



Maphumulo Local Municipality
Annual Financial Statements
for the year ended 30 June 2020

Maphumulo Local Municipality

(Registration number KZN294)

Annual Financial Statements for the year ended 30 June 2020

General Information

Mayoral committee

Mayor

Cllr. Z.F. Khuzwayo Dlamini

Councillors

Cllr C.Z. Ncalane (ANC Deputy Mayor)

Cllr C.S. Shange (ANC Speaker)

Cllr P.N. Nxumalo (IFP Exco Member)

Cllr M.H. Khoza (ANC Councillor)

Cllr D.B Luthuli (ANC Councillor)

Cllr T.P Mchunu (IFP Councillor)

Cllr Z.G. Mthembu (IFP Councillor)

Cllr M.F. Ncalane (ANC Councillor)

Cllr N.H. Ngcobo (ANC Councillor)

Cllr S. Nyathikazi (IFP Councillor)

Cllr K.P. Ninela (IFP Councillor)

Cllr J.N. Ntuli (ANC Councillor)

Cllr N.S. Ntuli (ANC Councillor)

Cllr S.Z.M. Nzuzza (ANC Councillor)

Cllr N. Sithole (IFP Councillor)

Cllr K.M. Xhakaza (ANC Councillor)

Cllr T.J. Zungu (IFP Councillor)

Cllr J.M. Khathi (IFP Councillor)

Cllr T.R. Ngema (ANC Councillor)

Cllr. Z.W. Ninela (ANC Councillor)

Cllr M.L Ngidi (IFP Councillor)

Grading of local authority

Three

Accounting Officer

PN Mhlongo

Chief Finance Officer (CFO)

N Duma

Business address

MR 711 LOT 152

Maphumulo

4470

Postal address

Private Bag X9205

Maphumulo

4470

Bankers

First National Bank

250255

Auditors

Auditor General of South Africa

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COID	Compensation for Occupational Injuries and Diseases
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
EPWP	Expanded Public Works Program

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Accounting Officer's Responsibilities and Approval

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

I certify that the salaries, allowances and benefits of Councillors, if any, as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officers Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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 judgments and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial controls 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 losses.

The accounting officer has reviewed the municipality's cash flow forecast for the financial year ended 30 June 2020 and current financial position, in the light of this reviews and the, the accounting officer is satisfied that the municipality has adequate resources or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing the municipality's financial statements and express an opinion on whether the financial statement are fairly presented.

The annual financial statements set out on pages 4 to 58, have been prepared on the going concern basis, were approved by the council on 30 October 2020 and were signed on its behalf by:

Accounting Officer
P.N Mhlongo

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Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

Figures in Rands	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	2	246 287	510 944
VAT receivable	3	4 519 882	2 375 383
Prepayments	4	676 685	614 658
Receivables from non- exchange transactions	5	800 192	2 135 807
Accrued Interest Investments	6	1 880	44 861
Cash and cash equivalents	7	16 624 251	16 212 125
		22 869 177	21 893 778
Non-Current Assets			
Investment property	8	22 665 611	10 434 054
Property, plant and equipment	9	267 387 385	246 632 289
Intangible assets	10	481 900	623 599
		290 534 896	257 689 942
Total Assets		313 404 073	279 583 720
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	17 946 955	16 185 306
Unspent conditional grants and receipts	12	13 276 207	10 981 071
Provisions	13	92 383	197 616
		31 315 545	27 363 993
Non-Current Liabilities			
Provisions	13	1 286 449	1 233 788
Total Liabilities		32 601 994	28 597 781
Net Assets		280 802 079	250 985 939
Reserves			
Fair value adjustment on Land	14	3 945 000	-
Accumulated surplus		276 857 079	250 985 939
Total Net Assets		280 802 079	250 985 939

* See Note 45

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Statement of Financial Performance

Figures in Rands	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Refuse removal	15	187 287	5 229
Trade payables written-off	16	-	9 391 004
Rental of facilities and equipment	17	1 123 976	962 350
Interest charged on trade and other receivable	18	977 469	1 360 102
Licences and permits	19	106 640	73 741
Rental debtors Straightline	20	-	56 391
Other income	21	480 481	715 829
Interest received - investment	22	1 630 846	2 035 622
Total revenue from exchange transactions		4 506 699	14 600 268
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	23 165 617	13 817 272
Transfer revenue			
Government grants and subsidies	24	129 842 865	114 235 973
Total revenue from non-exchange transactions		153 008 482	128 053 245
Total revenue		157 515 181	142 653 513
Expenditure			
Employee related costs	26	(46 588 310)	(38 588 669)
Remuneration of councillors	27	(8 520 712)	(8 047 699)
Auditor's remuneration	28	(3 417 688)	(2 546 383)
Rental debtors straight line reversal	29	(201 683)	-
Depreciation and amortisation	30	(13 934 773)	(14 317 128)
Impairment loss	31	(597 762)	(4 837 584)
Petty cash written off	32	(3 653)	-
Finance costs	33	(7 172)	(37 683)
Debt Impairment and Bad debts written-off	34	(9 038 936)	(3 820 171)
WIP Written-Off	35	(3 872 706)	-
Contracted services	36	(30 714 929)	(36 209 297)
Transfers and subsidies	37	(1 213 862)	(440 694)
General expenses	38	(19 910 769)	(23 735 538)
Total expenditure		(138 022 955)	(132 580 846)
Surplus for the year from continuing operations		19 492 226	10 072 667
Profit or loss on disposal of assets		(481 696)	-
Surplus for the year		19 010 530	10 072 667

* See Note 45

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Statement of Changes in Net Assets

	Fair value adjustment assets- available-for- sale reserve	Accumulated surplus	Total net assets
Figures in Rands			
Balance at 01 July 2018	-	231 200 524	231 200 524
Changes in net assets			
Prior year adjustment : Accrued trade payables	-	2 189 170	2 189 170
Prior year adjustment : Accumulated Depreciation: Buildings	-	(1 752 824)	(1 752 824)
Prior year adjustment : WIP: Roads and Electricity	-	(3 098 720)	(3 098 720)
Prior year adjustment : Donation Buildings	-	12 375 121	12 375 121
Net income (losses) recognised directly in net assets	-	9 712 747	9 712 747
Surplus for the year	-	10 072 668	10 072 668
Total recognised income and expenses for the year	-	19 785 415	19 785 415
Total changes	-	19 785 415	19 785 415
Balance at 01 July 2019 (Restated)	-	250 985 939	250 985 939
Changes in net assets			
Revaluation of land	3 945 000	-	3 945 000
Net income (losses) recognised directly in net assets	3 945 000	-	3 945 000
Surplus for the year	-	19 010 530	19 010 530
Total recognised income and expenses for the year	3 945 000	19 010 530	22 955 530
Gains (losses) from mergers or transfer of functions between entities under common control	-	6 860 610	6 860 610
Total changes	3 945 000	25 871 140	29 816 140
Balance at 30 June 2020	3 945 000	276 857 079	280 802 079
Note(s)	14		

* See Note 45

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Statement of Cash Flow

Figures in Rands	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Cash Receipts from Ratepayers, Government & Others		157 573 147	134 683 064
Interest income		1 630 846	2 035 622
		<u>159 203 993</u>	<u>136 718 686</u>
Payments			
Employee costs and councillors remuneration		(55 109 022)	(46 439 037)
Suppliers		(62 097 184)	(67 498 613)
Finance costs		(7 172)	(37 683)
		<u>(117 213 378)</u>	<u>(113 975 333)</u>
Net cash flows from operating activities	39	<u>41 990 615</u>	<u>22 743 353</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(41 655 953)	(27 731 830)
Proceeds from sale of property, plant and equipment	9	34 483	-
Increase/Decrease in Accrued Interest		42 981	17 254
		<u>(41 578 489)</u>	<u>(27 714 576)</u>
Cash flows from financing activities			
Increase/ (Decrease) of Long term liabilities		-	(873 645)
		<u>-</u>	<u>(873 645)</u>
Net increase/(decrease) in cash and cash equivalents		412 126	(5 844 868)
Cash and cash equivalents at the beginning of the year		16 212 125	22 056 993
Cash and cash equivalents at the end of the year	7	<u>16 624 251</u>	<u>16 212 125</u>

