REPUBLIC OF NAMIBIA

Auditor-General NAMIBIA

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REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE

# REGIONAL COUNCIL OF THE KAVANGO EAST REGION

FOR THE FINANCIAL YEARS ENDED 31 MARCH 2020 & 2021

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**TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY**

I have the honour to submit herewith my audit report on the accounts of the Kavango East Regional Council for the financial years ended 31 March 2020 and 2021, in terms of Article 127(2) of the Namibian Constitution. The report is transmitted to the Honourable Minister of Finance in terms of Section 27(1) of the State Finance Act, 1991, (Act No. 31 of 1991) to be laid upon the Table of the National Assembly in terms of Section 27(4) of the Act.

**WINDHOEK, June 2025**

**JUNIAS ETUNA KANDJEKE**
**AUDITOR-GENERAL**

# REPORT OF THE AUDITOR-GENERAL
# ON THE ACCOUNTS OF THE REGIONAL COUNCIL OF KAVANGO EAST
# FOR THE FINANCIAL YEARS ENDED 31 MARCH 2020 AND 2021

## 1. ADVERSE AUDIT OPINION

I have audited the financial statements of the Kavango East Regional Council for the financial years ended 31 March 2020 and 2021 provided by the Accounting Officer as attached in Annexure A-F. These financial statements comprise the statement of financial position, the statement of financial performance, the statement of changes in net assets, statement of cash flows, notes to the financial statements and a summary of significant accounting policies.

In my opinion, because of the significance of matters discussed in the Basis for Adverse Audit Opinion paragraph, the financial statements do not present fairly, in all material respects, the financial position of the Kavango East Regional Council as at 31 March 2020 and 2021, and its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

## 2. BASIS FOR ADVERSE AUDIT OPINION

I conducted the audit in accordance with the International Standards for Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the financial statements section of the audit report. I am independent of the entity in accordance with the code of ethics for Supreme Audit Institutions together with the ethical requirements that are relevant to the audit of the financial statements, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the Code of Ethics.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for the audit opinion. An adverse audit opinion is being expressed due to the following reasons:

### 2.1 UNEXPLAINED MATERIAL ADJUSTMENTS MADE TO RETAINED EARNINGS (*Unresolved prior audit issue)

The audit found that the Council made adjustments by way of journals affecting its retained earnings balance amounting to N$ 21 895 474. However, no detailed explanations or supporting information was provided regarding the adjustments. Furthermore, the auditors noted that there was no indication that these adjustments were approved by the Council.

### 2.2 NON-COMPLIANCE TO IPSAS 33: FIRST-TIME ADOPTION OF ACCRUAL BASIS IPSASs

The audit found that the Kavango East Regional Council did not disclose an opening statement of financial position as required in terms of paragraph 15 of IPSAS 33 which states that *"A first-time adopter shall prepare and present an opening statement of financial position at the date of adoption of IPSASs. This is the starting point for its accounting in accordance with accrual basis IPSASs."* An Opening statement of financial position should show financial assets, financial liabilities, moveable assets and any other assets and liabilities.

The absence of an opening statement of financial position further results in prior period (2019) balance not corresponding to the prior period signed audit report.

## 2.3 NON-DISCLOSURE OF RELATED PARTIES

The audit found that the Council did not disclose related party information in the Financial Statements which are required in terms of paragraph 34 of IPSAS 20 - Related Parties. *Which stated:*

*"An entity shall disclose: (a) The aggregate remuneration of key management personnel and the number of individuals, determined on a full-time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class; (b) The total amount of all other remuneration and compensation provided to key management personnel, and close members of the family of key management personnel, by the reporting entity during the reporting period, showing separately the aggregate amounts provided to: (i) Key management personnel; and (ii) Close members of the family of key management personnel; and (c) In respect of loans that are not widely available to persons who are not key management personnel"*

## 2.4 FIXED ASSETS REGISTER

The auditors noted a differences of N$ 26 265 272 (2020) and N$ 29 647 328 (2021) between the netbook value amounts on the fixed assets register of N$ 70 305 059 (2020) and N$ 66 740 140 (2021) and the net book values disclosed in the financial statement amount of N$ 96 570 331 (2020) and N$ 96 387 468 (2021).

## 2.5 CASH UNFAVOURABLE BALANCES - CASH AND CASH EQUIVALENTS

The auditors noted that the Council in the financial statements for the 2021 period disclosed Cash Control (cash in hand) and Interbank Transfers both with unfavourable balances amounting to N$ 549 051, respectively, this is not in line with the nature of these type of accounts. There cannot be negative cash in hand and the interbank transfer account should have no closing balance at the end of the period, as this is a suspense account. Additionally, the balance disclosed in the financial statements does not agree to the balance in the general ledger accounts.

## 2.6 INCORRECT BALANCE DISCLOSED – CASH AND CASH EQUIVALENTS

The auditors noted that the Council incorrectly disclosed a Fleet Management Account balance in the financial statements of N$ 1 598 609 instead of a balance of N$ 589 609 as per the general ledger and the Council bank statements on file, resulting in an overstatement of N$ 1 009 000.

## 2.7 EMPLOYEE RELATED COST (2021)

The auditors noted a variance of N$ 1 088 227 between the employee cost figures presented in the Statement of Financial Performance and Note 16 (Personnel Cost, IPSAS 39) of the Annual Financial Statements.

## 2.8 PAYROLL RECONCILIATION

A difference of N$ 316 829 (2020) and N$ 425 672 (2021) was observed between the total payroll remuneration as per the payroll report and the amount disclosed in the statement of financial performance.

## 2.9 SUNDRY INCOME ( VALUE ADDED TAX (VAT) REFUND) (2021)

During the 2021 financial year, a VAT refund of N$ 1 100 540 from NAMRA was incorrectly classified as Sundry Income, rather than being applied to the VAT Control account.

## 2.10 RATES AND TAXES (5%)

The auditors observed that the Council did not account for 5% Rates and Taxes in its accounting records or financial statements, with omissions totalling N$ 457 916 for the 2020 financial period and N$ 431 302 for the 2021 financial period.

## 2.11 VALUE ADDED TAX (VAT)

The auditors noted differences of N$ 6 835 291 for 2020 and N$ 7 752 006 for 2021 between the VAT balance disclosed in the Council Annual Financial Statements and the NamRA statements as per year end. The differences are as a result of the Councils failure to make adjustments for Interest on debt balances, Penalties on late submission imposed by NamRA, as well as adjustments due to disallowed invoices after VAT refund audits were conducted by NamRA.

## 3. KEY AUDIT MATTERS

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the audit opinion thereon, and I do not provide a separate audit opinion on these matters. I do not have anything to report on this matter.

## 4. OTHER INFORMATION

Management is responsible for the other information. The audit opinion on the financial statements does not cover the other information and, accordingly, the auditor does not express any form of assurance conclusion thereon. In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the knowledge obtained in the audit or otherwise appears to be materially misstated. I have nothing to report in this regard.

## 5. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Recognised Accounting Practice and legislation, and for such internal control as management determines it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible of overseeing the entity's financial reporting process.

## 6. AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE FINANCIAL STATEMENTS

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an audit report that includes the audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs), will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards for Supreme Audit Institutions, I exercise professional scepticism throughout the audit, I also;

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for the audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of the Entity's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence, obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the audit opinion. My conclusions are based on the audit evidence obtained up to the date of the report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit;
- I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards;

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in the audit report unless law or regulation precludes public disclosure about the matter or, when, in extremely rare circumstances, I determine that a matter should not be communicated in the audit report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## 7. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS (COMPLIANCE)

The financial statements for the financial years ended 31 March 2020 and 2021 were submitted later than required by the Accounting Officer to the Auditor-General on the 31 August 2024 in terms of Section 40 of the Regional Councils Act, 1992 (Act No. 22 of 1992).

## 8. KEY PERFORMANCE INDICATORS (KPI)

For the 2017-2022 Strategic Plan (SP), the auditors conducted a sample review focusing on objectives that were either not achieved or only partially achieved. Out of 75 strategic objectives, 21 were selected for review, and from these, 28 key performance indicators (KPIs) were sampled.

The rationale for this sample selection was based on the expectation that all strategic objectives should have been fully implemented by the end of the plan's lifecycle. The sampled objectives included those related to decentralized functions, for which the Accounting Officer holds responsibility.

- The auditors noted that a formal risk assessment had not been conducted during the strategic planning process for the 2017-2022 SP. The lack of a formal risk assessment during strategic planning can have a significant negative impact on the Council's ability to achieve its goals and manage resources effectively. The Council took note of the gap and addressed it in the new strategic plan commencing 2025-2026 and appointed risk champions from each department who are responsible to oversee the implementation of the risk assessment framework should ensure ongoing compliance;

- Out of the 28 Key Performance Indicators (KPIs) reviewed, the Council successfully provided documentation and explanation for only one KPI, specifically 'Number of Local Economic Development engagements' under the 'Ensure Socio-Economic Development and Community Welfare' objective. While project identification from 2016 demonstrated alignment with the Council's strategic objectives, the projects were not executed due to a lack of funding;

- The Council demonstrated a severe lack of documentation and an inability to provide explanations for the majority of their KPIs (27 out of 28 could not be explained), indicating potential issues with performance tracking and reporting; and

- Specifically, the review of decentralized functions, overseen by the Accounting Officer, revealed a failure to meet the 'Enhance Organizational Performance' objective. The Key Performance Indicator (KPI), "Tracking Quarterly Performance Agreement Reviews for staff" was not achieved across three decentralized functions. This indicates significant accountability and management oversight deficiencies in these areas. Decentralized functions are often crucial for delivering essential services to local communities. This results in performance monitoring and improvement being hindered and potentially leading to inefficient service delivery and reduced effectiveness.

## 9. ACKNOWLEDGEMENT

The co-operation and assistance by the management and staff of the Kavango East Regional Council during the audit is appreciated.

