



**Annual Financial Statements  
for the year ended 30 June 2020**

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## General Information

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**Nature of business and principal activities** Providing services to the community of Umzumbe

**Executive Committee**

Councillor Zungu MPL (Mayor)  
Councillor Cele SR (Deputy Mayor)  
Councillor Shozi MP (Speaker)  
Councillor Luthuli MZ (Chief Whip)  
Councillor Luthuli BB (Exco Member)  
Councillor Mdletshe MS (Exco Member)  
Councillor Mweze NY (Exco Member)  
Councillor Zamisa P (Exco Member)

**Councillors**

Councillor Cele LS  
Councillor Lithuli BB  
Councillor Dlamini DDB  
Councillor Dlamini EB  
Councillor Duma LN  
Councillor Habile PL  
Councillor Jeza S  
Councillor Khanyile RSW  
Councillor Khumalo NP  
Councillor Madwe B  
Councillor Mbambo OJ  
Councillor Mbayi TM  
Councillor Mfeka BT  
Councillor Mfecane MM  
Councillor Mjwara RL  
Councillor Mkhize R  
Councillor Msani ZZ  
Councillor Myende TC  
Councillor Msane ST  
Councillor Mtambo JP  
Councillor Ncobo SC  
Councillor Ndimande HZ  
Councillor Nzimande SG  
Councillor Phahla ZL  
Councillor Radebe TJ  
Councillor Shezi CL  
Councillor Shozi DZ  
Councillor Sithole Z  
Councillor Sikhosana B  
Councillor Zama SZ  
Councillor Ngubane S  
Councillor Zindela AE

**Grading of local authority**

Grade 1

**Accounting Officer**

Mr TP Cele

**Registered office**

Sipofu Road  
Mathulini Tribal Authority  
4220

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## General Information

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**Business address**

Sipofu Road  
Mathulini Tribal Authority  
4220  
Web: [www.umzumbe.gov.za](http://www.umzumbe.gov.za)

**Postal address**

P.O. Box 561  
Hibberdene  
4220

**Bankers**

ABSA Bank Limited

**Auditors**

Auditor General South Africa  
Registered Auditors

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Index

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

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| <b>ABBREVIATIONS</b> | <b>DESCRIPTION</b>                                           |
|----------------------|--------------------------------------------------------------|
| VAT                  | Value Added Tax                                              |
| SDL                  | Skills Development Levy                                      |
| GRAP                 | Generally Recognised Accounting Practice                     |
| GIS                  | Geographical Information Systems                             |
| COGTA                | Department of Cooperative Governance and Traditional Affairs |
| IAS                  | International Accounting Standards                           |
| DORA                 | Division of Revenue Act                                      |
| MSCOA                | Municipal Standard Chart of Accounts                         |
| MEC                  | Member of the Executive Council                              |
| MFMA                 | Municipal Finance Management Act                             |
| MIG                  | Municipal Infrastructure Grant (Previously CMIP)             |
| UIF                  | Unemployment Insurance Fund                                  |
| PAYE                 | Pay As You Earn                                              |
| MSIG                 | Municipal Systems Improvement Grant                          |

# **Umzumbe Local Municipality**

Annual Financial Statements for the year ended 30 June 2020

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

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

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

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 43, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by the accounting officer:

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**Mr TP Cele**  
**Accounting Officer**

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Financial Position as at 30 June 2020

| Figures in Rand                            | Note(s) | 2020               | 2019<br>Restated*  |
|--------------------------------------------|---------|--------------------|--------------------|
| <b>Current Assets</b>                      |         |                    |                    |
| Receivables from exchange transactions     | 4       | 680,009            | 771,367            |
| VAT receivable                             | 5       | 1,812,349          | 3,616,026          |
| Receivables from non-exchange transactions | 6       | 17,715,581         | 13,281,603         |
| Cash and Cash Equivalents                  | 7       | 238,777,471        | 196,621,721        |
|                                            |         | <b>258,985,410</b> | <b>214,290,717</b> |
| <b>Non-Current Assets</b>                  |         |                    |                    |
| Property, plant and equipment              | 2       | 401,972,837        | 363,699,537        |
| Intangible Assets                          | 3       | 559,894            | 835,295            |
|                                            |         | <b>402,532,731</b> | <b>364,534,832</b> |
| <b>Total Assets</b>                        |         | <b>661,518,141</b> | <b>578,825,549</b> |
| <b>Liabilities</b>                         |         |                    |                    |
| <b>Current Liabilities</b>                 |         |                    |                    |
| Operating lease liability                  | 10      | 62,501             | 51,603             |
| Trade and Other Payables                   | 11      | 23,425,617         | 21,044,019         |
| Unspent Conditional Grants and Receipts    | 8       | 41,668,797         | 6,864,017          |
| Provisions                                 | 9       | 6,345,448          | 5,515,288          |
|                                            |         | <b>71,502,363</b>  | <b>33,474,927</b>  |
| <b>Non-Current Liabilities</b>             |         |                    |                    |
| Provisions                                 | 9       | 1,304,000          | 1,108,000          |
| <b>Total Liabilities</b>                   |         | <b>72,806,363</b>  | <b>34,582,927</b>  |
| <b>Net Assets</b>                          |         | <b>588,711,778</b> | <b>544,242,622</b> |
| Accumulated Surplus                        |         | 588,711,778        | 544,242,622        |

\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Financial Performance

| Figures in Rand                          | Note(s) | 2020               | 2019<br>Restated*  |
|------------------------------------------|---------|--------------------|--------------------|
| <b>Revenue</b>                           |         |                    |                    |
| Other income                             | 15      | 625,506            | 482,706            |
| Interest received - investment           | 14      | 12,415,453         | 12,993,519         |
| Property rates                           | 12      | 7,734,671          | 7,538,883          |
| Government grants & subsidies            | 13      | 173,623,004        | 170,349,868        |
| <b>Total revenue</b>                     |         | <b>194,398,634</b> | <b>191,364,976</b> |
| <b>Expenditure</b>                       |         |                    |                    |
| Employee Related Costs                   | 19      | 56,640,022         | 52,859,734         |
| Remuneration of Councillors              | 20      | 17,242,325         | 16,888,294         |
| Depreciation Amortisation and Impairment | 22      | 22,772,083         | 24,223,549         |
| Finance costs                            | 16      | 123,000            | 104,000            |
| Debt Impairment                          | 21      | 353,384            | 1,387,688          |
| Contracted services                      | 17      | 13,229,829         | 17,610,151         |
| General Expenses                         | 18      | 39,408,924         | 48,421,991         |
| <b>Total expenditure</b>                 |         | <b>149,769,567</b> | <b>161,495,407</b> |
| <b>Operating Surplus</b>                 |         | <b>44,629,067</b>  | <b>29,869,569</b>  |
| Loss on Disposal of Assets               |         | (159,910)          | (329,317)          |
| <b>Surplus for the year</b>              |         | <b>44,469,157</b>  | <b>29,540,252</b>  |

\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Changes in Net Assets

| Figures in Rand                                           | Accumulated<br>Surplus | Total net<br>assets |
|-----------------------------------------------------------|------------------------|---------------------|
| Opening balance as previously reported as at 30 June 2018 | 518,270,942            | 518,270,942         |
| Adjustments                                               |                        |                     |
| Correction of errors                                      | (3,568,572)            | (3,568,572)         |
| <b>Balance at 01 July 2018 as restated*</b>               | <b>514,702,370</b>     | <b>514,702,370</b>  |
| Surplus for the year                                      | 29,540,252             | 29,540,252          |
| Total changes                                             | 29,540,252             | 29,540,252          |
| <b>Restated* Balance at 01 July 2019</b>                  | <b>544,242,621</b>     | <b>544,242,621</b>  |
| Changes in net assets                                     |                        |                     |
| Surplus for the year                                      | 44,469,157             | 44,469,157          |
| Total changes                                             | 44,469,157             | 44,469,157          |
| <b>Balance at 30 June 2020</b>                            | <b>588,711,778</b>     | <b>588,711,778</b>  |
| Note 29                                                   |                        |                     |