* See Note 45

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rands						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	200 000	(44 000)	156 000	187 287	31 287	A
Rental of facilities and equipment	1 077 300	-	1 077 300	1 123 976	46 676	
Interest received (trading)	1 297 400	40 000	1 337 400	977 469	(359 931)	B
Licences and permits	69 500	45 000	114 500	106 640	(7 860)	
Other income	351 000	152 725	503 725	480 481	(23 244)	
Interest received - investment	2 265 000	(520 000)	1 745 000	1 630 846	(114 154)	
Total revenue from exchange transactions	5 260 200	(326 275)	4 933 925	4 506 699	(427 226)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	20 899 942	(1 892 567)	19 007 375	23 165 617	4 158 242	C
Transfer revenue						
Government grants & subsidies	129 980 000	13 166 000	143 146 000	129 842 865	(13 303 135)	
Total revenue from non-exchange transactions	150 879 942	11 273 433	162 153 375	153 008 482	(9 144 893)	
Total revenue	156 140 142	10 947 158	167 087 300	157 515 181	(9 572 119)	
Expenditure						
Employee Related Cost	(41 761 257)	(3 103 271)	(44 864 528)	(46 588 310)	(1 723 782)	
Remuneration of councillors	(9 045 322)	-	(9 045 322)	(8 520 712)	524 610	
Auditors Remuneration	(2 400 000)	-	(2 400 000)	(3 417 688)	(1 017 688)	D
Rental debtors straight line reversal	-	-	-	(201 683)	(201 683)	
Depreciation and amortisation	(11 925 743)	(1 957 709)	(13 883 452)	(13 934 773)	(51 321)	
Impairment loss/ Reversal of impairments	-	-	-	(597 762)	(597 762)	E
Petty cash written off	-	-	-	(3 653)	(3 653)	F
Finance costs	-	-	-	(7 172)	(7 172)	G
Bad debts Impairment	(997 235)	743 704	(253 531)	(9 038 936)	(8 785 405)	H
Repairs and Maintenance	-	-	-	(3 872 706)	(3 872 706)	
Contracted services	(29 664 757)	(9 403 889)	(39 068 646)	(30 714 929)	8 353 717	J
Transfers and subsidies	-	-	-	(1 213 862)	(1 213 862)	
General Expenses	(21 536 112)	664 000	(20 872 112)	(19 910 769)	961 343	
Total expenditure	(117 330 426)	(13 057 165)	(130 387 591)	(138 022 955)	(7 635 364)	
Operating surplus	38 809 716	(2 110 007)	36 699 709	19 492 226	(17 207 483)	
Loss on disposal of assets and liabilities	-	-	-	(481 696)	(481 696)	
Surplus before taxation	38 809 716	(2 110 007)	36 699 709	19 010 530	(17 689 179)	
Surplus for the year from continuing operations	38 809 716	(2 110 007)	36 699 709	19 010 530	(17 689 179)	
Capital Assets	47 314 000	(1 788 000)	45 526 000	41 655 953	(3 870 047)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rands						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	86 123 716	(3 898 007)	82 225 709	60 666 483	(21 559 226)	

A. Service charges 20% variance

The services charges is the billings for collection of waste removal in different wards with in the municipality. The variance is due to the fact that during the financial year, municipality placed skip bins in some areas which was not part of the budget.

B. Interest received- trading (27%) variance

The under performance is due to the fact that some rate payers paid in advanced i.e billings for twelve months was paid in month two, as a result the the budgeted interest outstanding debts will not correspond with the actual.

C. Property rates 22% variance

This variance is due to the fact that during the budget stage municipality made some errors in the calculation of financial year property rates billings.

D. Auditors remuneration 42% variance

The municipality was under provide the budget for auditors remuneration.

E. Impairment loss / reversal of impairments 100% variance

Municipality mistakenly omitted the budget for impairment of an old assets hence at the end of the financial year municipality perform assets conditional assessment and impaired them.

F. Petty cash written off 100 % variance

The petty cash write off was not budgeted for. But as at the end of the financial year petty cash reconciliation show that there is an unrecoverable of an small amount as a result we actual write off that irrecoverable amount.

G. Finance costs 100% variance

There was not budget provided for finance cost, although the municipality had a credit facility with Nedbank for fleet management. Therefore actual is greater than budgeted amount which result in the variance equivalent to actual amount incurred.

H. Bad debts impairment / reversals 100% variance

The budget for debts impairment was very low because in the last financial year we did impair huge amount that was irrecoverable. During the current financial year council resolve to write off all irrecoverable debtors as a result we made a bad debts impairment reversal which result in this variance.

I. Bad Debts written off 100% variance

The reason of this variance is due to the fact that we did not provide the budget for Bad debts written off..

J. Contracted services (21%) variance

Budget for some of the contracted service did not took place because of the National lock down.

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Appropriation Statement

Figures in Rands

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2020											
Financial Performance											
Property rates	20 899 942	(1 892 567)	19 007 375	-		19 007 375	23 165 617		4 158 242	122 %	111 %
Service charges	200 000	(44 000)	156 000	-		156 000	187 287		31 287	120 %	94 %
Investment revenue	2 265 000	(520 000)	1 745 000	-		1 745 000	1 630 846		(114 154)	93 %	72 %
Transfers recognised - operational	96 168 000	344 305	96 512 305	-		96 512 305	95 860 466		(651 839)	99 %	100 %
Other own revenue	2 795 200	237 725	3 032 925	-		3 032 925	2 688 566		(344 359)	89 %	96 %
Total revenue (excluding capital transfers and contributions)	122 328 142	(1 874 537)	120 453 605	-		120 453 605	123 532 782		3 079 177	103 %	101 %
Employee costs	(41 761 257)	(3 103 271)	(44 864 528)	-	-	(44 864 528)	(46 588 310)	-	(1 723 782)	104 %	112 %
Remuneration of councillors	(9 045 322)	-	(9 045 322)	-	-	(9 045 322)	(8 520 712)	-	524 610	94 %	94 %
Debt impairment	(997 235)	743 704	(253 531)			(253 531)	(9 038 936)	-	(8 785 405)	3 565 %	906 %
Depreciation and asset impairment	(11 925 743)	(1 957 709)	(13 883 452)			(13 883 452)	(14 532 535)	-	(649 083)	105 %	122 %
Finance charges	1	-	1	-	-	1	(7 172)	-	(7 173)	717 200 %	717 200 %
Transfers and grants	(1 090 000)	(6 206 564)	(7 296 564)	-	-	(7 296 564)	-	-	7 296 564	- %	- %
Other expenditure	(52 510 870)	(3 460 489)	(55 971 359)	-	-	(55 971 359)	(59 816 986)	-	(3 845 627)	107 %	114 %
Total expenditure	(117 330 426)	(13 984 329)	(131 314 755)	-	-	(131 314 755)	(138 504 651)	-	(7 189 896)	105 %	118 %
Surplus/(Deficit)	4 997 716	(15 858 866)	(10 861 150)	-		(10 861 150)	(14 971 869)		(4 110 719)	138 %	(300) %

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Appropriation Statement

Figures in Rands

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	33 820 000	12 177 000	45 997 000	-		45 997 000	33 982 399		(12 014 601)	74 %	100 %
Surplus (Deficit) after capital transfers and contributions	38 817 716	(3 681 866)	35 135 850	-		35 135 850	19 010 530		(16 125 320)	54 %	49 %
Surplus/(Deficit) for the year	38 817 716	(3 681 866)	35 135 850	-		35 135 850	19 010 530		(16 125 320)	54 %	49 %
Capital expenditure and funds sources											
Total capital expenditure	47 287 000	(1 788 495)	45 498 505	-		45 498 505	33 594 629		290 443 124	738 %	710 %
Sources of capital funds											
Transfers recognised - capital	33 820 000	5 836 913	39 656 913	-		39 656 913	-		(39 656 913)	- %	- %
Internally generated funds	13 467 000	(7 625 408)	5 841 592	-		5 841 592	-		(5 841 592)	- %	- %
Total sources of capital funds	47 287 000	(1 788 495)	45 498 505	-		45 498 505	-		(45 498 505)	- %	- %

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Appropriation Statement

Figures in Rands

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	43 498 655	(6 819 000)	36 679 655	-		36 679 655	41 990 615		5 310 960	114 %	97 %
Net cash from (used) investing	(47 285 000)	(5 243 000)	(52 528 000)	-		(52 528 000)	(41 578 489)		10 949 511	79 %	88 %
Net cash from (used) financing	-	7 335 000	7 335 000	-		7 335 000	-		(7 335 000)	- %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	(3 786 345)	(4 727 000)	(8 513 345)	-		(8 513 345)	412 126		8 925 471	(5)%	(11)%
Cash and cash equivalents at the beginning of the year	16 667 031	(455 000)	16 212 031	-		16 212 031	16 212 125		94	100 %	97 %
Cash and cash equivalents at year end	12 880 686	(5 182 000)	7 698 686	-		7 698 686	16 624 251		(8 925 565)	216 %	129 %

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Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

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. This basis presumes that funds would be available to finance future operation, the realisation of assets and settlement of liabilities, contingent obligations and commitments would occur in the ordinary course of business see note 47.

