



REPUBLIC OF NAMIBIA



**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE
MUNICIPALITY OF OKAHANDJA**

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020



TO THE HONOURABLE SPEAKER OF THE NATIONAL ASSEMBLY

I have the honour to submit herewith my report on the accounts of the Municipality of Okahandja for the financial year ended 30 June 2020, 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 31 of 1991) to be laid upon the Table of the National Assembly in terms of Section 27(4) of the Act.

A handwritten signature in black ink, appearing to read 'Junias Etuna Kandjeke'.

**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

WINDHOEK, August 2022

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**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
OKAHANDJA MUNICIPALITY FOR THE FINANCIAL YEAR ENDED
30 JUNE 2020**

1. DISCLAIMER OF OPINION

I certify that I have audited the financial statements of the Okahandja Municipality for the financial year ended 30 June 2020. These financial statements comprise the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flow for the year then ended and a summary of significant accounting policies.

Because of the significance of the matters described in the Basis for Disclaimer of audit Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

2. BASIS FOR DISCLAIMER OF OPINION

I conducted my audit in accordance with International Standards for Supreme Audit Institutions (ISSAIs). 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 code of ethics for Supreme Audit Institutions together with the ethical requirements that are relevant to the audit of the financial statements in Namibia, 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 not sufficient and appropriate to provide a basis for my opinion. The disclaimer audit opinion is expressed due to the following:

2.1. Comparative figures and opening balances

The prior year audit report also had a disclaimer audit opinion. Consequently, the auditors could not obtain sufficient appropriate evidence to satisfy themselves that the opening retained earnings and comparative figures in the 2020 financial years statement of financial position, statement of financial performance, statement of changes in net equity and cash flow statement are fairly presented. Furthermore, I was unable to determine whether any adjustments might have been found necessary in respect of recorded and/or unrecorded opening balances for the relevant financial statements areas in the statement of financial position, statement of financial performance, statement of changes in net equity and cash flow statement.

2.2. Property, plant and equipment

The Municipality has property, plant and equipment which is carried at N\$ 81 394 405 (2019: N\$ 85 413 643) in the financial statements. The fixed asset register does not classify the assets as per the class of assets but as per the type of financing used to purchase those assets. In addition, the assets are not tagged so that they are easily identifiable thus the auditors could not trace assets physically verified from the floor to the asset register. There are no alternative procedures that the auditors could perform to verify completeness of property, plant and equipment. Consequently, the auditors were unable to satisfy themselves as to the completeness of property, plant and equipment and the related financial statement areas.

2.3. Scope limitations due to lack of audit evidence

The Municipality restated the prior period comparative figures with the adoption of IPSAS, however there was no disclosure note in the financial statements explaining the restatements as required by IPSAS nor supporting documentation and proof of authorisation of the journals for the restatements. The effect of these restatements on the comparative figures was as follows;

- Accumulated surplus increased by N\$ 11 032 555;
- Statutory funds decreased by N\$ 12 502 928;
- Expenditure decreased by N\$ 11 051 603;
- VAT receivable increased by N\$ 1 710 354;
- Receivable from exchange transaction decreased by N\$ 1 200 340; and
- Payable under exchange transactions increased by N\$ 1 686 895.

There were no alternative procedures that the auditors could perform to obtain audit evidence supporting the presentation of the comparative figures in the financial statements. Consequently, the auditors were unable to satisfy themselves as to the presentation of the comparative figures in the financial statements.

Furthermore, the auditors could not obtain journals used to prepare the financial statements. There were no alternative procedures the auditors could perform to satisfy themselves as to the validity, authorisation and business rationale of the journals processed in the preparation of the financial statements. Consequently, the auditors were unable to satisfy themselves as to the mitigation of risk of management overriding controls regarding journals processed in the preparation of financial statements.

2.4. Trade and other receivables

The Credit Control and Debt Collection Policy and Procedures paragraph 14.3 states that provision for doubtful debts or bad debts will be provided for in the statement of financial position for debts that is 120 days and +120 days old in the debtor's age analysis. The provisioning policy is not in line with the generally accepted provisioning policy for the Local Authorities of 90 days and above. Thus, the provision for doubtful debts recognised in the financial statements appear to be understated by N\$ 22 374 762 (2019: N\$ 23 919 348). Consequently, the auditors were unable to satisfy themselves as to the valuation of the trade and other receivables and related financial statement areas.

2.5. Value Added Tax (VAT) Receivable

The auditors could not obtain a schedule of VAT returns that substantiate the VAT receivable balance of N\$ 16 729 789 (2019: N\$ 19 676 513) recognised in the books of accounts; therefore, the auditors could not obtain reasonable assurance regarding the existence, accuracy and valuation of the VAT receivable balance. Consequently, the auditors were unable to satisfy themselves as to the existence, accuracy and valuation of the trade and other receivables and related financial statement areas.