\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Cash Flow Statement

| Figures in Rand                                             | Note(s) | 2020                       | 2019<br>Restated*          |
|-------------------------------------------------------------|---------|----------------------------|----------------------------|
| <b>Cash flows from operating activities</b>                 |         |                            |                            |
| <b>Receipts</b>                                             |         |                            |                            |
| Receipts from Customers                                     |         | 3,609,058                  | 2,985,767                  |
| Grants                                                      |         | 208,527,669                | 176,714,000                |
| Interest income                                             |         | 12,415,453                 | 12,993,519                 |
|                                                             |         | <u>224,552,180</u>         | <u>192,693,286</u>         |
| <b>Payments</b>                                             |         |                            |                            |
| Finance costs                                               |         | (123,000)                  | (104,000)                  |
| Cash Paid to Suppliers and Employees                        |         | (121,343,536)              | (134,806,923)              |
|                                                             |         | <u>(121,466,536)</u>       | <u>(134,910,923)</u>       |
| <b>Net cash flows from operating activities</b>             | 24      | <b><u>103,085,644</u></b>  | <b><u>57,782,363</u></b>   |
| <b>Cash flows from investing activities</b>                 |         |                            |                            |
| Purchase of property, plant and equipment                   | 2       | (60,929,894)               | (43,813,020)               |
| Proceeds from sale of property, plant and equipment         | 2       | -                          | 1,271,633                  |
| <b>Net cash flows from investing activities</b>             |         | <b><u>(60,929,894)</u></b> | <b><u>(42,541,387)</u></b> |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |         | <b><u>42,155,750</u></b>   | <b><u>15,240,976</u></b>   |
| Cash and cash equivalents at the beginning of the year      |         | 196,621,721                | 181,380,745                |
| <b>Cash and cash equivalents at the end of the year</b>     | 7       | <b><u>238,777,471</u></b>  | <b><u>196,621,721</u></b>  |

\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

|  | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference (Appendix D1&D2) |
|--|-----------------|-------------|--------------|------------------------------------|--------------------------------------------|----------------------------|
|--|-----------------|-------------|--------------|------------------------------------|--------------------------------------------|----------------------------|

Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

|                                                 |                   |                 |                   |                   |                    |  |
|-------------------------------------------------|-------------------|-----------------|-------------------|-------------------|--------------------|--|
| Other income                                    | 583,859           | (89,000)        | <b>494,859</b>    | 625,506           | <b>130,647</b>     |  |
| Interest Earned - External Investments          | 13,531,500        | -               | <b>13,531,500</b> | 12,415,453        | <b>(1,116,047)</b> |  |
| <b>Total revenue from exchange transactions</b> | <b>14,115,359</b> | <b>(89,000)</b> | <b>14,026,359</b> | <b>13,040,959</b> | <b>(985,400)</b>   |  |

##### Revenue from non-exchange transactions

##### Taxation revenue

|                |           |         |                  |           |   |  |
|----------------|-----------|---------|------------------|-----------|---|--|
| Property rates | 7,541,301 | 193,370 | <b>7,734,671</b> | 7,734,671 | - |  |
|----------------|-----------|---------|------------------|-----------|---|--|

##### Transfer revenue

|                               |             |            |                    |             |                     |  |
|-------------------------------|-------------|------------|--------------------|-------------|---------------------|--|
| Government grants & subsidies | 184,056,000 | 30,971,669 | <b>215,027,669</b> | 173,623,004 | <b>(41,404,665)</b> |  |
|-------------------------------|-------------|------------|--------------------|-------------|---------------------|--|

|                                                     |                    |                   |                    |                    |                     |  |
|-----------------------------------------------------|--------------------|-------------------|--------------------|--------------------|---------------------|--|
| <b>Total revenue from non-exchange transactions</b> | <b>191,597,301</b> | <b>31,165,039</b> | <b>222,762,340</b> | <b>181,357,675</b> | <b>(41,404,665)</b> |  |
|-----------------------------------------------------|--------------------|-------------------|--------------------|--------------------|---------------------|--|

|                      |                    |                   |                    |                    |                     |  |
|----------------------|--------------------|-------------------|--------------------|--------------------|---------------------|--|
| <b>Total revenue</b> | <b>205,712,660</b> | <b>31,076,039</b> | <b>236,788,699</b> | <b>194,398,634</b> | <b>(42,390,065)</b> |  |
|----------------------|--------------------|-------------------|--------------------|--------------------|---------------------|--|

#### Expenditure

|                                                        |               |             |                      |              |                   |  |
|--------------------------------------------------------|---------------|-------------|----------------------|--------------|-------------------|--|
| Salary Related Costs                                   | (84,650,135)  | (3,525,085) | <b>(88,175,220)</b>  | (73,882,347) | <b>14,292,873</b> |  |
| General Expenses, Contracted Services & Other expenses | (125,672,335) | (6,486,018) | <b>(132,158,353)</b> | (75,887,220) | <b>56,271,133</b> |  |

|                          |                      |                     |                      |                      |                   |  |
|--------------------------|----------------------|---------------------|----------------------|----------------------|-------------------|--|
| <b>Total expenditure</b> | <b>(210,322,470)</b> | <b>(10,011,103)</b> | <b>(220,333,573)</b> | <b>(149,769,567)</b> | <b>70,564,006</b> |  |
|--------------------------|----------------------|---------------------|----------------------|----------------------|-------------------|--|

|                          |                    |                   |                   |                   |                   |  |
|--------------------------|--------------------|-------------------|-------------------|-------------------|-------------------|--|
| <b>Operating surplus</b> | <b>(4,609,810)</b> | <b>21,064,936</b> | <b>16,455,126</b> | <b>44,629,067</b> | <b>28,173,941</b> |  |
|--------------------------|--------------------|-------------------|-------------------|-------------------|-------------------|--|

|                                     |   |   |   |           |                  |  |
|-------------------------------------|---|---|---|-----------|------------------|--|
| Profit (Loss) on Disposal of Assets | - | - | - | (159,910) | <b>(159,910)</b> |  |
|-------------------------------------|---|---|---|-----------|------------------|--|

|                   |            |            |                    |   |                      |  |
|-------------------|------------|------------|--------------------|---|----------------------|--|
| Internal Reserves | 99,883,537 | 13,302,952 | <b>113,186,489</b> | - | <b>(113,186,489)</b> |  |
|-------------------|------------|------------|--------------------|---|----------------------|--|

|  |                   |                   |                    |                  |                      |  |
|--|-------------------|-------------------|--------------------|------------------|----------------------|--|
|  | <b>99,883,537</b> | <b>13,302,952</b> | <b>113,186,489</b> | <b>(159,910)</b> | <b>(113,346,399)</b> |  |
|--|-------------------|-------------------|--------------------|------------------|----------------------|--|

|                            |                   |                   |                    |                   |                     |  |
|----------------------------|-------------------|-------------------|--------------------|-------------------|---------------------|--|
| <b>Surplus / (Deficit)</b> | <b>95,273,727</b> | <b>34,367,888</b> | <b>129,641,615</b> | <b>44,469,157</b> | <b>(85,172,458)</b> |  |
|----------------------------|-------------------|-------------------|--------------------|-------------------|---------------------|--|

|                |   |   |   |   |   |  |
|----------------|---|---|---|---|---|--|
| <b>Capital</b> | - | - | - | - | - |  |
|----------------|---|---|---|---|---|--|

|                     |              |              |                      |              |                   |  |
|---------------------|--------------|--------------|----------------------|--------------|-------------------|--|
| Capital Expenditure | (95,273,727) | (34,367,888) | <b>(129,641,615)</b> | (60,929,896) | <b>68,711,719</b> |  |
|---------------------|--------------|--------------|----------------------|--------------|-------------------|--|

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

|                 | Approved<br>budget | Adjustments | Final Budget | Actual<br>amounts on<br>comparable<br>basis | Difference<br>between final<br>budget and<br>actual | Reference<br>(Appendix<br>D1&D2) |
|-----------------|--------------------|-------------|--------------|---------------------------------------------|-----------------------------------------------------|----------------------------------|
| Figures in Rand |                    |             |              |                                             |                                                     |                                  |