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:

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

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

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

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Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions are recognised when the municipality has a present obligation (legal or constructive) as a result of past events, 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 best estimate of the expenditure required to settle the present obligation is the amount that the municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. They are determined by the judgement of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighing all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost to fulfilling it and any compensation penalties arising from failure to fulfil it. This unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and are measured as the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 46.

Depreciation useful life the municipality depreciate all depreciable assets on a straight line method of depreciation over the assigned useful operating life of an assets.

Post employment benefits municipality would recognise the cost of those benefits over the period of the employee's services, consistently with accounting for other employee benefit.

Value in use cash generated assets should not be carried at amount higher than their service potential from use by the municipality unlike value in use the market value in use, a market value does not necessarily reflect the service potential of an assets.

Impairment loss should be recognised if it is considered probable that an asset is impaired that if it is probable that the municipality will not recover the carrying amount of the assets (probability criterion)

Interest effective, all arrears in respect of accounts for rates and municipal services bear interest after days after due date at a rate prescribed. Accounts for rates that are billed yearly will bear interest after 60 days from the invoice or statement date.

1.4 Investment property

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

- Use in the production or supply of goods or services or for
- Administrative purposes, or
- Sale in the ordinary course of operations.

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

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1.4 Investment property (continued)

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

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

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

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

- Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations
- Land held for a currently undetermined future use (if the municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation);

Investment property is unrecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Investment property is subsequent at cost less accumulated depreciation and impairment of an assets over the useful life of an investment property which is 30 years. The impairment test of investment property are done on annual bases for every year.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Reserves

The municipality maintains Reserves from fair value adjustment of vacant land and Accumulated Surplus.

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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1.6 Property, plant and equipment (continued)

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Land which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated 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:

Item	Depreciation method	Average useful life
Land and Buildings	Straight line	10-30 years
Plant and machinery	Straight line	10 - 55 years
Furniture and fixtures	Straight line	10-20 years
Motor vehicles	Straight line	5-15 years
Office equipment	Straight line	5-20years
IT Equipment	Straight line	3-10 year
Infrastructure	Straight line	10-50 years

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

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

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

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

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

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

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

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1.6 Property, plant and equipment (continued)

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 9).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

1.7 Intangible assets

An intangible asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Computer software, internally generated	Straight line	5 years

Intangible assets are derecognised:

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

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1.7 Intangible assets (continued)

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

1.8 Trade and Other receivables

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at yearend. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectable, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

1.9 Financial assets

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

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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1.9 Financial assets (continued)

Classification

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

Class	Category
Long term loan	Financial asset measured at amortised cost

Class	Category
Long term loan	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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Accounting Policies

1.9 Financial assets (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

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1.9 Financial assets (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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 entity 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.

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

Presentation

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

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

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

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

1.10 Statutory receivables

Identification

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

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

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

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

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

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1.10 Statutory receivables (continued)

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

Derecognition

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

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

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

1.11 Leases

Finance leases - lessee

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

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

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

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.

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1.12 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 surplus sharing 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 entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

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

The defined benefit obligation, the related current cost and where applicable, pastservice, is determine by using the projected unit credit method. A portion of the actuarial gains and losses is recognized as revenue or expense, provided the net cumulative actuarial gains and losses at the end of the previopus reporting period exceed greater of.

10% of the present value of the defined benefit obligation at that date before deducting plan assets; and
10% of the fair value of the plan assets.

The portion of the actuarial gains and losses to be recognized is equal to the excess calculated, using the above limits and divided by the expected average remaining working lives of the employees participating in the plan. Unvested past service costs are recognized as an expense in the Statement of Financial Performance.

Pension, Provident, Retirement Benefits and Group Life Scheme

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

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement. A defined contribution plan is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognized as a liability and are recovered through lump- sum payments or increased future contributions on a proportional basis to all participating municipalities.

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

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1.13 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and

Commitments are not recognised in the Statement of Financial Position as a liability or as expenditure in the Statement of Financial Performance but are shown in the disclosure note to the extent that such amounts have been recorded in the financial statements.

Commitments disclosed in the notes to the financial amounts represent the aggregate amount of capital and current expenditure at the reporting date.

1.14 Revenue from exchange transactions

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

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

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.

Sale of goods

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

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

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Accounting Policies

1.14 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest earned on investments

The interest accrued on all the municipality's investments shall, in compliance with the requirements of generally accepted municipal accounting practice, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and shall thereafter be appropriated, at the end of each month, to the fund or account in respect of which such investment was made.

1.15 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, other than increases relating to contributions from owners.

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

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

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

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.

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

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

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

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Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

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

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

Recognition

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

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

Measurement

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

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

Taxes

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

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

Transfers

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

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

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

Gifts and donations, including goods in-kind

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

1.16 Borrowing costs

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

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

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Accounting Policies

1.17 Comparative figures

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

1.18 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.19 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.

1.20 Irregular expenditure

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

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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

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

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

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

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

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Accounting Policies

1.21 Budget information

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

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

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

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

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.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

1.22 Related parties

The municipality operates in an economic sector currently dominated by municipalities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

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.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.23 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.

1.24 Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued:

Standard or Interpretation

GRAP 20: Related parties

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Accounting Policies

1.24 Standards, amendments to standards and interpretations issued but not yet effective (continued)

GRAP 32: Service Concession Arrangements: Grantor

GRAP 105: Transfers of functions between entities under common control

GRAP 106: Transfers of functions between entities not under common control

GRAP 107: Mergers

GRAP 108: Statutory Receivables

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2. Receivables from exchange transactions

Trade debtors - Rentals	347 270	1 602 887
Refuse	32 881	4 000
Debts impairment Rental debtors	(159 290)	(1 323 052)
Sundry Debtors	458 155	458 155
Rental Debtors Straight line	25 426	227 109
Debts Impairment -Sundry debtors	(458 155)	(458 155)
	<u>246 287</u>	<u>510 944</u>

Receivables from exchange transactions past due but not impaired

Trade and other receivables is made of rental debtors and refuse. Trade and other receivables which are less than 2 months are not considered to be impaired. Only trade debtors (rentals) which are from 3 months upwards due are considered to be impaired. Rental debtors due but not impaired as at 30 June 2020, R137 196 (2019: R45 648) (these amounts is made of the different between rental debtors and the Debts impairment).

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

Rental debtors

Rental debtors	-	-
1 month past due	88 676	15 355
2 months past due	26 659	30 295
	<u>137 196</u>	<u>45 648</u>

Refuse

1 month past due	14 541	-
2 months past due	7 320	-
	<u>21 861</u>	<u>-</u>

Receivables from exchange transactions impaired

As of 30 June 2020, trade and other receivables of R212 612 - (2019: R 1 602 887) were impaired and provided for.

The amount of the provision was R159 290 - as of 30 June 2020 (2019: R 1 323 046).