2.6. Cash and cash equivalents

There is improper accounting treatment of unprocessed payments amounting to N\$ 14 318 857 (2019: N\$ 4 317 469) that were accounted for as bonafide payments instead of creditors as at year end. Furthermore, the auditors could not verify the validity and existence of deposits not yet cleared at year end of N\$ 1 877 544 (2019: N\$ 2 439 544) due to lack of supporting documentation. Consequently, the auditors were unable to satisfy themselves as to the completeness, existence and valuation of cash and cash equivalents and the related financial statement areas.

2.7. Accounts payables

The auditors could not verify accounts payables due to the following;

- The Municipality's policy stipulates that leave days should be capped at 60 days at any given time for employees as per the Government Gazette of 30 November 2010 No. 4621 on Personnel Rules. However, the Municipality did not cap the leave days at 60 days when determining the provision for leave pay. The impact of the non-compliance with this Government Gazette has not been adjusted in the financial statements, and consequently, the provision for leave pay is overstated by N\$ 2 757 347 (2019: N\$ 3 813 646).
- The auditors noted that a total of N\$ 2 962 004 for Namwater was not accrued, thus the accounts payable is understated by N\$ 2 962 004 with respect to their Namwater debt.
- The auditors could not obtain a creditors age analysis of N\$ 6 326 717, thus the completeness, existence and valuation of trade payables on the financial statements could not be verified.
- The auditors could not obtain the listing of consumer deposit of N\$ 2 571 479 (2019: N\$ 2 415 789), thus the completeness, existence and valuation of consumer deposit on the financial statements could not be verified.

2.8. Revenue

The auditors tested a sample of water accounts and identified an extrapolated error of N\$ 17 154 184. Furthermore, the Municipality reported water distribution losses of 35% (30%) that are materially outside the normal expected range of 8% to 15%. Consequently, the auditors were unable to satisfy themselves as to the completeness, accuracy, valuation and existence of water sales revenue and the related financial statement areas.

2.9. International Public Sector Accounting Standards

The financial statements provided by the Accounting Officer as attached in Annexure A - E did not meet the requirements of the International Public Sector Accounting Standards regarding the presentation and disclosure of the following:

- There is no disclosure of IPSAS standards adopted of or which the Municipality applied for exemption in terms of IPSAS 33 - First-time Adoption of Accrual Basis International Public Sector Accounting Standards;
- There is no accounting policy of the investment in the Joint venture Cenored-Okahandja Electricity (Pty) Ltd; and
- There is no disclosure of the restated prior year figures in terms of IPSAS 33 - First-time Adoption of Accrual Basis International Public Sector Accounting Standards.

There were no alternative procedures the auditors could perform to obtain audit evidence supporting the presentation and disclosure in the financial statements. Consequently, the auditors were unable to satisfy themselves as to the presentation and disclosure in the financial statements.

3. OTHER INFORMATION

My opinion on the financial statements does not cover the other information and I do 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 knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information; I am required to report that fact. I have nothing to report in this regard.

4. 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 International Public Sector Accounting Standards (IPSAS), and for such internal control as management determines it necessary to enable the preparation of the 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 Municipality'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 Municipality or to cease operations, or has no realistic alternative but to do so.

5. 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 and auditor's 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 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 (ISSAIs). I exercise professional scepticism throughout the audit.

- 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 expressing an 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 opinion. My conclusions are based on the audit evidence obtained up to the date of the audit 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 my 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 report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

6. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The financial statements were submitted later than required by the Accounting Officer to the Auditor-General on the 11 March 2021 in terms of the Local Authorities Act 23 of 1992, instead of three months after year end (30 September 2020) as required by the Act.

7. ACKNOWLEDGEMENT

The co-operation and assistance by the management and staff of the Municipality of Okahandja during the audit is appreciated.

WINDOEK, August 2022



**JUNIAS ETUNA KANDJEKE
AUDITOR-GENERAL**

MUNICIPALITY OF OKAHANDJA
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE

ANNEXURE A

	Note	2020 N\$	2019 N\$
ASSETS			
Current Assets			
		51 557 589	72 039 448
Cash and cash equivalents	17	13 769 643	14 157 054
Value Added Tax receivable	18	16 729 789	19 676 513
Receivables from exchange transactions	19	21 058 157	38 205 129
Receivables from non-exchange transaction	20	-	752
Non-Current Assets			
		105 523 772	109 543 010
Property, plant and equipment	21	81 394 405	85 413 643
Interest in joint ventures	22	24 129 367	24 129 367
TOTAL ASSETS		157 081 361	181 582 458
Liabilities			
Current Liabilities			
		33 645 323	19 270 471
Payables under exchange transactions	23	18 327 360	16 420 599
Payables from Non-exchange Transactions	24	2 851 650	2 849 872
Bank overdraft	17	12 466 313	-
Non-Current Liabilities			
Government loans		588 391	729 350
NET ASSETS AND LIABILITIES		122 847 647	161 582 637
Reserves Statutory funds		131 111 241	119 902 242
Capital replacement reserve		6 199 078	5 966 337
Accumulated surplus		(14 462 672)	35 714 058
Total Net Assets/Equity		157 081 361	181 582 458