### Cash Flow Statement

#### Cash flows from operating activities

|                                           |            |            |                    |             |                     |  |
|-------------------------------------------|------------|------------|--------------------|-------------|---------------------|--|
| Net cash (from) from operating activities | 95,273,727 | 34,367,888 | <b>129,641,615</b> | 103,085,644 | <b>(26,555,971)</b> |  |
|-------------------------------------------|------------|------------|--------------------|-------------|---------------------|--|

#### Cash flows from investing activities

|                                           |              |              |                      |              |                   |  |
|-------------------------------------------|--------------|--------------|----------------------|--------------|-------------------|--|
| Purchase of property, plant and equipment | (95,273,727) | (34,367,888) | <b>(129,641,615)</b> | (60,929,894) | <b>68,711,721</b> |  |
|-------------------------------------------|--------------|--------------|----------------------|--------------|-------------------|--|

|                                                      |   |   |   |            |                   |  |
|------------------------------------------------------|---|---|---|------------|-------------------|--|
| Net increase/(decrease) in cash and cash equivalents | - | - | - | 42,155,750 | <b>42,155,750</b> |  |
|------------------------------------------------------|---|---|---|------------|-------------------|--|

|                                                        |   |   |   |             |                    |  |
|--------------------------------------------------------|---|---|---|-------------|--------------------|--|
| Cash and cash equivalents at the beginning of the year | - | - | - | 196,621,721 | <b>196,621,721</b> |  |
|--------------------------------------------------------|---|---|---|-------------|--------------------|--|

|                                                         |   |   |   |                    |                    |  |
|---------------------------------------------------------|---|---|---|--------------------|--------------------|--|
| <b>Cash and cash equivalents at the end of the year</b> | - | - | - | <b>238,777,471</b> | <b>238,777,471</b> |  |
|---------------------------------------------------------|---|---|---|--------------------|--------------------|--|

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

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

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

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

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

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

GRAP 104 - Financial Instruments

#### **1.1 Presentation currency**

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

#### **1.2 Going concern assumption**

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

#### **1.3 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.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.4 Property, plant and equipment

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

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 the actual acquisition date or period in respect of assets can not be determined with accuracy, the assets are recognised at fair value on the date that they were identified.

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 are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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

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

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

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# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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

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

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

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

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

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

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

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

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

### Assets Under Construction

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

### 1.5 Intangible Assets

An asset is identifiable if it either:

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

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.

# Umzumbe Local Municipality

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## Accounting Policies

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### 1.5 Intangible Assets (continued)

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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| Item                     | Depreciation method | Useful life |
|--------------------------|---------------------|-------------|
| Computer software, other | Straight line       | 3-5         |

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

### 1.6 Financial Instruments

#### Receivables from exchange transactions

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

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

#### Payables from exchange transactions

Trade payables are measured at fair value.

#### Cash and Cash Equivalents

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.6 Financial Instruments (continued)

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

#### Bank Overdraft and Borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

#### Receivables from non exchange transactions

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

### 1.7 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 - lessor

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

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

#### Finance leases - lessee

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

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

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

#### Operating leases - lessor

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

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.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.8 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

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

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

- The objective of using the assets.
- The intended use of the asset.

### Designation

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

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

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

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

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

### Identification

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

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

## Accounting Policies

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

Irrespective of whether there is any indication of impairment, the entity also test 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.

#### Value in use

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

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

#### Depreciated replacement cost approach

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

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

#### Restoration cost approach

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

#### Service units approach

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Reversal of an impairment loss

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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

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

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

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

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

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

### Redesignation

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

### 1.9 Employee Benefits

#### Short-Term Employee Benefits

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

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

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

#### Defined Contribution Plans

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

The Municipality's employees are members of the Kwazulu - Natal Joint Municipal Pension Fund (a State and Multi Employer Defined Benefit Plan) and Kwazulu Natal Joint Provident Fund (a State and Multi Employer Defined Contribution Plan). Along with other Municipalities in the province of Kwazulu Natal, uMzumbe participates in a multi employer defined plan.

As the plan exposes the participating entities to actuarial risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and

costs to individual municipalities participating in the plan. uMzumbe therefore accounts for the plan as if it were defined contribution plan.

#### Long Service Awards

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

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

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.9 Employee Benefits (continued)

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

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

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

### 1.10 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.

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

### 1.11 Revenue

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.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from unconditional grants are recognised immediately upon receipt.

Revenue from tender sales is recognised when the bidders have actually bought the tender documents and cash has been received.

#### Rates

Revenue from rates is recognised when:

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

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.11 Revenue (continued)

#### Government grants

Government grants are recognised as revenue when:

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

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

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

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

#### Conditional Grants and Receipts

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

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

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

### 1.12 Accounting by principals and agents

#### Identification

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

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

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

#### Identifying whether an entity is a principal or an agent

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

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

#### Recognition

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

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

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.12 Accounting by principals and agents (continued)

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

### 1.13 Comparative Figures

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

### 1.14 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.15 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.

### 1.16 Irregular expenditure

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

### 1.17 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.18 Investments

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

### 1.19 Conditional grants and receipts

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

### 1.20 Segment information

A segment is an activity of an entity:

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

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.20 Segment information (continued)

- 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.

### 1.21 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial

and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all

other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

### 1.22 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

### 1.23 Value Added Tax (VAT)

The municipality accounts for Value Added Tax on the cash basis with respect to the South African Revenue Service

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14% until 31 March 2018 and 15% there after) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

### 1.24 Commitments

Commitments may be referred to as the intention to commit to an outflow from the municipality of resources embodying economic benefits.

Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. In determining the value of commitments, the Municipality may utilise savings among projects. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|-----------------|------|------|
|-----------------|------|------|

### 2. Property, plant and equipment

|                                   | 2020                |                                                                 |                    | 2019                |                                                                 |                    |
|-----------------------------------|---------------------|-----------------------------------------------------------------|--------------------|---------------------|-----------------------------------------------------------------|--------------------|
|                                   | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value     | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value     |
| Machinery equipment               | 19,972,781          | (8,498,748)                                                     | 11,474,033         | 18,703,816          | (6,926,802)                                                     | 11,777,014         |
| Furniture and office<br>equipment | 4,449,993           | (3,290,678)                                                     | 1,159,315          | 4,606,764           | (3,123,094)                                                     | 1,483,670          |
| Transport assets                  | 14,461,876          | (5,312,947)                                                     | 9,148,929          | 13,012,494          | (3,964,435)                                                     | 9,048,059          |
| Computer equipment                | 4,172,613           | (2,097,715)                                                     | 2,074,898          | 2,995,421           | (1,633,244)                                                     | 1,362,177          |
| Roads infrastructure              | 261,511,300         | (120,591,160)                                                   | 140,920,140        | 250,661,390         | (104,324,362)                                                   | 146,337,028        |
| Community Assets                  | 54,622,973          | (26,839,441)                                                    | 27,783,532         | 54,371,123          | (24,550,244)                                                    | 29,820,879         |
| Solid Waste Disposal              | 223,353             | (129,917)                                                       | 93,436             | 253,544             | (139,614)                                                       | 113,930            |
| Assets under construction         | 209,318,554         | -                                                               | 209,318,554        | 163,756,780         | -                                                               | 163,756,780        |
| <b>Total</b>                      | <b>568,733,443</b>  | <b>(166,760,606)</b>                                            | <b>401,972,837</b> | <b>508,361,332</b>  | <b>(144,661,795)</b>                                            | <b>363,699,537</b> |

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

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

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

|                                | Opening<br>balance | Additions         | Disposals        | Transfers    | Depreciation        | Impairment<br>loss | Total              |
|--------------------------------|--------------------|-------------------|------------------|--------------|---------------------|--------------------|--------------------|
| Machinery equipment            | 11,777,014         | 1,396,656         | (49,651)         | -            | (1,649,986)         | -                  | 11,474,033         |
| Furniture and office equipment | 1,483,670          | 99,500            | (53,947)         | -            | (369,908)           | -                  | 1,159,315          |
| Transport assets               | 9,048,059          | 1,449,382         | -                | -            | (1,324,442)         | (24,070)           | 9,148,929          |
| Computer equipment             | 1,362,177          | 1,297,823         | (33,669)         | -            | (551,433)           | -                  | 2,074,898          |
| Roads infrastructure           | 146,337,028        | -                 | -                | 10,849,909   | (14,045,232)        | (2,221,565)        | 140,920,140        |
| Community assets               | 29,820,879         | 272,850           | (7,714)          | -            | (2,302,483)         | -                  | 27,783,532         |
| Solid waste disposal           | 113,930            | 2,000             | (3,714)          | -            | (18,780)            | -                  | 93,436             |
| Assets under construction      | 163,756,780        | 56,411,683        | -                | (10,849,909) | -                   | -                  | 209,318,554        |
|                                | <b>363,699,537</b> | <b>60,929,894</b> | <b>(148,695)</b> | <b>-</b>     | <b>(20,262,264)</b> | <b>(2,245,635)</b> | <b>401,972,837</b> |