The ageing of these provision is as follows:

Rental debtors

3 to 5 months	95 662	(165 767)
Over 6 months	56 207	1 488 813
	<u>151 869</u>	<u>1 323 046</u>

Refuse

3 to 5 months	7 421	-
	<u>7 421</u>	<u>-</u>

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(1 323 051)	(1 833 852)
Impairment (charge)/ reversal	1 163 761	510 801
	<u>(159 290)</u>	<u>(1 323 051)</u>

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Notes to the Annual Financial Statements

Figures in Rands	2020	2019
3. VAT receivable		
VAT	4 519 882	2 375 383
Mphumulo Municipality accounts for VAT on cash basis.		
4. Prepayments		
Lateral Insurance Policy	189 734	137 108
SALGA Membership Fee	486 951	475 000
CIGFARO Membership Fee	-	2 550
	676 685	614 658
5. Receivables from non-exchange transactions		
Gross balances		
Rates	10 130 028	30 507 623
Less: Allowance for impairment		
Rates	(9 329 836)	(28 371 816)
Net balance		
Rates	800 192	2 135 807
Receivables from Non-exchange transactions past due but not impaired		
Receivable from non-exchange transactions are divided into three groups of debtors which are Government debtors, Commercial debtors and Other debtors. Commercial debtors which are due from 2 months upwards are considered to be impaired and commercial debtors which are due for less than 2 months are not considered to be impaired. Government and Other debtors which are due from 5 months upwards are considered to be impaired and Government and Other debtors which are due less than 5 months are not considered to be impaired. At 30 June 2020, R599 813 (2019:R2 135 807) were past due but not impaired.		
Balance of receivables from non-exchange transactions due but not impaired		
Commercial Debtors	154 927	229 954
Government Debtors	443 637	189 132
Other Debtors	1 249	1 716 720
	599 813	2 135 806
Receivables from non- exchange transactions past due but not impaired		
Current (0 -30 days)	384 590	1 116 342
31-60 days	152 649	429 323
61 - 90 days	28 002	198 493
91 - 120 days	27 989	197 852
121 - 365 days	6 683	193 797
> 365 days	200 279	-
	800 192	2 135 807

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Figures in Rands	2020	2019
5. Receivables from non-exchange transactions (continued)		
Commercial Debtors		
Current (0 -30 days)	30 345	69 792
31 - 60 days	124 583	160 162
	154 928	229 954
Government Debtors		
Current (0 -30 days)	358 994	25 001
31 - 60 days	26 370	52 131
61 - 90 days	26 314	38 518
91 - 120 days	26 339	38 471
121 - 365 days	5 721	35 011
	443 738	189 132
Other Debtors		
Current (0 -30 days)	(4 748)	1 021 549
31 - 60 days	1 697	217 029
61 - 90 days	1 688	159 975
91 - 120 days	1 650	159 381
121 - 365 days	963	158 786
	1 250	1 716 720
Ageing of provision is as follows		
61 - 90 days	(123 585)	(112 265)
91 - 120 days	(120 585)	(112 844)
121 - 365 days	(123 334)	(112 456)
> 365 days	(8 962 333)	(28 034 251)
	(9 329 837)	(28 371 816)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(28 371 816)	(24 040 845)
Contributions to allowance	19 041 980	(4 330 971)
	(9 329 836)	(28 371 816)
6. Accrued Interest Investments		
ABSA current account 4056102866	-	1 764
ABSA call account 9159847532	-	406
ABSA investment account 929 323 815 4	-	42 691
Nedbank investment account 563 095 54919981	204	-
Nedbank Investment account 56 398012179 996	1 670	-
Nedbank Investment account 56398012179996	7	-
	1 881	44 861
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	1 337	7 808
Bank balances	3 777 980	1 914 589
Short-term Investments	12 844 934	14 289 796
	16 624 251	16 212 125

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7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances		
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	
FNB BANK MAIN 620 238 6899 98	1 064 770	1 421 602	-	411 157	1 421 602
FNB BANK INVESTMENT ACCOUNT 710 44 3426 67	503 975	470 251	-	503 975	470 251
FNB BANK INVETSMENT ACCOUNT 741 056 039 86	2 707 211	2 536 483	-	2 707 211	2 536 483
FNB BANK INVESTMENT ACCOUNT 623 467 553 01	26 778	25 368	-	26 778	25 368
ABSA BANK CURRENT ACCOUNT 405 610 286 6	3 234 775	492 987	-	3 234 775	492 987
ABSA BANK CALL ACCOUNT 915 984 753 2	92 889	88 241	-	92 889	88 241
STANDARD BANK 30 DAYS ACCOUNT 268 693 404	1 312 260	1 511 608	-	1 312 260	1 490 639
NEDBANK BANK INVESTMENT ACCOUNT 563 095 549 199 81	993 231	936 337	-	993 231	936 337
NEDBANKBANK INVESTMENT ACCOUNT 56 309 554 919 997	77 369	73 345	-	77 369	73 345
NEDBANKBANK INVETSMENT ACCOUNT 56 398 012 179 996	621 879	589 604	-	621 879	589 604
ABSA BANK INVESTMENT ACCOUNT 929 323 815 4	6 509 320	7 929 796	-	6 509 320	7 929 796
FNB BANK INVESTMENT ACCOUNT 625 756 885 13	22	128 763	-	22	128 763
FNB BANK INVESTMENT ACCOUNT 622 075 397 95	-	(68)	-	-	-
Total	17 144 479	16 204 317	-	16 490 866	16 183 416

8. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	27 312 145	(4 646 534)	22 665 611	16 114 609	(5 680 555)	10 434 054

Reconciliation of investment property - 2020

	Opening balance	Reclassification	Transfers	Depreciation	Total
Investment property	10 434 054	13 826 000	(1 226 126)	(368 317)	22 665 611

Reconciliation of investment property - 2019

	Opening balance	Depreciation	Total
Investment property	10 971 208	(537 154)	10 434 054
Fair value of investment properties		26 326 000	12 400 000

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8. Investment property (continued)

Fair Value measurements

The Investment Property was valued on the 30th of June 2019, this valuation has been undertaken in accordance with International Valuation Standards by BPG Mass Appraisals (Pty) Ltd. The Property legal description is Erf 358 and 359 Maphumulo ERF 1 Township which is 5 733 square metres. The market value of property is R12 200 000 (R200 000 land value and R12 000 000 building value):.

Erf 358 Thusong Land	2 000 000	2 000 000
Erf 359 Thusong Building	12 300 000	12 000 000
Vacant Land	13 826 000	9 188 000

There were no assets pledged as security for the year ended 30 June 2020.

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

Income generated from investment property	915 174	939 019
Total expenditure incurred maintaining Investment property	(178 947)	(791 013)
	<u>736 227</u>	<u>148 006</u>

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9. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	-	-	-	9 881 000	-	9 881 000
Buildings	154 371 544	(27 582 783)	126 788 761	143 857 463	(22 205 202)	121 652 261
Plant and machinery	20 785 680	(8 650 859)	12 134 821	21 284 324	(7 702 263)	13 582 061
Furniture and fixtures	6 079 952	(3 773 824)	2 306 128	4 927 906	(3 402 164)	1 525 742
Motor vehicles	5 338 654	(1 476 765)	3 861 889	5 003 671	(2 607 549)	2 396 122
Office equipment	4 290 427	(2 282 804)	2 007 623	3 997 237	(2 178 055)	1 819 182
IT equipment	2 409 785	(1 447 626)	962 159	2 042 481	(1 171 566)	870 915
Infrastructure	173 279 768	(53 953 764)	119 326 004	141 308 091	(46 403 085)	94 905 006
Total	366 555 810	(99 168 425)	267 387 385	332 302 173	(85 669 884)	246 632 289

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Notes to the Annual Financial Statements

Figures in Rands

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers received	Transfers	Reclasificatio n	Donations	Depreciation	Impairment loss	write-offs	Total
Land	9 881 000	-	-	-	-	(9 881 000)	-	-	-	-	-
Buildings	121 652 261	10 401 717	-	21 545 156	(28 180 584)	1 228 464	6 106 456	(3 977 576)	(5)	(1 987 127)	126 788 762
Plant and machinery	13 582 061	-	(94 369)	-	-	-	-	(1 349 463)	(3 408)	-	12 134 821
Furniture and fixtures	1 524 590	764 302	(13 221)	-	-	-	441 505	(395 324)	(15 724)	-	2 306 128
Motor vehicles	2 396 122	2 158 042	(375 820)	-	-	-	-	(316 455)	-	-	3 861 889
Office equipment	1 819 182	579 173	(28 975)	-	-	-	194 379	(482 479)	(73 657)	-	2 007 623
IT equipment	872 066	297 162	(3 794)	-	-	-	119 091	(312 486)	(9 880)	-	962 159
Infrastructure	94 115 192	27 455 557	-	35 744 798	(29 630 476)	-	-	(5 942 363)	(531 125)	(1 885 579)	119 326 004
	245 842 474	41 655 953	(516 179)	57 289 954	(57 811 060)	(8 652 536)	6 861 431	(12 776 146)	(633 799)	(3 872 706)	267 387 386

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Donations	Depreciation	Impairment loss	Total
Land	9 881 000	-	-	-	-	9 881 000
Buildings	102 610 686	15 834 609	12 375 122	(4 820 723)	(4 347 432)	121 652 262
Plant and machinery	14 969 100	-	-	(1 387 039)	-	13 582 061
Furniture and fixtures	1 858 306	145 905	-	(479 621)	-	1 524 590
Motor vehicles	3 032 338	-	-	(636 215)	-	2 396 123
Office equipment	998 644	1 277 295	-	(456 758)	-	1 819 181
IT equipment	863 904	300 234	-	(292 072)	-	872 066
Infrastructure	92 501 642	10 173 787	-	(7 280 271)	(490 152)	94 905 006
	226 715 620	27 731 830	12 375 122	(15 352 699)	(4 837 584)	246 632 289

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Figures in Rands

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9. Property, plant and equipment (continued)

Pledged as security

There were no assets pledged as security for the year ended 30 June 2020.

