37 "Remuneration of Councillors"

There were no other related party transactions identified

Management class: Executive management

*Refer to note 36 "Employee Related Cost"

There were no other related party transactions identified.

54. Capital commitments

Authorised capital expenditure

Approved and contracted

Infrastructure Assets	13 081 715	16 044 678
Community Assets	6 028 615	12 749 783
Other Assets	-	3 875 405
	19 110 330	32 669 866

Total capital commitments

Already contracted for but not provided for	19 110 330	32 669 866
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This expenditure will be funded as follows

Own sources	556 018	6 008 484
Government grants	18 554 312	26 661 382
	19 110 330	32 669 866

This committed expenditure relates to property, plant and equipment and will be financed through government grant, existing cash resources and funds internally generated.

Operating leases - as lessee (expense)

Minimum lease payments due

within one year	1 448 011	781 919
in second to fifth year inclusive	1 421 573	1 334 027
	2 869 584	2 115 946

Operating lease payments represent rentals payable by the municipality for office equipment, weigh bridges and property rental. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years with escalation where applicable. No contingent rent is payable.

55. Accounting by principals and agents

The entity is a party to a principal-agent arrangements.

Details of the arrangement(s) is|are as follows:

1) The principal-agent arrangement between uMlalazi Municipality and the KwaZulu Natal Department of Transport.

The Municipality have entered into an agreement with KwaZulu Natal Department of Transport for the provision of vehicle registration services to vehicle owners on behalf of the KwaZulu Natal Department of Transport and receive 8.55% commission as compensation for the services provided.

The municipality is an agent in this arrangement . Refer to note 28 for significant judgements applied in making this assessment.

2) The principal-agent arrangement between uMlalazi Municipality and Provincial Department of Human Settlements.

The Municipality have entered into contractual agreements with KwaZulu Natal Provincial of Human Settlements to assist the Department in constructing the houses within housing projects and to hand over the houses once completed to the beneficiaries of projects. The KwaZulu Natal Department of Human Settlement has outlined clear specifications for the houses. The Department captures and processes the beneficiary application forms on Housing Subsidy System (HSS) and approves such applications based on the predetermined criteria. The Municipality is currently not accredited by the department. The Municipality have signed five contracts with the department that are running in the 2021/2022 financial year. According to all five agreement the duties of the Municipality are similar to those of level one accredited Municipalities.

The Municipality is an argent in the arrangement. Refer to note 34 for significant judgements applied in making this assessment.

55. Accounting by principals and agents (continued)

Entity as agent

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

1) The Municipality and KZN Department of transport.

The municipality do not hold any resources on behalf of KwaZulu Natal Department of Transport, therefore there is no risk transferred from the KwaZulu Natal Department of Transport to the Municipality as a result of the custodianship over the resources held by the municipality on behalf of the KwaZulu Natal Department of Transport.

2) The Municipality and KZN Department of Human Settlements

As at the reporting date, the Municipality do not hold any resources on behalf of KZN Department of Human Settlements since the Allocation was fully spent, therefore there is no risk transferred from KZN Department of Human Settlements to the Municipality as a result of the costodianship over the resources held by the Municipality on behalf of the KZN Department of Human Settlements as at 30 June 2021 and 2022 financial years. The Municipality have during the financial year paid an amount of R10 624 236.34 over to contractors in relation to this agreement.

Revenue recognised

1) The municipality and KZN Department of Transport.

The aggregate amount of revenue that the municipality recognised as compensation for the transactions carried out on behalf of the KZN Department of Transport (the principal) is R1 732 100 (2021: R2 080 977).

2) The Municipality and KZN Department of Human Settlements

The Municipality do not receive any commission or any kind of revenue as compensation for the transaction carried out on behalf of KZN Department of Human Settlements (the principal).

Liabilities and corresponding rights of reimbursement recognised as assets

1) The Municipality and KZN Department of Transport

As at the reporting date (30 June 2021 and 2022), no liabilities were incurred by the municipality on behalf of the KZN Department of Transport that the municipality have recognised as any cash collected gets deposited to the department's account on a daily basis.

No corresponding rights of reimbursement that the municipality have recognised as assets as at the reporting date.

2) The Municipality and KZN Department of Human Settlements

As at the reporting date, the Municipality have carried and recognised to its books an amount of R116 208 as liability being the total unspent grant allocation. This amount is ringfenced on a separate bank account.

The corresponding rights of reimbursement that the Municipality have recognised as asset as at the reporting date is cash at bank to the amount of R116 208 being an unspent grant balance in respect of Rural Housing Grant.

56. Segment information

General information

56. Segment information (continued)

Identification of segments

The municipality is organised and reports to management on the basis of five major functional areas: Basic Services, Good governance, Public participation, Financial Management and Institutional capacity. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Some 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 as it provides a clear view of the operational results of each segment and the resources allocated to each segment. This is useful to other interested stakeholder as it enable them to see whether resources are allocated to segments that are deemed the core of services delivery or resources are misdirected.

The activity of the municipality is identified as a segment if it meets the objective of the segment reporting and the following three segmentation criteria

The activity generates economic benefits or service potential (including economic benefits or service potential relating to transaction between activities within the municipality)

The results of the activity must be regularly reviewed by the management to make decision about resources to be allocated to that activity and in assessing its performance. Regularly means at least 4 times a year and separate financial information must be available.

The Municipality uses IDP and in-year reports to identify activities that generates economic benefits or having service potential as this document contain all activities that are undertaken by the municipality which will ensure completeness.

Identify the activities that are not considered to be a segment

The municipality have identified the following activities which do not meet the Segmenting criteria due to the fact that they do not generate economic benefits or service potential and will not be shown separately in the segment report.