MUNICIPALITY OF OKAHANDJA
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE

		2020	2019
	Note	N\$	N\$
Revenue		98 625 567	94 288 712
Revenue from non-exchange transactions		26 923 868	31 817 635
Taxation revenue			
Property rates	3	26 921 868	16 639 777
Fines		2 000	-
Transfers from government and related entities	4	-	15 177 858
Revenue from exchange transactions		71 701 699	62 471 077
Service charges	5	54 877 269	45 496 785
Rendering of services		582 015	455 819
Surcharges and interest		4 496 978	9 364 992
Rental of facilities and equipment	6	737 487	837 836
Miscellaneous other revenue		28 607	22 354
Fees earned		-	2 900
Other Revenue	7	4 252 322	851 697
Interest Earned on Investments	8	6 727 021	5 438 694
Interest earned on outstanding debtors	14	-	-
Expenses		(118 976 139)	(78 692 199)
Bulk purchases	9	(23 575 970)	(21 588 778)
Employee costs	10	(39 820 773)	(42 046 291)
Depreciation and amortisation expense		(8 254 614)	-
Repairs and maintenance		(3 278 278)	(2 388 136)
Contracted services		(2 509 884)	(1 784 722)
Debt impairment	11	(30 122 612)	-
General Expenses	12	(11 017 318)	(10 503 404)
Interest paid	13	(396 690)	(380 868)
(Deficit) surplus for the year		(20 350 572)	15 596 513

**MUNICIPALITY OF OKAHANDJA
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE**

	Other funds	Housing fund	Total reserves	Accumulated surplus	Total net assets/equity
	N\$	N\$	N\$	N\$	N\$
Changes in net assets/equity Surplus for the year					
Direct Adjustment to net assets	-	-	-	15 596 513	15 596 513
Total changes	(10 177 424)	20 723 064	10 545 640	-	10 545 640
Balance at 01 July 2019	119 902 242	5 966 337	125 868 579	34 936 123	160 804 702
Changes in net assets/equity Direct Adjustment to net assets	11 208 999	232 741	11 441 740	(29 048 223)	(17 606 483)
Net income (losses) recognised directly in net assets	11 208 999	232 741	11 441 740	(29 048 223)	(17 606 483)
Surplus for the year	-	-	-	(20 350 572)	(20 350 572)
Total recognised income and expenses for the year	11 208 999	232 741	11 441 740	(49 398 795)	(37 957 055)
Total changes	11 208 999	232 741	11 441 740	(49 398 795)	(37 957 055)
Balance at 30 June 2020	131 111 241	6 199 078	137 310 319	(14 462 672)	122 847 647

ANNEXURE D

THE MUNICIPALITY OF OKAHANDJA
STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE

		2020	2019
	Note	N\$	N\$
Cash flows from operating activities			
Receipts		88 596 650	164 981 096
Property taxes and other		26 923 868	16 639 777
Sale of goods and services		54 945 761	127 724 767
Government grants and subsidies		-	15 177 858
Interest received		6 727 021	5 438 694
		(97 074 038)	(120 523 771)
Payments		(39 820 773)	(42 046 291)
Compensation of employees		(56 856 575)	(78 096 612)
Suppliers		(396 690)	(380 868)
Interest paid			
Net cash flows from operating activities	25	(8 477 388)	44 457 325
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	21	(4 235 377)	(11 031 803)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of government loans		(140 959)	-
Net increase/(decrease) in cash and cash equivalents		(12 853 724)	33 425 522
Cash and cash equivalents at the beginning of the year		(14 157 054)	(19 268 468)
Cash and cash equivalents at the end of the year	17	1 303 330	(14 157 054)

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE

The accounting policies on pages 8 to 18 and the notes on pages 19 to 25 form an integral part of the annual financial statements.

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS), as approved by the line minister in consultation with the Auditor-General in accordance with Section 87 (1) of the Local Authorities Act 23 of 1992 as amended.

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

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 these annual financial statements, are disclosed below. Certain accounting policies are supported by reasonable and prudent judgements and estimates.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods

The following are the critical judgements and estimations that management have made in the process of applying the Municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

Revenue recognition

Accounting Policy 1.3 on Revenue from Exchange Transactions and Accounting Policy 1.2 on Revenue from Non-exchange Transactions describes the conditions under which revenue

**THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)**

will be recorded by the Management of the Municipality. In making their judgement, the management considered the detailed criteria for the recognition of revenue asset outing IPSAS9 (Revenue from Exchange Transactions) and IPSAS23 (Revenue from Non-exchange Transactions). As far as Revenue from Non-exchange Transactions is concerned (see Basis of Preparation above), and, in particular, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

Impairment of Financial Assets

Accounting Policy 1.8 on Financial Instruments sub-paragraph Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the Municipality considered the detailed criteria of impairment and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the Municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

Impairment of Trade Receivables:

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, and an assessment of their ability to make payments based on their credit worthiness. This is performed per service-identifiable categories across all classes of debtors.