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

Reconciliation of Work-in-Progress 2020

	Opening balance	Additions	Completed Projects	Impairment loss	Closing Balance
Buildings	35 360 307	10 401 717	(28 180 584)	(5)	17 581 435
Infrastructure	33 501 408	27 455 557	(29 630 476)	-	31 326 489
	68 861 715	37 857 274	(57 811 060)	(5)	48 907 924

Reconciliation of Work-in-Progress 2019

	Opening Balance	Additions	Total
Buildings	19 898 004	15 462 303	35 360 307
Infrastructure	23 327 621	10 173 787	33 501 408
	43 225 625	25 636 090	68 861 715

Expenditure incurred to repair and maintain property, plant and equipment

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

Roads	-	1 686 700
Plant and Machinery	1 863 014	1 673 855
Buildings	1 640 890	1 320 721
Vehicles	534 658	719 795
Halls	-	431 554
Yard	-	150 900
IT Equipment	-	71 671
Sport Field	-	53 730
	4 038 562	6 108 926

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10. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 133 927	(652 027)	481 900	1 132 157	(508 558)	623 599

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software, other	625 369	(143 469)	481 900

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software, other	804 348	(178 979)	625 369

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Notes to the Annual Financial Statements

Figures in Rands	2020	2019
11. Payables from exchange transactions		
Retention and Gaurantees	6 952 084	4 544 210
Trade Payables	3 796 133	4 624 288
Accrued Leave Pay	5 706 400	3 721 141
Accrued Trade Payables	-	175 104
Accrued Bonuses	1 262 221	1 108 449
Insurance received onbehalf of deceased Councillor	215 000	215 000
Other payables	15 034	-
Indemnity	83	1 783
Housing grant	-	1 795 331
	17 946 955	16 185 306
12. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
CoGTA Grant Mvozane	5 089 779	4 464 853
Library Grant	896 839	939 305
Disaster Relief Grant	500 000	-
Municipal Infrastructure Grant (MIG)	6 789 589	5 576 913
	13 276 207	10 981 071

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Notes to the Annual Financial Statements

Figures in Rands 2020 2019

13. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
Long service award - short term	197 616	(105 233)	92 383
Long service award - long term	1 233 788	52 661	1 286 449
	1 431 404	(52 572)	1 378 832
Non-current liabilities		1 286 449	1 233 788
Current liabilities		92 383	197 616
		1 378 832	1 431 404

Long service award provision

In line with the guidelines of the Bargaining Council, the municipality remunerates its employees for the long service rendered to the municipality. The estimates of the present obligation are determined through the use of Actuarial expertise. Such estimates are reviewed annually at the end of each financial year.

The municipality offers bonuses for every 5 years of completed service from 10 to 45 years. Long service accumulated leave must be taken within one year of receiving such leave or wholly or partially cashed. In most cases employees exercise the option to wholly convert their accumulative leave bonus days into cash.

Key assumptions (%)

Discount rate	8.35%
ACPI	3.47%
Salary increase rate	4.47%
Net discount rate	3.91%
Mortality	SA85-90
Normal retirement age	65

14. Fair value adjustment assets-available-for-sale reserve

The fair value adjustment assets available-for-sale reserve comprises fair value adjustments on vacant land available-for-sale. When an asset or liability is derecognised, the fair value adjustments relating to that asset or liability is transferred to surplus or deficit.

Available-for-sale Investment property -Land	3 945 000	-
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15. Refuse removal

Refuse removal	187 287	5 229
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16. Trade payables written off

Through detailed review and reconciliation of the trade payables retention's ledger account, prior years complete projects and confirmation with Technical department; the municipality discovered that the retention balance recorded in our books is over stated. then finance department wrote a report to council requesting the resolution to write-off the untraceable retention amount. The council approved write-off as at the end of 30 June 2019.

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Figures in Rands	2020	2019
16. Trade payables written off (continued)		
	-	9 391 004
17. Rental of facilities and equipment		
Premises		
Rental	1 099 628	939 019
Hall hire	24 348	23 331
	1 123 976	962 350
18. Interest charged on trade and other receivables		
Interest on receivables from Non-Exchange transaction	934 829	1 259 151
Interest on receivables from Exchange transaction	42 640	100 951
	977 469	1 360 102
19. Licenses and permits		
Licenses and permits		
	106 640	73 741
20. Rental debtors straightline		
Rental Debtors Straightline	-	56 391
21. Other income		
Tender Document Sale	153 369	222 777
Sundry income	215 574	481 830
Admin Fee and Commission	111 538	11 222
	480 481	715 829
22. Interest Received - Investments		
Interest revenue		
Other financial assets (Investments)	736 928	980 630
Bank (Main and Current)	893 918	1 054 992
	1 630 846	2 035 622

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Figures in Rands	2020	2019	
23. Property rates			
Rates			
Billings	28 800 849	19 518 991	
Less: Income forgone	(5 635 232)	(5 701 719)	
	23 165 617	13 817 272	
Property Rates per category	Billings	Rebates	Total
Residential' s	279 180	-	279 180
Commercial	1 338 717	(35 000)	1 303 717
State	19 364 500	(3 887 400)	15 477 100
Rural Communal Land (RCL)	7 585 920	(1 516 649)	6 069 271
Agricultural	69 000	(34 500)	34 500
Public Service Infrastruture	1 512	-	1 512
POW	162 021	(161 683)	338
Subtotal	28 800 850	(5 635 232)	23 165 618
	28 800 850	(5 635 232)	23 165 618

Property rates levied in terms of the Local Government : Municipal Property Rates Act No. 6 of 2004 with effect from 1 July 2009. The current valuation roll was implemented on 01 July 2019. The council approved randage for this financial year are; Commercial R0.05, Institutional and specialized property R0.05, PSI R0.03, Residential R0.03, Industrial R0.03, and Agricultural R0.03 . All institutional property receives 10% rebates and the residential properties receives R15 000 exemption

The summary of property valuation roll category and market values are as follows:-

Valuations

Residential	14 980 000	22 487 000
Commercial	47 076 000	40 853 000
State	295 100 000	256 692 000
Municipal	33 868 000	26 069 000
Specialized Property	85 980 000	53 080 000
Industrial	-	800 000
Rural Communal Land (RCL)	253 038 000	108 602 000
Agricultural	2 300 000	850 000
Public Service Infrastruture	720 000	720 000
	733 062 000	510 153 000