Mayor and Council

Municipal Manager, Town Secretary and Chief Executive

Administrative and Corporate Support

Asset Management

Finance

Fleet Management

Human Resources

Information Technology

Marketing, Customer Relations, Publicity and Media Co-ordination

Property Services

Supply Chain Management

Governance Function

Corporate Wide Strategic Planning (IDP,LEDs)

Project Management Unit

56. Segment information (continued)

Aggregated segments

The municipality operates within uMalazi Municipality boundaries within King Cetshwayo District Municipality in the KwaZulu Natal Province in three Towns. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout the Municipality were sufficiently similar to warrant aggregation.

Types of goods and/or services by segment

The Municipality shall report separately information about each segment that has been identified in accordance with the segment identification and that meet the definition of the segment or results from aggregating two or more of those segments that meet the aggregation Criteria

The following are segments that have been identified and will be reported in the Annual Financial Statements in accordance with and as required by GRAP 18.

Reportable segment

Cemeteries
Electricity
Housing
Roads and storm water
Refuse removal

Goods and/or services

Provision of cemeteries
Provision of electricity
Providing access to adequate housing
Provision of roads and storm water
Refuse removal

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand

56. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2022

	Cemeteries	Electricity	Housing	Roads and Storm water	Refuse removal	Total
Revenue						
Revenue from non-exchange transactions	2 220 363	21 324 349	1 710 368	87 153 262	14 135 390	126 543 732
Revenue from exchange transactions	190 401	79 393 852	597 903	-	14 160 132	94 342 288
Total segment revenue	2 410 764	100 718 201	2 308 271	87 153 262	28 295 522	220 886 020
Revenue from non-exchange transaction						216 121 845
Revenue from exchange transaction						23 709 380
Total revenue reconciling items						239 831 225
Entity's revenue						460 717 245
Expenditure						
Employee related cost	667 020	8 274 812	1 980 982	14 747 474	11 090 961	36 761 249
Contracted Services	1 536 800	2 759 117	250 069	28 971 792	13 518 635	47 036 413
Bulk Purchases	-	70 135 684	-	-	-	70 135 684
Depreciation	-	3 039 755	-	40 083 771	-	43 123 526
Finance Charges	-	-	-	319 443	-	319 443
Other Materials	-	1 747 329	-	2 538 995	2 469 784	6 756 108
Other Expenditures	206 944	8 164 143	77 220	491 787	1 216 142	10 156 236
Total segment expenditure	2 410 764	94 120 840	2 308 271	87 153 262	28 295 522	214 288 659
Total segmental surplus/(deficit)						6 676 219

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand

	Cemeteries	Electricity	Housing	Roads and Storm water	Refuse removal	Total
56. Segment information (continued)						
Total revenue reconciling items						239 831 225
Employee related cost						133 873 975
Remuneration of Councillors						20 684 423
Contracted Services						38 545 648
Depreciation						11 135 100
Debt impairment						4 343 884
Transfers and subsidies						7 507 568
Other Materials						6 887 760
Other Expenditures						36 057 075
Entity's surplus (deficit) for the period						(12 606 847)
Assets: (Non-current assets acquisition)						
Segment assets acquisition - Community assets	383 000	-	-	-	689 920	1 072 920
Segment assets acquisition - Infrastructure Assets	-	10 106 714	-	38 006 218	-	48 112 932
Segment assets acquisition - Furniture and Equipment	-	-	-	4 025	-	4 025
Segment assets acquisition - Vehicles	-	-	-	160 000	-	160 000
Total segment assets	383 000	10 106 714	-	38 170 243	689 920	49 349 877
Segment assets acquisition - Community assets						12 852 954
Segment assets acquisition - Infrastructure assets						4 953 007
Segment assets acquisition - Furniture and equipment						151 425
Segment assets acquisition - Machinery and equipment						735 258
Segment assets acquisition - Vehicles						813 513
Segment assets acquisition - Computer equipment						2 205 128
Total assets as per Statement of financial Position						71 061 162

Paragraph 21 of GRAP 18 requires the Municipality to report a measure of assets and liability for each reportable segment if such an amount is regularly provided to management. The information on assets and liabilities for each reportable segment is currently not regularly provided to management in segments but provided on aggregated bases hence a measure of assets and liabilities for each reportable segment is not reported accordingly.

Explanation of significant reconciling differences

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand

56. Segment information (continued)

A reconciling item of R216 121 848 in respect of revenue from non-exchange transactions is as mainly attributable to revenue from rates and other revenue of a similar nature that can not be allocated to a specific reportable segment.

A reconciling amount of R23 709 380 in respect of revenue from exchange transactions is as a result of transaction like interest from external investments and fair value adjustment and similar transactions which are not linked with a specific reportable segment.

An amount of R133 873 975 reflected as employee represent remuneration for all employees that are not associated with any of the reportable segment like employee in finance department and corporate services department and executive department being support departments

R38 545 648 reconciling item for contracted services is to mainly attributable to contracts like securities and other similar contracts that are not directly linked with any of the reportable segment.

A depreciation amount of R11 135 100 could not be allocated to any reportable segment as it relates to assets that are used for administrative purposes and other assets that are used as support in running of the municipality.

Remuneration of councillors amount to R20 684 423 can not be allocated to any reportable as councillors are playing oversight role in the running of the municipality as a whole and are not linked with a specific reportable segment.

A reconciling item of R36 057 013 is in respect of municipal running cost for mainly for administration purposes like advertising expenses, audit fees, councillors communication and other related expenses which are not directly linked with any of the reportable segment.

