



**Umkhanyakude District Municipality**

**Annual financial statements  
for the year ended 30 June 2018**

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## General Information

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<b>Legal form of entity</b>	DC27 Umkhanyakude District Municipality
<b>Executive Committee</b>	Cllr Mkhombo T.S. (Mayor) Cllr Hlabisa F.C. (Deputy Mayor) Cllr Msane MS (Speaker) Cllr Moodley G.P. (Exco Member) Cllr Ngcobo M.S. (Exco Member) Cllr Zungu M.C. (Exco Member)
<b>Councillors</b>	Cllr Gina MA Cllr Gumede KS Cllr Gumede RH Cllr Gumede VE Cllr Gumede VM Cllr Hlabisa VF Cllr Khoza SJ Cllr Khumalo CT Cllr Mabika DP Cllr Mabika AV Cllr Madlopha PB Cllr Mathenjwa BS Cllr Mdaka SF Cllr Mhlongo ZM Cllr Mpontshane KN Cllr Mthembu MJ Cllr Mthethwa N.R Cllr Mthethwa NS Cllr Mthethwa SP Cllr Myeni SR Cllr Mzinyane SW Cllr Ngubane JG Cllr Sithole MB Cllr Zulu NR Cllr Zuma NE
<b>Grading of local authority</b>	Grade 4
<b>Accounting Officer</b>	Bukhosini S.E
<b>Chief Finance Officer (CFO)</b>	N.T Dlodla (Acting CFO)
<b>Business address</b>	Harlingen No. 13433 Kingfisher Road Mkuze 3965
<b>Postal address</b>	P.O. Box 449 Mkuze 3965
<b>Bankers</b>	ABSA
<b>Auditors</b>	Auditor-General South Africa Registered Auditors

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

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

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

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The municipality is wholly dependent on the XXXX Municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that XXXX Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

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

The annual financial statements set out on pages 4 to 54, which have been prepared on the going concern basis, were approved by the on 01 March 1900 and were signed on its behalf by:

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**S.E Bukhosini**  
**Accounting Officer**

**Place of signature**

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	120 489 379	124 845 735
Receivables from exchange transactions	4	(63 825 800)	55 606 687
Other receivables from exchange transactions	5	8 287 527	8 873 090
VAT receivable	6	22 924 874	48 801 276
Cash and cash equivalents	7	62 343 829	34 626 017
<b>Total current assets</b>		<b>150 219 809</b>	<b>272 752 805</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	8	1 967 960 259	1 854 056 646
Intangible assets	9	192 350	301 656
Heritage assets	10	586 000	586 000
<b>Total Non-Current Assets</b>		<b>1 968 738 609</b>	<b>1 854 944 302</b>
<b>Total Assets</b>		<b>2 118 958 418</b>	<b>2 127 697 107</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	11	206 125 978	280 026 883
Consumer deposits	12	1 396 340	1 377 510
Unspent conditional grants and receipts	13	18 049 683	64 576 002
Current portion of defined benefit plan obligation	14	1 296 000	534 000
Current portion of loans	15	986 127	1 003 312
<b>Total Current Liabilities</b>		<b>227 854 128</b>	<b>347 517 707</b>
<b>Non-Current Liabilities</b>			
Defined benefit plan obligation	14	7 027 000	6 512 000
Non-current loans	15	5 351 435	6 207 357
<b>Total Non-Current Liabilities</b>		<b>12 378 435</b>	<b>12 719 357</b>
<b>Total Liabilities</b>		<b>240 232 563</b>	<b>360 237 064</b>
<b>Net Assets</b>		<b>1 878 725 855</b>	<b>1 767 460 043</b>
Accumulated surplus		1 878 725 854	1 767 460 043

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	16	28 014 406	19 541 684
Rental of facilities and equipment	17	208 830	56 310
Interest revenue	18	6 936 705	5 115 213
Other revenue	19	15 542 398	16 048 647
Actuarial gains	14	-	124 705
<b>Revenue from non exchange transactions</b>			
Government grants & subsidies	20	636 191 356	525 375 773
<b>Total revenue</b>		<b>686 893 695</b>	<b>566 262 332</b>
<b>EXPENDITURE</b>			
Employee related costs	21	(145 717 134)	(133 969 150)
Remuneration of councillors	22	(6 992 456)	(6 874 314)
Depreciation, amortisation and impairment	23	(74 520 693)	(37 378 520)
Finance costs	24	(2 014 645)	(1 339 122)
Debt Impairment	25	(132 972 749)	(5 262 800)
Repairs and maintenance	26	(48 914 847)	(71 059 659)
Bulk purchases	27	(88 753 542)	(80 929 565)
Contracted services	28	(31 149 006)	(23 264 678)
General Expenses	29	(44 676 731)	(50 990 274)
<b>Total expenditure</b>		<b>(575 711 803)</b>	<b>(411 068 082)</b>
<b>Operating surplus</b>		<b>111 181 892</b>	<b>155 194 250</b>
<b>Surplus for the year</b>		<b>111 181 892</b>	<b>155 194 250</b>

Draft V1

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1 620 284 434	1 620 284 434
Adjustments - Note 31		
Correction of errors	(8 018 641)	(8 018 641)
<b>Balance at 01 July 2016</b>	<b>1 612 265 793</b>	<b>1 612 265 793</b>
Changes in net assets		
Surplus for the year	155 194 250	155 194 250
Total changes	155 194 250	155 194 250
<b>Balance at 01 July 2017</b>	<b>1 767 543 962</b>	<b>1 767 543 962</b>
Changes in net assets		
Surplus for the year	111 181 892	111 181 892
Total changes	111 181 892	111 181 892
<b>Balance at 31 March 2018</b>	<b>1 878 725 854</b>	<b>1 878 725 854</b>
Note(s)		

Draft V1

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		18 372 442	16 648 983
Grants		617 497 000	565 848 000
Interest income		6 936 705	5 115 213
Other receipts		112 503	11 931 565
		<u>642 918 650</u>	<u>599 543 761</u>
<b>Payments</b>			
Employee costs and remuneration of councillors		(152 709 590)	(141 757 721)
Suppliers		(291 003 395)	(223 622 814)
Finance costs		(2 014 645)	(695 796)
		<u>(445 727 630)</u>	<u>(366 076 331)</u>
<b>Undefined difference compared to the cash generated from operations note</b>		<b>(1 042 714)</b>	<b>756 224</b>
<b>Net cash flows from operating activities</b>	30	<b><u>196 148 306</u></b>	<b><u>234 223 654</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(170 259 934)	(225 279 433)
Proceeds from sale of property, plant and equipment	8	1 662 532	-
Purchase of other intangible assets	9	(2 699)	(23 218)
		<u>(168 600 101)</u>	<u>(225 302 651)</u>
<b>Cash flows from financing activities</b>			
Repayments of non-current loans		(873 107)	(853 901)
		<u>(873 107)</u>	<u>(853 901)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>26 675 098</b>	<b>8 067 102</b>
Cash and cash equivalents at the beginning of the year		34 626 017	27 315 139
<b>Cash and cash equivalents at the end of the year</b>	7	<b><u>61 301 115</u></b>	<b><u>35 382 241</u></b>



# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	35 669 000	(9 889 000)	<b>25 780 000</b>	28 014 406	<b>2 234 406</b>	
Rental of facilities and equipment	137 000	(55 000)	<b>82 000</b>	208 830	<b>126 830</b>	
Interest received - investment	4 256 000	306 000	<b>4 562 000</b>	6 936 705	<b>2 374 705</b>	
Other income	12 052 000	(3 746 000)	<b>8 306 000</b>	15 542 398	<b>7 236 398</b>	
<b>Total revenue from exchange transactions</b>	<b>52 114 000</b>	<b>(13 384 000)</b>	<b>38 730 000</b>	<b>50 702 339</b>	<b>11 972 339</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Transfer revenue</b>						
Government grants & subsidies	604 308 000	17 301 000	<b>621 609 000</b>	636 191 356	<b>14 582 356</b>	
<b>Total revenue</b>	<b>656 422 000</b>	<b>3 917 000</b>	<b>660 339 000</b>	<b>686 893 695</b>	<b>26 554 695</b>	
<b>Expenditure</b>						
Employee Related Costs	(136 793 000)	(6 565 000)	<b>(143 358 000)</b>	(145 717 134)	<b>(2 359 134)</b>	
Remuneration of councillors	(8 940 000)	-	<b>(8 940 000)</b>	(6 992 456)	<b>1 947 544</b>	
Depreciation and amortisation	(45 009 000)	6 719 000	<b>(38 290 000)</b>	(74 520 693)	<b>(36 230 693)</b>	
Finance costs	(1 499 000)	558 000	<b>(941 000)</b>	(2 014 645)	<b>(1 073 645)</b>	
Debt Impairment	(18 028 000)	-	<b>(18 028 000)</b>	(132 972 749)	<b>(114 944 749)</b>	
Repairs and maintenance	(35 330 000)	3 836 000	<b>(31 494 000)</b>	(48 914 847)	<b>(17 420 847)</b>	
Bulk purchases	(89 912 000)	-	<b>(89 912 000)</b>	(88 753 542)	<b>1 158 458</b>	
Contracted Services	(24 355 000)	(14 107 000)	<b>(38 462 000)</b>	(31 149 006)	<b>7 312 994</b>	
General Expenses	(38 590 000)	(5 058 000)	<b>(43 648 000)</b>	(44 676 731)	<b>(1 028 731)</b>	
<b>Total expenditure</b>	<b>(398 456 000)</b>	<b>(14 617 000)</b>	<b>(413 073 000)</b>	<b>(575 711 803)</b>	<b>(162 638 803)</b>	
<b>Surplus before taxation</b>	<b>257 966 000</b>	<b>(10 700 000)</b>	<b>247 266 000</b>	<b>111 181 892</b>	<b>(136 084 108)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>257 966 000</b>	<b>(10 700 000)</b>	<b>247 266 000</b>	<b>111 181 892</b>	<b>(136 084 108)</b>	

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## 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.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates.

Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Impairment of assets.  
Defined benefit obligations for long service awards.  
Useful lives and residual values of property, plant, and equipment.  
Water and electricity losses.

#### Trade and other receivables

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

#### Defined benefit obligations

Defined benefit obligations were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Defined benefit obligations

#### Allowance for doubtful debts

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

#### 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.

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

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

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

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

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality 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.

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

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

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

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Item	Average useful life
Land	Not depreciated
Buildings	
• Residential dwellings	10 - 25 years
• Non residential dwellings	15 - 25 years
Infrastructure	
• Electricity	5 - 60 years
• Water	5 - 100 years
• Sewerage	10 - 40 years
• Airports	15 - 30 years
• Stormwater	30 - 80 years
• Capital works in progress	Not applicable
Other	
• Furniture and office equipment	5 - 10 years
• Computer equipment	3 - 5 years
• Transport assets	5 - 7 years
• Other machinery and equipment	5 - 15 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

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

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# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

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.

### 1.5 Intangible assets

Intangible assets are initially recognised at cost when they are identifiable.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality 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.

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.

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.

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	Average useful life
Computer software	5

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Intangible assets are derecognised:

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.6 Heritage assets

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

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

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

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

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

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.6 Heritage assets (continued)

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

#### Recognition

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

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

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

#### Impairment

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

#### Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

### 1.7 Financial instruments

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

A financial asset is:

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

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

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

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.7 Financial instruments (continued)

#### Classification

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

<b>Class</b>	<b>Category</b>
Receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

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

<b>Class</b>	<b>Category</b>
Trade and other payables from exchange transactions	Financial liability measured at fair value
Loans payable	Financial liability measured at amortised cost

#### Initial recognition

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

#### Initial measurement of financial assets and financial liabilities

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

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# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.7 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at amortised cost.

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

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

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

#### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

#### Derecognition

##### Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;

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

##### Financial liabilities

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

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

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 1.7 Financial instruments (continued)

#### Presentation

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

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

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

#### Receivables from trade transactions

Receivables from exchange transactions are measured at amortised cost.

#### Payables from exchange transactions

Trade payables are measured at amortised cost.

#### Loans payable

Loans payable are measured at amortised cost

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. These are initially and subsequently recorded at amortised cost.

### 1.8 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.

#### 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. Operating lease asset or liability is recognised as asset or liability in the statement of financial position.

### 1.9 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

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

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

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



# Umkhanyakude District Municipality

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## Accounting Policies

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### 1.9 Inventories (continued)

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

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

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

### 1.10 Impairment of cash-generating assets

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

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

#### Identification

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

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

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

#### Value in use

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

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

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

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

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

#### Discount rate

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 1.10 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

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

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

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

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.

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.

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

#### Identification

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

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

Irrespective of whether there is any indication of impairment, the municipality 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.

#### 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.

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

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

#### Reversal of an impairment loss

The municipality 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.

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.

### 1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.13 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 and 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.

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

#### Pension Obligations

Umkhanyakude District Council and its employees contribute to the Natal Joint Municipal Pension Fund, Kwazulu-Natal Joint Municipal Provident Fund and GEPF which provides retirement benefits to such employees. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No.24 of 1973) and in accordance with the requirements of the Pension Fund Act, 1956 Current contributions are charged against operating income on the basis of current service costs.

### 1.14 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.

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

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

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

Provisions are not recognised for future operating deficits.

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

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.15 Commitments

Commitment is referred to as the intention to commit to an outflow from the municipality's 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.

Disclosures are required in respect of unrecognised contractual commitments.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. A municipality may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

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

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

### 1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

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

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

#### Measurement

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

#### Rendering of services

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

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

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

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

Service revenue comprises of electricity, water and sewer and is recognised based on consumption by consumers. Service revenue from prepaid electricity is recognised based on electricity purchase by consumers.

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets.

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

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit. Non-exchange transactions are defined as transactions where the municipality receives value from another municipality without directly giving approximately equal value in exchange.

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

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

#### Recognition

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

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

#### Measurement

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

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

### 1.18 Interest income

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

### 1.19 Borrowing costs

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

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

### 1.20 Comparative figures

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

### 1.21 Unauthorised expenditure

“Unauthorised expenditure”, in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 1 I(3) of MFMA. and includes-

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose. otherwise than for that specific purpose:

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.21 Unauthorised expenditure (continued)

- spending of an allocation referred to in paragraph (0). ( c , ) or (ti) of the 5 definition of “allocation” otherwise than in accordance with an! conditions of the allocation; or

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.

### 1.22 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.

### 1.23 Irregular expenditure

Irregular expenditure in relation to a municipality, means -

- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of MFMA, and which has not been condoned in terms of section 170 of that Act;
- expenditure incurred by a municipality in contravention of or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act 30 No. 20 of 1998); or
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any municipality's by-laws giving effect to such policy, and which has not been condoned in 35 terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of “unauthorised expenditure”

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

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

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

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



# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.24 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.