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Figures in Rands	2020	2019
24. Government grants and subsidies		
Operating grants		
Equitable Share	90 716 000	81 102 000
Disaster Relief Grant	245 000	-
Financial Management Grant (FMG)	1 900 000	1 900 000
Expanded Public Works Program (EPWP)	1 325 000	1 157 000
Library Grant	1 674 466	585 695
	95 860 466	84 744 695
Capital grants		
Titanium Mining Grant	-	100 000
CoGTA Grant - Mvozane	6 375 074	535 147
Municipal Infrastructure Grant (MIG)	27 607 325	16 365 087
Small Town Rehabilitation Grant	-	4 997 837
Corridor Development Grant	-	7 493 207
	33 982 399	29 491 278
	129 842 865	114 235 973
Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of :		
Municipal Infrastructure Grant	5 574 909	5 576 913
CoGTA Grant Mvozane	5 089 779	4 464 853
Library Grant	896 839	939 305
Disaster Relief Grant	500 000	-
	12 061 527	10 981 071
CoGTA Grant - Mvozane		
Balance unspent at beginning of year	4 464 853	-
Current-year receipts	7 000 000	5 000 000
Conditions met - transferred to revenue	(6 375 074)	(535 147)
	5 089 779	4 464 853
Library Grant		
Balance unspent at beginning of year	939 305	-
Current-year receipts	1 632 000	1 525 000
Conditions met - transferred to revenue	(1 674 466)	(585 695)
	896 839	939 305
Financial Management Grant (FMG)		
Current-year receipts	1 900 000	1 900 000
Conditions met - transferred to revenue	(1 900 000)	(1 900 000)
	-	-
Expanded Public Works Program (EPWP)		
Current-year receipts	1 325 000	1 157 000
Conditions met - transferred to revenue	(1 325 000)	(1 157 000)

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Figures in Rands	2020	2019
24. Government grants and subsidies (continued)		
	-	-
Small Town Rehabilitation Grant		
Balance unspent at beginning of year	-	4 997 837
Conditions met - transferred to revenue	-	(4 997 837)
	-	-
Corridor Development Grant		
Balance unspent at beginning of year	-	7 493 207
Conditions met - transferred to revenue	-	(7 493 207)
	-	-
Disaster Relief Grant		
Conditions met - transferred to revenue	745 000	-
Other	(245 000)	-
	500 000	-
Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	5 576 913	-
Current-year receipts	28 820 000	21 942 000
Conditions met - transferred to revenue	(27 607 324)	(16 365 087)
	6 789 589	5 576 913
Titanium Mining Grant		
Balance unspent at beginning of year	-	100 000
Current-year receipts	-	(100 000)
	-	-
25. Agent and Principal Transactions		
Integrated National Electrification Programme (INEP) Grant		
Current- Year receipts	9 180 000	10 000 000
Conditions met	(9 180 000)	(10 000 000)
	-	-

Maphumulo Municipality received Integrated National Electrification grant funding from Department of Mineral Resources and Energy, to address the electrification backlog for all residential dwelling with in municipal jurisdiction. Maphumulo Municipality does not have electricity distribution license therefore Maphumulo Municipality is acting as an Agent of the Principal, Department of Mineral Resources and Energy.

During the current financial year we've received a funding of R9 180 000 and this amount was full spent with in the current financial year.

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Figures in Rands	2020	2019
26. Employee related costs		
Basic	27 421 232	22 998 464
Bonus	2 207 826	1 891 816
Medical aid - company contributions	1 597 900	1 429 566
UIF	217 395	204 184
SDL	451 188	329 978
Defined contribution plans	4 103 852	3 293 314
Overtime payments	145 395	236 572
Long-service awards	13 222	593 904
Car allowance	2 221 572	1 618 872
Housing benefits and allowances	71 051	80 766
Cellphone Allowance	180 392	202 936
Non-Pensionable Allowance	270 233	110 950
Stand-By Allowance	89 858	88 077
Leave Accrued	2 834 541	1 614 269
Membership Fees	14 483	10 430
	41 840 140	34 704 098
Remuneration of Municipal Manager		
Annual Remuneration	761 000	743 433
Car Allowance	326 143	318 614
	1 087 143	1 062 047
Remuneration of Municipal Manager is a annual remuneration paid to Municipal Manager: Mr.P.N Mhlongo as from July 2019 to June 2020.		
Remuneration of Chief Finance Officer		
Annual Remuneration	570 544	549 358
Car Allowance	244 519	235 439
	815 063	784 797

Remuneration of Chief Financial Officer is a annual remuneration paid to CFO as from July 2019 to June 2020.

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Figures in Rands 2020 2019

26. Employee related costs (continued)

Remuneration of Director: Technical Services

Annual Remuneration	280 549	273 511
Car Allowance	120 235	117 213
	<u>400 784</u>	<u>390 724</u>

Remuneration of Technical Director is a remuneration paid to Acting Director from November 2019 to April 2020.

Remuneration of Director : Community Services

Annual Remuneration	570 544	319 096
Car Allowance	244 519	136 756
Acting allowance	-	15 629
	<u>815 063</u>	<u>471 481</u>

Remuneration of Director: Community services is a annual remuneration paid to Director as from July 2019 to June 2020

Remuneration of Director: Corporate Services

Annual Remuneration	570 544	549 358
Car Allowance	244 519	235 439
	<u>815 063</u>	<u>784 797</u>

Remuneration of Director: Corporate services is a annual remuneration paid to Director as from July 2019 to June 2020

Remuneration of Director: Economic, Development and Planning (EDP)

Annual Remuneration	570 544	273 511
Car Allowance	244 519	117 213
	<u>815 063</u>	<u>390 724</u>

Remuneration of Director: Economic, Development and Planning is a annual remuneration paid to Director as from July 2019 to June 2020

27. Remuneration of Councillors

Mayor	901 659	858 263
Deputy Mayor	729 488	649 905
Chief Whip	313 230	301 508
Speaker	729 488	651 693
Councillors	3 834 229	3 583 203
Skills Development Levy	4 146	60 482
Cellphone Allowance	730 342	739 700
Travel Allowance	1 278 130	1 202 945
	<u>8 520 712</u>	<u>8 047 699</u>

In-kind benefits

The Mayor is a full time councillor and she received secretarial services and the use of a municipal vehicle paid by the municipality.

The Deputy Mayor and Speaker received the use of municipal vehicle and municipal drivers paid for by the municipality.

The Mayor has three full-time bodyguards paid by the municipality.

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Figures in Rands	2020	2019
28. Auditors Remuneration		
Auditors Remuneration	<u>3 417 688</u>	<u>2 546 383</u>
29. Rental debtors straight line reversal		
Rental debtors straight line reversal	<u>201 683</u>	<u>-</u>
30. Depreciation and amortisation		
Property, plant and equipment	13 422 988	13 599 874
Investment property	368 317	537 154
Intangible assets	143 468	178 979
	<u>13 934 773</u>	<u>14 316 007</u>
31. Impairment of assets		
Impairments		
Property, plant and equipment	<u>597 762</u>	<u>4 837 584</u>
32. Petty cash written off		
Petty cash written off	<u>3 653</u>	<u>-</u>
33. Finance costs		
Other Interest Paid	<u>7 172</u>	<u>37 683</u>
34. Debt impairment and Bad debts written-off		
Contributions to debt impairment provision - Receivable from exchange transactions	(1 163 761)	(510 801)
Contribution to debt impairment provision - Receivables from non-exchange transactions	(19 041 980)	4 330 971
Bad debts written off - Receivables from exchange transaction	1 582 819	-
Bad debts written off- Receivables from non-exchange transactions	27 661 858	-
	<u>9 038 936</u>	<u>3 820 170</u>
35. WIP Written-Off		
Buildings	1 987 127	-
Infrastructure	1 885 579	-
	<u>3 872 706</u>	<u>-</u>
36. Contracted services		
Presented previously		
Operating Leases	392 640	442 897

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Figures in Rands	2020	2019
36. Contracted services (continued)		
Outsourced Services		
Catering Services	694 152	1 426 764
Cleaning Services	3 580 019	4 387 868
Hygiene Services	245 000	-
Refuse Removal	247 123	83 700
Security Services	6 715 932	5 879 036
Transport Services	345 867	832 438
Consultants and Professional Services		
Business and Advisory	4 368 565	2 189 721
Infrastructure and Planning	6 256 337	7 104 176
Legal Cost	606 508	2 747 551
Contractors		
Artists and Performers	-	88 365
Event Promoters	1 880 150	2 733 265
Interior Decorator	9 000	9 320
Maintenance of Buildings and Facilities	1 398 775	1 320 721
Maintenance of Equipment	1 851 314	-
Maintenance of Unspecified Assets	1 204 830	4 797 705
Stage and Sound Crew	918 717	2 165 770
	30 714 929	36 209 297
37. Transfers and subsidies		
Free basic services	1 213 862	440 694
38. General expenses		
Advertising and communications	3 733 128	4 347 801
Bank charges	97 323	108 607
Interest and penalties	10 382	78 303
Healthy and safety	51 305	285 035
Hire charges	124 022	394 403
Insurance	713 606	672 574
Community development and training	1 344 488	1 562 276
Fleet	274 627	-
Medical expenses	12 200	7 315
Fuel and oil	1 697 084	3 305 696
Postage and courier	-	1 965
Printing and stationery	709 990	613 392
Software expenses	57 400	119 525
Bursaries	576 968	578 119
Subscriptions and membership fees	538 776	517 718
Telephone and fax	851 433	1 161 127
Training	554 399	898 172
Travel - local	2 777 394	3 685 895
Waterborne sewer	235 200	-
Water and electricity	2 003 979	1 475 405
Uniforms	543 370	709 908
Audit committee	291 866	712 541
Licenses	1 287 676	744 070
LED projects	972 484	1 489 789
Small Tools	451 669	265 902
	19 910 769	23 735 538