2021

	Cemeteries	Electricity	Housing	Roads and Storm water	Refuse removal	Total
Revenue						
Revenue from non-exchange transactions	1 743 237	19 122 595	1 838 291	74 183 503	16 711 085	113 598 711
Revenue from exchange transactions	190 548	73 657 658	235 181	-	14 320 665	88 404 052
Total segment revenue	1 933 785	92 780 253	2 073 472	74 183 503	31 031 750	202 002 763
Revenue from non-exchange transactions						249 951 150
Revenue from exchange transactions						32 342 746
Total revenue reconciling items						282 293 896
Entity's revenue						484 296 659

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand

56. Segment information (continued)

Expenditure

Employee related cost	(632 223)	(7 534 841)	(1 838 797)	(13 161 062)	(12 674 685)	(35 841 608)
Contracted Services	(1 297 100)	(1 952 351)	(170 118)	(20 757 286)	(13 848 536)	(38 025 391)
Bulk Purchases	-	(61 141 943)	-	-	-	(61 141 943)
Depreciation	-	(2 835 409)	-	(37 646 486)	-	(40 481 895)
Debt Impairment	-	(282 908)	-	-	(2 505 273)	(2 788 181)
Finance Charges	-	-	-	(362 027)	-	(362 027)
Other Materials	-	(1 776 871)	-	(1 783 835)	(1 055 518)	(4 616 224)
Other Expenditures	(4 462)	(7 255 930)	(64 557)	(472 807)	(947 738)	(8 745 494)

Total segment expenditure	(1 933 785)	(82 780 253)	(2 073 472)	(74 183 503)	(31 031 750)	(191 975 763)
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Total segmental surplus/(deficit)						(10 027 000)
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Total revenue reconciling items						282 293 896
Employee related cost						(124 318 946)
Remuneration of Councillors						(22 191 931)
Contracted Services						(34 228 122)
Depreciation						(8 365 320)
Debt Impairment						(11 922 758)
Transfers and subsidies						(8 972 941)
Other Materials						(4 673 696)
Other Expenditures						(31 507 143)

Entity's surplus (deficit) for the period						46 140 039
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Assets: (Non-current assets acquisitions)

Segment assets acquisition - Community assets	126 010	-	-	263 155	-	389 165
Segment assets acquisitions - Infrastructure	-	729 671	-	40 370 645	-	41 100 316
Segment assets acquisitions - Furniture and Equipment	-	-	-	31 656	-	31 656
Segment assets acquisitions - Machinery and Equipment	-	-	-	514 973	29 619	544 592
Segment assets acquisitions - Vehicles	-	-	-	51 000	4 306 369	4 357 369

Total segment assets	126 010	729 671	-	41 231 429	4 335 988	46 423 098
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UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand

	Cemeteries	Electricity	Housing	Roads and Storm water	Refuse removal	Total
56. Segment information (continued)						
Assets acquisitions - Community assets						16 408 839
Assets acquisitions - Infrastructure						2 609 916
Assets acquisitions - Furniture and equipment						192 850
Assets acquisition - Machinery and equipment						3 610 116
Assets acquisitions - Vehicles						2 046 850
Assets acquisition - Computer equipment						2 829 302
Total assets as per Statement of financial Position						74 120 971

Information about geographical areas

The municipality's operations are within the boundaries of uMlalazi municipality which is under King Cetshwayo District Municipality in KwaZulu Natal Province. The Municipality have three towns, i.e. Eshowe, Gingindlovu and Mthunzini which are classified as urban areas for the purposes of segment reporting. All other wards are deemed rural. All other operations and assets that effect the Municipality as a whole including all Municipal offices are regarded as "The whole of Municipality".

The table below indicates the relevant geographical information after eliminating inter segmental transfers:

2022

	External revenues from non-exchange transactions	External revenues from exchange transactions	Total expenditure	Non-current assets*
Urban Areas	66 472 081	91 438 623	155 717 565	61 453 310
Rural Areas	-	-	-	101 378 447
The Whole of Municipality	269 596 135	24 519 095	318 623 539	736 423 760
Total	336 068 216	115 957 718	474 341 104	899 255 517

*Non-current assets excludes additions to financial instruments and post-employment benefit assets

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand 2022 2021

56. Segment information (continued)

2021

	External revenues from non-exchange transactions	External revenues from exchange transactions	Total expenditure	Non-current assets*
Urban Areas	64 870 948	87 958 693	112 894 384	60 260 535
Rural Areas	-	-	-	93 785 258
The Whole of Municipality	299 008 210	32 458 808	325 262 236	724 226 700
Total	363 879 158	120 417 501	438 156 620	878 272 493

57. Additional disclosure in terms of the Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 548 271	1 234 984
Amount paid - current year	(1 548 271)	(1 234 984)
	-	-

Audit fees

Current year subscription / fee	2 153 631	1 957 196
Amount paid - current year	(2 153 631)	(1 957 196)
	-	-

PAYE and UIF

Current year subscription / fee	25 008 509	24 761 251
Amount paid - current year	(25 008 509)	(24 761 251)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	40 093 263	38 691 421
Amount paid - current year	(40 093 263)	(38 691 421)
	-	-

VAT

VAT receivable	55 271 957	44 199 021
VAT payable	(55 370 317)	(43 309 051)
	(98 360)	889 970

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

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand

2022

2021

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2022:

30 June 2022	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Qwabe BE	4 055	201	4 256
30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
ML Govindsamy	2 095	1 294	3 389

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

30 June 2022	Highest outstanding amount	Aging (in days)
Qwabe BE	4 256	120
30 June 2021	Highest outstanding amount	Aging (in days)
ML Govindsamy	5 219	120

Deviation from supply chain management

The following deviations and ratifications of minor breaches of procurement processes were reported to Council in terms of Section 36(2) of the Supply Chain Management Policy:

A register containing full details and motivation for each deviation transaction is available for inspection:

Incident

Impractical and impossible to follow official procurement processes	1 520 845	1 488 001
Goods or services available from the single supplier only	66 334	53 285
Emergency	8 907 732	10 533 775
	10 494 911	12 075 061

58. Unauthorised expenditure

Opening balance as previously reported	-	11 177 238
Opening balance as restated	-	11 177 238
Add: Expenditure identified - current	25 543 808	-
Less: Amount written off by council	-	(11 177 238)
Closing balance	25 543 808	-