### 1.25 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets.

Where an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquisition, for example, repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs. Where future economic benefits are expected to be consumed over several reporting periods e.g. non-current assets, expenses (depreciation) is allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and where a liability is incurred without the recognition of an asset an expense is recognised simultaneously with the recognition of the liability.

Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting expenses are recognised when incurred usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Major expenses include:

- Write downs of inventory and decreases in fair values of financial instruments classified as held at fair value;
- Losses on the disposal of non-current assets are reported separately from expenses in the Statement of Financial Performance;
- Repairs and Maintenance - inclusive of repairs and maintenance to buildings, infrastructure assets, motor vehicles and sports and recreational facilities;
- Bulk purchases - expenditure on the procurement of bulk water and electricity;
- Contracted services – included are debt collection costs, data cleansing costs, service level agreement costs, property valuation roll and asset register verification costs, software support costs and security services costs.
- Transfers and grants which relate to expenditure pertaining to free basic services; and
- General Expenses which constitute several expense items which are not individually significant.

### 1.26 Consumer deposits

Consumer deposits represents security held by the municipality in respect of new consumer accounts opened. Once application for connection of services are made consumers are required to pay a nominal fee which is recognised as a Consumer deposit.

Consumer deposits are recognised at their nominal or carrying value.

Upon closure of a consumer's account the deposit is subsequently refunded by the municipality to the consumer.

### 1.27 Offsetting

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

### 1.28 Budget information

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

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

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.28 Budget information (continued)

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/03/31.

The budget presented is for the municipality itself.

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

Comparative information is not required.

### 1.29 Related parties

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

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

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

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

### 1.30 Events after reporting date

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

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

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

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

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.31 Changes accounting estimates and judgements

The municipality makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Assets Useful Lives

Plant and equipment is depreciated over its useful life. The actual useful lives of the assets are assessed annually and vary depending on a number of factors. In reassessing the assets' useful lives, factors such as technological innovation and maintenance programmes are taken into account.

### 1.32 VAT

The Municipality is a registered VAT vendor and accounts for declaration and submission of VAT returns on a cash basis.

VAT as disclosed in the annual financial statements have been prepared on the accrual basis.

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

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### 2. New standards and interpretations

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

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>
Grap 18 : Segment Reporting	1 April 2020.
Grap 20 : Related party disclosures	1 April 2019.
Grap 32 : Service Concession Arrangement: Grantor	1 April 2019.
Grap 34 : Separate Financial Statements	No effective date determined.
Grap 35 : Consolidated Financial statements	No effective date determined.
Grap 36 : Investments in Associates and Joint Ventures	No effective date determined.
Grap 37 : Joint Arrangements	No effective date determined.
Grap 38 : Disclosure of interest in other entities	No effective date determined.
Grap 108 : Statutory receivables	No effective date determined.
Grap 109 : Accounting by Principals and Agents	1 April 2019.
Grap 110 : Living and Non-Living Resources	1 April 2020.
IGRAP 17: Service Concession Arrangement Where a Grantor Controls a Significant Residual Interest in an Asset Service Concession Arrangement	No effective date determined
IGRAP 18: Recognition and Derecognition of Land	1 April 2019

### 3. Inventories

Materials	107 422 788	111 779 144
Water	1 026 231	1 026 231
Water meters	12 040 360	12 040 360
	<b>120 489 379</b>	<b>124 845 735</b>

Inventory is carried at its original cost and no inventory was written down.

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>4. Receivables from exchange Transactions</b>		
<b>Gross balances</b>		
Electricity	21 335 540	21 954 072
Water	119 152 730	118 581 743
Sewerage	46 165 832	44 655 452
WSSA debtors	3 219 169	3 219 169
	<b>189 873 271</b>	<b>188 410 436</b>
<b>Less:</b>		
Allowance for impairment - Service charges	(130 622 099)	(130 622 099)
<b>Net balance</b>		
Receivables from exchange transactions	<b>(63 825 800)</b>	<b>55 606 687</b>
<b>Electricity</b>		
Current (0 -30 days)	-	98 795
31 - 60 days	-	166 851
61 - 90 days	-	182 219
91 - 120 days	-	81 230
121 - 365 days	-	21 424 977
	-	<b>21 954 072</b>
<b>Water</b>		
Current (0 -30 days)	-	515 531
31 - 60 days	-	870 675
61 - 90 days	-	950 869
91 - 120 days	-	423 881
121 - 365 days	-	115 820 837
	-	<b>118 581 793</b>
<b>Sewerage</b>		
Current (0 -30 days)	-	200 950
31 - 60 days	-	339 381
61 - 90 days	-	370 640
91 - 120 days	-	165 225
121 - 365 days	-	43 579 256
	-	<b>44 655 452</b>

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# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>4. (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	-	339 996
31 - 60 days	-	517 695
61 - 90 days	-	663 532
91 - 120 days	-	296 531
121 - 365 days	-	139 516 993
		<hr/>
	-	141 334 747
Less: Allowance for impairment	-	(112 969 766)
	-	<hr/>
	-	<b>28 364 981</b>
		<hr/>
<b>Commercial</b>		
Current (0 -30 days)	-	299 749
31 - 60 days	-	644 949
61 - 90 days	-	520 711
91 - 120 days	-	283 944
121 - 365 days	-	27 865 460
		<hr/>
	-	29 614 813
Less: Allowance for impairment	-	(16 879 912)
	-	<hr/>
	-	<b>12 734 901</b>
		<hr/>
<b>National and provincial government</b>		
Current (0 -30 days)	-	185 502
31 - 60 days	-	219 220
61 - 90 days	-	316 666
91 - 120 days	-	94 080
121 - 365 days	-	9 733 911
		<hr/>
	-	<b>10 549 379</b>
		<hr/>
<b>Total</b>		
Current (0 -30 days)	-	825 248
31 - 60 days	-	1 381 864
61 - 90 days	-	1 500 909
91 - 120 days	-	674 554
121 - 365 days	-	177 105 473
		<hr/>
	-	181 488 048
Add: Credit balance debtors (Note 12)	-	3 703 219
	-	3 219 169
	-	<hr/>
	-	<b>188 410 436</b>
		<hr/>
<b>Less: Allowance for impairment</b>		
91 - 120 days	-	(130 315)
121 - 365 days	-	(130 491 784)
	-	<hr/>
	-	<b>(130 622 099)</b>
		<hr/>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	-	(125 359 299)
Contributions to allowance	-	(5 262 800)
	-	<hr/>
	-	<b>(130 622 099)</b>
		<hr/>

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>5. Other receivables from exchange transactions</b>		
Other Debtors	8 287 527	8 873 090
<b>6. VAT receivable</b>		
VAT	22 924 874	48 801 276
<b>The VAT receivable balance is comprised of:</b>		
Input VAT claimed through VAT 201 returns	16 683 915	51 062 763
Undeclared VAT output	(10 226 658)	(9 872 371)
Undeclared VAT input	1 138 736	9 516 250
	<b>7 595 993</b>	<b>50 706 642</b>
<b>7. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	48 281	48 281
Bank balances	61 225 991	33 565 539
Call account balances	1 069 557	1 012 197
	<b>62 343 829</b>	<b>34 626 017</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
First National Bank - Demand deposit - 62092993809	651 178	619 401	587 008	651 178	619 401	587 008
First National Bank - Demand deposit - 62027696478	97 969	94 147	90 241	97 969	94 147	90 241
First National Bank - Primary Account: 62026865321	52 367 316	13 607 279	11 418 571	52 367 266	13 607 279	11 418 571
ABSA Bank - 40-5310-7423	8 124 072	4 977 950	673 798	8 124 070	4 977 950	673 798
Ithala Bank - Club Account 23247671	636 685	614 609	580 439	636 685	614 609	580 439
ABSA Bank - Call Account - 91-1531-5268	385 390	361 234	13 886 098	385 390	361 234	13 886 098
First National Bank - Money Market Account - 62263733258	30 185	28 911	28 205	30 185	28 911	28 205
First National Bank - Business Call Account - 62309788498	2 803	2 651	2 499	2 803	2 651	2 499
ABSA Bank - Fixed deposit- 2076739152	-	14 271 554	-	-	14 271 554	-
<b>Total</b>	<b>62 295 598</b>	<b>34 577 736</b>	<b>27 266 859</b>	<b>62 295 546</b>	<b>34 577 736</b>	<b>27 266 859</b>

The municipality does not hold any restricted cash and can freely realise the available balances.