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Figures in Rands	2020	2019
39. Cash generated from operations		
Surplus	19 010 530	10 072 668
Adjustments for:		
Depreciation and amortisation	13 934 773	19 154 712
Profit on disposal of assets and liabilities	481 696	-
Impairment loss	597 762	-
Debt impairment	9 038 936	3 820 171
WIP written off	3 872 706	-
Movements in provisions	(52 572)	(170 311)
Petty Cash write off	3 653	-
Rental Debtors straightline revesal	201 683	-
Changes in working capital:		
Receivables from exchange transactions	264 657	(320 882)
Receivable from non-exchange transation	(7 213 468)	(5 124 361)
Prepayments	(62 027)	4 118
Payables from exchange transactions	1 761 649	(4 980 218)
VAT	(2 144 499)	1 897 429
Unspent conditional grants and receipts	2 295 136	(1 609 973)
	41 990 615	22 743 353
40. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	21 261 617	49 008 941
• Investment property	291 664	5 865 463
	21 553 281	54 874 404
Total capital commitments		
Already contracted for but not provided for	21 553 281	54 874 404
Authorised operational expenditure		
Total operational commitments		
Already contracted for but not provided for	7 721 737	-
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	335 876	335 876
- in second to fifth year inclusive	111 959	447 834
	447 835	783 710

Operating lease payments represent rentals payable by the municipality for printing machinery. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable. the municipality will pay Konica Minolta the total monthly minimum charge and additional copy or scan if any, calculated at a rate specified in the schedule without demand.

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Figures in Rands	2020	2019
41. Fruitless and wasteful expenditure		
Opening balance as previously reported	559 772	817 375
Opening balance as restated	559 772	817 375
Add: Expenditure identified - current	3 094 971	73 310
Less: Amounts recoverable - prior period	(225 041)	(330 913)
Closing balance	3 429 702	559 772

Reason for Fruitless and wasteful Expenditure

Included in the fruitless and wasteful expenditure is R 10 179 interest charged by SARS due to the late submission of EMP 201 and VAT 201 filed to the incorrect period, R203 due to the late payment of water bill, R3 081 072 discontinued projects and R3 509 due to the cancellation of booked accommodation.

Fruitless and wasteful expenditure for the current year are not yet recoverable as at the year end and are currently being investigated by the MPAC which will determine recoverability and criminal or disciplinary steps if any to be taken.

42. Irregular expenditure

Opening balance as previously reported	38 906 812	32 186 814
Add: Irregular Expenditure - current year	-	6 719 998
Add: Irregular expenditure incurred in current year but identified in prior year	38 906 812	38 906 812
Add: Irregular Expenditure - current	1 864 351	-
Closing balance	40 771 163	38 906 812

Summary of Cases

Current year	16	27
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Figures in Rands	2020	2019
42. Irregular expenditure (continued)		
Details of irregular expenditure – current year		
Incident 1	-	-
Non compliance with section 116(2)(a) of the Municipal Finance Management Act, Act no. 56 of 2003 state that the accounting officer of the municipality must take all the reasonable steps to ensure that a contract or agreement procure through supply chain management policy of the municipality or municipal entity is properly enforced.	1 693 404	5 687 308
Incident 2	-	-
Non compliance with section 116(1)(a) of the Municipal Finance management Act (MFMA), Act no. 56 of 2003 which states that a contract or agreement procured through the supply chain management system of municipal or municipal entity must be in writing.	28 463	650 338
Incident 3	-	-
Non compliance with CIDB grading The municipality have not complied with the Preferential Procurement regulation 2011 which states that "A two stage tendering process may be followed, where the first stage involve functionality and minimum threshold for local production and content and the second stage price and B BEE with the possibility of price negotiations only with the short listed tenders	-	382 352
Incident 4	-	-
False declaration of interest by the service provider	142 484	-
	1 864 351	6 719 998

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 council and includes a note to the annual financial statements.

Goods and services of R1 090 416 were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the council who considered them and subsequently approved the deviation from the normal supply chain management regulations.

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Figures in Rands

2020

2019

44. Employee benefit obligations

Multi Employer Retirement Fund

All fulltime employees belong to the KwaZulu Natal Joint Municipal Pension Fund, which are made up by the Retirement, Superannuation and Provident Funds. Councillors have the option to belong to the Pension Fund for Municipal Councillors. These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes

All of these aforementioned funds are multiemployer plans and are subject to either a triannual, biannual or annual actuarial valuation, details which are provided below.

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

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

It is therefore seen that each fund operates as a single entity and is not divided into subfunds for each participating employer. The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions.

Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions..

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

Defined Benefit Plan

Retirement Fund

The scheme is subject to a triannual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2018 by Argen actuarial solutions.

The interim actuarial valuation performed as at 30 March 2018 revealed that the fund had a increase of R174.2 (31 March 2017: increase of R 144.7) million, with a funding level of 90,2% (31 March 2015: 96.1%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (28.37%) should be sufficient to eradicate the shortfall in the fund by 30 June 2018. However, the basic contribution payable is 2.95% less than the required contribution rate

The actuarial shortfall is taken into account by determining surcharges, to be met by increased contributions. These surcharges amount to 21.65% of pensionable emoluments, of which 1,65% is payable by members and 20% is payable by the local authority. This surcharge is payable until 2020. It is necessary that the basic employer contribution be increased by 15.85% to 20 % and the surcharge be increased to 17.5% and extended by a further 3 years to 30 June 2020. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 35% with effect from 1 July 2018 for a period of 8 year

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund

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Figures in Rands	2020	2019
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44. Employee benefit obligations (continued)

Long Term Services Awards

A long term service awards is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2019 may become entitled to in future, based on an actuarial valuation performed at that date

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2019 by the One Pangaea and Solutions a member of the Actuarial Society of South Africa

A summary of the actuarial valuation results is as follows:

Key financial assumptions used for the purposes of the actuarial valuation

Defined Contribution Plan

Municipal Councillors Pension Fund

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011. The interim valuation performed as at 30 June 2011 revealed that the assets of the fund amounted to R 1 483,786 381 (30 June 2010: R 1 123,672 020) million. The contribution rate paid by the members (13.75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future. As reported by the Actuaries, the Fund was in a sound financial condition as at 30 June 2011.

Provident Fund

The KwaZulu Natal Joint Municipal Provident Fund scheme is subject to a triannual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2018 by Argen Actuarial Solution.

The interim actuarial valuation performed as at 31 March 2018 revealed that the market value of the fund was R 4 105 682. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 6,00%, 9,90% or 14,25% plus an additional 3,75% by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2018.

None of the above mentioned plans are State Plans.

Members withdrawn from services: (Average for males and females)

Age 20	16	24
Age 30	12	18
Age 40	8	10
Age 50	4	4
Age 55	2	2
	<u>-</u>	<u>-</u>

Key financial assumptions used for the purposes of the actuarial valuation

Discount rate	8.55 %	8.34 %
CPI	3.47 %	4.53 %
Salary increase rate	4.47 %	5.53 %
Net effect discount rate	3.91 %	2.66 %
	<u>-</u>	<u>-</u>

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44. Employee benefit obligations (continued)		
Movements in the defined benefit obligation is as follows:		
Opening balance	1 431 404	1 054 186
Service Cost	187 470	111 395
Actuarial (gains)/losses	(153 565)	311 329
Interest Cost	111 139	90 530
Benefit payments	(197 616)	(136 036)
	1 378 832	1 431 404

45. Prior period errors

Accrued Trade payables

During 2017 financial year municipality had R1 623 194 on accrued trade payables in 2018 financial year its increased to R3 389 575 from this R3 389 575 only R1 200 405 were cleared during 2019 financial year and the balance of R2 189 170 remain as an outstanding. Through detailed review of accrued trade payable, we noted that in 2018 financial year we made an error by not clearing this R 2 189 170 when the municipality actual paid these accruals. therefore we correct prior year (2019) accruals by decreasing Accrued trade payables and increasing accumulated surplus by R2 189 170.