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

Non-cash	7 537 434	-
Cash	18 006 373	-
	25 543 807	-

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand	2022	2021
58. Unauthorised expenditure (continued)		
Analysed as follows: non-cash		
Depreciation and amortisation	3 754 660	-
Provision of impairment	3 782 775	-
	7 537 435	-
Analysed as follows: cash		
Bulk purchases	4 935 674	-
Contracted services	4 888 069	-
Other materials	808 071	-
Employee related costs	7 348 501	-
Transfers and subsidies	26 058	-
	18 006 373	-
Unauthorised expenditure: Budget overspending – per municipal department		
Community Services	3 097 489	-
Corporate Services	1 365 101	-
Engineering Services	11 727 869	-
Financial Services	4 305 821	-
Mayoral Office	4 033 336	-
Municipal Managers Office	76 744	-
Planning and Development	937 446	-
	25 543 806	-
Disciplinary steps taken/criminal proceedings		
The total balance of unauthorised expenditure is still under investigation		
59. Irregular expenditure		
Opening balance as previously reported	4 554 633	354 408
Correction of prior period error	-	3 922 929
Opening balance as restated	4 554 633	4 277 337
Add: Irregular Expenditure - current	2 559 881	3 017 988
Add: Irregular Expenditure - prior period	12 225 853	32 120 591
Less: Amount written off - current	(12 225 853)	(34 506 875)
Less: Amount written off - prior period	(631 704)	(354 408)
Closing balance	6 482 810	4 554 633
Incidents/cases identified in the current year include those listed below:		
Inadequate SCM documents and processes	10 624 236	32 120 591
Suppliers tax matters are not in order	1 601 617	1 001 829
Contracts extended in contradiction of section 33 of the MFMA	2 559 881	-
SCM process followed not in line with SCM policy	-	533 155
Insufficient reasons for deviation (sanitisation of offices)	-	847 920
Price for PPE exceed Circular from National Treasury	-	3 380
	14 785 734	34 506 875

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand 2022 2021

59. Irregular expenditure (continued)

Amounts written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R 12 857 557 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

The outstanding balance of R6 482 810 is still under investigation in terms section 32 of Municipal Finance Management Act.

60. Fruitless and wasteful expenditure

Opening balance as previously reported	1 275	-
Opening balance as restated	1 275	-
Add: Expenditure identified - current	28 835	1 275
Less: Amounts recoverable - current	(28 500)	-
Closing balance	1 610	1 275

Expenditure identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings	
Catering for an event that was cancelled, however catering expenses were incurred	The full amount was certified irrecoverable and written off	2
traffic fine handling fees (avis hired vehicle)	still under investigation	
Interest on overdue account	still under investigation	
Hotel Consumables	still under investigation	

Amounts written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R 28 500 from the total fruitless and wasteful expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

The balance of R1 609.57 is still under investigation in terms of section 32 of the Municipal Finance Management Act.

61. Reclassifications

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been reclassified:

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand 2022 2021

61. Reclassifications (continued)

Reclassifications

Accrued leave and staff bonuses

In the previous financial years, the municipality classified service bonuses and accrued leave as provisions, this is not in compliance with GRAP 25 and GRAP 19. During the year under review, the municipality has reclassified service bonuses and staff leave from provisions to accruals

The reason for reclassification is to correctly classify service bonuses and accrued leave in order to comply with GRAP19 and GRAP 23.

The net effect of this reclassification is as follows:

Statement of Financial Position

Trade and other payables	-	13 330 023
Provisions	-	(13 330 023)
	-	-

Buildings used for administration purposes

Buildings that the municipality uses for administrative purposes were previously classified as community assets which is in contravention of PRAP 17 which define community assets as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations. Buildings that are used for administration purposes do not meet the definition of community asset.

Reason for reclassification is to ensure compliance with GRAP 17.

The net effect of this reclassification is as follows:

Statement of Financial Position

Cost (Buildings)	-	20 827 165
Accumulated Depreciation (Buildings)	-	12 847 033
Cost (Community Assets)	-	(20 827 165)
Accumulated Depreciation (Community Assets)	-	(12 847 033)
	-	-

Interest on receivable from exchange transactions

Interest charged - Sundry debtors

Penalties imposed on outstanding balances of receivables from exchange transactions (Sundry debtors) were previously disclosed as part of revenue from non exchange transactions. GRAP 108 requires interest to be classified either exchange or non-exchange based on the nature of the underlying transactions. As a result of this requirement, an amount of R329 296.78 in respect of interest charged on outstanding balances of receivables from exchange transactions (Sundry debtors) was reclassified from penalties imposed (Revenue from non-exchange transactions) in to interest on receivable from exchange transactions (revenue from exchange transactions)

The reason for this reclassification is to comply with GRAP 108 requirements

The net effect of this reclassification is as follows:

Statement of Financial Performance

Property rates - penalties imposed	-	(329 297)
Interest on receivable from exchange transactions	-	329 297
	-	-

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand 2022 2021

62. Prior period errors

Value added Tax.

During the current financial year (2021/2022), the municipality conducted a VAT review exercise starting from 2015/2016 financial year to 2019/2020 financial year. The aggregate outcome of the exercise was that a total of R3 370 462.93 was to be claimed from SARS. This has resulted to VAT input being understated in the prior years by a total of R3 370 462.93.

During 2019/2020 financial year, the municipality changed the manner in which it accounts for transactions in relation to INEP grant. Prior to 2020 financial year the municipality recognised revenue and corresponding expenditure associated with the grant, from 2020 financial year the municipality did not recognise revenue and corresponding expenditure, as it was concluded that the municipality is an agent of Eskom. Reassessment has been conducted and revealed that the municipality is actually not acting on behalf of Eskom and therefore is not an agent of Eskom as per the assessment criteria in terms of GRAP 109. This has resulted in the misstatement of revenue and expenditure in the past two years, however these misstatement did not result in the misstatement of accumulated surplus and depreciation as the asset constructed was transferred to Eskom immediately after completion as per the agreement between the municipality and Eskom. As per the correspondence from National Treasury, the Municipality is required to apply this transition prospectively from 2022 financial year, therefore the comparative figures is accordingly not restated.