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment, intangible assets and investment property

As described in Accounting Policies 1.4, and , the Municipality depreciates its Property, Plant & Equipment and Investment Property, and amortizes its Intangible Assets, over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Impairment: Write-down of Property, Plant & Equipment, Intangible Assets, Investment Property and Inventories

Accounting Policy 1.6 on Impairment of Assets, Accounting Policy on Intangible Assets –

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)

Subsequent Measurement, Amortization and Impairment and Accounting Policy on Inventory – Subsequent Measurement describe the conditions under which non-financial assets are tested for potential impairment losses by the management of the Municipality. Significant estimates and judgements are made relating to impairment testing of Property, Plant and Equipment, impairment testing of Intangible Assets and write-down of Inventories to the lowest of Cost and Net Realizable Value

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses. In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realizable Value for Inventories involves significant judgment by management.

Estimated impairments during the year to Inventory, Property, Plant and Equipment, Intangible Assets and Investment Property are disclosed in Notes, 21, and to the Annual Financial Statements, if applicable.

1.2 Revenue from non-exchange transactions

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

Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a Time-proportionate Basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Government Grants and Receipts

Conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Municipality with no future related costs, are recognised in Surplus or Deficit in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the Municipality's interest, it is

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)

recognised as interest earned in Surplus or Deficit.

Fines

Fines constitute both spot fines and summonses.

Revenue for fines is recognised when the fine is issued at the full amount of the receivable. The Municipality uses estimates to determine the amount of revenue that the Municipality is entitled to collect that is subject to further legal proceedings.

Public Contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

1.3 Revenue from exchange transactions Sale of goods (including Houses)

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

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

Service Charges

Service Charges are levied in terms of the approved tariffs.

Service Charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been taken. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meter have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)

Service Charges relating to **refuse removal** are recognised on a monthly basis in arrears by applying the approved tariff to all properties that have improvements. Tariffs are determined per category of property usage, and are levied based on the number of bins on each property.

Service Charges relating to sewerage for residential properties are recognised on a monthly basis in arrears by applying the approved tariff to all properties. Tariffs are levied based on the extent and / or zoning of each property. All other properties are levied based on the water consumption, using the tariffs approved by Council, and are levied monthly.

Prepaid Electricity and Water

Revenue from the sale of electricity and water prepaid meter cards are recognised at the point of sale. Revenue from the prepaid sales are recognised based on an estimate of the prepaid service consumed as at the reporting date.

Rentals received

Revenue from the rental of facilities and equipment is recognised on a Straight-line Basis over the term of the lease agreement.

Finance income

Interest earned on investments is recognised in Surplus or Deficit on the Time-proportionate Basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in Surplus or Deficit:

- Interest earned on Councillors' Gratuity Fund is allocated directly to the Creditor: Councillors' Gratuity Fund. Additional text
- Interest earned on unutilised Conditional Donations is allocated directly to the Creditor: Unutilised Public Donations, if the unutilised donations are kept in a dedicated separate bank account

Dividends

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

Tariff charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

**THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)**

Revenue from Agency services

Revenue for agency services is recognised on a monthly basis once there venue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

1.4 Property, plant and equipment

Initial Recognition

Property, Plant and Equipment are initially recognised at cost.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. anon-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Subsequent Measurement

Subsequently all Property Plant and Equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Depreciation

Depreciation on assets other than land is calculated on cost, using the Straight-line Method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. 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 useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	
• Improvements	8 – 80
Infrastructure	
• Electricity	10 - 50
• Roads and storm water	8 - 80
• Sanitation	10 - 90
• Solid waste	5 - 80
• Water	10 - 90
Community	
• Facilities	8 - 80
Other	
• Computer equipment	4-8

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)

•	Emergency equipment	5-6
•	Furniture and fittings	5-8
•	Motor vehicles	5-15
•	Office equipment	4-15
•	Plant & equipment	4-15
•	Specialised vehicles	5-15

Land

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

Incomplete Construction Work

Incomplete Construction Work is stated at historical cost. Depreciation only commences when the asset is available for use. Derecognition.

1.4 Property, plant and equipment (continued)

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. Gains are not classified as revenue.

1.5 Leases

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

1.5.1 The Municipality as Lessee Finance leases

Property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are recognised at equal amounts. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments to the fair value of the asset, plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the finance cost and the capital repayment using the Effective Interest Rate Method. Finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

**THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)**

Operating Leases

The Municipality recognises operating lease rentals as an expense in Surplus or Deficit on a Straight-line Basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. Any lease incentives are included as part of the net consideration agreed.

1.5.2 The Municipality as a Lessor

Amounts due from lessees under Finance Leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale revenue is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Rental revenue from Operating Leases is recognised on a Straight-line Basis over the term of the relevant lease.