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2019

|                                | Opening balance    | Additions         | Disposals          | Transfers   | Depreciation        | Impairment loss    | Total              |
|--------------------------------|--------------------|-------------------|--------------------|-------------|---------------------|--------------------|--------------------|
| Machinery equipment            | 12,933,030         | 409,710           | (31,534)           | -           | (1,534,192)         | -                  | 11,777,014         |
| Furniture and office equipment | 1,555,428          | 399,262           | (50,363)           | -           | (420,657)           | -                  | 1,483,670          |
| Transport assets               | 8,623,645          | 2,449,904         | (757,755)          | -           | (1,267,735)         | -                  | 9,048,059          |
| Computer equipment             | 1,375,117          | 458,492           | (88,880)           | -           | (382,552)           | -                  | 1,362,177          |
| Roads infrastructure           | 164,277,821        | 30,120            | -                  | -           | (16,284,529)        | (1,686,384)        | 146,337,028        |
| Community assets               | 30,207,093         | 193,904           | (333,403)          | 2,056,405   | (2,292,982)         | (10,138)           | 29,820,879         |
| Solid waste disposal           | 135,179            | -                 | (691)              | -           | (20,558)            | -                  | 113,930            |
| Assets under construction      | 125,941,557        | 39,871,628        | -                  | (2,056,405) | -                   | -                  | 163,756,780        |
|                                | <b>345,048,870</b> | <b>43,813,020</b> | <b>(1,262,626)</b> | <b>-</b>    | <b>(22,203,205)</b> | <b>(1,696,522)</b> | <b>363,699,537</b> |

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

|                                | Included within Infrastructure | Included within Community | Total              |
|--------------------------------|--------------------------------|---------------------------|--------------------|
| Opening balance                | 48,467,127                     | 115,289,652               | 163,756,779        |
| Additions/capital expenditure  | 21,881,696                     | 34,529,989                | 56,411,685         |
| Transferred to completed items | (10,849,909)                   | -                         | (10,849,909)       |
|                                | <b>59,498,914</b>              | <b>149,819,641</b>        | <b>209,318,555</b> |

#### Reconciliation of Work-in-Progress 2019

|                                | Included within Infrastructure | Included within Community | Total              |
|--------------------------------|--------------------------------|---------------------------|--------------------|
| Opening balance                | 29,104,495                     | 96,837,062                | 125,941,557        |
| Additions/capital expenditure  | 19,362,632                     | 20,508,995                | 39,871,627         |
| Transferred to completed items | -                              | (2,056,405)               | (2,056,405)        |
|                                | <b>48,467,127</b>              | <b>115,289,652</b>        | <b>163,756,779</b> |

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

| Figures in Rand                                                                                                                 | 2020      | 2019      |
|---------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| <b>2. Property, plant and equipment (continued)</b>                                                                             |           |           |
| <b>Expenditure incurred to repair and maintain property, plant and equipment</b>                                                |           |           |
| <b>Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance</b> |           |           |
| Contracted services                                                                                                             | 6,239,101 | 6,702,884 |

### Impairment of assets

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

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Intangible Assets

|                          | 2020      |                                                     |                | 2019      |                                                     |                |
|--------------------------|-----------|-----------------------------------------------------|----------------|-----------|-----------------------------------------------------|----------------|
|                          | Cost      | Accumulated amortisation and accumulated impairment | Carrying value | Cost      | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 1,904,548 | (1,344,654)                                         | 559,894        | 1,934,251 | (1,098,956)                                         | 835,295        |

#### Reconciliation of intangible assets - 2020

|                   | Opening balance | Disposals | Amortisation | Total   |
|-------------------|-----------------|-----------|--------------|---------|
| Computer software | 835,295         | (11,216)  | (264,185)    | 559,894 |

#### Reconciliation of intangible assets - 2019

|                   | Opening balance | Disposals | Amortisation | Total   |
|-------------------|-----------------|-----------|--------------|---------|
| Computer software | 1,180,761       | (21,644)  | (323,822)    | 835,295 |

### 4. Receivables from exchange transactions

|                                          |                |                |
|------------------------------------------|----------------|----------------|
| Sundry debtors                           | 639,186        | 713,557        |
| Interest                                 | 40,823         | 57,810         |
| Rei Management                           | 2,379,003      | 2,379,003      |
| Rei Management (Provision for Bad debts) | (2,379,003)    | (2,379,003)    |
|                                          | <b>680,009</b> | <b>771,367</b> |

### 5. VAT receivable

|                 |           |           |
|-----------------|-----------|-----------|
| Value Added Tax | 1,812,349 | 3,616,026 |
|-----------------|-----------|-----------|

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

| Figures in Rand                                                                                                                                              | 2020               | 2019               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>5. VAT receivable (continued)</b>                                                                                                                         |                    |                    |
| The municipality is predominantly funded by Government Grants which are zero rated. Therefore VAT input has been claimed which has not been received as yet. |                    |                    |
| <b>6. Trade and other receivables from non exchange transactions</b>                                                                                         |                    |                    |
| <b>Gross balances</b>                                                                                                                                        |                    |                    |
| Rates                                                                                                                                                        | 25,587,371         | 20,800,010         |
| <b>Less: Allowance for impairment</b>                                                                                                                        |                    |                    |
| Rates                                                                                                                                                        | (7,871,790)        | (7,518,407)        |
| <b>Net balance</b>                                                                                                                                           |                    |                    |
| Rates                                                                                                                                                        | 17,715,581         | 13,281,603         |
| <b>Rates</b>                                                                                                                                                 |                    |                    |
| 121 - 365 days                                                                                                                                               | 17,715,581         | 13,281,603         |
| <b>Summary of debtors by customer classification</b>                                                                                                         |                    |                    |
| <b>Residential</b>                                                                                                                                           |                    |                    |
| > 180 days                                                                                                                                                   | 5,305,842          | 4,624,232          |
|                                                                                                                                                              | 5,305,842          | 4,624,232          |
| Less: Allowance for impairment                                                                                                                               | (5,305,842)        | (4,624,232)        |
|                                                                                                                                                              | -                  | -                  |
| <b>Industrial/ commercial</b>                                                                                                                                |                    |                    |
| > 180 days                                                                                                                                                   | 4,652,502          | 3,685,119          |
|                                                                                                                                                              | 4,652,502          | 3,685,119          |
| Less: Allowance for impairment                                                                                                                               | (651,001)          | (717,677)          |
|                                                                                                                                                              | <b>4,001,501</b>   | <b>2,967,442</b>   |
| <b>National and provincial government</b>                                                                                                                    |                    |                    |
| > 180 days                                                                                                                                                   | 15,629,028         | 12,490,660         |
|                                                                                                                                                              | 15,629,028         | 12,490,660         |
| Less: Allowance for impairment                                                                                                                               | (1,914,947)        | (2,176,497)        |
|                                                                                                                                                              | <b>13,714,081</b>  | <b>10,314,163</b>  |
| <b>Total</b>                                                                                                                                                 |                    |                    |
| > 365 days                                                                                                                                                   | 25,587,371         | 20,800,010         |
|                                                                                                                                                              | 25,587,371         | 20,800,010         |
| Less: Allowance for impairment                                                                                                                               | (7,871,790)        | (7,518,407)        |
|                                                                                                                                                              | <b>17,715,581</b>  | <b>13,281,603</b>  |
| <b>Less: Allowance for impairment</b>                                                                                                                        |                    |                    |
| > 365 days                                                                                                                                                   | (7,871,790)        | (7,518,407)        |
| <b>Reconciliation of allowance for impairment</b>                                                                                                            |                    |                    |
| Balance at beginning of the year                                                                                                                             | (7,518,407)        | (6,130,719)        |
| Contributions to allowance                                                                                                                                   | (353,383)          | (1,387,688)        |
|                                                                                                                                                              | <b>(7,871,790)</b> | <b>(7,518,407)</b> |