Correction of errors resulted in adjustments as follows:

Statement of financial position

Amount as reported on audited AFS - 30 June 2021 (payable)	-	(2 480 493)
Prior Period Adjustments restating the opening balance as at 1 July 2020	-	3 370 462
Amount as reported on restated AFS - 30 June 2021 (receivable)	-	889 969

Accumulated Surplus

Amount as reported on audited AFS - 30 June 2021	-	963 852 696
Prior Period Adjustments restating the opening balance as at 1 July 2020	-	3 370 462

Amount as reported on restated AFS- 30 June 2021 **- 967 223 158**

Irregular expenditure

Opening balance	-	354 408
Adjustments made	-	3 922 929
Restated opening balance	-	4 277 337

Adjustment made to opening balance of irregular expenditure is due to fact that the municipality extended ONTEC and IGNIT contracts on an annual bases from 01 August 2018 and 01 July 2018 respectively. These extensions have been identified in the current financial year as non-compliant with section 33 of the MFMA which sets out the requirements for contracts having future budgetary implications beyond three years. As a result all payments made on these contracts after the date of expiry should have been declared irregular and disclosed as such. The total amount paid from the date of the first extension to the last day of 2021 financial year amount to R for both contracts.

63. Contingent liabilities

Contingent liabilities as at 30 June 2022.

The Nigel Williamson Trust v uMlalazi Municipality (Ref: BU001). Claim arising from a property rates dispute on Erf 331, Mtunzini to the amount of R20 000.

Ighora Construction v uMlalazi Municipality. Claim arising from the termination of road construction contract at the King Dinizulu Suburb to the amount of R10 754 222.

Sibgem v uMlalazi Municipality. Claim arising from the termination of Project Management Unit Services contract to the amount of R702 240.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand	2022	2021
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63. Contingent liabilities (continued)

Mgamule Consulting v/s uMlalazi Municipality. Claim arising from breach of consulting contract for the Kwabulawayo Sports Field to the amount of R1 002 251.

Mucoque v uMlalazi Municipality. Review of an arbitration award for reinstatement in the Labour Court. The estimated amount of claim is R350 905.48 being the retrospective salary from the due date (1 August 2018) to date.

Abednigo Shabalala v/s uMlalazi Municipality: Letter of demand in relation to Section 29 of the Small Claim Court Act of 1984. The claim is for damages against uMlalazi Municipality for medical expenses for injury caused by Lucky Gumede (uMlalazi Municipality Employee) on 22 October 2015.

Sduzuzo Mathonsi v/s uMlalazi Municipality: Claim of R38 000 arising from damages caused to the plaintiff's vehicle when it drove into a drain hole allegedly left open by the Municipality.

Bamr Magis v/s uMlalazi Municipality: Interdict by applicant preventing Municipality from closing down his business. Applicant does not have a trading licence. Neither does he have a lease agreement with the Landlord (ITHALA).

64. Financial risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: cash flow risk, credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The Risk Policy provides written principles for overall risk management, as well as written policies covering specific areas, such as, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand 2022 2021

64. Financial risk management (continued)

Credit risk

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

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

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

Financial instrument	2022	2021
Receivables from exchange transactions	29 190 214	20 801 414
Current portion of loans receivable	7 645	7 508
Cash and cash equivalents	99 560 271	146 529 871

The risk relating to short term deposits is minimised due to the nature of the Municipality finance structure.

The risk relating to cash and cash equivalent is minimised as the municipality only deposits cash with major banks with high quality credit standing.

Credit Risk

Loans Payables	342 816	342 816
Payables from exchange transactions	39 817 624	43 929 391
VAT Payable	98 360	2 480 493
	40 258 800	46 752 700

Current Assets 150 708 732 186 360 846

Current Liabilities 61 898 580 67 742 110

- Current assets as a percentage of current liabilities 244% (2021 - 275%)
- Current assets to current liabilities ratio: 2.44:1 (2021 - 2.75:1)
- The generally accepted norm for this ratio 1.5 - 2:1 The higher the ratio, the more liquidity the municipality, and the better chances of meeting short term debt with short term liquid resources.

65. Going concern

We draw attention to the fact that at 30 June 2022, the municipality had an accumulated surplus (deficit) of R 954 501 680 and that the municipality's total liabilities exceed its assets by R 959 713 982.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors which includes among others the following:

- The Municipality will continue charging rates in accordance with Local Government: Municipal Property Rates Act.
- National Treasury and other Provincial Departments will continue to provide Grants in terms of the Division of Revenue Act.
- The Municipality did not loose any of its key suppliers.
- The Municipality does not experience labour difficulties.
- The Municipality does not have shortage of important Suppliers.
- Financial indicators (ratios, financial results, bank account balance and net asset are all positive and within acceptable norms.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2022

Notes to the Financial Statements

Figures in Rand	2022	2021
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66. Change in estimate

Property, plant and equipment

Community assets

The useful life of certain Community assets and Recreational facilities were estimated to be 05 - 30 years. In the current period management have revised their estimate to be 05 to 34 years. The effect of this revision has decreased the depreciation charges for the current and future periods by R145 650.91

Vehicles

The useful life of certain vehicles were estimated to be 07 - 15 years. In the current period management have revised their estimate to be 07 to 17 years. The effect of this revision has decreased the depreciation charges for the current and future periods by R41 503.15

Furniture and Office equipment

The useful life of certain furniture and office equipment were estimated to be 07 - 10 years. In the current period management have revised their estimate to be 07 to 12 years. The effect of this revision has decreased the depreciation charges for the current and future periods by R5 597.02

Machinery and equipment

The useful life of certain machinery and equipment were estimated to be 04 - 10 years. In the current period management have revised their estimate to be 04 to 12 years. The effect of this revision has decreased the depreciation charges for the current and future periods by R14 884.70

Infrastructure (Electricity)

The useful life of certain electrical infrastructure were estimated to be 10 - 30 years. In the current period management have revised their estimate to be 10 to 33 years. The effect of this revision has decreased the depreciation charges for the current and future periods by R1 454.31