1.6 Impairment of cash-generating assets

The Municipality classifies all assets held with the primary objective of generating a commercial return as Cash Generating Assets. All other assets are classified as Non-cash Generating Assets.

The Municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

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 recoverable amount of the cash generating unit to which the asset belongs is determined.

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit prorata on the basis of the carrying amount of each asset in the unit.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

1.7 Impairment of non-cash-generating assets

The Municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined.

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit prorata on the basis of the carrying amount of each asset in the unit.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have

**THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)**

decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

1.8 Financial instruments

The Municipality has various types of Financial Instruments and these can be broadly categorised as Financial Assets, Financial Liabilities or Residual Interests in accordance with the substance of the contractual agreement.

Initial Recognition

Financial Assets and Financial Liabilities are recognised when it becomes party to the contractual provisions of the instrument.

The Municipality does not offset a Financial Asset and a Financial Liability unless a legally enforceable right to set off the recognised amounts currently exist and the Municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair Value Methods and Assumptions

The fair values of financial instruments are determined as follows:

- The fair values of quoted investments are based on current bid prices;
- the market for a Financial Asset is not active (and for unlisted securities), the Municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs;

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:

Type of Financial Asset	Classification in terms of IPSAS 41
Non-current Investments – Fixed Deposits	Financial assets measured at amortised Cost
Non-current Investments – Shares	Financial assets at fair value through

**THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)**

Long-term Receivables	Surplus or Deficit Financial assets measured at amortised Cost
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1.8 Financial instruments (continued)

Receivables from Exchange Transactions	Financial assets measured at amortised Cost
Receivables from Non-exchange Transactions	Financial assets measured at amortised Cost
Bank, Cash and Cash Equivalents –	Financial assets measured at amortised Cost
Notice Deposits Bank, Cash and Cash Equivalents – Call Deposits	Financial assets measured at amortised Cost
Bank, Cash and Cash Equivalents – Bank	Financial assets measured at amortised Cost
Bank, Cash and Cash Equivalents – Cash	Financial assets measured at amortised Cost
Current Portion of Non-current Investments	Financial assets measured at amortised Cost
Current Portion of Long-term Receivables	Financial assets measured at amortised Cost

Trade and Other Receivables (excluding Value Added Taxation, Prepayments and Operating Lease receivables), Loans to Municipal Entities and Loans that have fixed and determinable payments that are not quoted in an active market are classified as Financial Assets at Amortised Cost.

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). For the purposes of the Cash Flow Statement, Cash and Cash Equivalents comprise cash-on-hand and deposits held on call with banks, net of bank overdrafts.

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:

Type of Financial Liability	Classification in terms of IPSAS 41
Long-term Liabilities	Financial liability measured at amortised cost
Payables from Exchange Transactions	Financial liability measured at amortised cost
Payables from Non-exchange Transactions	Financial liability measured at

**THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)**

Bank Overdraft	amortised cost Financial liability measured at amortised cost
Short-term Loans	Financial liability measured at amortised cost
Current Portion of Long-term Liabilities	Financial liability measured at amortised cost

Bank Overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

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

Assets:

At Fair Value through Surplus or Deficit

Financial Assets at Fair Value through Surplus and Deficit are initially and subsequently, at the end of each financial year, measured at fair value with the profit or loss being recognised in Surplus or Deficit.

Financial assets measured at amortised cost

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed 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.

**THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)**

Financial Liabilities:

At Amortised Cost

Any other Financial Liabilities are classified as Other Financial Liabilities (All Payables, Loans and Borrowings are classified as Other Liabilities) and are initially measured at Fair Value, net of transaction costs. Trade and Other Payables, Interest-bearing Debt including Finance Lease Liabilities, Non-interest-bearing Debt and Bank Borrowings are subsequently measured at amortised cost using the Effective Interest Rate Method. Interest expense is recognised in Surplus or Deficit by applying the effective interest rate.

Bank Borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and over drafts are recorded at the proceeds received. Finance costs are accounted for using the Accrual Basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

Impairment of Financial Assets:

Financial Assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial Assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence, the recoverable amount is estimated and an impairment loss is recognised through the use of an allowance account.

Financial Assets at Amortised Cost

A provision for impairment of Accounts Receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the Financial Asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of Financial Assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

The carrying amount of the Financial Asset is reduced by the impairment loss directly for

**THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)**

all Financial Assets carried at Amortised Cost with the exception of Consumer Debtors, where the carrying amount is reduced through the use of an allowance account. When a Consumer Debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in Surplus or Deficit.

Financial Assets Available-for-Sale

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in Surplus or Deficit even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from net assets and recognised in Surplus or Deficit is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in Surplus or Deficit.