**WINDHOEK, June 2025**

**JUNIAS ETUNA KANDJEKE**
**AUDITOR-GENERAL**

## REGIONAL COUNCIL'S RESPONSIBILITIES AND APPROVAL

The Kavango East Regional Council is required by the Regional Councils Act 1992, (Act No. 22 of 1992) to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Council to ensure that the annual financial statements fairly present the state of affairs of the Regional Council as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with International Public Sector Accounting Standards including any interpretations, guidelines and directives Issued by the Accounting Standards Board.

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

The Regional Council acknowledges that they are ultimately responsible for the system of internal financial control established by the Regional Council and place considerable importance on maintaining a strong control environment. To enable the Council to meet these responsibilities, the Regional Council 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 Regional Council and all employees are required to maintain the highest ethical standards in ensuring the Regional Council's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Regional Council is on identifying, assessing, managing and monitoring all known forms of risk across the ty-specific inputs. It incorporates all factors

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

The Regional Council has reviewed the Regional's cash flow forecast for the year to 31 March 2020 and 2021 and in the light of this review and the current financial position, they are satisfied that the Regional Council has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the Regional Council is a going concern and that the Regional Council has neither the intention nor the need to liquidate or curtail materially the scale of the Regional Council.

The external auditors are responsible for independently reviewing and reporting on the Regional Council's annual financial statements. The annual financial statements have been examined by the Regional Council's external auditors and their report is presented on 'page 1 to 7.

The annual financial statements set out on pages 14 to 65, which have been prepared on the going concern basis, were approved by the Council on 15 August 2024 and were signed on its behalf by.

**Hon.Damian M.Maghambayi: Chairperson** **Date:** ________________

**Kavango East Regional Council**

The Regional Council submits their report for the years ended 31 March 2020 and 2021. During the 2019/2020 and 2020/21 financial years the Regional Council has for the first year applied International Public Sector Accounting Standards

(IPSAS) to ensure accountability and compliance according to international best practices for the Regional Council of Kavango East. Previously the Regional Council was using International Financial Reporting Standards (IFRS).

**1. Review of activities**

**Main business and operations**

The Regional Council is responsible for the affairs of Kavango East. Implementing central government's policies at regional level with the aim to improve the overall living standards of its residents.

The operating results and the state of affairs of the entity are fully set out of the attached annual Financial statements and do not in our opinion require any further comment.

Net deficit of the Regional Council was N$ 2 639 608 (2020: N$ 2 433 684).

**2. Going Concern**

Regional Council had an accumulated surplus of N$ 118 539 121 and the Regional Council's assets exceed its total liabilities by N$ 118 539 121 for 2021 financial year.

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

The ability of the Regional Council is to continue as a going concern dependents on a number of factors.

The most significant of these is that the Regional Council depends on funding for the ongoing operations from the Ministry.

**3. Subsequent events**

No material subsequent events were noted.

**4. General**

The Regional Council is committed to business integrity, transparency and professionalism in all its activities.

As part of this commitment, the Regional Council supports the highest standards of corporate governance and the ongoing development for best practice.

The Regional Council confirms and acknowledges its responsibility to total compliance with the Regional Councils Act, 1992 (Act 22 of 1992).

**Chairperson**

The Chairperson is a non-executive independent member of the Regional Council.

Regional Council meetings Regional Council members have access to all members of management of the Regional Council.

**5. Auditors**

The Auditor-General will continue in office for the next financial period.

The annual financial statements set out from pages 17 - 21, which have been prepared on the going concern basis, were approved by the Regional Council on 19 July 2024.

**6. Council Members appointed until November 2020:**

Hon. J.H Thighuru (Chairperson)
Hon. P. Kavhura (MP)
Hon. M.M S Shikongo (MP)
Hon. V. Kauma (MP)
Hon. E.L. Likuwa (MC)
Hon. F.M. Nkore (MC)

**Council Members appointed on 1 December 2020 until present:**
Hon. Damian M. Maghambayi (Chairperson)
Hon. Victoria M. Kauma (MP)
Hon. Mavara F. Nkore (MP)
Hon. Paulus N. Mbangu (MP)
Hon. Michael S. Kampota (MC)
Hon. Laurentius Mukoya (MC)

Ms.Ludgela Nangura:
Chief Regional Officer
Kavango East Regional Council

**Date**

## 1. INTRODUCTION

It gives me great pleasure to present the Annual Financial Statements of the Kavango East Regional Council.

The Regional Council adopted accrual basis International Public Sector Accounting Standards (IPSAS) on 1 April 2019 and previously it was using International Financial Reporting Standards (IFRS). In preparing the Kavango East Regional Council Annual Financial Statements, IPSAS was used and the Regional Council evaluated the impact of change in Accounting Framework and no material impact was now noted.

The Statement of Financial Position at 31 March 2020 and 2021 shows that Current liabilities did not exceed the Current assets, which puts the Regional in a favourable position to honour their liabilities when they become due.

## 2. INCORPORATION

Kavango East Regional Council was incorporated in Namibia on 31 August 1992 under Section 2(1) of the Regional Councils Act, 1992 (Act No. 22 of 1992) and was tasked with the responsibility of implementing Central Government policies at regional level with the aim to improve the overall living standards of its residents as per Section 28 of the Regional Council Act.

## 3. FINANCIAL RISK

Kavango East Regional Council seeks to minimize its exposure to financial risk. The only financial asset it may purchase is cash or cash equivalents and the only financial liability we may have (other than the payables) are bank overdrafts and bank loans.

### 3.1 CURRENCY RISK

The Kavango East Regional Council manages the bank accounts in Namibia dollars, which is the official currency of Namibia.

### 3.2 INTEREST RATE RISK

Interest rate risk arises from the possible impact of changes in the interest rate on the value of its financial instruments. Kavango East Regional Council does not have assets and liabilities that are materially dependent on interest rates level; therefore management believes that Kavango East Regional Council has no exposure to interest rate risk.

### 3.3 CREDIT RISK

Credit risk arises when one part to a financial instrument will fail to discharge an obligation and cause the other party to incur financial loss. Kavango East Regional Council is exposed to credit risk on its debtor accounts. The Regional Council seeks to manage this risk through monitoring the existing debtor balances and introduce drastic measures on collection of those outstanding debtors.

### 3.4 LIQUIDITY RISK

Liquidity risk is a risk of Kavango East Regional Council not being able to meet its obligations as they fall due. The Regional Council's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the reputation of the Kavango East Regional Council.

### 4. KEY FINANCIAL INDICATORS

The following indicators are self-explanatory. The percentages of expenditure categories are well within acceptable norms and indicate good governance of the funds of the Regional Council.

### 5. REVENUE PERFOMANCE

The Regional Council recorded a loss for the year ended 31 March 2021 of N$ 2 639 608. This represented an increase of 4 % from the deficit of the prior year of N$ 2 433 684.

The Regional Council revenue increase by 2 % from N$ 53 042 601 in the prior year to N$ 54 035 747 for the year ended 31 March 2021.

The Regional Council cash and cash equivalents decrease by 6% from N$ 19 556 942 in the prior year to N$ 18 413 658 for the year ended 31 March 2021.

### 6. CURRENT LIABILITIES

Current liabilities amounted to N$ 15 380 172 (2020: N$ 14 537 726) and is made up as follows:

| | NOTE | 2021<br>N$ | 2020<br>N$ |
|---|---|---|---|
| Payables from exchange transactions | 7 | 5 184 587 | 3 999 604 |
| Current portion of employee benefit liabilities | 15 | 10 195 585 | 10 538 122 |
| | | **15 380 172** | **14 537 726** |

Current liabilities are those liabilities of the Regional Council due and payable in the short-term (less than 12 months). There is no known reason as to why the Regional Council will not be able to meet its obligations. Refer to the indicated notes for more detail.

## 7. PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment is recorded at cost. Work in progress has continued to increase during this period.

## 8. INTANGIBLE ASSETS

The Regional Council has no intangible assets.

## 9. LONG-TERM RECEIVABLES

Long-term receivables for build together receivable amounted to N$ 0 (2020: N$ 0). The decrease in the amount for long-term receivables is due to the settlement of some build together accounts during the financial year and the written off debtors. Refer to note 7 for more details.

## 10. LOANS

No external loans agreements were entered into in the current year. No internal loans agreements were advanced or received during the year.

## 11. CURRENT ASSETS

Current assets amounted to N$ 43 386 277 (2020: N$ 44 630 955) and is made up as follows:

| | NOTE | 2021<br>N$ | 2020<br>N$ |
|---|---|---|---|
| | | **43 386 277** | **44 630 955** |
| Inventories | 6 | 64 258 | 65 279 |
| Receivables from exchange transactions | 5 | 10 394 713 | 10 418 404 |
| Receivables from non-exchange transactions | 5 | 14 513 648 | 14 590 330 |
| Cash and cash equivalents | 4 | 18 413 658 | 19 556 942 |

The increase in the amount for current assets is mainly due to the increased amount for cash and cash equivalents due to the new accounts under delegation phase of the decentralization received. Refer to the indicated notes for more detail.

## 12. INTER-GOVERNMENTAL GRANTS

The Regional Council is dependent on financial aid from the central government (Ministry of Urban and Rural Development) to finance its annual capital programme. Operating grants are utilised to finance most operational activities of the Regional Council.

## 13. INVESTMENTS AND INTEREST PROCEEDS

No investments for the period under review.

## 13. INVESTMENTS AND INTEREST PROCEEDS

No investments for the period under review.

**14. CLAIMS -** No claims for losses were received during the year.

**15. SPECIAL INVESTIGATIONS -** There was no investigation during the period under review.

## 16. INTERNAL CONTROLS

The accounting and internal controls are satisfactory, except where indicated otherwise in this report. While increased management involvement reduces risks, the risk arises that management may override existing Internal controls.

## 17. FRUITLESS, UNAUTHORIZED OR AVOIDABLE EXPENDITURE

No fruitless, unauthorized or avoidable expenditure was incurred during the year.

## 18. COUNCILLORS INTERESTS IN CONTRACTS

During the financial year, no contracts were entered into which Councillors or Officers of the Regional Council had an interest and which significantly affected the Regional Council.

## 19. IRREGULARITIES AND LOSSES

No irregularities and losses were revealed by the audit for the year under review.