Roads

The useful life of certain roads were estimated to be 03 - 30 years. In the current period management have revised their estimate to be 03 to 33 years. The effect of this revision has decreased the depreciation charges for the current and future periods by R48 885.60

Computer equipment

The useful life of certain computer equipment were estimated to be 05 - 10 years. In the current period management have revised their estimate to be 05 to 12 years. The effect of this revision has decreased the depreciation charges for the current and future periods by R35 884.91

APPENDIX B

UMLALAZI MUNICIPALITY

ANALYSIS OF PROPERTY PLANT AND EQUIPMENT FOR THE YEAR ENDED 30 JUNE 2022

	Cost / Revaluation							Accumulated Depreciation				Accumulated Impairment				Carrying Value	Carrying Value	
	Opening Balance	Additions infrastructure	AUC released	Additions	Revaluation	Donated assets	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions	Disposals			Closing Balance
	30/06/2021	2021/2022	2021/2022	2021/2022	2021/2022	2021/2022	2021/2022	30/06/2021	2021/2022	2021/2022	2021/2022	30/06/2021	2021/2022	2021/2022	2021/2022			2021/2022
R	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R		
Land	198 782 879.83	-	-	-	-	-	-	198 782 880	-	-	-	-	-	-	-	-	198 782 880	198 782 880
Community assets	366 724 881.47	-	-	15 992 360	-	-	-	382 717 241.30	-149 211 249	(17 076 491.11)	-	-166 287 740.41	-17 337 385	-271 206	-	(17 608 591.57)	198 820 909	203 912 252
Work in Progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Vehicles	45 293 355.00	-	-	1 062 513	-	-	-	46 355 868.06	-22 060 252	(4 892 509.04)	-	-26 952 761.27	-34 326	-	-	(34 326.42)	19 368 780	20 663 385
Roads	493 698 911.10	-	-	34 089 345.06	-	-	-	527 788 256.16	-229 896 974	(21 323 375.89)	-	-251 220 349.43	(4 739 224.94)	-	-	(4 739 224.94)	271 832 236	269 627 393.16
Bridges: Pedestrian	156 242.97	-	-	198 949	-	-	-	355 192.01	-29 952	(20 368 164.42)	-	-20 398 116.35	-	-	-	(20 042 925)	131 583	131 583
Bridges: Vehicles	6 273 576.17	-	-	-	-	-	-	6 273 576.17	-2 776 568	-	-	-2 776 568.15	-43 615	-	-	(43 615.00)	3 453 393	3 711 207
Roads: Asphalt basis/structure	153 928 931.34	-	-	4 950 487	-	-	-	158 879 418.31	-79 291 695	(660 713.38)	-	-79 952 408.49	-269 371	-	-	(269 370.75)	78 657 639	69 879 550
Roads: Asphalt surface	131 653 879.84	-	-	17 569 742	-	-	-	149 223 621.80	-35 216 798	-	-	-35 216 798.31	-809 666	-	-	(809 666.00)	113 197 157	90 494 381
Causeways	11 997 055.67	-	-	1 030 781	-	-	-	13 027 836.97	-5 248 455	-	-	-5 248 455.14	-	-	-	-	7 779 382	7 345 740
Roads: Earthworks	98 934 656.93	-	-	121 748	-	-	-	99 056 404.44	-56 597 188	-	-	-56 597 188.11	-	-	-	-	42 459 216	45 449 502
Roads: Gravel surface	38 427 211.92	-	-	6 774 903	-	-	-	45 202 114.79	-19 437 324	-	-	-19 437 324.42	-2 877 717	-	-	(2 877 717.00)	22 887 073	7 664 206
Roads: Kerb and channels	37 518 938.19	-	-	1 614 256	-	-	-	39 133 194.15	-25 790 547	(284 580.99)	-	-26 075 128.13	-177 834	-	-	(177 834.00)	12 880 232	11 346 136
Land - Road reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Roads: Pedestrian footpaths	7 334 298.01	-	-	915 526	-	-	-	8 249 824.35	-2 403 886	-	-	-2 403 886.21	-557 075	-	-	(557 075.00)	5 288 863	4 803 354
Road calming measures	781 087.65	-	-	-	-	-	-	781 087.65	-523 275	-	-	-523 275.32	-	-	-	-	257 812	280 636
Speed humps	1 179 217.42	-	-	480 591	-	-	-	1 659 808.62	-301 222	-	-	-301 222.23	-3 490	-	-	(3 489.62)	1 355 097	933 570
Roads: Street lighting	3 937 374.82	-	-	-	-	-	-	3 937 374.82	-1 787 510	(9 917.10)	-	-1 797 427.23	-458	-	-	(457.57)	2 139 490	2 269 160
Roads: Traffic lights	469 019.82	-	-	-	-	-	-	469 019.82	-240 675	-	-	-240 675.21	-	-	-	-	228 345	248 924