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

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### 8. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 157 250	-	1 157 250	1 157 250	-	1 157 250
Buildings	64 145 160	(16 053 771)	48 091 389	91 351 192	(13 949 043)	77 402 149
Infrastructure	2 106 009 380	(203 009 611)	1 902 999 769	1 930 667 241	(170 661 595)	1 760 005 646
Other property, plant and equipment	39 491 903	(23 780 054)	15 711 849	40 354 788	(24 863 189)	15 491 599
<b>Total</b>	<b>2 210 803 695</b>	<b>(242 843 436)</b>	<b>1 967 960 259</b>	<b>2 063 530 473</b>	<b>(209 473 827)</b>	<b>1 854 056 646</b>

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# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Difference	Additions	Donations	Disposals	Depreciation	Impairment loss	Closing balance
Land	1 157 250	-	-	-	-	-	-	1 157 250
Buildings	77 402 149	-	-	-	-	(2 104 729)	(27 206 031)	48 091 389
Infrastructure	1 760 005 646	-	181 586 350	-	-	(32 348 017)	(6 244 210)	1 902 999 769
Other property, plant and equipment	15 491 599	49	1 084 541	6 750 000	(1 108 638)	(4 803 506)	(1 702 196)	15 711 849
	<b>1 854 056 644</b>	<b>49</b>	<b>182 670 891</b>	<b>6 750 000</b>	<b>(1 108 638)</b>	<b>(39 256 252)</b>	<b>(35 152 437)</b>	<b>1 967 960 257</b>

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Donations	Depreciation	Impairment loss	Closing balance
Land	1 157 250	-	-	-	-	1 157 250
Buildings	79 558 453	-	-	(2 013 104)	(143 200)	77 402 149
Infrastructure	1 502 756 555	284 649 098	4 173 393	(27 885 650)	(3 687 750)	1 760 005 646
Other property, plant and equipment	18 332 946	700 105	-	(3 375 191)	(166 261)	15 491 599
	<b>1 601 805 204</b>	<b>285 349 203</b>	<b>4 173 393</b>	<b>(33 273 945)</b>	<b>(3 997 211)</b>	<b>1 854 056 644</b>

During the 2018 financial year, Umkhanyakude District Municipality received 15 trucks from Department of Water Affairs and these trucks were fair valued at R450 000 each.

As at 30 June 2017, Umkhanyakude District Municipality had received assets from Umhlabuyalingana Municipality at their carrying amounts of R4 173 393. These assets were recognised in the books of Umkhanyakude District Municipality at their carrying amounts as the carrying amounts were accepted as the good indicators of the fair value of the assets considering that they were only used for one year.

There were no assets pledged as security during the year.

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

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

#### Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Buildings	Total
Opening balance	624 285 613	31 897 382	656 182 995
Additions/capital expenditure	180 964 052	-	180 964 052
Projects written off	(6 244 210)	(27 206 031)	(33 450 241)
Transferred to completed items	(47 676 861)	-	(47 676 861)
	<b>751 328 594</b>	<b>4 691 351</b>	<b>756 019 945</b>

#### Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Buildings	Total
Opening balance	609 172 789	37 259 023	646 431 812
Additions/capital expenditure	252 890 261	-	252 890 261
Transferred to completed items	(237 777 437)	(5 361 641)	(243 139 078)
	<b>624 285 613</b>	<b>31 897 382</b>	<b>656 182 995</b>

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# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 9. Intangible assets

	2018			2017		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	768 445	(576 095)	192 350	765 746	(464 090)	301 656

#### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Closing balance
Computer software	301 656	2 699	(112 005)	192 350

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Closing balance
Computer software	385 802	23 218	(107 364)	301 656

### 10. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral regalia	586 000	-	586 000	586 000	-	586 000

#### Reconciliation of heritage assets 2018

	Opening balance	Closing bal
Mayoral regalia	586 000	586 000

#### Reconciliation of heritage assets 2017

	Opening balance	Closing bal
Mayoral regalia	586 000	586 000

#### Recognition of heritage assets

The deemed cost of the mayoral chain was determined using fair value. The fair value was determined by a Corlia Luyt, an independent jewellery designer and manufacturer, on 23 August 2016.

### 11. Payables from exchange transactions

Trade creditors	167 351 190	234 551 080
Other payables- Umhlosinga	5 469 355	5 030 158
Debtor prepayments	-	3 703 219
Employee related deductions and suspense accounts	594 085	4 325 170
Accruals for overtime payments	329 699	329 699
Accruals for 13th cheque payments	3 300 280	3 234 937
Accruals for leave pay	12 159 899	13 246 954
Retentions	16 921 470	15 605 666
	<b>206 125 978</b>	<b>280 026 883</b>

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>12. Consumer deposits</b>		
Consumer deposits - Water	1 396 340	1 377 510
<b>13. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Councillors Training	11 300	11 300
Disaster Management Grant	9 120	9 120
Environmental Management Grant	405 600	405 600
Ingwavuma Prison Electrical Upgrade	101 506	101 506
Kwadapha	578 891	578 891
Kwazibi National Lottery Grant	122 667	122 667
Water Services Infrastructure Grant	-	32 205 315
Lake Tete	267 001	267 001
Mabibi National Lottery Grant	166 667	166 667
Massification Grant	4 172 492	4 172 492
Public Participation Customer Satisfaction Survey	154 000	154 000
Mqobela National Lottery Grant	166 666	166 666
Ndumo Learners Shelter Grant	9 441 505	9 441 505
Nyezi Community HIV Centre	303 570	303 570
PIMMS/ NDT Operational Grant	300	300
Municipal Infrastructure Grant	-	15 410 451
Rural Road & Transport Management Grant	89 447	-
ACIP Grant	4 695	4 695
Shared Services Grant	145 566	145 566
Financial Management Grant	1 000 000	-
Umkhombe Tours	908 690	908 690
	<b>18 049 683</b>	<b>64 576 002</b>

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# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 14. Defined definition plan obligation

#### Reconciliation of defined benefit obligation - 30 June 2018

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Other provisions	7 046 000	769 000	737 000	(526 047)	297 047	8 323 000

#### Reconciliation of defined benefit obligation 30 June 2017

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Other provisions	6 169 000	817 000	649 000	(464 295)	(124 705)	7 046 000

#### Defined benefit plan obligation disclosed in the Statement of Financial Position as:

Non-current liabilities	7 027 000	6 512 000
Current liabilities	1 296 000	534 000
	<b>8 323 000</b>	<b>7 046 000</b>

#### Long service awards

##### Membership Data

As at 30 June 2018, the number of members entitled to receive long service leave awards from the Municipality were:

Gender	Number of active employees	Salary weighted average age (Years)	Weighted Average past service (Years)
Male	204	42.95	6.73
Female	98	40.26	7.8
Total	302		

#### Long service awards Liabilities

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

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. The nominal and real zero curves as at 30 June 2018 supplied by the JSE were used to determine the discounted rates and CPI assumptions. As reflected below, the average age for mortality, retirements and withdrawals from service were also considered.