## 20. EVENTS AFTER THE REPORTING DATE

The Councillors are not aware of any other material event which occurred after the reporting date and up to the date this report is issued.

## 21. GOING CONCERN

The Councillors have reviewed the budgets and cash flow forecasts for the next 12 months, as well as the current liquidity and solvency position of the Regional Council and believed that the Regional Council has adequate financial resources to continue in operation for the foreseeable future. The annual financial statements have accordingly been prepared on the going concern basis.

## 22. EXPRESSION OF APPRECIATION

We are grateful to the honourable Chairperson, members of the Management Committee, Councillors, Chief Regional Officer, Management team and their subordinates for the support extended during the financial year. A special word of thanks to all staff in the Finance division, for without their assistance these annual financial statements would not have been possible.

ANNEXURE A

## REGIONAL COUNCIL OF THE KAVANGO EAST REGION
## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH

| | Note | 2021<br>N$ | 2020<br>N$ | 2019<br>N$ |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | **43 386 277** | **44 630 955** | **50 717 312** |
| Cash and Cash Equivalents | 5 | 18 413 658 | 19 556 942 | 28 029 939 |
| Trade Receivables | 7 | 10 394 713 | 10 418 404 | 9 551 275 |
| Other Receivables | 7 | 14 513 648 | 14 590 330 | 12 865 042 |
| Inventories | 6 | 64 258 | 65 279 | 271 057 |
| **Non-current assets** | | **96 387 468** | **96 570 331** | **91 512 285** |
| Property, Plant and Equipment | 3 | 96 387 468 | 96 570 331 | 91 512 285 |
| Intangible assets | | | - | - |
| **TOTAL ASSETS** | | **139 773 745** | **141 201 286** | **142 229 597** |
| **LIABILITIES** | | | | |
| | | | 201 | |
| **Current Liabilities** | | **15 380 173** | **14 537 726** | **13 388 688** |
| Accounts payable and other payables | 8 | 5 184 587 | 3 999 604 | 3 517 693 |
| Current portion of employee benefits | | 10 195 586 | 10 538 122 | 9 870 995 |
| **Non-Current Liabilities** | | **5 854 451** | **5 484 831** | 5 228 496 |
| Non-Current portion of employee benefits | | 5 854 451 | 5 484 831 | 5 228 496 |
| **NET ASSETS/EQUITY** | | | | |
| Retained Earnings | | (39 186 820) | (36 547 212) | (34 113 528) |
| Capital projects and Build Together Funds | | 157 725 941 | 157 725 941 | 157 725 941 |
| **TOTAL EQUITY AND LIABILITIES** | | **118 539 121** | **121 178 729** | **123 612 413** |

ANNEXURE C

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH**

| | | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| | | N$ | N$ | N$ |
| **REVENUE** | | | | |
| **Revenue from non-exchange transactions** | | **51 482 697** | **50 310 053** | **51 446 121** |
| Government grants | 9.2 | 51 482 697 | 50 310 053 | 51 029 696 |
| 5 % Rates and Taxes Local Authority | | - | - | 416 425 |
| **Revenue from exchange transactions** | 9.3 | **2 553 050** | **1 734 681** | **2 130 992** |
| Income from Settlement areas | | 23 052 | 20 908 | 117 803 |
| Interest Earned | | 440 718 | 704 848 | 772 819 |
| Dividends and Royalties | | 499 869 | 675 636 | 984 386 |
| Other Income | | 1 583 411 | 220 938 | 227 958 |
| Hiring, Rental and Related charges | | 6 000 | 112 351 | 28 026 |
| **Delegated Functions** | 18 | **-** | **1 002 867** | **786 088** |
| **TOTAL REVENUE** | | **54 035 747** | **53 047 601** | **54 363 201** |
| **EXPENDITURE** | | | | |
| **Operating Expenditure** | 10 | **(56 572 943)** | **(55 090 303)** | **(53 317 469)** |
| Employee related cost | | (29 556 268) | (28 147 476) | (27 505 095) |
| Grants and other transfers | | (200 621) | (202 060) | (195 064) |
| Suppliers and consumables used | | (557 375) | (773 932) | (254 113) |
| Depreciation and amortization expenses | | (4 039 068) | (4 460 775) | (4 441 000) |
| Other expenses | | (5 453 898) | (4 731 685) | (4 544 748) |
| Other accounts | 10 | (16 765 713) | (16 774 375) | (16 377 449) |
| **Delegated functions** | 18 | **(102 412)** | **(390 982)** | **(1 272 618)** |
| **TOTAL Expenditure** | | **(56 675 355)** | **(55 481 285)** | **(54 590 087)** |
| **NET PROFIT/ (LOSS)** | | **(2 639 608)** | **(2 433 684)** | **(226 886)** |

ANNEXURE D

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**STATEMENT OF CHANGES IN ASSETS FOR THE YEAR ENDED 31 MARCH 2021**

| | Build Together Fund | Housing Fund | Accumulated surplus/ (deficit) | TOTAL |
|---|---|---|---|---|
| | N$ | N$ | N$ | N$ |
| **Balance as at 1 April 2019** | 2 434 000 | 155 291 941 | (34 113 528) | 123 612 413 |
| **Changes in net assets for :** | | | | |
| **Net revenue recognized directly in net assets** | **2 434 000** | **155 291 941** | **(34 113 528)** | **123 612 413** |
| Surplus for the year | - | - | (2 433 684) | (2 433 684) |
| **Balance as at 31 March 2020** | **2 434 000** | **155 291 941** | **(36 547 212)** | **121 178 729** |
| Net revenue recognized directly in net assets | 2 434 000 | 155 291 941 | (36 547 212) | 121 178 729 |
| Surplus for the year | - | - | (2 639 608) | (2 639 608) |
| **Balance as at 31 March 2021** | **2 434 000** | **155 291 941** | **(39 186 820)** | **118 539 121** |

**ANNEXURE D**

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 MARCH**

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | N$ | N$ | N$ |
| **Cash flow from operating activities** | | | |
| **Cash receipts from customers** | **54 136 120** | **50 455 184** | **55 678 414** |
| Government grants | 51 482 697 | 50 310 053 | 51 029 696 |
| 5% Rates & Levies | - | - | 416 425 |
| Income from settlement area | 23 052 | 20 908 | 117 803 |
| Interest received | 440 718 | 704 848 | 772 819 |
| Dividends & Royalties | 499 869 | 675 636 | 984 386 |
| Other income | 1 583 411 | 220 938 | 227 958 |
| Other accounts | 6 000 | 112 351 | 28 026 |
| Delegated functions | - | 1 002 867 | 786 088 |
| Increase in receivables | 76 682 | (867 129) | 1 315 213 |
| Increase in other receivables | 23 691 | (1 725 288) | - |
| **Cash paid to suppliers and employees** | **51 450 282** | **49 307 606** | **51 981 791** |
| Employee cost | 29 556 268 | 28 147 476 | 27 505 095 |
| Grants & subsidies | 200 621 | 202 060 | 195 064 |
| Supplies and consumables used | 557 375 | 773 932 | 254 113 |
| Other expenses | 5 453 898 | 4 731 685 | 4 544 748 |
| Other expenses | 16 765 713 | 16 774 375 | 16 377 449 |
| Delegated functions | 102 412 | 390 982 | 1 272 618 |
| Increase in inventory | (1 021) | (205 778) | 100 254 |
| Decrease in payables | (1 184 983) | (556 781) | 1 732 450 |
| Adjustment on employee benefits | (1) | (625 955) | - |
| Adjustment on provisions for employee benefits | - | (324 390) | - |
| **Net cash from operating activities** | **2 685 838** | **1 147 578** | **3 696 714** |
| **Cash flow from investing activities** | | | |
| Purchases of Property ,plant and equipment | (3 856 205) | (9 518 821) | (5 118 090) |
| **Net cash flow from investing activities** | **(3 856 205)** | **(9 518 821)** | **(5 118 090)** |
| **Cash flow from financing activities** | | | |
| Capital projects funds | - | - | 3 930 918 |
| **Net cash flow from financing activities** | **-** | **-** | **3 930 918** |
| Net increase in cash and cash equivalents | (1 170 367) | (8 371 243) | 2 509 542 |
| Cash and cash equivalents at beginning of period | 19 556 942 | 28 054 339 | 25 520 487 |
| **Cash and cash equivalents at end of period** | **18 413 658** | **19 556 942** | **28 029 939** |