Impairment losses recognised in Surplus or Deficit for an investment in an equity instrument classified as available-for-sale are not reversed through Surplus or Deficit.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in Surplus or Deficit, the impairment loss must be reversed, with the amount of the reversal recognised in Surplus or Deficit.

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

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of IPSAS on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Derecognition financial assets

The Municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expires or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the Municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)

Municipality retains substantially all the risks and rewards of ownership of a transferred Financial Asset, the Municipality continues to recognise the Financial Asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The Municipality derecognises Financial Liabilities when, and only when, the Municipality's obligations are discharged, cancelled or they expire.

The Municipality recognises the difference between the carrying amount of the Financial Liability (or part of a Financial Liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in Surplus or Deficit.

1.9 Employee benefits

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

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The Municipality recognises the expected cost of performance bonuses only when the Municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

Post-employment benefits

The Municipality provides retirement benefits for its employees. They are all defined contribution post-employment plans.

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.

1.10 Borrowing costs

The Municipality uses the Benchmark treatment of borrowing costs as such borrowing costs are recognised as an expense in the period in which they are incurred regardless of how the borrowing costs were applied.

**THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)**

1.11 Related parties

Individuals as well as their close family members, and / or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and / or operating decisions. Management is regarded as a related party and comprises the Mayor, Management Committee Members, Council Members, Chief Executive Officer and all other Strategic Executive Officers reporting directly to the Chief Executive Officer or as designated by the Chief Executive Officer.

1.12 Budget information

The annual budget figures have been prepared in accordance with the IPSAS's and are consistent with the Accounting Policies adopted by the Council for the preparation of these Annual Financial Statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over-or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation.

1.13 Budget information

The annual budget figures have been prepared in accordance with the IPSAS's and are consistent with the Accounting Policies adopted by the Council for the preparation of these Annual Financial Statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over-or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation.

The approved budget covers the period from 1 July 2019 to 30 June 2020.

1.14 Going concern assumption

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

At 30 June 2019 the Municipality's Current Liabilities exceeded its Current Assets. In addition the Municipality was not spared from the impact of Covid-19 and related effects. However,

**THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)**

the Municipality have prepared the Annual Financial Statements under the Going Concern Assumption, based on management assumptions as set out in Note 26 to the Annual Financial Statements.

1.15 Interest in joint ventures

1.16 Net assets

Statutory fund

The Housing Fund was established in terms of Section 58 of the Local Authorities Act, 1992 (Act 23 of 1992). The Housing Fund contains all proceeds from housing developments, which include proceeds of loans raised, rental income, redemption of loans granted, and sale of houses, interest from investments and other moneys accruing to the fund. Unexpended moneys in the Housing Fund which are not required for immediate use may be invested with such financial institution as may be approved by the Minister.

Monies standing to the credit of the Housing Fund are used only for purposes of the construction, acquisition or maintenance of dwellings; loans granted; repayment of loans raised; costs incurred in connection with the administration of housing schemes and any other purpose approved in writing by the Minister.

Accumulated Surplus

The Accumulated Surplus contains accumulated surpluses, after appropriations to and from Statutory Funds.

1.17 Grants-In-Aid

The Municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the Municipality does not:

- (a) Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- (b) Expect to be repaid in future; or
- (c) Expect a financial return, as would be expected from an investment.

These transfers are recognised in Surplus or Deficit as expenses in the period that the events giving rise to the transfer occurred.

1.18 Value Added Tax

The Municipality accounts for Value Added Tax in accordance with section 18 of the Value-Added Tax Act (Act No 10 of 2000).

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)

1.19 Material losses

Due to their significance, the complete calculation of water and electricity losses is provided, including the opening balance, purchases, sales and closing balance where applicable. For electricity the unit rate is the rate per the last purchase for the financial year. For water the unit rate is measured based on the Weighted Average Method as defined by IPSAS 12 (Inventories).

1.20 Events after reporting date

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

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)

	2020	2019
	N\$	N\$
2. Revenue	98 625 567	94 288 712
Rendering of services	582 015	455 819
Service charges	54 877 269	45 496 785
Royalty income	4 496 978	9 364 992
Rental of facilities and equipment	737 487	837 836
Miscellaneous other revenue	28 607	22 354
Fees earned	-	2 900
Other income - (rollup)	4 252 322	851 697
Interest received - investment	6 727 021	5 438 694
Property rates	26 921 868	16 639
Other taxation revenue	12 000	-
Transfers from other government entities	-	15 177 858
The amount included in revenue arising from exchanges of goods or services are as follows:	71 701 699	62 471 077
Service charges	54 877 269	45 496 785
Rendering of services	582 015	455 819
Royalty income	4 496 978	9 364 992
Rental of facilities and equipment	737 487	837 836
Miscellaneous other revenue	28 607	22 354
Fees earned	-	2 900
Other income - (rollup)	4 252 322	851 697
Interest received - investment	6 727 021	5 438 694
The amount included in revenue arising from non-exchange is transactions as follows:	26 933 868	31 817 635
Taxation revenue		
Property rates	26 921 868	16 639 777
Other taxation revenue	12 000	-
Other revenue		
Transfers from other government entities	-	15 177 858
3. Property rates		
Rates received		
Other	26 921 868	16 639 777