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

The table below reflects a summary of the benefit policy:

Completed years of service	Total long service benefit awards (% of annual salary)	Formula used to calculate Total long service benefit award
10	4%	$(10/250) \times \text{Annual salary}$
15	8%	$(20/250) \times \text{Annual salary}$
20,25,30,35,40 and 45	12%	$(30/250) \times \text{Annual salary}$

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>14. Defined definition plan obligation (continued)</b>		
Valuation Assumptions - Key Financial Variables	Assumed value 30 June 2018	Assumed value 30 June 2017
Discount rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve**	Difference between nominal and real yield curve**
Normal salary increase	CPI + 1%	6%
Net Effective Discount Rate	Yield Curve Based	Yield Curve Based
Average retirement age for all active employees	63	63
Mortality before retirement	SA 85-90	SA 85-90
The table below sets out the assumed rates of withdrawal from services:		
Age band	Males	Females
Age 20 - 24	16%	24%
Age 25 - 29	12%	18%
Age 30 - 34	10%	15%
Age 35 - 39	8%	10%
Age 40 - 44	6%	6%
Age 45 - 49	4%	4%
Age 50 - 54	2%	2%
Age 55 -59	1%	1%
Age 60+	0%	0%
<b>Valuation of assets</b>		
As at the valuation date, the long service leave liability award of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability.		
<b>Amounts recognised in the Statement of Financial Position</b>		
Accrued defined benefit obligation	7 046 000	7 046 000
<b>Reconciliation of accrued defined benefit obligations: Long service leave awards</b>		
	<b>Current valuation date 30 June 2017</b>	<b>Preceding valuation date 30 June 2016</b>
Accrued liability as at preceding valuation date	7 046 000	6 169 000
Current service cost	769 000	817 000
Interest cost	737 000	649 000
Benefits paid	(526 047)	(464 295)
Actuarial gains	297 047	(124 705)
<b>Balance at end of year</b>	<b>8 323 000</b>	<b>7 046 000</b>
<b>Net amounts recognised in Statement of Financial Performance</b>		
Current service cost	769 000	817 000
Interest cost	737 000	649 000
Benefits paid	(526 047)	(464 295)
Actuarial gains	297 047	(124 705)
	<b>1 277 000</b>	<b>877 000</b>
<b>15. Non-current loans</b>		
Development Bank of Southern Africa Loans		
Non-current portion of borrowings	5 351 435	6 207 357

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>15. Non-current loans (continued)</b>		
Current portion of borrowings	986 127	1 003 312
	<b>6 349 031</b>	<b>7 210 669</b>
<p>The municipality received two (2) loans from Development Bank of Southern Africa (DBSA) to fund the construction of the municipal buildings. The interest rates per each loan are as follows:</p> <p>Loan 61000800, fixed interest rate at 6.75% Loan 61000191, semi-floating interest rate. Interest reference is 6 Month Jibar (current base interest plus the margin).</p> <p>Loan repayments are due bi-annually (i.e. on 31 March and 30 September each calendar year) with the final redemption date being 30 September 2025.</p>		
<b>16. Service charges</b>		
Sale of electricity	6 141 212	5 262 044
Sale of water	21 167 234	13 771 141
Sewerage and sanitation charges	705 960	508 499
<b>Total Service Charges</b>	<b>28 014 406</b>	<b>19 541 684</b>
<b>17. Rental of facilities and equipment</b>		
<b>Facilities and equipment</b>		
Rental of facilities	208 830	56 310
	<b>208 830</b>	<b>56 310</b>
<b>18. Interest revenue</b>		
<b>Interest revenue</b>		
Investments	4 255 161	2 213 099
Other bank balances	2 681 544	2 902 114
	<b>6 936 705</b>	<b>5 115 213</b>
<b>19. Other revenue</b>		
Fines and penalties	18 450	-
Connection fees	48 675	21 723
Department of Water and Sanitation refund	-	11 666 297
Sale of tender documents	63 828	171 234
Sundry revenue	-	16 000
Donations received	14 997 607	4 173 393
Commission	35 550	-
Other income 9	378 288	-
	<b>15 542 398</b>	<b>16 048 647</b>

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# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>20. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	330 288 488	292 201 698
Rural Road and Transport Management Grant	2 529 553	-
Expanded Public Works Programme	1 008 000	1 293 000
Finance Management Grant	1 250 000	1 250 000
Ndumo Groundnuts	-	353 847
	<b>335 076 041</b>	<b>295 098 545</b>
<b>Capital grants</b>		
Municipal infrastructure Grant	218 910 000	192 111 543
Water Services Infrastructure Grant	82 205 315	38 165 685
	<b>301 115 315</b>	<b>230 277 228</b>
	<b>636 191 356</b>	<b>525 375 773</b>
<b>Public Participation &amp; Customer Satisfaction Survey Grant</b>		
Balance unspent at beginning of year	154 000	154 000
Conditions still to be met - remain liabilities (see note 13).		
<b>PIMMS / NDT Operational Grant</b>		
Balance unspent at beginning of year	300	300
Conditions still to be met - remain liabilities (see note 13).		
<b>Finance Management Grant</b>		
Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(174 116)	(1 250 000)
	<b>1 075 884</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 13).		
<b>Massification Grant</b>		
Balance unspent at beginning of year	4 172 492	4 172 492
Conditions still to be met - remain liabilities (see note 13).		
<b>Kwazibi National Lottery Grant</b>		
Balance unspent at beginning of year	122 667	122 667
Conditions still to be met - remain liabilities (see note 13).		
<b>Mqobela National Lottery Grant</b>		
Balance unspent at beginning of year	166 666	166 666
Conditions still to be met - remain liabilities (see note 13).		
<b>Mabibi National Lottery Grant</b>		



# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>20. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	166 667	166 667
Conditions still to be met - remain liabilities (see note 13).		
<b>Disaster Management Grant</b>		
Balance unspent at beginning of year	9 120	9 120
Conditions still to be met - remain liabilities (see note 13).		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	15 410 451	-
Current-year receipts	218 910 000	207 522 000
Conditions met - transferred to revenue	(218 910 000)	(192 111 549)
Unspent grant withheld from Equitable share	(15 410 451)	-
	<u>-</u>	<u>15 410 451</u>
<b>Ndumo Groundnuts Grant</b>		
Balance unspent at beginning of year	-	353 847
Conditions met - transferred to revenue	-	(353 847)
	<u>-</u>	<u>-</u>
<b>Expanded Public Works Programme</b>		
Balance unspent at beginning of year	-	2 331 774
Current-year receipts	1 008 000	1 293 000
Unspent Grant withheld from Equitable share	-	(2 331 774)
Conditions met - transferred to revenue	(1 008 000)	(1 293 000)
	<u>-</u>	<u>-</u>
<b>Lake Tete Grant</b>		
Balance unspent at beginning of year	267 001	267 001
Conditions still to be met - remain liabilities (see note 13).		
<b>Kwadapha Grant</b>		
Balance unspent at beginning of year	578 891	578 891
Conditions still to be met - remain liabilities (see note 13).		
<b>Nyezi Community HIV Centre Grant</b>		
Balance unspent at beginning of year	303 570	303 570
Conditions still to be met - remain liabilities (see note 13).		
<b>Umkhombe Tours Grant</b>		
Balance unspent at beginning of year	908 690	908 690