ANNEXURE E

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 MARCH 2021**

| | Original Total Budget | Actual | Variance | Actual Outcome as % of budget | Variance as % of the budget |
|---|---|---|---|---|---|
| | N$ | N$ | N$ | N$ | N$ |
| **REVENUE** | | | | | |
| Government subsidies | 47 607 844 | 46 081 338 | 1 526 506 | 97 | 3.21 |
| Bank interest | 162 000 | 440 718 | (278 718) | 272 | (172) |
| Revenue from settlement areas | 48 600 | 23 052 | 25 548 | - | 53 |
| Sale of fishing license & 2.5 % | 27 000 | - | - | - | - |
| Refuse Removal | 1 296 | - | - | - | - |
| Commission | 54 000 | 67 701 | (13 701) | 125 | (25) |
| Sale of tender documents | 91 800 | 293 100 | (201 300) | 319 | (219) |
| Sundry Income | 5 400 | 1 211 571 | - | - | - |
| Royalties ( Surcharges) | - | 499 869 | - | - | - |
| Renting of HRC equipment | 32 400 | 6 000 | 26 400 | 19 | 81 |
| VAT claimable income | 1 620 000 | 13 315 843 | (11 695 843) | 822 | (722) |
| Opening bank balance | 13 703 891 | 19 556 942 | (5 853 051) | 143 | (43) |
| **TOTAL INCOME** | **63 354 231** | **81 496 134** | **(16 464 159)** | **129** | **(26)** |
| **EXPENDITURE** | | | | | |
| Remuneration | 33 292 272 | 29 097 820 | 4 194 452 | 87 | 13 |
| Employers contribution GIPF | 4 216 303 | 3 452 857 | 763 446 | 82 | 18 |
| Other conditions of services | 1 458 000 | 794 523 | 663 477 | 54 | 46 |
| **PERSONNEL EXPENDITURE** | **38 966 575** | **33 345 200** | **5 621 375** | **86** | **14** |
| Travel & subsistence allowance | 2 220 715 | 2 044 934 | 175 781 | 92 | 8 |
| Materials and suppliers | 745 200 | 556 354 | 188 846 | 75 | 25 |
| Transport | 1 868 400 | 1 620 638 | 247 762 | 87 | 13 |
| Utilities | 4 581 576 | 3 738 363 | 843 213 | 82 | 18 |
| Maintenance expenses | 1 155 600 | 1 442 121 | (286 521) | 125 | (25) |
| Property rentals, related charges | 572 400 | 440 832 | 131 568 | 77 | 23 |
| Other services and expenses | 6 817 536 | - | 6 817 536 | - | 100 |
| **GOODS & OTHER SERVICES** | **17 961 427** | **9 843 242** | **8 118 185** | **91** | **45** |
| Government organizations | 291 600 | - | 291 600 | - | 100 |
| Public and departmental enterprises | 648 000 | 3 662 810 | - | - | - |
| **SUBSIDIES & OTHER CURRENT TRANSFERS** | **939 600** | **3 662 810** | **291 600** | - | **53** |
| **Computer & office equipment** | **5 486 629** | **4 687 638** | **798 991** | **85** | **15** |
| **ACQUISITION OF CAPITAL ASSETS- SUBTOTAL** | 5 486 629 | 4 687 638 | 798 991 | 85 | 15 |
| **TOTALEXPENDITURE** | **63 354 231** | **51 538 890** | **14 830 151** | **81** | **23** |
| **Surplus /(deficit) for the year** | - | 29 957 244 | (31 294 310) | | |

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 MARCH 2021 (Continued)**

**Financial performance: Explanation of variances between the approved budget and actual**
Reasons for variances greater than 2 % between approved budget and actual amount on the various items disclosed in the Statement of Comparison of Budget are explained below:
Refuse Removal
Refuse removal revenue remains to be a challenge at the Settlement Area.

**Bank interest**
The cash flow availability in the bank that could have boost the interest earned could not be secured as the Regional Council only received subsidies on a monthly basis and not quarterly like in the past.

**Settlement area Income**
Revenue collection has improved during the period under review at the Settlement Area.
Regional Council's main revenue source at the Settlement is leasehold fees.

**Other: Sale of fishing licence, 2.5 % Commission**
This is a miscellaneous type of income which varies and is also affected by different seasons and needs and needs but it has drastically increased during the period under review.

**Sale of tender documents**
During the period under review the revenue from tender fees was very good.

**Operational Equipment, Machinery and Plants**
The saving is because of this: Paragraph 3 of the directive from Ministry of Finance dated 27 March 2020 regarding Public Procurement in light of the State of Emergency due to Covid-19 which states'' All procurement of goods, works and services are hereby put on hold except for the procurement of essential goods, works or services that are aimed at curbing the Covid-19 pandemic.

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH (Continued)**

## 1. GENERAL INFORMATION

The Kavango East Regional Council is a regional government institution in the Kavango East Region of Namibia with six (6) constituencies, one (1) town council under its jurisdiction. The addresses of its registered office and principal place of business are disclosed under General Information included in the annual financial statements and in the introduction of the annual report. The principal activities of the Regional Council are disclosed in the annual report and are prescribed by the Regional Councils Act, 1992 (Act No 22 of 1992).

## 2. STATEMEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Kavango East Regional Council Annual Financial Statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Namibia dollars (N$) which is the functional currency and it is rounded off to the nearest dollar. The accounting policies have been consistently applied to all years presented. The income and expenditure in relation to Delegated functions is accounted for during the year under review on a cash accounting basis, in line with the State Finance Act, 1991.
Since all liabilities relating to the delegated functions remains with the line Ministry and all unexpected delegated funds are returned to the State Account, it does not materially affect the Regional Council financial statements. The Annual Financial Statements have been prepared on the basis of historical cost, unless stated otherwise. The statement of cash flow is prepared using the direct method. The annual financial statements are prepared on accrual basis.

The estimated useful economic lives for each category of the asset are as follows:

| | **Useful life** |
|---|---|
| Buildings | 50 years |
| Land | Infinite |
| Motor Vehicles | 5 years |
| Computer Equipment | 3 years |
| Office Equipment | 3 years |
| Furniture and Fittings | 5 years |
| Construction Equipment | 5 years |

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profits. Proceeds from the disposal of assets are transferred to the State Account, except in the instance where approval is granted to keep such proceeds.

## 3. PROPERTY, PLANT AND EQUIPMENT - IPSAS 17

Property, plant and equipment are stated at historical cost or valuations less depreciation and impairment cost, where such assets have been acquired through Government grants. Cost includes expenditure that is directly attributable to the acquisition of the items. It must be noted that two categories of the asset (namely the Computer equipment and Motor vehicles) have been re-assessed as per the IPSAS 17 during the financial year 2020/2021, hence their estimated useful lives was adjusted. The reassessment was based on those assets that are still fit for use and where the Regional Council is gaining an economic benefit from it. There were some assets disposed through Government auctions where such proceeds were not credited to the Council's account but was paid directly to the National Treasury. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to Kavango East Regional Council and such cost can be measured reliably. All repair and maintenance is charged to the statement of financial performance during the financial period in which it incurred. The Regional Council calculated its depreciation using straight line method for all Property, Plant and Equipment. The assets useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

## ACCOUNTING POLICIES

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS), issued by the Accounting Standards Board.

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.

Management has used assessments and estimates in preparing for the interim financial statements-these are based on the best information available at the time of preparation.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of IPSAS.

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

These accounting policies are consistent with the previous period.

### 1.1 Presentation currency

These annual financial statements are presented in Namibia Dollars, which is the functional currency of the Regional Council.

### 1.2 Going concern assumption

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

### 1.3 Materiality

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

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

## 1.4 Significant judgements and estimates

In the process of applying the Regional Council's accounting policies, management has made the following significant accounting judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised prospectively:

**Impairment of trade and other receivables**

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

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due to uncertainty surrounding the recoverability of the outstanding amount. This was performed per debtor.

The impairment of trade receivables is calculated based on the grading of individual debtors according to their payment history. An accumulation of arrear balances is an indicator of debtor delinquency. Such debtors are provided for as they are considered to be impaired due to uncertainty surrounding the recoverability of the outstanding amount. Debtors are graded on the following basis:

- Grade A: No provision. Customer payments are up to date. There is no balance in arrears.
- Grade B: 100% of balance outstanding in excess of 90 days: Customers with a payment history but with balances outstanding in excess of 90 days. The balance outstanding in excess of 90 days is provided for in full.
- Grade C: 100% of total balance outstanding on account. Customers with no payment history. Accounts are considered to be delinquent. The balance is provided for in full (100% of the amount outstanding).

Government debtors are excluded from provision calculation as they generally have a history of meeting their obligations.

**Allowance for slow moving, damaged and obsolete stock**

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

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH**
**ACCOUNTING POLICIES (Continued)**

**Fair value estimation**
The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Regional Council is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Regional Council uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Regional Council for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

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

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

**Provisions**
Provisions were raised and management determined an estimate based on the information available. Additional disclosures of these estimates of provisions are included in note 17 - Provisions.

Useful lives of waste water and water network assets and other assets

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

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

**Depreciation and carrying value of items of property, plant and equipment**
The estimation of the useful lives of assets is based on management's judgement. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

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

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

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

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.
Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

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

**Cost model**
Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal instalments over the useful life of the property, which is as follows:

| | |
|---|---|
| Property – land | indefinite |
| Property – buildings | 50 years |

Investment property is derecognised 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.
Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

## 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 Regional Council; and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.
Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for work in progress 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.

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

| **Item** | **Depreciation method** | **Average useful life** |
|---|---|---|
| Buildings | Straight line | 50 Years |
| Vehicles | Straight line | 5 Years |
| Computer Equipment | Straight line | 3 Years |
| Office Equipment | Straight line | 3 Years |
| Furniture And Fittings | Straight line | 5 Years |
| Machinery And Equipment | Straight line | 5 Years |
| Road Network | Straight line | 7 Years |
| Sewer Network and Infrastructure | Straight line | 20 Years |
| Land Straight line | No Depreciation | |

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 Regional Council. 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 Regional Council assesses at each reporting date whether there is any indication that the Regional Council 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 Regional Council revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

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

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

The Regional Council separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements.

The Regional Council discloses relevant information relating to assets under construction or development, in the notes to the financial statements.

**Significant delays in assets under construction**
The Regional Council regards delays in assets under construction of more than three years as significant.

## 1.7 Site restoration and dismantling cost

The Regional Council has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an Regional Council incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the Regional Council considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:
(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that: - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### 1.8 Intangible assets

An asset is identifiable if it either: 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 Regional Councillor from other rights and obligations.

An intangible asset is recognised when:

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

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

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** | **Useful life** |
|---|---|
| Computer software | 5 years |

The Regional Council discloses relevant information relating to assets under construction or development, in the notes to the financial statements.

### 1.9 Financial intsruments

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.

**Classification**

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

| **Class** | **Category** |
|---|---|
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Receivables from exchange transaction | Financial asset measured at amortised cost |
| Receivables from non-exchange transaction | Financial asset measured at amortised cost |

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

| **Class** | **Category** |
|---|---|
| Payables from exchange transactions | Financial asset measured at amortised cost |
| Consumer deposits | Financial asset measured at amortised cost |
| Unspent conditional grants | Financial asset 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.

**Initial measurement of financial assets and financial liabilities**

The Regional Council 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.

**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.

**Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a Regional Council calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

**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 non-collectability of financial assets**

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

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

**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 and the consideration paid is recognised in surplus or deficit.

**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.

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

**Trade payables**
Trade payables are measured at fair value.

Liabilities for annual leave (accrued leave) and annual bonus are recognised as they accrue to employees. Accrual is based on potential liability to the Regional Council.