Roads: Traffic signs	1 107 420.35	-	-	432 362	-	-	-	1 539 782.26	-251 876	-	-	-251 876.13	-	-	-	-	1 287 906	933 283
Work in Progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Storm water	106 400 584.98	-	-	8 351 220.43	-	-	-	114 751 805.41	-64 163 856	(3 173 810.87)	-	-67 337 667.35	(1 469 576.68)	-	-	(1 469 576.68)	45 944 561	40 972 625.97
Channels	47 799 592.72	-	-	5 307 427	-	-	-	53 107 019.62	-23 426 679	(2 873 090.33)	-	-26 299 769.16	-1 349 921	-	-	(1 349 920.62)	25 457 330	24 727 472
Kerb inlets	8 796 404.89	-	-	1 515 390	-	-	-	10 311 794.42	-6 671 394	(5 948.32)	-	-6 677 342.72	-12 030	-	-	(12 030.32)	3 622 421	2 093 294
Masonry structures	7 888 245.43	-	-	944 609	-	-	-	8 832 853.96	-2 762 926	(27 735.19)	-	-2 790 661.50	-14 664	-	-	(14 663.52)	6 027 529	2 319 890
Pipes	31 839 679.87	-	-	506 507	-	-	-	32 346 186.64	-23 284 804	(211 608.57)	-	-23 496 412.42	-128	-	-	(127.61)	8 849 647	9 240 874
RC Structures	10 076 662.07	-	-	77 289	-	-	-	10 153 950.77	-8 018 053	(55 428.46)	-	-8 073 481.55	-92 835	-	-	(92 834.61)	1 987 635	2 591 095
Work in Progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Electrical	71 043 865.89	-	-	6 016 811.02	-	-	-	77 060 676.91	-33 667 160	(3 085 865.93)	-	-36 753 025.78	(2 176 518.09)	-	-	(2 176 518.09)	38 131 133	37 310 484.49
Cables	15 966 969.00	-	-	5 611 169	-	-	-	21 578 137.94	-9 886 432	(2 203 549.20)	-	-12 089 981.20	-	-	-	-	9 488 157	6 611 236
Mini sub stations	14 122 031.17	-	-	-	-	-	-	14 122 031.17	-5 993 509	(7 924.60)	-	-6 001 433.93	-317 434	-	-	(317 434.49)	7 803 163	8 114 874
Perimeter protection	218 591.54	-	-	-	-	-	-	218 591.54	-206 482	-	-	-206 481.72	-	-	-	-	12 110	22 478
Prepaid electricity meters	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ring main unit	3 585 817.74	-	-	321 280	-	-	-	3 907 097.99	-778 713	(257 927.16)	-	-1 036 639.70	-76 306	-	-	(76 306.40)	2 794 152	2 421 976
Substation switchgear	25 909 901.57	-	-	-	-	-	-	25 909 901.57	-10 679 102	(616 464.97)	-	-11 295 566.75	-1 278 497	-	-	(1 278 497.20)	13 335 838	14 817 013
Substation	3 563 940.96	-	-	-	-	-	-	3 563 940.96	-1 581 713	-	-	-1 581 712.94	-211 261	-	-	(211 261.00)	1 770 967	2 073 816
Transformers	7 676 613.91	-	-	84 362	-	-	-	7 760 975.74	-4 541 210	-	-	-4 541 209.54	-293 019	-	-	(293 019.00)	2 926 747	3 249 093
Computer equipment	16 063 671.77	-	-	2 205 128	-	-	-26 310	18 242 490.06	-8 852 021	(2 013 797.73)	23 438	-10 842 380.96	-17 146	-	-	(17 146.31)	6 571 829	6 420 879
Furniture and equipment	8 514 787.13	-	-	155 450	-	-	-	8 670 237.29	-6 516 708	(627 724.84)	-	-7 144 432.56	-137 091	-	-	(137 090.97)	1 385 403	2 274 767
Machinery and equipment	12 886 721.36	-	-	1 262 578	-	-	-78 749	14 070 550.45	-6 193 700	(1 667 705.57)	33 320	-7 828 085.00	-9 918	-	-	(9 918.22)	6 200 007	3 457 972
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property, plant and equipment (No	1 319 409 658.53	-	-	69 135 406	-	-	-105 059	1 388 440 005.47	-520 561 920	(53 861 280.97)	56 759	-574 366 442.75	25 921 187	-271 206	-	(26 192 393.20)	787 037 740	808 693 670
Heritage assets (Note 12)	10 311 344.12	-	-	-	-	-	-	10 311 344.12	-	-	-	-	-	-	-	-	10 311 344	10 311 344
Investment properties (Note 11)	33 930 000.00	-	-	4 210 000	-	-	-	38 140 000.00	-	-	-	-	-	-	-	-	38 140 000	25 929 000
Intangible assets (Note 10)	1 537 068.00	-	-	-	-	-	-1 200 818	336 250.12	-1 301 263	(126 143.65)	1 219 614	-207 792.61	-	-	-	-	128 458	346 938
	1 365 188 070.65	-	-	73 345 406	-	-	-1 305 877	1 437 227 599.71	-521 863 183	(53 987 424.62)	1 276 373	-574 574 235.36	25 921 187	-271 206	-	(26 192 393.20)	835 617 542	845 280 952