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>20. Government grants and subsidies (continued)</b>		
Conditions still to be met - remain liabilities (see note 13).		
<b>Waste Management Grant</b>		
Balance unspent at beginning of year	145 565	145 565
Conditions still to be met - remain liabilities (see note 13).		
<b>Environmental Management Grant</b>		
Balance unspent at beginning of year	405 600	405 600
Conditions still to be met - remain liabilities (see note 13).		
<b>Rural Road &amp; Transport Management Grant</b>		
Balance unspent at beginning of year	-	2 446 931
Current-year receipts	2 619 000	-
Unspent Grants paid back	-	(2 446 931)
Conditions met - transferred to revenue	(2 529 553)	-
	<b>89 447</b>	<b>-</b>
<b>Ndumo Learners Shelter Grant</b>		
Balance unspent at beginning of year	9 441 505	9 441 505
Conditions still to be met - remain liabilities (see note 13).		
<b>Councillors Training Grant</b>		
Balance unspent at beginning of year	11 300	11 300
Conditions still to be met - remain liabilities (see note 13).		
<b>Ingwavuma Prison Electrical Upgrade</b>		
Balance unspent at beginning of year	101 506	101 506
Conditions still to be met - remain liabilities (see note 13).		
<b>Water Services Operating Subsidy</b>		
Balance unspent at beginning of year	-	1 945 954
Unspent grant withheld from Equitable share	-	(1 945 954)
	-	-
<b>Shared Services Grant</b>		
Balance unspent at beginning of year	-	54 540
Conditions met - transferred to revenue	-	(54 540)
	-	-
<b>Rural Households Infrastructure Grant</b>		

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>20. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	-	8 498
Unspent Grant withheld from Equitable share	-	(8 498)
	<u>-</u>	<u>-</u>
<b>ACIP Grant</b>		
Balance unspent at beginning of year	<u>4 695</u>	<u>4 695</u>
Conditions still to be met - remain liabilities (see note 13).		
<b>Water Service Infrastructure Grant</b>		
Balance unspent at beginning of year	32 205 315	-
Current-year receipts	50 000 000	70 371 000
Conditions met - transferred to revenue	(82 205 315)	(38 165 685)
	<u>-</u>	<u>32 205 315</u>
<b>Ngodini Boarder Cave Grant</b>		
Current-year receipts	<u>1 000 000</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 13).		
<b>Equitable Share</b>		
In terms of the Section 227 of the Constitution, this grant is used to enable the municipality to provide basic services and perform functions allocated to it.		
The Equitable Share Grant also provides funding for the municipality to deliver free basic services to poor households and to subsidise the cost of administration and other core services for the municipality.		

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>21. Employee related costs</b>		
Basic salaries and wages	104 141 470	99 441 280
Bonus	6 217 769	-
Contributions to pensions, medical aids and UIF and other allowances	20 364 415	20 221 856
Travel, motor car, subsistence and other allowances	6 842 098	6 383 310
Housing benefits and allowances	1 068 539	556 085
Overtime payments	7 017 788	3 145 630
Leave paid	65 055	4 220 989
	<b>145 717 134</b>	<b>133 969 150</b>

### Remuneration of Municipal Manager

Annual Remuneration	1 423 502	799 521
Travel, housing and other allowances	159 500	69 891
Contributions to UIF, Medical and Pension Funds	13 890	5 343
	<b>1 596 892</b>	<b>874 755</b>

Two people acted for the position of Municipal Manager during the 2017 financial year. A new Municipal Manager was only appointed effective 01 August 2017 and he resigned post 2018 financial year end.

### Remuneration of Chief Finance Officer

Annual Remuneration	742 091	1 388 306
Travel, housing and other allowances	284 066	-
Leave paid	10 593	-
	<b>1 036 750</b>	<b>1 388 306</b>

During the 2017 financial year, the was an acting Chief Financial Officer(CFO) and he was paid total remuneration of R1 388 306. A new Acting CFO was appointed on 01 September 2017 and still holds the office.

### Remuneration of General Manager - Corporate Service

Annual Remuneration	471 336	709 776
Travel, housing and other allowances	167 498	237 984
Contributions to UIF, Medical and Pension Funds	162 554	67 564
	<b>801 388</b>	<b>1 015 324</b>

The General Manager for Corporate Services resigned during the 2017 financial year and two people acted consecutively for the position.

### Remuneration of General Manager - Community Services and Planning & Economic Development

Annual Remuneration	609 872	782 568
Travel, housing and other allowances	118 445	203 048
Contributions to UIF, Medical and Pension Funds	7 637	10 250
	<b>735 954</b>	<b>995 866</b>

### Remuneration of General Manager - Technical Services

Annual Remuneration	1 292 800	946 623
Travel, housing and other allowances	45 600	860 566
Contributions to UIF, Medical and Pension Funds	14 530	107 657
	<b>1 352 930</b>	<b>1 914 846</b>

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 21. Employee related costs (continued)

The General Manager for Technical Services resigned during the 2017 financial year and an Acting General manager was appointed and still holds the office.

### 22. Remuneration of councillors

Mayor	738 061	677 605
Deputy Mayor	624 764	622 539
Speaker	633 968	592 872
Executive Committee Members	-	1 652 500
Councillors	-	3 328 798
	<b>1 996 793</b>	<b>6 874 314</b>

#### Mayor

Mayoral allowance	563 040	524 089
Travel allowance	140 760	127 310
Cellphone	27 512	19 682
Contributions to UIF, Medical and Pension Funds	6 749	6 524
	<b>738 061</b>	<b>677 605</b>

#### Deputy Mayor

Annual remuneration	450 432	424 110
Travel allowance	112 608	103 316
Cellphone allowance	40 800	19 682
Reimbursable allowance	20 924	69 543
Contributions to UIF, Medical and Pension Funds	-	5 888
	<b>624 764</b>	<b>622 539</b>

#### Speaker

Annual remuneration	450 432	424 110
Travel allowance	112 608	102 315
Cellphone allowance	40 800	19 682
Reimbursable allowance	30 128	41 114
Contributions to UIF, Medical and Pension Funds	-	5 651
	<b>633 968</b>	<b>592 872</b>

### In-kind benefits

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

The Mayor and Speaker are provided with offices and secretarial support at the cost of the Council.

All Councillors are re-imbursed for kilometres travelled on official duties with the exception of the Mayor.

The Deputy Mayor and other Executive Committee Members each have an office and share secretarial support at the cost of the Council.

Only the Mayor has the use of Council owned vehicle for official duties.

The Mayor and Speaker have two full-time bodyguards and one relief bodyguard.