**Receivables**
Receivables are measured at fair value.
Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

Amounts receivable within 12 months from date of reporting are classified as current.

**1.10 Leases**
**Operating leases - lessor**
Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

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

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

**Operating leases - lessee**

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

**1.11 Inventories**

Inventories consist of raw materials, water and consumables.

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

Inventories are measured at the lower of cost and current replacement cost where they are held for; distribution at no charge or for a nominal charge; or consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

Current replacement cost is the cost the Regional Council incurs to acquire the asset on the reporting date.
The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

**1.12 Impairment of cash-generating assets**

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

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

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

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

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.
Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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

Useful life is either:
- the period of time over which an asset is expected to be used by the Regional Council; or
- the number of production or similar units expected to be obtained from the asset by the Regional Council.

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

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

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

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

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

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

**Recognition and measurement (individual asset)**
If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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

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

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell ( determinable)
- its value in use (if determinable); and zero.

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

**Redesignation**

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

**1.13 Impairment of non-cash-generating assets**

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

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

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

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

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

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

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

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

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

Useful life is either:
- the period of time over which an asset is expected to be used by the Regional Council; or
- the number of production or similar units expected to be obtained from the asset by the Regional Council.

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

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

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

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

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

Depreciated replacement cost approach

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

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

**Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.
An impairment loss is recognised immediately in surplus or deficit.

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

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash- generating asset to which it relates.

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

**Reversal of an impairment loss**

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

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

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

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

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

**Redesignation**

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

### 1.14 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the entity. Any surpluses and deficits realised during a specific financial year are credited / debited against accumulated surplus / deficit. Prior year adjustments, relating to income and expenditure, are credited / debited against accumulated surplus when retrospective adjustments are made. An equity instrument is any contract that evidences a residual interest in the assets of a Regional Council after deducting all of its liabilities.

### 1.15 Employee benefits

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:
as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

The regional council does not have any post-employment benefits.

**Other post retirement obligations**
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 Regional Council also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

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

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

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

**1.16 Provisions and contingencies**

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

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

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

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

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

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.
A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficit.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 19.

Decommissioning, restoration and similar liability.

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
Changes in the liability is added to, or deducted from, the cost of the related asset in the current period. The amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit. If the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

**1.17 Commitments**
Items are classified as commitments when the Regional Council has committed itself to future transactions that will normally result in the outflow of cash. Commitments represent goods/services that have been ordered, but no delivery has taken place at the reporting date.

Approved and contracted commitments represent expenditure that has been approved and the contract awarded at the reporting date.

Approved and not yet contracted commitments represent the expenditure that has been approved and the contract is yet to be awarded or is awaiting finalisation at the reporting date.

Commitments are disclosed in the financial statements if they meet the following criteria; the underlying contracts are non - cancellable at significant cost contracts relate to non-routine transactions

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 notes to the extent that such amounts have not been recorded in the financial statements. Commitments disclosed in the notes to the financial statements represent the aggregate amount of the capital and current expenditure at the reporting date.

**1.18 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 Regional Council 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 Regional Council has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the Regional Council 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 Regional Council; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Rendering of services**

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

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the regional council;
- the stage of completion of the transaction at the reporting date can be measured reliably; and the costs incurred forth transactions 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 charges**
Water - charges relating to the distribution of water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates on the consumption history are made on a monthly basis when meter readings have not been performed. Approved tariffs are levied on different categories of property on a monthly basis.

Refuse - refuse removal is recognised on a monthly basis by applying the approved tariff to each property receiving services. Tariffs are determined per category of property and levied on a monthly basis.
Sewerage and sanitation - charges are based on the type of service and the number of sewer connections on all developed property using the approved tariffs.
Agency service - income from agency is recognised on a monthly basis once the income collected on behalf of agents is earned. The income is recognised in terms of the agency agreement.

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

It is probable that the economic benefits or service potential associated with the transaction will flow to the Regional Council, and

The amount of the revenue can be measured reliably.

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

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

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

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

**1.19 Revenue from non-exchange transactions**
Revenue comprises gross inflows of economic benefits or service potential received and receivable by the regional council, 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 Regional Council 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.
Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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

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

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

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

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

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

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

As the Regional Council 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 Regional Council.

When, as a result of a non-exchange transaction, the Regional Council 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.

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

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.
Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

**Transfers**
Apart from Services in kind, which are not recognised, the Regional Council 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 Regional Council recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.
Transferred assets are measured at their fair value as at the date of acquisition.

**Fines**
Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.
Assets arising from fines are measured at the best estimate of the inflow of resources to the Regional Council.
Where the Regional Council collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

**Government grants**
Requests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the Regional Council, and the fair value of the assets can be measured reliably.

**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 Regional Council; and the fair value of the assets can be measured reliably.

### 1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.
Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.21 Comparative figures

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

### 1.22 Unauthorised expenditure

Unauthorised expenditure means:
overspending of 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.

### 1.23 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.

### 1.24 Irregular expenditure

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

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 Regional Councils Act (Act No.22 of 1992) and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.25 Distribution losses

Distribution losses are calculated as the difference between water consumed and billed, water freely given to the community and water purchased.

### 1.26 Budget information

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

General purpose financial reporting by Regional Council shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.
The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

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.

The variances between budget and actual amounts are regarded as material when there is a variance of 10% or greater in the statement of financial position, the statement of financial performance and the cashflow statement.

Comparative information is not required.

### 1.27 Related parties

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

Management are those persons responsible for planning, directing and controlling the activities of the Regional Council, including those charged with the governance of the Regional Council 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 Regional Council.

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

**1.28 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 Regional Council will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The Regional Council 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.

**1.29 Expenditure**

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

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

Expenses include write downs of inventory and decreases in fair values of financial instruments classified as held at fair value. Losses on the disposal of non-current assets are reported separately from expenses in the Statement of Financial Performance.

Major expense items disclosed in the Statement of Financial Performance

Bulk purchases - expenditure on the procurement of bulk water.

Contracted services - caters for all the external services and is further categorised into outsourced, consultants, professional services and contractors. Repairs and maintenance is also part of contracted services.

Outsourced services - the Regional Council should have capacity to carry out the function but choose to enlist the services of an external service provider.

Consultant & professional services- refers to specialist services and skills provided. These skills are unnecessary to maintain in-house and are required on a once off or temporary basis.

Contractors - provides services that are not the core business of the Regional Council.

Transfers and grants which relate to expenditure pertaining to free basic services and general expenses constitute several expense items which are not individually significant.

Write downs of inventory and decreases in fair values of financial instruments classified as held at fair value.

Losses on the disposal of non-current assets are reported separately from expenses in the Statement of Financial Performance.

An expense is recognised in the Regional Council's Statement of Financial Performance when, and only when, the following criteria are satisfied:

The cost or value may involve estimation. Where an item possesses the essential characteristics of an expense but fails to meet the criteria for recognition it is disclosed in the note.

Where an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquisition, for example, repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs.

Where future economic benefits are expected to be consumed over several reporting periods e.g. non-current assets, expenses (depreciation) is allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and where a liability is incurred without the recognition of an asset an expense is recognised simultaneously with the recognition of the liability.

### 1.30 Value Added Tax

The Regional Council accounts for Value Added Tax on a payment basis in accordance with section 15(2)(a) of the VAT Act (Act No 89 of 1991) .The Regional Council is liable to account for VAT at the standard rate (14%) and (15% from 1 April 2018 as announced by the minister of Finance) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The Regional Council accounts for VAT on a monthly basis.

## 2. New standards and interpretations

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

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

| Standard/ Interpretation: | Effective date: | Expected impact: |
|---|---|---|
| **Years beginning on or after** | | |
| IPSAS 5 (as amended 2021): Borrowing Costs-Non Authoritative Guidance (issued November 2021 | 1-Apr-18 | The impact is not material. |
| IPSAS Improvements to IPSAS,2021 (issued January 2022) | 1-Apr-18 | The impact is not material. |
| IPSAS 43,Leases (issued January 2022) (as amended 2016): | 1-Apr-18 | The impact is not material. |
| IPSAS 17, as amended in 2021 Property, Plant and Equipment. | 1-Apr-18 | The impact is not material. |
| IPSAS 19,as amended in 2021 Provisions, Contingent Liabilities and Contingent Assets | 1-Apr-18 | The impact is not material. |
| IPSAS 22 as amended in 2021, Disclosure of Financial Information about the General Government Sector. | 1-Apr-18 | The impact is not material |
| IPSAS 29 (as amended in 2021): Financial Instruments: Recognition and Measurement. | 1-Apr-18 | The impact is not material. |
| IPSAS 30 as amended in 2021 : Financial Instruments: Disclosures | 1-Apr-18 | The impact is not material |
| IPSAS 33 as amended in 2021 ,First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS) | 1-Apr-18 | The impact is not material. Framework by Public Entities |
| IPSAS 39,as amended in 2021,Employee Benefits; | | |
| IPSAS 41,as amended in 2021 Financial Instruments | | |

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

The regional council has not applied the following standards and interpretations, which have been published and are mandatory for the regional council's accounting periods beginning on or after 01 July 2019 or later periods:

| Standard/ Interpretation: | Effective date: | Expected impact: |
|---|---|---|
| **Years beginning on or after** | | |
| GRAP 104 (amended): Financial Instruments | 1-Apr-19 | Unlikely there will be a material impact |
| Guideline: Guideline on Accounting for Landfill Sites | 1-Apr-19 | Unlikely there will be a material impact |
| Guideline: Guideline on the Application of Materiality to Financial Statements material impact | 1-Apr-19 | Unlikely there will be a Financial Statements material impact |
| GRAP 1 (amended): Presentation of Financial Statements | 1-Apr-20 | Unlikely there will be a material impact |
| GRAP 38: Disclosure of Interests in Other Entities | 1-Apr-20 | Unlikely there will be a material impact |
| GRAP 110 (as amended 2016): Living and Non-living Resources | 1-Apr-20 | Unlikely there will be a material impact |
| IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue | 1-Apr-20 | Unlikely there will be a material impact |
| Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges | 1-Apr-19 | Unlikely there will be a material impact |
| Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Program | 1-Apr-19 | Unlikely there will be a material impact |
| Directive 7 (revised): The Application of Deemed Cost | 1-Apr-19 | Unlikely there will be a material impact |
| GRAP 18 (as amended 2016): Segment Reporting | 1-Apr-19 | Unlikely there will be a material impact |
| GRAP 20: Related parties | 1-Apr-19 | Unlikely there will be a material impact |
| GRAP 32: Service Concession Arrangements: Grantor | 1-Apr-19 | Unlikely there will be a material impact |
| GRAP 105: Transfers of functions between entities under common control | 1-Apr-19 | Unlikely there will be a material impact |