UMLALAZI MUNICIPALITY

Appendix C

Actual versus budget - Statement of Financial Performance per vote

	2022 Budget R	2022 Actual R	2022 Variance R	2022 Variance %
Community Services	92 153 470	92 122 918	30 552	0%
Corporate Services	52 336 280	46 449 444	5 886 836	11%
Engineering Services	186 913 240	218 976 466	-32 063 226	-17%
Financial Services	33 243 690	29 130 960	4 112 730	12%
Mayoral Office	79 620 590	63 963 119	15 657 471	20%
Municipal Manager	9 208 840	9 061 911	146 929	2%
Planning And Development	13 585 400	13 619 246	-33 846	0%
Total	467 061 510	473 324 065	-6 262 555	

UMLALAZI MUNICIPALITY
Appendix D (1)

Actual versus budget - revenue by source and expenditure by type

	Budget R	Actual R	Variance R	Variance %
Revenue by source				
Revenue from exchange transactions				
Service charges	94 959 000	93 532 573	1 426 427	2%
Rental facilities and equipment	1 668 090	1 558 996	109 094	7%
Interest on receivable from exchange transactions	-	1 729 840	-1 729 840	0%
Electricity and Refuse - interest charged				
Interest earned - external investments	5 945 370	6 436 938	-491 568	-8%
Agency service	2 870 390	1 732 100	1 138 290	40%
Licences and permits	21 000	2 082 842	-2 061 842	-9818%
Other Income	2 304 750	6 768 379	-4 463 629	-194%
Gain on disposal of assets and liabilities	-	-	-	0%
Fair value adjustments	7 000 000	4 210 000	2 790 000	40%
Total revenue from exchange transactions	114 768 600	118 051 668	-1 553 228	
Revenue from non- exchange transactions				
Taxation revenue				
Property rates	66 827 990	66 472 081	355 909	1%
Property rates - penalties imposed		2 534 701	-2 534 701	0%
Licences and permits (non-exchange)	14 610	1 875	12 735	87%
Fines and penalties	13 287 420	2 948 850	10 338 570	78%
Transfer revenue				
Government grants & subsidies	272 604 520	270 708 070	1 896 450	1%
Total revenue from non-exchange transactions	352 734 540	342 665 577	10 068 963	
Total revenue	467 503 140	460 717 245	8 515 735	
Expenditure by type				
Employee Related Cost	164 639 890	170 635 224	-5 995 334	-4%
Remuneration of Councillors	22 161 620	20 684 422	1 477 198	7%
Bad Debts Written Off	7 522 110	561 109	6 961 001	93%
Depreciation and Amortisation	51 522 550	53 987 423	-2 464 873	-5%
Impairment loss on cash and non-cash generating assets		271 206	-271 206	0%
Bulk Purchases	65 200 010	70 135 684	-4 935 674	0%
Finance costs	340 060	319 443	20 617	6%
Contracted Services	85 149 760	85 581 883	-432 123	-1%
Inventory Consumed	13 087 500	13 643 869	-556 369	-4%
Debt Impairment		3 782 775	-3 782 775	#DIV/0!
Lease rentals on operating leases	2 152 770	2 061 522	91 248	4%
Operational Cost	47 516 980	44 122 433	3 394 547	7%
Loss on disposal of assets and liabilities		29 505	-29 505	#DIV/0!
Transfers and Subsidies	7 768 260	7 507 568	260 692	3%
Total expenditure	467 061 510	473 324 065	-6 262 555	
Surplus for the year	441 630	-12 606 820	14 778 290	

UMLALAZI MUNICIPALITY

Appendix D (2)

Actual versus budget - acquisition of property plant and equipment per vote

	2022 Budget R	2022 Actual R	2022 Variance R	2022 Variance %
Corporate Services	6 376 662	5 630 132	746 530	12%
Engineering Services	69 092 448	53 533 726	15 558 722	23%
Financial Services	123 000	122 978	22	0%
Mayoral Office	820 000	813 513	6 487	1%
Municipal Manager	100 000	-	100 000	100%
	86 743 050	68 625 927	18 117 123	

APPENDIX E						
uMLALAZI MUNICIPALITY						
DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA (ACT NO. 56 OF 2003)						
FOR THE YEAR ENDED 30 JUNE 2022						
Grants and Subsidies Received						

DEPARTMENT OF CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS						
DETAILS	OPENING BALANCE	APPROVED ROLL-OVER (NOT APPROVED)	RECEIVED	EXEPENDITU RE	ADJUSTMENT	UNSPNT
GIS SoftWare Grant	58 987	-	-	-58 987	-	-
Spatial Development Framework Grant	186 000	-	-	-186 000	-	-
	244 987	-	-	-244 987	-	-

NATIONAL TREASURY						
DETAILS	OPENING BALANCE	APPROVED ROLL-OVER (NOT APPROVED)	RECEIVED	EXEPENDITU RE	ADJUSTMENT	UNSPNT
Municipal Infrastructure Grant	-	-	42 551 000	-42 551 000	-	-0
Financial Management Grant	-	-	1 720 000	-1 720 000	-	0
Expanded Public Works Programme Integrated Grant	-	-	3 416 000	-3 416 000	-	-0
	-	-	47 687 000	-47 687 000	-	-0

DEPARTMENT OF HUMAM SETTLEMENTS						
DETAILS	OPENING BALANCE	APPROVED ROLL-OVER (NOT APPROVED)	RECEIVED	EXEPENDITU RE	ADJUSTMENT	UNSPNT
Sunnydale Low Cost housing grant	393 972	-	-	-393 972	-	-
Rural Housing project grant	-	-	10 740 444	-10 624 236	-	116 208
Human Settlement: Tittle Deeds Registration	1 081 699	-	-	-	-	1 081 699
	1 475 671	-	10 740 444	-11 018 209	-	1 197 907

DEPARTMENT OF ARTS AND CULTURAL						
DETAILS	OPENING BALANCE	APPROVED ROLL-OVER (NOT APPROVED)	RECEIVED	EXEPENDITU RE	ADJUSTMENT	UNSPNT
Museum subsidies	-	-	484 000	-484 000	-	-
Provincialisation of Libraries	-	-	4 727 000	-4 727 000	-	-
Community Library Services Grant	-	-	939 000	-939 000	-	-
	-	-	6 150 000	-6 150 000	-	-

DEPARTMENT OF SPORT AND RECREATION						
DETAILS	OPENING BALANCE	APPROVED ROLL-OVER (NOT APPROVED)	RECEIVED	EXEPENDITU	ADJUSTMENT	UNSPNT
Maintenance of sport facilities grant	-		-	-	-	-
Sports facilities grant	-	-	-	-	-	-
	-	-	-	-	-	-

DEPARTMENT OF MINERALS AND ENERGY						
DETAILS	OPENING BALANCE	APPROVED ROLL-OVER (NOT APPROVED)	RECEIVED	EXEPENDITU RE	ADJUSTMENT	UNSPNT
Integrated national electrification programme grant	-	-	10 825 000	-10 746 070	-	78 930
	-	-	10 825 000	-10 746 070	-	78 930

KIND CETSHWAYO DISTRICT MUNICIPALITY						
DETAILS	OPENING BALANCE	APPROVED ROLL-OVER (NOT APPROVED)	RECEIVED	EXEPENDITU RE	ADJUSTMENT	UNSPNT
Coastal Management Programme Grant	-	-	-	-	-	-
Informal Traders Training Grant	-	-	-	-	-	-
	-	-	-	-	-	-

TOTAL GRANTS	1 720 658	-	75 402 444	-75 846 265	-	1 276 837
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