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

| Figures in Rand                       | 2020               | 2019               |
|---------------------------------------|--------------------|--------------------|
| <b>7. Cash and Cash Equivalents</b>   |                    |                    |
| Cash and cash equivalents consist of: |                    |                    |
| Cash on hand                          | 43,308             | 2,200              |
| Bank balances                         | 228,547,492        | 186,656,537        |
| Short-term deposits                   | 10,186,671         | 9,962,984          |
|                                       | <b>238,777,471</b> | <b>196,621,721</b> |

The municipality had the following bank accounts

| Account number / description                         | Bank statement balances |                    | Cash book balances |                    |
|------------------------------------------------------|-------------------------|--------------------|--------------------|--------------------|
|                                                      | 30 June 2020            | 30 June 2019       | 30 June 2020       | 30 June 2019       |
| ABSA BANK LTD - Port Shepstone - 40-7276-2850        | 226,415,261             | 185,899,311        | 225,874,197        | 185,806,628        |
| ABSA Housing Account - Port Shepstone - 40-7278-0715 | 2,513,337               | 694,316            | 2,511,045          | 694,316            |
| ABSA MIG Account - Port Shepstone 40 - 7277-6506     | 162,617                 | 155,592            | 162,250            | 155,592            |
| FNB - Call Account                                   | 4,502,986               | 4,279,298          | 4,502,985          | 4,279,298          |
| FNB Fixed Deposit account                            | 5,683,686               | 5,683,686          | - 5,683,686        | 5,683,686          |
| <b>Total</b>                                         | <b>239,277,887</b>      | <b>196,712,203</b> | <b>238,734,163</b> | <b>196,619,520</b> |

## 8. Unspent Conditional Grants and Receipts

The unspent conditional grants are cash backed

Unspent conditional grants and receipts comprises of:

### Unspent conditional grants and receipts

|                                |                   |                  |
|--------------------------------|-------------------|------------------|
| Project Consolidate            | -                 | 99,885           |
| Municipal Infrastructure Grant | 11,620,547        | 6,100,011        |
| Expanded Public Works Program  | 145,921           | -                |
| Disaster Management Grant      | 13,828,669        | -                |
| KZN Sports Grant               | 50,000            | 50,000           |
| Fire Fighting Grant            | 374,778           | 614,121          |
| National Electrification       | 6,438,911         | -                |
| Disaster Grant Relief-Covid 19 | 720,685           | -                |
| Massification Grant            | 8,489,286         | -                |
|                                | <b>41,668,797</b> | <b>6,864,017</b> |

### Movement during the year

|                                      |                   |                  |
|--------------------------------------|-------------------|------------------|
| Balance at the beginning of the year | 6,864,017         | 499,885          |
| Grants received during the year      | 77,412,669        | 56,148,000       |
| Income recognition during the year   | (42,508,004)      | (49,783,868)     |
| Grant transferred to COGTA           | (99,885)          | -                |
|                                      | <b>41,668,797</b> | <b>6,864,017</b> |

See Note13 for reconciliation of grants from National/Provincial Government.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|-----------------|------|------|
|-----------------|------|------|

### 9. Provisions

#### Reconciliation of provisions - 2020

|                     | Opening Balance  | Additions        | Utilised during the year | Actuarial Loss (Gain) | Current Service cost | Finance Cost   | Total            |
|---------------------|------------------|------------------|--------------------------|-----------------------|----------------------|----------------|------------------|
| Provision for Bonus | 1,315,003        | 1,582,643        | (1,315,003)              | -                     | -                    | -              | 1,582,643        |
| Long Service Awards | 1,175,000        | -                | (157,523)                | 89,523                | 188,000              | 123,000        | 1,418,000        |
| Leave Pay           | 4,133,285        | 1,473,268        | (957,748)                | -                     | -                    | -              | 4,648,805        |
|                     | <b>6,623,288</b> | <b>3,055,911</b> | <b>(2,430,274)</b>       | <b>89,523</b>         | <b>188,000</b>       | <b>123,000</b> | <b>7,649,448</b> |

#### Reconciliation of provisions - 2019

|                     | Opening Balance  | Additions        | Utilised during the year | Actuarial Loss (Gain) | Current Service Cost | Finance Cost   | Total            |
|---------------------|------------------|------------------|--------------------------|-----------------------|----------------------|----------------|------------------|
| Provision for Bonus | 1,148,582        | 1,315,003        | (1,148,582)              | -                     | -                    | -              | 1,315,003        |
| Long Service Awards | 989,000          | -                | (56,739)                 | (38,261)              | 177,000              | 104,000        | 1,175,000        |
| Leave Pay           | 3,232,947        | 1,056,969        | (156,631)                | -                     | -                    | -              | 4,133,285        |
|                     | <b>5,370,529</b> | <b>2,371,972</b> | <b>(1,361,952)</b>       | <b>(38,261)</b>       | <b>177,000</b>       | <b>104,000</b> | <b>6,623,288</b> |

|                         |                  |                  |
|-------------------------|------------------|------------------|
| Non-current liabilities | 1,304,000        | 1,108,000        |
| Current liabilities     | 6,345,448        | 5,515,288        |
|                         | <b>7,649,448</b> | <b>6,623,288</b> |

#### Provision for Long Service Awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2020 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2020 by a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

|                                |        |       |
|--------------------------------|--------|-------|
| Discount Rate                  | 10.03% | 9.29% |
| CPI (Consumer Price Inflation) | 5.56%  | 6.07% |
| Normal Salary Increase Rate    | 6.56%  | 7.07% |
| Net Effective Discount Rate    | 3.26%  | 2.07% |

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

|                         |                  |                  |
|-------------------------|------------------|------------------|
| Total Accrued Liability | 1,528,000        | 1,283,000        |
| Current Service Cost    | 278,000          | 209,000          |
| Interest cost           | 197,000          | 135,000          |
|                         | <b>2,003,000</b> | <b>1,627,000</b> |

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

|                         |                  |                  |
|-------------------------|------------------|------------------|
| Total Accrued Liability | 1,319,000        | 1,080,000        |
| Current Service Cost    | 235,000          | 170,000          |
| Interest cost           | 168,000          | 113,000          |
|                         | <b>1,722,000</b> | <b>1,363,000</b> |

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

| Figures in Rand                                   | 2020              | 2019              |
|---------------------------------------------------|-------------------|-------------------|
| <b>10. Operating lease asset (liability)</b>      |                   |                   |
| Current liabilities                               | (62,501)          | (51,603)          |
| <b>Minimum Lease Payments due</b>                 |                   |                   |
| Within one year                                   | 2,037             | 1,531             |
| In second to fifth year                           | 10,401            | 7,814             |
| Over five years and until the end of the lease    | 487,671           | 494,300           |
|                                                   | <b>500,109</b>    | <b>503,645</b>    |
| <b>11. Trade and Other Payables</b>               |                   |                   |
| Trade payables                                    | 468,650           | 2,078,676         |
| Other payables                                    | 542,848           | 592,687           |
| Advances from the Department of Human Settlements | 2,810,295         | 674,497           |
| Deposits received                                 | 37,829            | 34,551            |
| Retention                                         | 19,565,995        | 17,663,608        |
|                                                   | <b>23,425,617</b> | <b>21,044,019</b> |
| <b>12. Property rates</b>                         |                   |                   |
| <b>Rates</b>                                      |                   |                   |
| Property Rates Billed                             | 7,734,671         | 7,538,883         |