## 3. PROPERTY, PLANT AND EQUIPMENT – IPSAS 17

| | Work in Progress | Land | Buildings | Motor Vehicles & Plant Machinery | Computer Equipment, Furniture & Fittings, Other Fixed Assets & Office Equipment | Capital Infrastructure | Total |
|---|---|---|---|---|---|---|---|
| | N$ | N$ | N$ | N$ | N$ | N$ | N$ |
| **Carrying Amount 01/04/2020** | **40 116 545** | **2 018 652** | **24 480 485** | **3 420 459** | **1 311 817** | **25 222 373** | **96 570 331** |
| **Cost** | **40 116 545** | **2 018 652** | **30 661 612** | **13 340 168** | **4 890 395** | **32 234 341** | **123 261 713** |
| **Accumulated Depreciation** | **-** | **-** | **(6 181 127)** | **(9 919 709)** | **(3 578 578)** | **(7 011 968)** | **(26 691 382)** |
| Additions | 3 457 471 | - | - | 2 182 | 396 552 | - | **3 856 205** |
| Depreciation Charge | - | - | (668 603) | (924 537) | (462 118) | (1 983 810) | **(4 039 068)** |
| **Carrying Amount 31/03/2021** | **43 574 016** | **2 018 652** | **23 811 882** | **2 498 104** | **1 246 251** | **23 238 563** | **96 387 468** |
| **Cost** | **43 574 016** | **2 018 652** | **30 661 612** | **13 342 350** | **5 286 947** | **32 234 341** | **127 117 918** |
| **Accumulated Depreciation** | **-** | **-** | **(6 849 730)** | **(10 844 246)** | **(4 040 696)** | **(8 995 778)** | **(30 730 450)** |
| | | | | | | | |
| **Carrying Amount 01/04/2019** | **35 266 356** | **2 018 652** | **25 149 088** | **924 286** | **947 720** | **27 206 183** | **91 512 285** |
| **Cost** | **35 266 356** | **2 018 652** | **30 661 612** | **9 504 250** | **4 057 681** | **32 234 341** | **113 742 892** |
| **Accumulated Depreciation** | **-** | **-** | **(5 512 524)** | **(8 579 964)** | **(3 109 961)** | **(5 028 158)** | **(22 230 607)** |
| Additions | 4 850 189 | - | - | 3 835 918 | 832 714 | - | **9 518 821** |
| Depreciation Charge | - | - | (668 603) | (1 339 745) | (468 617) | (1 983 810) | **(4 460 775)** |
| **Carrying Amount 31/03/2020** | **40 116 545** | **2 018 652** | **24 480 485** | **3 420 459** | **1 311 817** | **25 222 373** | **96 570 331** |
| **Cost** | **40 116 545** | **2 018 652** | **30 661 612** | **13 340 168** | **4 890 395** | **32 234 341** | **123 261 713** |
| **Accumulated Depreciation** | **-** | **-** | **(6 181 127)** | **(9 919 709)** | **(3 578 578)** | **(7 011 968)** | **(26 691 382)** |

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH (Continued)**

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | N$ | N$ | N$ |
| **4. WORK IN PROGRESS** | **43 574 016** | **40 116 545** | **35 266 356** |
| Ndiyona Settlement | 15 421 585 | 15 305 395 | 10 455 206 |
| Service Design- Divundu | 76 878 | 76 878 | 76 878 |
| Divundu Survey Extension | 865 049 | 865 049 | 865 049 |
| Basin Sanitation - Toilets | 105 480 | 105 480 | 105 480 |
| WIP Construction of Service-Ndiyona | 14 537 754 | 14 537 754 | 14 537 754 |
| Construction services Divundu Proper | 10 178 294 | 9 225 990 | 9 225 990 |
| WIP Construction of Services Ndiyona Phase 5 | 2 388 977 | - | - |

## 5. CASH AND CASH EQUIVALENTS

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

| | | | |
|---|---|---|---|
| **CASH AND CASH EQUIVALENTS** | **18 413 658** | **19 556 942** | **28 029 939** |
| FNB Operational Account | 623 785 | 30 120 | 1 957 018 |
| FNB Main Call Account | 76 673 | 2 106 162 | 7 765 447 |
| FNB Development Fund | 1 145 716 | 30 277 | 374 096 |
| FNB Development Fund Call | 4 382 425 | 2 908 965 | 5 168 489 |
| FNB Build together Receipt | 903 171 | 801 971 | 672 697 |
| FNB Build together Disburse | 782 | 2 444 | 2 691 |
| FNB Build together Call | 71 601 | 71 320 | 71 647 |
| FNB Cheque Account | 9 749 432 | 5 861 729 | 6 356 156 |
| FNB Revenue Account | 313 443 | 3 891 259 | 2 966 323 |
| STD Fleet Management Account | 1 598 609 | 180 701 | 491 111 |
| KRC BT Post Office | 97 | 97 | 97 |
| Drought Relief Account | 43 915 | 155 418 | 3 525 |
| Rural Development Account | 1 830 188 | 3 301 978 | 1 994 708 |
| STD Fleet Call | 205 788 | 201 907 | 192 965 |
| Cash Control (cash in hand) | (1 540 509) | 12 595 | 12 969 |
| Interbank Transfers | (991 458) | - | - |

| | | | |
|---|---|---|---|
| **6. INVENTORIES- IPSAS 12** | **64 258** | **65 279** | **271 057** |

The Council keep inventory items in stock for internal consumption only; therefore inventories are measured at cost at acquisition. In the case where inventory was received through non-exchange transaction (for no cost or for a nominal cost), the cost of the inventory is recognized at fair value at the date of acquisition. The cost of inventories comprises all cost of purchases, cost of convention and other cost incurred in process of installation.

## 7. TRADE AND OTHER RECEIVABLES

Receivables from non-exchange transactions comprises of Value Added Tax (VAT) refunds from Ministry of Finance.

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | N$ | N$ | N$ |
| **Receivables from non-exchange transactions** | | | |
| Receiver of Revenue — Value added tax | 14 513 648 | 14 590 330 | 12 865 042 |

Receivables from exchange transactions comprises of our sales on water, build together payments and our employee related dues as at year end that do not arise out of a contract.

| | | | |
|---|---|---|---|
| **Receivables from exchange transactions** | **10 394 713** | **10 418 404** | **9 551 275** |
| Kavango West | 904 588 | 904 588 | 904 588 |
| Salaries & Wages control | 405 646 | 400 245 | 126 521 |
| Trade Debtors | 6 537 162 | 8 193 464 | 8 398 144 |
| Ministry of Works | 54 392 | 54 392 | 54 392 |
| Ministry of ICT | 4 298 | 4 298 | 4 298 |
| Prepayments(software licence/insurance) | 286 458 | 275 580 | 63 332 |
| Sundry Debtor | 2 202 169 | 585 836 | - |

## 8. TRADE AND OTHER PAYABLES

| | | | |
|---|---|---|---|
| **Payables from exchange transactions** | **5 184 587** | **3 999 604** | **3 517 693** |
| Creditors Control | 3 982 113 | 2 861 866 | 2 701 341 |
| Customers with credit balance moved to suppliers | 2 000 | 2 000 | - |
| Build Together Nkurenkure | 85 974 | 78 837 | 69 899 |
| Salaries & Wages control | 425 954 | 411 365 | 131 021 |
| Build Together program unknown receipts | 31 455 | 31 455 | 30 455 |
| Retension Fee-Divundu | 290 893 | 290 893 | 290 893 |
| Subsistence & Travel-Other | 68 382 | 25 371 | 767 |
| Suspense | 4 200 | 4 200 | - |
| Suspense account | 300 | 300 | - |
| Kavango Regional Development | 271 317 | 271 317 | 271 317 |
| Unrecognised income - tender receipts | 22 000 | 22 000 | 22 000 |

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH (Continued)**

## 9. REVENUE RECOGNITION

The Regional Council revenue is mainly made from Government grants and sales of services and goods at Settlement areas. Revenue from non-exchange transactions - IPSAS 23

### 9.1 GOVERNMENT TRANSFERS

Kavango East Regional Council recognizes government transfers as revenues when the transaction can be measured reliably and when the Council is in full control of the cash. The Regional Council budget for operational activities consists of grants received from the Ministry of Urban and Rural Development, whereas the development budget is funded through National Planning Commission.