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)

	2020	2019
	N\$	N\$
4. Transfers from government and related entities		
Operating grants		
Road Fund Administration	-	1 520 930
	-	1 520 930
Capital grants		
Government grant	-	13 656 928
	-	15 177 858
5. Service charges		
Sale of water	38 521 496	31 156 376
Sewerage and sanitation charges	9 099 642	7 160 642
Refuse removal	7 256 131	7 179 767
	54 877 269	45 496 785
The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.		
6. Rental of facilities and equipment	737 487	837 836
Rental income - related party	106 144	188 163
Rental of Premises and related	592 666	561 083
Rental of facilities	38 677	88 590
Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.		
7. Other income	4 252 322	851 697
Better and endowment fees	146 032	-
Building plans	430 965	363 602
Prepaid water meters installation	40 457	46 608
Registration of business	303 531	336 046
Sundries	3 291 791	43 176
Wood and sand permits	39 546	62 265
Included in the sundry income is penalty refund amounting to N\$39 million as a result of penalties amnesty.		
8. Interest received – investment	6 727 021	5 438 694
Bank	552 997	694 483
Interest charged on trade and other receivables	6 174 024	4 744 211
9. Bulk purchases	23 575 970	21 588 778
Water	23 575 970	21 588 778

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)

Bulk Purchases are the cost of commodities not generated by the Municipality which the Municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from NamPower whilst Water is purchased from NamWater and WINGCOG.

Included in Bulk Purchases for Electricity is an amount of N\$ 4 294 791 (2019: N\$ 2 963 174) being purchases made from Independent Power Producers.

	2020	2019
	N\$	N\$
10. Employee related costs	19 051 193	18 233 016
Bonus	1 564 819	1 654 240
Medical aid - company contributions	3 680 673	3 566 902
Social Security	170 648	113 666
Leave pay provision charge	166 420	-
Defined contribution plans	4 049 706	4 173 072
Overtime payments	1 919 432	1 459 437
Car allowance	1 314 666	1 294 462
Housing benefits and allowances	6 000 517	5 811 614
Other allowances	184 312	159 623
11. Debt impairment	30 122 612	-
Debt impairment	30 122 612	-
12. General expenses	11 017 318	8 839 426
Advertising	35 568	59 976
Auditors remuneration	-	116 144
Bank charges	564 537	526 652
Catering & Entertainment Cost	20 314	71 528
Cleaning	2 856 072	3 079
Computer expenses	10 117	-
Consulting and professional fees	349 683	168 785
Donations	-	6 500
Electricity	1 003 148	1 368 655
Fleet	970 243	1 346 268
Fuel and oil	313 435	189 502
Hiring of Facilities & Equipment	1 270 675	958 894
Insurance	795 698	789 658

ANNEXURE E

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)

	2020	2019
	N\$	N\$
Cemetery parks and gardens	84 150	119 478
Conference expenses	11 336	- 831 989
Promotional materials	12 150	3 640
Postage courier and telephone	1 236 113	836 358
Printing and stationery	501 899	896 151
Protective clothing	730 110	-
Sewerage and waste disposal	5 970	1 145 266
Subscriptions and membership fees	68 609	95 165
Tourism development	1 000	648 916
Training	783	10 810
Travel - local	168 564	292 871
Travel - overseas	7 144	17 119
13. Interest paid	396 690	380 868
Non-current borrowings	-	356 316
Trade and other payables	396 690	24 552
Borrowing Costs to the amount of N\$0 (2019: N\$0) was capitalised during the financial year.		
14. Other revenue	-	2 900
Fees earned	-	2 900
15. Auditors' remuneration	-	116 144
Fees	-	116 144
16. Investment revenue		
Interest revenue	6 727 021	5 438 694
Bank	552 997	694 483
Interest charged on trade and other receivables	6 174 024	4 744 211
17. Cash and cash equivalents	1 303 330	14 157 054
Cash and cash equivalents consist of:		
Cash on hand	160	160
Bank balances	-	1 066 966
Short-term deposits	13 769 483	13 089 928
Bank overdraft	(12 466 313)	-

THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)

	2020	2019
	N\$	N\$
Current assets	13 769 643	14 157 054
Current liabilities	(12 466 313)	-
	1 303 330	14 157 054

For the purposes of the Statement of Financial Position and the Cash Flow Statement Cash and Cash Equivalents include Cash-on-Hand Cash in Banks and Investments in Money Market Instruments net of outstanding Bank Overdrafts.

No other restrictions have been imposed on the Municipality in terms of the utilisation of its Cash and Cash Equivalents. Short term deposits consist of Call Deposits and Fixed deposits:

Call and Notice Deposits Fixed Deposits

Fixed Deposits are fixed term investments with a maturity period of less than 12 months and earn interest rates varying from 5.90% to 8.25% (2018: 8.03% to 8.25%) per annum.