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

| Figures in Rand                                              | 2020               | 2019               |
|--------------------------------------------------------------|--------------------|--------------------|
| <b>13. Government grants and subsidies</b>                   |                    |                    |
| <b>Operating grants</b>                                      |                    |                    |
| Equitable share                                              | 131,115,000        | 120,566,000        |
| Disaster Grant Relief-Covid 19                               | 322,315            | -                  |
| Financial Management Grant                                   | 1,900,000          | 1,900,000          |
| Municipal Infrastructure Grant                               | 28,556,464         | 31,291,989         |
| Expanded Public Works Program                                | 1,418,079          | 1,526,000          |
| Fire Fighting Grant                                          | 239,343            | 185,879            |
| Intergrated National Electrification Programme               | 8,561,089          | 14,880,000         |
| Massification Grant                                          | 1,510,714          | -                  |
|                                                              | <b>173,623,004</b> | <b>170,349,868</b> |
| <b>Project Consolidate</b>                                   |                    |                    |
| Balance unspent at beginning of year                         | 99,885             | 99,885             |
| Grant transferred to COGTA                                   | (99,885)           | -                  |
|                                                              | <b>-</b>           | <b>99,885</b>      |
| <b>Financial Management Grant</b>                            |                    |                    |
| Current-year receipts                                        | 1,900,000          | 1,900,000          |
| Conditions met - transferred to revenue                      | (1,900,000)        | (1,900,000)        |
|                                                              | <b>-</b>           | <b>-</b>           |
| <b>Municipal Infrastructure Grant</b>                        |                    |                    |
| Balance unspent at beginning of year                         | 6,100,011          | -                  |
| Current-year receipts                                        | 34,077,000         | 37,392,000         |
| Conditions met - transferred to revenue                      | (28,556,464)       | (31,291,989)       |
|                                                              | <b>11,620,547</b>  | <b>6,100,011</b>   |
| Conditions still to be met - remain liabilities (see note 8) |                    |                    |
| <b>Expanded Public Works Program</b>                         |                    |                    |
| Current-year receipts                                        | 1,564,000          | 1,526,000          |
| Conditions met - transferred to revenue                      | (1,418,079)        | (1,526,000)        |
|                                                              | <b>145,921</b>     | <b>-</b>           |
| Conditions still to be met - remain liabilities (see note 8) |                    |                    |
| <b>Disaster Management Grant</b>                             |                    |                    |
| Balance unspent at beginning of year                         | -                  | -                  |
| Current-year receipts                                        | 13,828,669         | -                  |
| Conditions met - transferred to revenue                      | -                  | -                  |
|                                                              | <b>13,828,669</b>  | <b>-</b>           |
| Conditions still to be met - remain liabilities (see note 8) |                    |                    |
| <b>KZN Sports</b>                                            |                    |                    |
| Balance unspent at beginning of year                         | 50,000             | -                  |
| Current-year receipts                                        | -                  | 50,000             |

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

| Figures in Rand                                               | 2020             | 2019           |
|---------------------------------------------------------------|------------------|----------------|
| <b>13. Government grants and subsidies (continued)</b>        |                  |                |
|                                                               | <b>50,000</b>    | <b>50,000</b>  |
| Conditions still to be met - remain liabilities (see note 8). |                  |                |
| <b>Fire Fighting Grant</b>                                    |                  |                |
| Balance unspent at beginning of year                          | 614,121          | 400,000        |
| Current-year receipts                                         | -                | 400,000        |
| Conditions met - transferred to revenue                       | (239,343)        | (185,879)      |
|                                                               | <b>374,778</b>   | <b>614,121</b> |
| Conditions still to be met - remain liabilities (see note 8). |                  |                |
| <b>National Electrification Grant</b>                         |                  |                |
| Current-year receipts                                         | 15,000,000       | 14,880,000     |
| Conditions met - transferred to revenue                       | (8,561,089)      | (14,880,000)   |
|                                                               | <b>6,438,911</b> | <b>-</b>       |
| <b>Disaster Grant Relief-Covid 19</b>                         |                  |                |
| Current-year receipts                                         | 1,043,000        | -              |
| Conditions met - transferred to revenue                       | (322,315)        | -              |
|                                                               | <b>720,685</b>   | <b>-</b>       |
| Conditions still to be met - remain liabilities (see note 8). |                  |                |
| <b>14. Investment revenue</b>                                 |                  |                |
| <b>Interest revenue</b>                                       |                  |                |
| Interest Received on Investments                              | 12,415,453       | 12,993,519     |
| <b>15. Other income</b>                                       |                  |                |
| Tender Income                                                 | 160,499          | 127,825        |
| Sundry income                                                 | 465,007          | 354,881        |
|                                                               | <b>625,506</b>   | <b>482,706</b> |
| <b>16. Finance costs</b>                                      |                  |                |
| Interest recognised on long service awards provision          | 123,000          | 104,000        |
| <b>17. Contracted services</b>                                |                  |                |
| <b>Outsourced Services</b>                                    |                  |                |
| Catering Services                                             | 1,627,559        | 3,887,987      |
| Clearing and Grass Cutting Services                           | 222,293          | 331,340        |
| Medical Services                                              | 5,670            | 24,200         |
| Security Services                                             | 1,880,629        | 1,947,693      |
| <b>Consultants and Professional Services</b>                  |                  |                |
| Business and Advisory                                         | 1,342,368        | 2,149,773      |
| Infrastructure and Planning                                   | 1,264,887        | 948,771        |
| Legal Cost                                                    | 91,927           | 190,476        |

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

| Figures in Rand                            | 2020              | 2019              |
|--------------------------------------------|-------------------|-------------------|
| <b>17. Contracted services (continued)</b> |                   |                   |
| <b>Contractors</b>                         |                   |                   |
| Artists and Performers                     | 327,000           | 806,000           |
| Audio-visual Services                      | 10,000            | 65,500            |
| Interior Decorator                         | 9,500             | 15,500            |
| Repairs and Maintenance                    | 6,239,101         | 6,702,884         |
| Stage and Sound Crew                       | 208,895           | 540,027           |
|                                            | <b>13,229,829</b> | <b>17,610,151</b> |
| <b>18. General expenses</b>                |                   |                   |
| Advertising, Publicity and Marketing       | 4,326,115         | 8,232,167         |
| Auditors remuneration                      | 1,583,143         | 1,442,082         |
| Bank charges                               | 109,166           | 99,156            |
| Ward Committees                            | 2,076,000         | 1,791,550         |
| Bursaries                                  | 836,189           | 673,329           |
| Consumables                                | 4,223,561         | 4,941,857         |
| Electricity                                | 324,267           | 470,325           |
| Free basic services                        | 12,168,270        | 12,392,536        |
| Entertainment                              | 5,411             | 30,805            |
| Hire charges                               | 1,380,526         | 3,967,170         |
| Insurance                                  | 1,092,666         | 1,024,132         |
| Lease Rentals on Operating Lease           | 181,187           | 589,483           |
| Licences                                   | 405,130           | 784,301           |
| Printing and stationery                    | 1,577,044         | 1,772,163         |
| Subscriptions and membership fees          | 1,197,752         | 851,648           |
| Subsistence and Travel                     | 1,294,315         | 2,534,436         |
| Communication                              | 2,763,876         | 2,337,789         |
| Transport and events                       | 1,233,748         | 2,503,864         |
| Solid waste disposal                       | 126,790           | 170,827           |
| Uniform and Protective Clothing            | 852,896           | 504,920           |
| Registration fees                          | 84,403            | 51,484            |
| Other expenses                             | 1,566,469         | 1,255,967         |
|                                            | <b>39,408,924</b> | <b>48,421,991</b> |

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

| Figures in Rand                                                    | 2020              | 2019              |
|--------------------------------------------------------------------|-------------------|-------------------|
| <b>19. Employee related costs</b>                                  |                   |                   |
| Basic Salary                                                       | 35,804,292        | 33,525,350        |
| Bonus                                                              | 3,229,380         | 2,357,586         |
| Medical aid - company contributions                                | 1,561,377         | 1,528,586         |
| Unemployment Insurance Fund                                        | 247,189           | 230,248           |
| Skills Development Levy                                            | 402,182           | 458,103           |
| Leave pay provision charge                                         | 1,473,267         | 1,238,178         |
| Pension Contribution                                               | 4,214,329         | 3,763,602         |
| Travel, motor car, accommodation, subsistence and other allowances | 6,310,825         | 7,204,819         |
| Overtime payments                                                  | 1,738,428         | 1,266,931         |
| Acting allowances                                                  | 185,692           | 146,427           |
| Other Salary costs                                                 | 1,473,061         | 1,139,904         |
|                                                                    | <b>56,640,022</b> | <b>52,859,734</b> |