### 23. Depreciation and amortisation

Property, plant and equipment	74 520 693	37 378 520
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# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>24. Finance costs</b>		
Current borrowings	2 014 645	1 339 122
<b>25. Debt impairment</b>		
Contributions to debt impairment provision	-	5 262 800
Bad debts written off	132 972 749	-
	<b>132 972 749</b>	<b>5 262 800</b>
<b>26. Repairs and Maintenance</b>		
<b>Expenditure on repairs and maintenance comprised the following:</b>		
Electricity infrastructure	-	1 484 096
Motor vehicles	-	602 110
Buildings	-	571 797
Water distribution	-	68 199 082
	-	<b>70 857 085</b>
<b>27. Bulk purchases</b>		
Electricity	39 185 034	38 071 115
Water	49 568 508	42 858 450
	<b>88 753 542</b>	<b>80 929 565</b>
Bulk purchases of electricity comprises electricity purchases for resale as prepaid electricity, own consumption by the municipality for it's buildings, offices and water schemes.		
Bulk purchases of water comprises water purchased for resale.		
<b>28. Contracted services</b>		
Contracted expenditure incurred during the year	29 810 646	23 264 678
<b>Contracted services comprised the following :</b>		
Consultancy fees	-	3 577 858
Insurance	1 036 734	1 041 898
Fleet management	7 092 035	5 718 679
Vehicle hire	-	14 856
Photocopies and office equipment rental	467 349	1 446 165
Cellular and data services	-	1 309 836
IT services	4 890	121 203
Internal audit services	1 145 234	272 910
Communication	2 139 232	2 788 505
Security services	3 751 879	6 146 725
Other services	1 670	826 043
	<b>15 639 023</b>	<b>23 264 678</b>

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>29. General expenses</b>		
Accommodation	675 604	337 462
Advertising	150 485	43 688
Audit Fees	3 230 547	3 031 181
Audit Committee fees	323 751	354 086
Bank charges	148 896	318 207
Cleaning	261 865	345 182
Community development and training	1 294 436	70
Consulting and professional fees	5 973 069	1 706 385
Fuel and oil	493	876 021
Grants & Subsidies - Extended Public Works	-	2 343 709
Grants & Subsidies - Jozini RHIG Sanitation	-	3 508 772
Grants & Subsidies - Rural Transport Management	2 106 571	-
Grants & Subsidies - Mseleni Ground Nuts	-	359 071
Grants & Subsidies - Umhlosinga Development Agency	2 474 250	5 558 077
Hire of Plant & Equipment	-	18 985 125
Entertainment	-	13 745
Fines and penalties	179 251	-
Legal Fees	5 754 987	5 066 840
Staff programs and functions	35 400	-
Fleet	-	11 000
Licences	802 246	309 639
Other expenses	666 305	3 326 347
Medical expenses	111 930	45 500
Municipal Health	222 983	58 280
Operation Turn Around	-	123
Postage and courier	-	1 012
Training	98 978	13 679
Printing and stationery	44 674	551 629
Royalties and license fees	-	296 000
Sports DC27	1 366 357	489 115
Small tools	-	212 015
Systems Support	2 163 612	2 457 070
Tourism Projects	349 390	-
Publicity	411 036	293 780
Hiring and screening costs	38 972	-
Expenses 3	178 833	-
Sanitation: sewer assessment expenses	9 796 926	-
Community and Social services	1 686 116	2 500
Inventory losses	3 734 059	-
Uniforms	188 409	74 964
Events Organisations	206 300	-
	<b>44 676 731</b>	<b>50 990 274</b>

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>30. Cash generated from operations</b>		
Surplus	111 181 892	155 194 250
<b>Adjustments for:</b>		
Depreciation and amortisation	74 520 693	37 378 520
Interest income	(6 936 705)	(5 115 213)
Finance costs	1 260 619	1 339 122
Debt impairment	132 972 749	5 262 800
Movements in defined benefit obligations	1 277 000	877 000
Donations in kind	(14 997 607)	(4 173 393)
<b>Changes in working capital:</b>		
Inventories	4 356 356	12 078 072
Receivables from exchange transactions	(13 540 262)	(4 359 970)
Other receivables from non-exchange transactions	585 563	1 467 269
Payables from exchange transactions	(73 900 905)	(1 178 767)
VAT	25 876 402	(5 204 720)
Unspent conditional grants and receipts	(46 526 319)	40 474 227
Consumer deposits	18 830	184 457
	<b>196 148 306</b>	<b>234 223 654</b>

### 31. Prior period errors

#### Error 1

Receivables from exchange transactions were overstated in the prior year due incorrect recognition of interest totaling R13 001 668 on overdue payments from customers. The interest was never charged to individual customers and no communication was sent to customers to notify them the intention to charge them interest on overdue amounts. The error was corrected by reversing the interest receivable incorrectly raised in prior year.

Customers were overcharged in the 2013/14 financial year for water service charges by 220 690

The correction of the error resulted in adjustments as follows:



# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>31. Prior period errors (continued)</b>		
<b>Statement of financial position</b>		
Receivables from exchange transaction	-	(220 690)
Accumulated surplus	-	220 690
<b>Statement of financial performance</b>		
	<u>9</u>	<u>-</u>

### Error 1

Payables from exchange transactions were overstated in the prior year due to invoices that were double accounted for in 2015 financial year going back.

Actuarial losses on long service awards were also understated by R80 060.

The effect of the adjustments is as follows.

### Statement of financial position

	<u>9</u>	<u>-</u>
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### Statement of financial performance

	<u>9</u>	<u>-</u>
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### Error 3

Property, plant and equipment were overstated due to assets that were either disposed off, handed over to the community or local municipalities or duplicated in the asset register. The total of this overstatement is R23 581 292.

Some property, plant and equipment assets were omitted in the fixed asset register in prior years and these were recognised at fair of R429 282.

Also invoices for additions to assets under construction were omitted during the 2017 financial year resulting in understatement of assets by R30 440 410, and one invoice was incorrectly overstated by R1 385 401.

A project was incorrectly capitalised in the prior year as completed, however it was noted that the project is still under construction and only a phase was completed. This project is still not completed again by 30 June 2018. The depreciation charge of R7 665 that was recognised in 2017 financial year was reversed and the project was reclassified as work in progress in the asset register.

The net effect of the adjustment as at 30 June 2017 is as follows:

### Statement of financial position

Increase in Property plant and equipment	-	32 206 543
Increase in creditors	-	(55 379 424)
Decrease in opening accumulated surplus	-	23 545 517
	<u>-</u>	<u>372 636</u>

### Statement of financial performance

Increase in depreciation and impairment expense	-	372 636
	<u>-</u>	<u>372 636</u>

## 32. Prior-year adjustments

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

### Statement of financial position - Extract

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand		2018	2017	
<b>32. Prior-year adjustments (continued)</b>				
<b>2017</b>				
	Note	As previously reported	Correction of error	Restated
Receivables from exchange transactions		57 788 337	-	-
VAT receivable		50 706 642	-	-
Property plant and Equipment		1 821 850 101	32 206 543	1 854 056 644
Payables from exchange transactions		246 777 031	-	-
		<b>2 177 122 111</b>	<b>32 206 543</b>	<b>1 854 056 644</b>

### Statement of financial performance - Extract

<b>2017</b>				
	Note	As previously reported	Correction of error	Restated
Depreciation, amortisation and impairment		37 751 156	(372 636)	37 378 520

### 33. Unauthorised expenditure

Unauthorised expenditure		286 207 496	213 475 910
Add: Unauthorised expenditure- Current year		-	72 731 586
		<b>286 207 496</b>	<b>286 207 496</b>

Unauthorised expenditure in the current financial year was incurred as a result of expenditure which exceeded the approved budget. No disciplinary actions or criminal proceedings were instituted due to reasons provided on Appendix A.

Refer to Appendix A for the comparison of actual versus budgeted expenditure.

### 34. Fruitless and wasteful expenditure

Opening balance		9 326 418	8 845 136
Add: Fruitless and wasteful expenditure -Current year		270 264	481 282
		<b>9 596 682</b>	<b>9 326 418</b>

Fruitless and wasteful expenditure comprised interest and penalties relating to SARS EMP declarations and late payment of creditors.