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | N$ | N$ | N$ |
| **9.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS (IPSAS 23)** | **51 482 697** | **50 310 053** | **51 029 696** |
| Government Subsidy- MURD | 46 081 338 | 44 081 334 | 49 725 141 |
| Government Transfers from Rural Development | 864 616 | 2 372 308 | 1 304 555 |
| Subsidy Capital | 4 536 743 | 3 856 411 | - |
| | | | |
| **Rural Development Projects Income** | **864 616** | **2 372 308** | **1 304 555** |
| Micro - Finance | 192 308 | - | 6 000 |
| Cash food for work | - | 372 308 | 961 538 |
| Sanitation | 480 000 | 2 000 000 | 337 107 |
| Regional Specific Action Plan | 192 308 | - | - |

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH (Continued)**

| | 2022 | 2020 | 2019 |
|---|---|---|---|
| | N$ | N$ | N$ |
| **9.3 REVENUE FROM EXCHANGE TRANSACTIONS (IPSAS 9)** | | | |
| **Revenue from settlement area & constituency** | **23 052** | **20 908** | **117 803** |
| Ndiyona Settlement Area - Income | 1 246 | 185 | 96 891 |
| Fishing Fees from Constituencies | 1 538 | 3 244 | 3 753 |
| Fishing from head office - Income | 20 268 | 17 479 | 17 159 |
| | | | |
| **Interest Received** | **440 718** | **704 848** | **772 819** |
| Bank Interest Received | 129 977 | 405 612 | 466 463 |
| Build Together Program Interest | 310 741 | 299 236 | 289 552 |
| Interest-Other | | | 16 804 |
| | | | |
| **Dividends and Royalties Received** | **499 869** | **675 636** | **984 386** |
| Royalties / Surcharges from NORED | 499 869 | 675 636 | 695 636 |
| Dividends | - | - | 288 750 |
| | | | |
| **Other income** | **1 583 411** | **220 938** | **227 958** |
| Sale of tender documents | 293 100 | 20 714 | 114 309 |
| 2.5% Commission | 67 701 | 70 623 | 67 332 |
| Regional Academic Performance | - | - | 30 000.00 |
| Sundry Income | 1 211 571 | - | 16 317.00 |
| Remuneration | 100 | 3 687 | - |
| Insurance for | - | 74 870 | - |
| DSA | 10 939 | 51 044 | - |
| | | | |
| **Hiring and Rental of Properties** | **6 000** | **112 351** | **28 026** |
| Hiring of Auditorium - Income | 6 000 | 24 000 | 27 826 |
| Hiring of GRN Hall - Income | - | 500 | - |
| Hiring of Boardroom - Income | - | 140 | 200 |
| Hiring of Motor Vehicle | - | 87 711 | - |
| | | | |
| **TOTAL REVENUE FROM EXCHANGE TRANSACTIONS** | **2 553 050** | **1 734 681** | **2 130 992** |

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH (Continued)**

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | N$ | N$ | N$ |
| **10. Expenditure** | **34 353 332** | **33 584 243** | **32 395 272** |
| Employee Related Cost | 29 556 268 | 28 147 476 | 27 505 095 |
| Grants and other transfers | 200 621 | 202 060 | 195 064 |
| Supplies and other consumables | 557 375 | 773 932 | 254 113 |
| Depreciation and amortization expense | 4 039 068 | 4 460 775 | 4 441 000 |
| **Other accounts** | **16 765 713** | **16 774 375** | **16 377 449** |
| Subsistence and travel | 2 044 935 | 2 640 028 | 2 890 665 |
| Employer's Contributions-GIPF & MOP | 3 452 857 | 3 330 679 | 3 500 634 |
| Other Conditions of Service | 363 159 | 1 450 715 | 1 490 548 |
| Transport cost | 1 620 638 | 2 578 549 | 1 805 449 |
| Utilities | 3 738 363 | 4 089 141 | 3 896 654 |
| Rural Development Expenditure | 3 662 810 | 2 213 729 | 373 636 |
| Maintenance expenses | 1 442 121 | 94 618 | 358 774 |
| Property rental | 440 832 | 376 915 | 2 061 089 |
| Other expenditure | **5 453 898** | **4 731 685** | **4 544 748** |
| **11. ACCUMULATED FUNDS** | **(39 186 820)** | **(36 547 212)** | **(34 113 528)** |
| Accumulated surplus | (36 547 212) | (34 113 528) | (33 886 642) |
| Surplus for the year | (2 639 608) | (2 433 684) | (226 886) |

**12. BUDGET INFORMATION- IPSAS 24**

Kavango East Regional Council presents its approved budget on a cash basis and the financial statements on the accrual basis.

The approved budget covers the financial period from 1 April 2019 to 31 March 2020 and 1 April 2020 to 31 March 2021.

The budget and the accounting bases differ. The financial statements for the Kavango East Regional Council are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The financial statements and budget documents are prepared for the same period. The Regional Council budget is approved on cash basis.

ANNEXURE F

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH (Continued)**

| | Actual (Accrual) N$ | Comparable (Cash Basis) N$ | Notes on adjustments |
|---|---|---|---|
| **REVENUE** | | | |
| Government subsidies | 46 081 338 | 47 607 844 | Income recognised when invoice issued |
| Revenue from settlement areas | 48 600 | 48 600 | |
| Other: Sale of fishing licence, | 23 052 | 27 000 | |
| 2.5% Commission | 67 701 | 54 000 | |
| VAT | 13 315 843 | 1 620 000 | |
| Interest | 440 718 | 162 000 | |
| GRN Hall | 6 000 | 32 400 | |
| Refuse Removal | - | 1 296 | |
| Sundry Income | 1 211 571 | 5 400 | |
| Royalties ( Surcharges) | 499 869 | - | |
| Sale of tender documents | 293 100 | 91 800 | |
| Opening bank balance | 19 556 942 | 13 703 891 | |
| **TOTAL REVENUE** | **81 544 734** | **63 354 231** | |
| **EXPENDITURE** | | | |
| Remuneration | 29 097 820 | 33 292 272 | Provision for accrued bonus |
| Employers contribution: GIPF & MPOOBF | 3 452 857 | 4 216 303 | Movement - leave provision days raised |
| Other conditions of service | 794 523 | 1 458 000 | |
| **Personnel expenditure** | **33 345 200** | **38 966 575** | |
| Travel and subsistence allowance | 2 044 934 | 2 220 715 | |
| Materials and supplies | 556 354 | 745 200 | |
| Transport | 1 620 638 | 1 868 400 | |
| Utilities | 3 738 363 | 4 581 576 | |
| Maintenance expenses | 1 442 121 | 1 155 600 | |
| Property rental and related charges | 440 832 | 572 400 | |
| Other services and expenses | 6 817 536 | 6 817 536 | Depreciation & impairment |
| Goods and other services | **16 660 777** | **17 961 427** | |
| Membership fees & Subscription | - | 291 600 | |
| Individuals & non-profit orgs | 3 662 810 | 648 000 | |
| Subsidies & other current transfers | **3 662 810** | **939 600** | |
| Computer, furniture and office | | 5 486 629 | |

| | 2021 N$ | 2020 N$ | 2019 N$ |
|---|---|---|---|
| | - | **50 081 337** | - |
| Operational Budget | - | 44 081 337 | - |
| Development Budget | - | 6 000 000 | - |

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH (Continued)**

| | Actual (Accrual basis) | Comparable (Cash Basis) | Notes on adjustments |
|---|---|---|---|
| | N$ | N$ | |
| **REVENUE** | | | Income recognised when |
| Government subsidies | 50 310 053 | 44 081 337 | invoice issued |
| Revenue from settlement areas | 185 | 45 000 | |
| Other: Sale of fishing licence, | 20 723 | 25 000 | |
| 2.5% Commission | 70 623 | 50 000 | |
| VAT | 14 590 330 | 1 500 000 | |
| Interest | 704 848 | 150 000 | |
| GRN Hall | 112 351 | 30 000 | |
| Refuse Removal | - | 1 200 | |
| Sundry Income | - | 5 000 | |
| Royalties ( Surcharges) | 675 636 | - | |
| Sale of tender documents | 20 714 | 85 000 | |
| Official accommodation | 54 731 | - | |
| Opening bank balance | 28 029 939 | 12 688 78 | |
| **TOTAL REVENUE** | **94 590 133** | **58 661 325** | |
| **EXPENDITURE** | | | |
| Remuneration | 27 837 883 | 30 826 177 | Provision for accrued bonus |
| Employers contribution: GIPF & MPOOBF | 3 330 679 | 3 903 984 | Movement - leave provision days raised |
| Other conditions of service | 791 088 | 1 350 000 | |
| **Personnel expenditure** | **31 959 650** | **36 080 161** | |
| Travel and subsistence allowance | 2 525 715 | 2 051 218 | |
| Materials and supplies | 568 154 | 690 000 | |
| Transport | 2 578 549 | 1 730 000 | |
| Utilities | 4 089 141 | 4 242 200 | |
| Maintenance expenses | 94 618 | 1 070 000 | |
| Property rental and related charges | 376 915 | 530 000 | |
| Other services and expenses | 4 656 816 | 6 312 533 | Depreciation & impairment |
| Goods and other services | **14 889 908** | **16 630 951** | |
| Membership fees & Subscription | 202 060 | 270 000 | |
| Individuals & non-profit orgs | 2 213 729 | 600 000 | |
| Subsidies & other current transfers | **2 415 789** | **870 000** | |
| Computer, furniture and office | | | |
| **Acquisition of capital assets** | **4 687 638** | 5 080 212 | |
| **TOTAL EXPENDITURE** | **53 952 985** | **58 661 324** | |

## 13. VALUE ADDED TAXES (VAT)

Expenses and assets are recognized net of the amount of sales tax, except when VAT charged on a purchase of assets or services and services is not recoverable from the Receiver of Revenue, such amount is realised as part of the cost of acquisition of the asset or as part of the expense.

The net amount of VAT recoverable from or payable to the Receiver of Revenue is included in the Statement of financial position as part of receivables or payables.

| 2021 | VAT return audited Yes / No | Amount claimed |
|---|---|---|
| | N$ | N$ |
| **Computation on VAT control Account** | | |
| Closing Balance as at 31 March 2021 | 14 723 859 | - |
| VAT Closing Balance as per NAMRA statement | 1 686 993 | - |
| **Period** | | |
| April-May 2020 | Yes | 177 582 |
| June-July 2020 | Yes | 218 770 |
| August-September 2020 | Yes | 214 948 |
| October-November 2020 | Yes | 435 164 |
| December-January 2021 | Yes | 295 535 |
| February-March 2021 | Yes | 344 993 |

Since the Regional Council registered for VAT there has been a difference between the accounting records and the VAT statement from NAMRA. The difference is due to different interpretations between NAMRA and the regional Council. The Regional Council is in the process of rectifying the variance.

| 2020 | VAT return audited Yes / No | Amount claimed |
|---|---|---|
| | N$ | N$ |
| **Computation on VAT control Account** | | |
| Closing Balance as at 31 March 2020 | 14 723 859 | - |
| VAT Closing Balance as per NAMRA statement | 1 686 993 | - |
| **Period** | | |
| April-May 2019 | Yes | 177 582 |
| June-July 2019 | Yes | 218 770 |
| August-September 2019 | Yes | 214 948 |
| October-November 2019 | Yes | 435 164 |
| December-January 2020 | Yes | 295 535 |
| February-March 2020 | Yes | 344 993 |

Since the Regional Council registered for VAT there has been a difference between the accounting records and the VAT statement from NAMRA. The difference is due to different interpretations between NAMRA and the regional Council. The Regional Council is in the process of rectifying the variance.