### Remuneration of Municipal Manager

|                     |                |                |
|---------------------|----------------|----------------|
| Annual Remuneration | 558,397        | 515,447        |
| Car Allowance       | 186,132        | 171,816        |
| Other               | 42,341         | 7,747          |
|                     | <b>786,870</b> | <b>695,010</b> |

The new Municipal Manager was appointed in September 2019

### Remuneration of Chief Financial Officer

|                     |                  |                  |
|---------------------|------------------|------------------|
| Annual Remuneration | 771,466          | 871,475          |
| Car Allowance       | 257,155          | 300,204          |
| Performance Bonuses | 292,628          | -                |
| Other               | 242,537          | 41,673           |
|                     | <b>1,563,786</b> | <b>1,213,352</b> |

### Remuneration Corporate Services Director

|                     |                  |                |
|---------------------|------------------|----------------|
| Annual Remuneration | 611,297          | 618,574        |
| Car Allowance       | 203,766          | 206,191        |
| Performance Bonuses | 179,736          | -              |
| Other               | 11,178           | 7,835          |
|                     | <b>1,005,977</b> | <b>832,600</b> |

### Remuneration of Technical Services Director

|                     |          |                |
|---------------------|----------|----------------|
| Annual Remuneration | -        | 452,825        |
| Car Allowance       | -        | 179,751        |
| Other               | -        | 159,589        |
|                     | <b>-</b> | <b>792,165</b> |

The Director for Technical Services resigned in April 2019. The position has not yet been filled.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

| Figures in Rand                                                 | 2020               | 2019              |
|-----------------------------------------------------------------|--------------------|-------------------|
| <b>19. Employee related costs (continued)</b>                   |                    |                   |
| <b>Remuneration of Social &amp; Community Services Director</b> |                    |                   |
| Annual Remuneration                                             | 611,297            | 550,507           |
| Car Allowance                                                   | 203,766            | 212,312           |
| Performance Bonuses                                             | 85,961             | -                 |
| Other                                                           | 101,429            | 136,051           |
|                                                                 | <b>1,002,453</b>   | <b>898,870</b>    |
| <b>20. Remuneration of councillors</b>                          |                    |                   |
| Mayor                                                           | 793,850            | 880,202           |
| Deputy Mayor                                                    | 514,451            | 712,698           |
| Speaker                                                         | 737,094            | 712,570           |
| Councillors                                                     | 15,196,930         | 14,582,824        |
|                                                                 | <b>17,242,325</b>  | <b>16,888,294</b> |
| <b>21. Debt impairment</b>                                      |                    |                   |
| Debt impairment                                                 | 353,384            | 1,387,688         |
| <b>22. Depreciation and amortisation</b>                        |                    |                   |
| Property, plant and equipment                                   | 22,507,898         | 23,899,727        |
| Intangible assets                                               | 264,185            | 323,822           |
|                                                                 | <b>22,772,083</b>  | <b>24,223,549</b> |
| <b>23. Auditors' remuneration</b>                               |                    |                   |
| Fees                                                            | 1,583,143          | 1,442,082         |
| <b>24. Cash generated from operations</b>                       |                    |                   |
| Surplus                                                         | 44,469,157         | 29,540,252        |
| <b>Adjustments for:</b>                                         |                    |                   |
| Depreciation and amortisation                                   | 22,772,083         | 24,223,549        |
| Loss on sale of assets                                          | 159,910            | 329,317           |
| Debt impairment                                                 | 353,384            | 1,387,688         |
| Movement in operating lease accrual                             | 10,898             | 8,630             |
| Movements in provisions                                         | 1,026,160          | 1,252,759         |
| Prior Year Adjustments                                          | -                  | (3,885,250)       |
| <b>Changes in working capital:</b>                              |                    |                   |
| Receivables from exchange transactions                          | 91,358             | (45,258)          |
| Trade and other receivables from non exchange transactions      | (4,787,362)        | (4,993,310)       |
| Trade and Other Payables                                        | 2,381,599          | (54,491)          |
| VAT                                                             | 1,803,677          | 3,016,291         |
| Unspent Conditional Grants and Receipts                         | 34,804,780         | 7,002,186         |
|                                                                 | <b>103,085,644</b> | <b>57,782,363</b> |

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

| Figures in Rand                                             | 2020               | 2019               |
|-------------------------------------------------------------|--------------------|--------------------|
| <b>25. Commitments</b>                                      |                    |                    |
| <b>Authorised capital expenditure</b>                       |                    |                    |
| <b>Approved and contracted for:</b>                         |                    |                    |
| • Infrastructure                                            | 73,959,643         | 74,734,690         |
| <b>Approved but not yet contracted for:</b>                 |                    |                    |
| • Infrastructure                                            | 278,211,488        | 256,409,943        |
| <b>Total capital commitments</b>                            |                    |                    |
| Already contracted for but not provided for                 | 73,959,643         | 74,734,690         |
| Not yet contracted for and authorised by accounting officer | 278,211,488        | 256,409,943        |
|                                                             | <b>352,171,131</b> | <b>331,144,633</b> |

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

### 26. Unauthorised expenditure

|                             |                  |                  |
|-----------------------------|------------------|------------------|
| Opening balance as restated | 2,379,003        | 4,232,246        |
| Less: Amount written off    | -                | (1,853,243)      |
| <b>Closing balance</b>      | <b>2,379,003</b> | <b>2,379,003</b> |

### 27. Fruitless and wasteful expenditure

|                                         |           |          |
|-----------------------------------------|-----------|----------|
| Add: Fruitless and wasteful expenditure | 103,028   | 5,833    |
| Less: Amount written off                | (103,028) | (5,833)  |
| <b>Closing balance</b>                  | <b>-</b>  | <b>-</b> |

#### Incidents

The municipality incurred fruitless and wasteful expenditure of R 103 028 due to interest and penalties arising from late payments to suppliers and institutions.

### 28. Irregular expenditure

|                             |                  |                   |
|-----------------------------|------------------|-------------------|
| Opening balance as restated | 50,430,421       | 27,029,357        |
| Add: Irregular Expenditure  | 71,891,472       | 23,401,064        |
| Less: Amount written off    | (118,037,560)    | -                 |
| <b>Closing balance</b>      | <b>4,284,333</b> | <b>50,430,421</b> |

**Incident:** During the year, the municipality incurred irregular expenditure as a result of Bid Adjudication Committee not being properly constituted and non compliance with Local Production and Content regulations.

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

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 29. Effects of correction and reclassification of prior year errors / adjustments on financial statements

An amount of R3 568 573 relates to correction of error relating to VAT

An amount of R5 900 relates to a recognition of an asset not previously included.

An amount of R364 183 relates to correction of error with regards to sundry debtors.

An amount of R48 361 relates to correction of prior year accounts payable balances.

An amount of R399 725.06 relates to correction of salary related balances

#### Statement of Financial Position

|                                                            | Note | As previously reported | Correction of errors | Total              |
|------------------------------------------------------------|------|------------------------|----------------------|--------------------|
| Receivables from exchange transactions                     | 4    | 735,824                | 35,543               | 771,367            |
| VAT Receivable                                             | 5    | 7,137,097              | (3,521,071)          | 3,616,026          |
| Trade and Other Receivables from Non Exchange Transactions | 6    | 13,281,603             | -                    | 13,281,603         |
| Cash and Cash Equivalents                                  | 7    | 196,621,721            | -                    | 196,621,721        |
| Property , Plant and Equipment                             | 2    | 363,693,637            | 5,900                | 363,699,537        |
| Intangible Assets                                          | 3    | 835,295                | -                    | 835,295            |
| <b>Total Assets</b>                                        | -    | <b>582,305,177</b>     | <b>(3,479,628)</b>   | <b>578,825,549</b> |
| Operating Lease Liability                                  | 10   | (51,603)               | -                    | (51,603)           |
| Trade and Other Payables                                   | 11   | (20,995,659)           | (48,360)             | (21,044,019)       |
| Unspent Conditional Grants and Receipts                    | 8    | (6,864,017)            | -                    | (6,864,017)        |
| Current : Provisions                                       | 9    | (5,515,288)            | -                    | (5,515,288)        |
| Non Current Provisions                                     | 9    | (1,108,000)            | -                    | (1,108,000)        |
| Accumulated Surplus                                        | -    | (547,770,610)          | 3,527,988            | (544,242,622)      |
|                                                            | -    | <b>582,305,177</b>     | <b>(3,479,628)</b>   | <b>578,825,549</b> |