No disciplinary actions or criminal proceedings were instituted as a result of fruitless expenditure incurred.

### 35. Irregular expenditure

Opening balance		1 662 135 646	1 550 748 518
Add: Irregular Expenditure - current year		277 393 306	111 387 128
		<b>1 939 528 952</b>	<b>1 662 135 646</b>

No disciplinary actions or criminal proceedings were instituted as a result of irregular expenditure incurred.

### 36. Material losses

Opening balance		28 198 445	28 198 445
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No material losses were incurred in the current year.

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>37. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Audit fees</b>		
Opening balance	46 958	-
Current year subscription / fee	3 230 547	3 463 422
Amount paid - current year	(3 197 191)	(3 416 464)
Amount paid - previous years	(46 958)	-
	<b>33 356</b>	<b>46 958</b>
<b>PAYE and UIF</b>		
Opening balance	-	1 483 426
Current year subscription / fee	-	19 588 062
Amount paid - current year	-	(19 508 240)
Amount paid - previous years	-	(1 483 426)
	-	<b>79 822</b>
<b>Pension and Medical Aid Deductions</b>		
Opening balance	-	4 095 467
Current year subscription / fee	-	28 298 100
Amount paid - current year	-	(25 931 566)
Amount paid - previous years	-	(4 095 467)
	-	<b>2 366 534</b>
<b>VAT</b>		
<b>SALGA Fees</b>		
SALGA fees paid	1 665 784	1 271 884
VAT receivable	22 924 874	48 801 276

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

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

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>38. Commitments</b>		
<b>Commitments in respect of capital expenditure</b>		
<b>Approved and contracted for</b>		
• Infrastructure	434 917 177	296 218 857
<b>Total capital commitments</b>		
Approved and contracted for	434 917 177	296 218 857
<b>Capital commitments were financed through:</b>		
Government grants	434 917 177	296 218 857
<b>Operating commitments</b>		
<b>Approved and contracted for</b>		
• Operating expenditure	-	43 260 391
<b>Total operational commitments</b>		
Already contracted for but not provided for	-	43 260 391
<b>Total commitments</b>		
<b>Total commitments</b>		
Approved and contracted for capital commitments	434 917 177	296 218 857
Approved and contracted for operating commitments	-	43 260 391
	<b>434 917 177</b>	<b>339 479 248</b>
<b>Operating leases - as lessee (expense)</b>		
The municipality's operating commitments comprised operating leases.		
Operating lease payments represent rentals payable by the municipality for the office equipment. Leases are contracted for a period of three (3) years with no contingent rentals payable. Lease rentals are charged at a fixed amount (2016: 15% acceleration rate annually). Expenditure on lease rentals paid have been recognised on a straight-line basis in the Statement of Financial Performance.		
<b>Minimum lease payments due</b>		
	-	876 732
	-	982 687
	-	<b>1 859 419</b>
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
	-	876 732
	-	982 687
	-	<b>1 859 419</b>
	-	924 406

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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Figures in Rand	2018	2017
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### 39. Contingencies

#### Disciplinary matters

As at 30 June 2017, the municipality had pending employee related disciplinary matters. Should the outcome of both matters favour respective claimants, the municipality may be liable for compensation of up to R300 000.

#### Supplier disagreements

During the year ended 30 June 2017, suppliers provided services to the economic entity without approval of the work and they claimed for payment from the economic entity. The economic entity disputed the payment and there is a possibility that the suppliers will open a case against the economic entity. The total amount claimed by suppliers is R32 028 701.

The municipality also has pending court cases with seven suppliers. Should the municipality lose all the cases, it may be liable for a total of R 15 550 000.

### 40. Related parties

Related party

Umhlosinga Development Agency

Umhlosinga Development Agency is a municipal entity under the control of Umkhanyakude District Municipality to spearhead the economic development within the district.

#### Related party balances

##### Payables - Owing to related parties

Umhlosinga Development Agency

5 469 355

5 030 158

#### Related party transactions

##### Transfers paid to related parties

Umhlosinga Development Agency

2 474 250

5 558 077

### 41. Events after the reporting date

The municipality was not aware of any material events that may have occurred between 31 March 2018 and the date when the annual financial statements were authorised.

### 42. Risk management

#### Interest Rate Risk

The municipality's interest rate risk arises from long-term borrowings from DBSA.

At year end, financial instruments exposed to interest rate risk were as follows:

Loan from Development Bank of South Africa.

FNB Bank Call deposits.

FNB Bank, ABSA and Ithala Bank Notice deposits.

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

2018

2017

### 42. Risk management (continued)

#### Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they become due. The municipality ensures that adequate funds are available to meet its expected and unexpected financial commitments.

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.

#### The following liabilities were due within 1 month:

Consumer deposits R1 396 340 (2018) R1 377 510 (2017)  
Payables from exchange transactions R194 806 245 (2018) R246 777 032 (2017).

#### The following liabilities were due from 1 month to 12 months:

Borrowings R851 724 (2018) R844 512 (2017).  
Interest accrued on long term loan R134 403 (2018) R158 800 (2017)

#### Maximum credit risk exposure

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty. The investments are diversified among the reputable commercial banks.

The consumer debtors are settled on a monthly basis. Upon the new connections the consumers paid deposit in advance.

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

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

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

Financial instrument	2018	2017
Receivables from exchange transactions	62 999 829	57 788 337
Other receivables fro exchange transactions	6 711 928	10 030 411

#### Market risk

### 43. Deviation from supply chain management regulations

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

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

Items of goods and services were procured during the current financial year which deviated from the provisions of paragraph 12(1)(d)(i) as reflected above. As at 30 June 2018, deviations from Municipal Supply Chain Management Regulations amounted to R42 525 804

### 44. Going concern

As at 30 June 2018, the municipality had accumulated surplus of R 1 878 725 854 and that the municipality's current assets exceeds its current liabilities by R235 530 302.

# Umkhanyakude District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 44. Going concern (continued)

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

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

### 45. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

### 46. Actual capital expenditure versus budgeted capital expenditure

Capital expenditure	Original budget	Adjustments	Final budget	Actual amounts on a comparable basis	Difference between final budget and actual
Capital expenditure	267 516 900	16 925 000	284 441 900	229 969 779	54 472 121
	<u>267 516 900</u>	<u>16 925 000</u>	<u>284 441 900</u>	<u>229 969 779</u>	<u>54 472 121</u>

R284 million was budgeted for capital expenditure for 2016/17, and actual expenditure reported per Note 8 was below the final budget by approximately 19%.

### 47. Distribution losses

#### Electricity distribution losses

			-	7 775 791
			<u>-</u>	<u>7 775 791</u>
Electricity distribution loss calculated as:				
	2018		2017	
	kWh units	Rand	kWh units	Rand
Electricity purchases	-	-	11 456 649	15 359 979
Less: Electricity sales	-	-	(4 701 621)	(5 409 411)
	<u>-</u>	<u>-</u>	<u>6 755 028</u>	<u>9 950 568</u>

Water distribution loss calculated as:				
	2018		2017	
	Kl	Rand	Kl*	Rand
	3 954 773	17 836 025	6 218 683	30 382 985
	<u>3 954 773</u>	<u>17 836 025</u>	<u>6 218 683</u>	<u>30 382 985</u>

\*Meter readings as at 30 June 2016 for water were not conducted therefore the kilolitre losses could not be disclosed.