18. VAT receivable

Value Added Tax (VAT)	16 729 789	19 676 513
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VAT is payable in terms of section 7 of the Value-Added Tax Act. VAT is payable/receivable on receipt of an invoice or payment whichever is the earlier.

No interest is payable to the Commissioner of Inland Revenue if the VAT is paid over timeously but interest for late payments is charged in accordance with the Value-Added Tax Act. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

19. Receivables from exchange transactions

Trade debtors	21 044 743	38 195 921
Employee costs in advance	13 414	9 208
	21 058 157	38 205 129

Receivables from Exchange Transactions are billed monthly latest end of month. No interest is charged on Receivables until the end of the following month. There after interest is charged at a rate determined by council on the outstanding balance. The Municipality strictly enforces its approved credit control policy to ensure the recovery of Receivables.

The Municipality did not pledge any of its Receivables as security for borrowing purposes.

**THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)**

Allowance for Impairment:

At 30 June 2020 Receivables from Exchange Transactions of N\$ 132 041 643 (30 June 2019: N\$ 101 919 031) were impaired and fully provided for.

20. Receivables from non-exchange transaction

Suspense	-	752
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Suspense Accounts are in respect of temporary advances made in the normal month-to-month operations of the Municipality not recovered at year-end.

The Municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the Municipality's financial liabilities.

Allowance for Impairment

The Allowance for Impairment on Receivables exists predominantly due to the possibility that these debts will not be recovered. The Allowance for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

21. Property, plant and equipment

Company	2020			2019		
	N\$	N\$	N\$	N\$	N\$	N\$
Okahandja of Municipality	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Plant and machinery	98 978 531	(17 584 126)	81 394 405	94 743 155	(9 329 512)	85 413 643

**THE MUNICIPALITY OF OKAHANDJA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE (Continued)**

21 Property plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	N\$	N\$	N\$	N\$
Plant and machinery	Opening balance	Additions	Depreciation	Total
	85 413 643	4 235 377	(8 254 615)	81 394 405

Reconciliation of property plant and equipment - 2019

Plant and machinery	Opening balance	Additions	Depreciation	Total
	83 711 352	11 031 803	(9 329 512)	85 413 643

22. Interest in joint ventures

Name of company	Listed / Unlisted	
	Carrying amount 2020	Carrying amount 2019
Okahandja Joint Venture	N\$ 24 129 367	N\$ 24 129 367

23. Payables under exchange transactions

Trade payables	6 326 715	4 947 639
Leave Provision	6 851 195	6 689 774
Employees related payables	251 444	146 621
Deposits received	2 571 479	2 415 789
Overdue Government loans	2 326 527	2 220 776
	18 327 360	16 420 599

Staff Leave:

Leave accrues to the staff of the Municipality on an annual basis subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

THE MUNICIPALITY OF OKAHANDJA
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30 JUNE (Continued)

	2020	2019
	N\$	N\$
24. Payables from Non-exchange Transactions		
Amounts payable to the Regional Council	2 442 466	2 442 466
Expo and trade fair	409 184	407 406
	2 851 650	2 849 872

Sundry Deposits are mostly in respect of security deposits held by the Municipality for houses in the various housing schemes rented to public.

No credit period exists for Payables from Non-exchange Transactions neither has any credit period been arranged. No interest is charged on outstanding amounts.

The Municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiated by the Municipality.

The Municipality's credit risk management processes is disclosed in Note to the Annual Financial Statements.

25. Cash (used in) generated from operations

(Deficit) surplus	(20 350 572)	15 596 513
Adjustments for:		
Debt impairment	30 122 612	-
Direct adjustments to net assets (cash)	(18 384 420)	60 780 370
Changes in working capital:		
Debt impairment	(30 122 612)	-
Other receivables from non-exchange transactions	752	-
Payables under exchange transactions	1 906 764	(43 070 235)
VAT	2 946 724	(6 224 942)
Taxes and transfers payable (non-exchange)	1 778	1 238 643
Cash (used in) generated from operations	(8 477 388)	44 457 325

26. Going concern

Management considered the following matters relating to the Going Concern:

- (i) Strict daily cash management processes are embedded in the Municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the Budget.
- (ii) As the Municipality has the power to levy fees tariffs and charges this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services.

THE MUNICIPALITY OF OKAHANDJA
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30 JUNE (Continued)

- (iii) The Okahandja Municipality is one of the biggest Councils in Otjozondjupa and it is in public interest that the Municipality remains solvent and continue as a going concern.

Taking the aforementioned into account management has prepared the Annual Financial Statements on the Going Concern Basis.

27. Events after the reporting date

No events having financial implications requiring disclosure occurred subsequent to 30 June 2020.

28. Service concession arrangements

The Municipality did not enter into Service Concession Arrangements during the year under review.