#### Statement of financial performance

|                                | Note | As previously reported | Correction of errors | Reclassification on | Total       |
|--------------------------------|------|------------------------|----------------------|---------------------|-------------|
| Other Income                   | 15   | 482,706                | -                    | -                   | 482,706     |
| Interest Received - Investment | -    | 12,993,519             | -                    | -                   | 12,993,519  |
| Property Rates                 | 12   | 7,538,883              | -                    | -                   | 7,538,883   |
| Government Grants & Subsidies  | 13   | 170,349,868            | -                    | -                   | 170,349,868 |

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

|                                          |    |                    |               |   |                    |
|------------------------------------------|----|--------------------|---------------|---|--------------------|
| <b>Total Revenue</b>                     | -  | <b>191,364,976</b> | -             | - | <b>191,364,976</b> |
| Employee Related Costs                   | 18 | (53,259,459)       | 399,725       | - | (52,859,734)       |
| Remuneration of Councillors              | 19 | (16,888,294)       | -             | - | (16,888,294)       |
| Depreciation Amortisation and Impairment | 21 | (24,223,549)       | -             | - | (24,223,549)       |
| Finance Cost                             | -  | (104,000)          | -             | - | (104,000)          |
| Debt Impairment                          | 20 | (1,387,688)        | -             | - | (1,387,688)        |
| Contracted Services                      | 16 | (17,616,051)       | 5,900         | - | (17,610,151)       |
| General Expenses                         | 17 | (48,373,630)       | (48,361)      | - | (48,421,991)       |
| Loss on Disposal of Assets               | -  | (12,637)           | (316,680)     | - | (329,317)          |
| <b>Surplus for the year</b>              | -  | <b>29,499,668</b>  | <b>40,584</b> | - | <b>29,540,252</b>  |

### Cashflow Statement

|                                                  | Note | As previously reported | Correction of errors | Total             |
|--------------------------------------------------|------|------------------------|----------------------|-------------------|
| Government Grants and subsidies                  | -    | 176,714,000            | -                    | 176,714,000       |
| Cash Receipts from Customers                     | -    | 2,985,767              | -                    | 2,985,767         |
| Interest Income                                  | -    | 12,993,519             | -                    | 12,993,519        |
| Finance Costs                                    | -    | (104,000)              | -                    | (104,000)         |
| Cash Paid to Suppliers and Employees             | -    | (134,812,823)          | 5,900                | (134,806,923)     |
| Purchase of Property, Plant and Equipment        | 2    | (43,807,120)           | (5,900)              | (43,813,020)      |
| Proceeds from Sale of Assets                     | -    | 1,271,633              | -                    | 1,271,633         |
| <b>Net increase in cash and cash equivalents</b> | -    | <b>15,240,976</b>      | -                    | <b>15,240,976</b> |

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|-----------------|------|------|
|-----------------|------|------|

### 30. Contingencies

#### Contingent Liabilities

##### Incidents.

The municipality is involved in labour disputes with some employees relating to salaries. Matters have been referred to the SALGBC. The estimated cost amounts to R 1 451 100.

The municipality is the second respondent and has been cited as an interested party that is involved in a contactual dispute between two service providers. The estimated costs amount to R4 800 000 if the Municipality is unsuccessful. The Municipality is currently defending the matter in court.

The municipality is also involved in another contactual dispute with a service provider. The estimated costs amount to R1 000 000 if the Municipality is unsuccessful. The Municipality is currently defending the matter in court.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

| Figures in Rand | 2020 | 2019 |
|-----------------|------|------|
|-----------------|------|------|

### 31. Risk management

#### 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.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and rates debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

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

|                                                                    |             |             |
|--------------------------------------------------------------------|-------------|-------------|
| Financial instrument                                               |             |             |
| Trade and other receivables from non exchange transactions (Rates) | 17,715,581  | 13,281,603  |
| Cash and Cash Equivalents                                          | 238,777,471 | 196,621,721 |

### 32. Going concern

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

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

#### Contribution to Local Government Associations

|                           |             |             |
|---------------------------|-------------|-------------|
| Opening balance           | -           | 555,520     |
| Current year subscription | 1,131,020   | 624,350     |
| Amount paid               | (1,131,020) | (1,179,870) |
|                           | -           | -           |

#### Audit fees

|                            |             |             |
|----------------------------|-------------|-------------|
| Current year fee           | 1,583,143   | 1,442,082   |
| Amount paid - current year | (1,583,143) | (1,442,082) |
|                            | -           | -           |

#### PAYE and UIF

|                         |              |              |
|-------------------------|--------------|--------------|
| Current year deductions | 11,397,382   | 10,617,245   |
| Amount paid             | (11,397,382) | (10,617,245) |
|                         | -            | -            |

#### Pension, Provident and Medical Aid Deductions

|              |             |             |
|--------------|-------------|-------------|
| Current year | 9,527,962   | 8,645,187   |
| Amount paid  | (9,527,962) | (8,645,187) |
|              | -           | -           |

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

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|-----------------|------|------|
|-----------------|------|------|

### 34. Multi employer retirement benefit

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

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

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

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

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

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

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

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

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

### DEFINED CONTRIBUTION SCHEMES

#### Kwazulu-Natal Joint Municipal Pension Fund:

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

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

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

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### 35. Related Party Transactions

#### Related party balances

##### Amounts included in General Expenses regarding related parties

|                                    |         |         |
|------------------------------------|---------|---------|
| Ugu South Coast Development Agency | 665,634 | 633,938 |
| Ugu South Coast Tourism Authority  | 575,734 | 548,318 |

Senior management and council are further classified as related parties. Refer to note 19 and note 20.

#### Section 45 and 44 of SCM Regulations

Awards to business associates in service of state

As a result of the 2018/2019 audit, expenditure of R1 755 796 (2019 - R 403 086.40) related to awards to business associates of persons in the service of the state. This information came to the attention of the Municipality towards the finalisation of the 2018/19 audit in the current year.

##### Purchases from related parties

|                                                                                  |           |   |
|----------------------------------------------------------------------------------|-----------|---|
| C K ZONDI CONSTRUCTION AND CATERING SERVICES (Related to MTAMBO JP - COUNCILLOR) | 6,500     | - |
| NELA KAHLE 30 (Related to NDIMANDE HZ - COUNCILLOR)                              | 196,390   | - |
| NDOSI TRADING ENTERPRISE (Related to NGUBO FN - DATA CAPTURER EPW)               | 192,711   | - |
| EZ'BUKWAYO EVENTS (Related to KHOMO NC - MANAGER SPECIAL PROGRAMME)              | 20,500    | - |
| MOSOLINA CONSTRUCTION (Related to SHOZI LN - REGISTRY)                           | 14,800    | - |
| TOP TWENTY FIVE GROUP TRADING AND PROJECTS (Related to MFECANE MM - COUNCILLOR)  | 17,500    | - |
| DARK OR BLUE PROJECTS (Related to KHOMO NC - MANAGER SPECIAL PROGRAMME)          | 47,995    | - |
| NTANDOKAYOLI (Related to MFECANE MM - COUNCILLOR)                                | 22,500    | - |
| MANGANGA GENERAL TRADING (Related to SHOZI LN - REGISTRY CLERK)                  | 5,000     | - |
| SAMBULINTWENHLE (Related to SHOZI LN - REGISTRY CLERK)                           | 24,400    | - |
| NONGEWULANA (Related to MTAMBO TP - EPWP)                                        | 26,000    | - |
| FANCY WAYS (Related to SW MKIZE - ACTING MUNICIPAL MANAGER)                      | 1,181,500 | - |

### 36. Section 36 deviations

During the year the Accounting Officer approved minor breaches in terms of section 36 (1) (b) as well as section 36 (1) (a) amounting to R2 814 801 (2019 - R4 429 203)