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH (Continued)**

## 14. PROVISIONS - IPSAS 19

Provisions are recognised when the Regional Council has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

| | Non- Current leave provision | Current leave provision | Bonuses provision |
|---|---|---|---|
| | N$ | N$ | N$ |
| Balance at the beginning of the year April 2020 | 5 484 831 | 8 869 945 | 1 668 177 |
| Additional provisions raised Provision utilized | 369 619 | (431 364.44) | 88 828 |
| Transferred from non-current provisions | - | - | - |
| Balance as at 31 March 2021 | **5 854 451** | **8 438 580** | **1 757 006** |

| | Non- Current leave provision | Current leave provision | Bonuses provision |
|---|---|---|---|
| | N$ | N$ | N$ |
| Balance at the beginning of the year April 2019 | 5 228 496 | 8 256 076 | 1 614 920 |
| Additional provisions raised Provision utilized | 256 335 | 613 869 | 53 258 |
| Transferred from non-current provisions | - | - | - |
| Balance as at 31 March 2020 | **5 484 831** | **8 869 945** | **1 668 177** |

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | N$ | N$ | N$ |
| **15. PERSONNEL COST - IPSAS 39** | **28 006 019** | **26 930 148** | **26 804 752** |
| Salaries and wages | 21 448 163 | 20 592 183 | 20 808 278 |
| Transport/car allowance | 1 686 952 | 1 600 061 | 1 622 066 |
| Housing allowance/subsidies | 2 769 913 | 2 615 498 | 2 411 859 |
| Overtime payments | 445 257 | 379 900 | 278 876 |
| Bonuses | 1 655 734 | 1 742 506 | 1 683 673 |

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | N$ | N$ | N$ |
| **16. OTHER PERSONNEL COSTS** | **462 022** | **417 290** | **65 063** |
| Casual labourers | 277 674 | 258 780 | 45 808 |
| Acting allowance | 152 091 | 139 271 | 3 319 |
| Cash bonus | 32 257 | 19 239 | 15 936 |

The Kavango East Regional Council currently contributes pension to GIPF for both Public Office Bearers (POB) and for all permanent staff members contributions are set as 25 % & 10 % respectively for POB and 7 % & 16 % for permanent staff members. The basis of contributions is calculated salaries for both beneficiaries. Currently no actuarial valuations were performed by the Kavango Regional Council.

| | | | |
|---|---|---|---|
| **17. OTHER CONDITIONS OF SERVICES** | **16 413 195** | **17 473 669** | **16 791 859** |
| Transport Privileges | 298 766 | 605 373 | 605 849 |
| Clothing Allowance | - | 993 | - |
| Employee Compensation assessment | 101 184 | 79 975 | - |
| Social Security Contribution | 87 635 | 85 664 | 199 583 |
| Provision For Leave | 8 438 580 | 8 869 945 | 8 256 076 |
| Provision For Bonus | 1 757 006 | 1 668 177 | 1 614 920 |
| Provision For Severance Pay | 5 854 451 | 5 484 831 | 5 228 496 |
| Leave Gratuity | (216 620) | 678 710 | 886 935 |
| Furniture For Public Office Bearers | 92 194 | - | - |

## 18. DELEGATED FUNCTIONS

The Kavango East Regional Council is currently performing the following functions as delegated by Central Government Ministries, in accordance with the Decentralisation Enabling Act 2000 (Act No. 33 of 2000). When under delegation, Regional Council only acts as an agent for a particular line Ministry, while the latter retains full control and overall responsibility to approve the related budget. Once the Line Ministry approve the budget it is then transferred to the Regional Council for execution. Transactions related to Ministry of Education, Arts and Culture and Ministry of Works & Transport do not form part of the Regional Council financials as they have their own transactions process on their system (Pastel). It must be noted that Rural Water supplies did not have any transactions for the period of reporting.

## REGIONAL COUNCIL OF THE KAVANGO EAST REGION
## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH (Continued)

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | N$ | N$ | N$ |
| **INCOME** | **-** | **1 002 867** | **786 088** |
| Ministry of Gender Equality | - | 471 000 | - |
| Office of the Prime Minister | - | 531 867 | 26 088 |
| Ministry of Agriculture and Forestry | - | - | 760 000 |
| Ministry of Basic | - | - | - |
| **EXPENDITURE** | **102 412** | **390 982** | **1 272 618** |
| Ministry of Gender Equality | - | - | 656 938 |
| Office of the Prime Minister | 102 412 | 360 982 | 26 432 |
| Ministry of Agriculture and Forestry | - | - | 589 248 |
| Ministry of Basic | - | 30 000 | - |
| **SURPLUS** | **(102 412)** | **611 885** | **(486 530)** |
| Ministry of Gender Equality | - | 471 000 | (656 938) |
| Office of the Prime Minister | (102 412) | 170 885 | (344) |
| Ministry of Basic | - | - | 170 752 |
| Ministry of Basic | - | 30 000 | - |

## 19. NOTES TO THE COMPARISON OF STATEMENT OF BUDGET AND ACTUAL AMOUNTS

(a) The approved budget is presented on the cash basis and for the same period (1 April 2020 - 31 March 2021) as the financial statements. The original budget for 2020/2021 financial year was recommended by the Regional (resolution number 123) and approved by the line Ministry.

(b) The Kavango East Regional Council's budget and the financial statements are prepared using a different basis from the financial statements. The financial statements are prepared on an accruals basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

(c) Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are not timing differences for Kavango East Regional Council.

(d)Entity differences occur when budget omits programs/ activity or an entity that are part of the entity for which the financial statements are prepared. The Kavango East Regional Council does not have any entity differences.

ANNEXURE F

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH**
**(Continued)**

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | N$ | N$ | N$ |
| **RECONCILIATION OF BUDGET SURPLUS / (DEFICIT) IN THE STATEMENT OF FINANCIAL PERFOMANCE** | | | |
| Net surplus (deficit) per the Statement of financial performance | (2 639 608) | (2 433 684) | (226 795) |
| **Revenue from non-exchange transactions** | | | |
| Government grants | 51 482 697 | 44 081 334 | 51 305 195 |
| **Revenue from exchange transactions** | | | |
| Interest received | 440 718 | 704 848 | 772 819 |
| Other income | 1 583 411 | 954 963 | 1 358 173 |
| Other accounts | 6 000 | - | - |
| **Expenditure** | | | |
| Employee related cost | (29 556 268) | 28 605 924 | 27 505 095 |
| Supplies and consumables used | (557 375) | 773 932 | 254 113 |
| Depreciation and amortization expense | 4 039 068 | 4 460 775 | 4 441 000 |
| Other expenses | (200 621) | (5 253 984) | (19 330 771) |
| Capital expense | (5 453 898) | (5 080 212) | (666 915) |
| Other accounts expense | (16 765 713) | (16 810 951) | (846 250) |
| **NET SURPLUS PER APPROVED BUDGET** | **2 378 411** | **50 002 946** | **64 565 664** |

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| **PROPERTY, PLANT AND EQUIPMENT** | | | |
| Opening balance | 96 570 331 | 91 512 286 | 103 855 472 |
| Additions | 3 856 205 | 9 518 821 | 4 827 197 |
| Transfers | | | (12 729 384) |
| Depreciation | (4 039 068) | (4 460 775) | (4 441 000) |
| Closing balance | **96 387 468** | **96 570 332** | **91 512 285** |
| | | | |
| Change in estimates | | | |
| Gross carrying amount | 127 117 918 | 123 261 713 | 113 742 893 |
| Accumulated depreciation | (30 730 450) | (26 691 382) | (22 230 608) |
| Net carrying amount | **96 387 468** | **96 570 331** | **91 512 285** |

**REGIONAL COUNCIL OF THE KAVANGO EAST REGION**
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH**
**(Continued)**

| | **340 911** | **1 045 826** | **3 696 624** |
|---|---|---|---|
| Surplus for the year | (2 560 294) | (2 535 636) | (226 886) |
| **Non-cash items:** | - | - | |
| Depreciation | 3 986 837 | 4 460 775 | 4 441 000 |
| Decrease / (increase) in payables | (1 184 983) | 556 781 | 1 315 213 |
| (Increase)/decrease in receivables | 76 682 | (867 129) | (1 732 449) |
| (Increase)/decrease in receivables | 23 691 | (1 725 288) | - |
| (Increase) / decrease in inventories | (1 021) | 205 778 | - |
| Increase relating to employee benefits | (1) | 625 955 | (100 254) |
| Decrease in provisions relating to employee | - | 324 590 | - |

## EXPLANATIONS ON VARIANCES

**Note 1 - Government grants**
The difference is between what was received under the operational budget versus the capital development budget including the rural development budget.

**Note 2 - Rates & taxes (Local Authorities)**
The difference arises from what was actually received compared to the invoices issued in this regard.

**Note 5 - Other accounts**
Bank accounts under Kavango East Regional Council that does form part of the operational budget.

**Note 6 - Employee cost**
Movement in provision for leave days.

**Note 7 - Supplies and consumables**
Supplies procured where some are still reported under inventory and only expense when used.

**Note 8 - Non-cash items**
Depreciation and amortization expenses are non-cash items that do not form part of the budget.

**Note 9 - Non-cash items**
An impairment expense is a non-cash item that does not form part of the budget.

**Note 10 - (Capital expenditure)**
Capital expenditure forms part of the statement of financial position hence the difference between the budget and the statement of financial performance.

**Note 11 - Other Accounts**
Bank accounts under Kavango East Regional Council that does form part of the operational budget.