Depreciation on Buldings

During 2019 financial year constriction of Etsheni, Hlangabeza, Qhokwana Creche, Maphumulo Taxi rank and Tunnel farming were work in progress. During 2020 audit we received completion certificates reflecting that these assets were completed during 2019 financial year. Then in 2020 financial year we correct these errors as follows at the end of June 2019 we increase Buildings and decrease Work in Progress by adjusting the opening Balance by R7 647 031.35. Increase accumulated Depreciation (CR) and Decrease Accumulated Surplus (DR) by R1 752 824.69

Expenses Capitalised in Prior Years

During 2019 financial year municipality capitalised the construction of Road and electrification. These payments were capitalised instead of expensed because during 2020 audit we discovered that these capital projects was not supposed to be capitalised and then we moved them to expenses by passing the following entry as at the end of 2019 financial year, DR accumulated surplus R3 098 719.80 and Credit WIP Electrification R1 776 971.85 and Roads R1321 747.95.

Donation Assets Received

During 2019 financial year Maphumulo municipality received a donation of buildings from Devine society and Taxi rank. These donation received were not included in municipal books. During the 2020 audit year municipality accounted for these donation by processing the journal in 2019 financial year debit Buildings Crèche R991 800 and Taxi rank R11 383 320.78 and CR Accumulated surplus R12 378 120.78

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Acrued trade payables	-	2 189 170
Accumulated Surplus	2 189 170	-
Buildings	-	7 647 031
Working In progress : Buildings	-	(7 647 031)
Accumulated Depreciation :Buildings	-	(1 752 824)
Opening Accumulated Surplus or Deficit	(1 752 824)	-
Working In progress : Electrification	-	(1 776 997)
Working In progress : Roads	-	(1 321 748)
Opening Accumulated Surplus or Deficit	(3 098 720)	-
Buildings	-	12 375 121
Opening Accumulated Surplus or Deficit	12 375 121	-

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46. Comparative figures

Land

During 2019 financial year municipality disclose the vacant land in Property, Plant and Equipment. During the preparation of 2020 annual financial statements municipality assess this disclosure and decided that this vacant land is Asset held for appreciation, Assets held for appreciation is Investment property as per GRAP 16. Therefore during 2019 financial year Land is re-classified as Investment Property of R9 881 000. Reclassification will result in a decrease in property, plant and equipment and increase in investment property by R9 881 000.

Investment property

Included in 2019 audited financial statement under investment property is R1 226 126 for sakhuxolo multi skills centre building. this municipal building was used as a hall hire to community and municipality generates income. during 2020 financial year the building is no longer generating the income since the municipality allowed uMfolozi Tvet collage to used this building free of charge. during the preparation of 2020 financial statement municipality reclassified this building as property, plant and equipment since we are no longer getting any income from this building. This reclassification will result in a decrease in Investment property and increase in property, plant and equipment, buildings by R1 226 126.

Work-in-progress

Work-in-progress Community in previous years were

Statement of financial Position -Extract.

	Comparative figures previously reported	Reclassification	After reclassification
Property, plant and equipment: Buildings	-	1 226 126	1 226 126
Investment property : Buildings	1 226 126	(1 226 126)	-
Property, plant and equipment: Land	9 881 000	(9 881 000)	-
Investment property : Land	-	9 881 000	9 881 000
	11 107 126	-	11 107 126

47. Related parties

Related party transactions

Interest paid to (received from) related parties

Dynamo Duck Trading And Projects 192 Cc	-	198 880
Halamnqo General Trading & Communications	7 890	189 555
Mabanga conusluting Pty Ltd	19 295	169 500

The above payments were made by the municipality without knowing that these companies have a relationship with municipal employees

48. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	313 312	313 312
Trade and other receivables from non-exchange transactions	-	800 192	800 192

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48. Financial instruments disclosure (continued)

Cash and cash equivalents	16 483 910	-	16 483 910
	16 483 910	1 113 504	17 597 414

Financial liabilities

	At cost	Total
Trade and other receivables from exchange	-	-
Trade and other payables from exchange transactions	3 796 133	3 796 133
	3 796 133	3 796 133

2019

Financial assets

	At fair value	At amortised cost	Total
Trade and other payables from exchange transactions	-	510 944	510 944
Other receivables from non-exchange transactions	-	2 135 807	2 135 807
Cash and cash equivalents	16 212 125	-	16 212 125
	16 212 125	2 646 751	18 858 876

Financial liabilities

	At cost	Total
Trade and other payables from exchange transactions	4 624 288	4 624 288

49. Contingencies

Case 1.

Maphumulo Municipality // Only If Management CC.

Litigation is in the process between the municipality and Only If Management CC under the case number 10108/2013 Plaintiff claims to have been appointed by the Municipality to do refuse removal within the Maphumulo area of jurisdiction. The claim is for R8 609 993.32

Case 2

Maphumulo Municipality // Sibgem Management & Consulting.

Attorney's was appointed by Maphumulo municipality to defend the claim of R1 864 476.11 for the non payment of invoices for the electrification work at Ziqgayini, Mphise and Mzulwini ward.

Attorney's issued the appearance to defend and filed a plea in which they raised the points in limine as follows:

1. There had been no contract between the Municipality,
2. In terms of the letter of appointment dated 21 May 2014, there were conditions that had to be adhered to before the commencement of the work, which were not complied with..
3. Thereafter filed a claim in Reconvension for the amount of R1 628 357.34, after which plaintiff filed a plea to the Claim in Reconvension denying our claim.

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50. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The table below analyses the municipality's financial liabilities balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

The municipality would be able to pay all obligation due within 12 months as listed in the face of the balance sheet Current liabilities which are Trade and other payables from exchange transactions , Unspent conditional grants and Provision for long term service awards

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty. Consumer debtors comprise of a large number of ratepayers dispersed across different sectors and geographical areas. Management evaluated credit risk relating to customers on an ongoing basis. Credit exposure is managed by application of the municipality's policies regarding credit control and debt collection. The municipality has made a provision for doubtful debts in accordance to its policies. The carrying amount of financial assets is the maximum exposure to credit risk in relation to these assets

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

Financial instrument	2020	2019
Trade and other receivables from exchange transactions	246 287	510 944
Trade and other receivables from non-exchange transactions	800 192	2 135 807
Cash and cash equivalents/bank balances	16 624 651	16 212 125

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

51. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 276 857 079 and that the municipality's total assets exceed its liabilities by R 280 802 079.

The municipality's current liabilities are not secured against the municipal current assets as it can be seen that current assets are less than current liabilities and there is a deficit of R8 446 368 (R22 869 177 current assets less R31 315 545 current liabilities). This shows a little decrease in deficit compared to last financial year where was a deficit of R7 659 387.

Included in the current liabilities are unspent conditional grants of R13 276 297 that always need to be cash backed. Current Assets includes VAT receivables of R4 683 310 which would be received from SARS during next financial year.

The going concern of the municipality is negative since the municipality relying on its cash and cash equivalents of R16 492 204 to settle the current liability of R31 315 545.

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52. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	486 951	475 000
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There is no adjustment event after reporting date.

Audit fees

Opening balance	1 529	22 255
Current year subscription / fee	3 419 217	3 349 582
Amount paid - current year	(3 356 842)	(3 370 308)
	<u>63 904</u>	<u>1 529</u>

Only R1 529 audit fee amount were outstanding at the end of the year

PAYE and UIF

Amount paid - current year	6 643 720	6 763 030
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There is no outstanding PAYE and UIF at the financial year end

Pension and Medical Aid Deductions

Amount paid - current year	7 593 870	6 571 251
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There is no outstanding Pension and Medical aid were outstanding at as at the financial year end

VAT

VAT receivable	4 519 882	2 375 383
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All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

There were no Councillors in arrears for more than 90 days at any time during the year ended 30 June 2020: